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Factors That Affect Performance of Procurement Department

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Abstract:

Factors that affect the performance of the procurement departments are a key factor in the procurement process. The success of any given organization will depend on the strategic management of all its key sections. Procurement enhances efficiency and competitiveness among other benefits, but to realize these benefits, it is imperative to look at the strategic factors that affect the performance of the procurement function. Evaluation of suppliers before selecting them can significantly improve the performance of the procurement function in carrying out its mandate (Martin, 2004). The concept of appraising all interested suppliers before awarding them with contracts to supply different goods, services or carry out works is being widely practiced by organizations in both the public and private sector. This research sought to assess the factors that influence the performance of supplies unit with special focus on County Government of Kakamega. The study adopted a descriptive research design since the study intended to gather quantitative and qualitative data that would describe the effects of public procurement regulation on public procurement of devolved county governments in Kenya. The target population was the employees of Kakamega County Government. The total number of respondents in this study was 119. Primary data was gathered using semi-structured questionnaires where the respondent was issued with the questionnaires. Descriptive analysis was used; this included the use of weighted means, standard deviation, relative frequencies and percentages. Descriptive statistics was used to summarize the data. This included percentages and frequencies. Tables and other graphical presentations were appropriately used to present the data that was collected for ease of understanding and analysis. Regression analysis was used to establish the relationship between the study variable. The study established that financial stability of a supplier had a positive effect on county government supplies units in Kakamega County. The study also revealed that quality management had a positive impact on county government supplies units in Kakamega County. The study further established that reliability of supplier had a positive effect on county government supplies units in Kakamega County. The study established the performance of suppliers before awarding tenders to them had positive influence on the county government supplies units in Kakamega County

Keywords: Failure Rate per Unit Time, Case Based Supplies Management Tool Total Quality Management

1. Introduction

The role of the procurement function in organizations has received and continues to receive increasing attention as the years go by. Procurement enhances efficiency and competitiveness among other benefits but to realize these benefits, it is imperative to look at the strategic factors that affect the performance of the procurement function. Selection and maintaining competent suppliers is very essential in procurement. However, many factors affect a firm's ability to choose the right supplier. There is a need to identify the strategic supplier related factors and include them in the supplier selection criteria. Some of the factors firms consider include trust and commitment, adequate finance, quality, reliable delivery times, adequate logistic and technological capabilities (Cox, 1999). Materials delivery, quality, cost, financial position, communication and technology are recognized as the commonly used criteria a fact confirmed from empirical results as well as in previous literature. However other criteria such as ISO certification, reliability, credibility, good references and product development were also necessary. This shows that the focus is shifting from solely relying on quantitative factors to include qualitative criteria (Harps, 2000).

During the last two decades public procurement has undergone profound changes. Policy makers, academics and practitioners alike share the broad view that public procurement has evolved from a clerical signoff-ridden set of activities to a strategic tool that can

enhance efficiency in public organizations, regulate markets and promote sustainable development, (Kenneth and Brian, 2006). A strategic approach to procurement is important because it can assist an organization in meeting its policy objectives, and to obtain value for money in its expenditure for goods and services. A strategic approach to procurement can among other things; Help build a common idea of what is more important when procurement decisions are made for example, the relationship between price, quality and service; Optimize procurement in the organization as a whole, by using the collective buying power and reducing internal administrative costs; Assuring the right competences among procurement staff and the right tools to support an efficient administration, for example e-procurement; Support the achievement of organizational objectives by linking them with the procurement goals, (Gian, 2012).

Like human beings, organizations are products of the environment they operate in. Whether they are engaged in business or non-business activities, organizations draw their inputs from the environment, convert them to outputs and release them back to the environment. As such, organizations are influenced by the environment and in turn influence the environment, (Hodgets, 1981). Business environment is both internal and external. Internal environment refers to systems within the organization and which the management has direct control of. External environment comprises of systems outside the organization and which the management has little or no control over. However, the external environment has a strong bearing on the successful functioning and survival of any organization. This scenario is made worse by the fact that the external environment is ever changing, more so now that most organizations are going global, (Otube, 2010).

The need to consider external forces that affect the performance of an organization was incorporated in the management thought in 1950s. It stressed the need for managers to view their organizations as an entity intertwined with the outside world. The ever changing business environment in today's world has made the need to consider the external environment more important than ever, (Arthur, 1993). Managing the external environment has increasingly become a major challenge to the modern manager. This is mainly due to the fact that the environment is highly dynamic. Whether the changes are significant or not, managers still need to consider them because as an open system, an organization is highly dependent on the outside world for such things as its supplies. Ability to cope or effectively manage the external environment may be the difference between a successful and a failed organization, (Otieno, 2004).

To handle the aforementioned challenge, the modern manager must be strategic in his/her approach to managing the external environment. They must come up with strategies and implement them in their endeavors to deal with the external environment variables. Some of the external environment variables have a direct and immediate impact on the performance of an organization. One such variable are the suppliers. The organization will definitely need inputs to transform into outputs and the providers of those inputs are the suppliers, (Otieno, 2004). The organization will need to obtain essential inputs of the right quality, quantity, at the right cost and at the required time if it is to remain competitive. It is these parameters that make suppliers one of the most crucial variables in the external environment (Saleemi, 2007). The manager has to be proactive when dealing with suppliers especially those who deal with items/services crucial to the organization.

According to the public procurement and disposal act, 2005, a manager should put in place specific ways of managing the organization's suppliers to ensure that a win-win relationship exists between them. One of those ways is by establishing a unit in the organization that deals with all issues pertaining to supplies collectively referred to as procurement. Given the important role that procurement function plays for all organizations, it is important that strategic management approaches are applied in its operations. Procurement can be generally defined as the process of acquiring goods/services either through buying, leasing, renting, hire purchase or through any other legally acceptable means of acquisition which is allowed by the procuring entity's policy and the existing laws (Procurement and Disposal act, 2005). In order for the procurement unit to carry out its mandate as required, it must ensure that they contract suppliers who will enable them do so. This can be done by appraising suppliers by looking into and critically analyze strategic supplier related factors that affect performance of the procurement function before awarding them contracts for supply and delivery of various goods or services, (Martin, 2004).

The process of identifying the best suppliers and maintaining them is perhaps the single most important role of the procurement function in any forward looking organization. To carry out their task effectively, procurement managers must come up with scoring criteria to help them evaluate and identify the suppliers to do business with and maintain them in the approved vendors list. Parameters to be included in the scoring criteria or appraisal forms as the case may be should be carefully selected to ensure that they are value adding and will impact positively on the performance of the procurement function and the entire organization as a whole. As such, it is important that the procurement manager identifies and critically analyses the supplier related factors that affect the performance of the procurement function, (Awino, 2002).

2. Procurement in Kenya

In Kenya, public procurement is governed by the Public Procurement Disposal Act, 2005 and Public Procurement and Disposal Regulations, 2006. The act which was operationalized in January 2007 establishes practices for procurement and disposal of unserviceable, obsolete or surplus stores and equipment by public organizations which are the government, the commissions, the local authority, the state corporations, the central bank, corporative societies, public schools, public universities and colleges (Procurement Act, 2005).

In Kenya, Procurement methods are open tendering, restricted tendering, direct procurement, request for proposal, request for quotations, specially permitted procurement and practices for low value procurements (Procurement Act, 2005 and Procurement Regulations, 2006). The most preferred method is the open tendering as it allows for fairness and transparency. The rest are usually referred to as alternative procurement methods and should only be used where expressly allowed by the law (Procurement Act,

2005). For each method, there exists a threshold of expenditure beyond which an entity cannot exceed, but the minimum level of expenditure usually depends on the procurement entity's budgetary allocation. There is need for strict adherence to these thresholds in order to remain compliant with the law, (Procurement regulations, 2006).

The bodies which regulate public procurement are Public Procurement Oversight Authority (PPOA), Public Procurement Oversight Advisory Board (PPOAB) and Public Procurement Administrative Review Board (PPARB). These three can be termed as the pillars of the procurement practice in Kenya (procurement Act, 2005).

Before 2005, procurement in Kenya was a sub unit in other departments mostly Finance. Personnel who performed procurement duties were not trained in that field and were mostly accounts clerks or clerical officers. From 1963-69, local purchases were determined by individual entities. 1969-78 Treasury Circulars were issued from time to time to guide on procurement by entities. 1978-2001 saw the coming up of a Supplies Manual that further made procurement processes more procedural. In the years between 2001-07 Exchequer & Audit (Public Procurement) Regulations were used by public entities as references to purchase decisions and subsequent payments. 2007-Present - Public Procurement and Disposal Act, 2005 and the regulations thereof of 2006 are used and must be adhered to by all public entities as far as procurement of goods, services and works is concerned. Once the public procurement and disposal act was passed into law in 2005, all this changed and presently, procurement departments stand on their own and are run by officers qualified in that field (General procurement manual, 2008). This study seeks to analyze the performance assessment of county government supplies units with special focus on County Government of Kakamega.

3. Statement of the Problem

The success of any given organization will depend on the strategic management of all its key sections. Any forward looking enterprise should have its procurement function as one of its key sections. This is mainly because the biggest task of budget implementation for major public and private companies and institutions lies in the procurement of goods services and works, (Gian, 2012). Whether organizations get value for their money or not depends a great deal on the suppliers it selects to do business with. Identifying the source of materials or, services is a strategic issue of every organization. This is because; it can be a source of competitive advantage to an organization by way of getting quality supplies, at the required time and at favorable terms. Evaluation of suppliers before selecting them can significantly improve the performance of the procurement function in carrying out its mandate (Martin, 2004).

The concept of appraising all interested suppliers before awarding them with contracts to supply different goods, services or carry out works is being widely practiced by organizations in both the public and private sector. Supplier selection is generally considered as a five phase process starting from the realization of the need for a new supplier, determination and formulation of decision criteria; pre-qualification; final supplier selection; to the monitoring of the supplier selection (Choy and Lee, 2002). The evaluation and assessment task needs identification of strategic or key decision characteristics against which the potential suppliers are to be assessed. Final supplier selection involves evaluating potential suppliers against the characteristics identified at the beginning (Choy and Lee, 2002). The likely benefit of evaluating suppliers based on their strategic characteristics is a procurement function that performs well. The key supplier related factors that should be given emphasis in the appraisal include; financial stability of suppliers, their past performance, the quality of their products or services and their reliability. A properly done appraisal of suppliers before selection can assist in identifying the best suppliers that will ensure the procurement function is able to provide strategic leadership, achieve its objectives, follow the laid down procedures and establish a good relationship with all the stakeholders, (Martin, 2004). This research sought to establish the factors affecting the performance of county government procurement departments with special focus on County Government of Kakamega.

4. Objective of the Study

4.1. General Objective

The general objective of the study was to establish the factors affecting the performance of county government procurement department with special focus on County Government of Kakamega.

4.2. Specific Objective

- To determine the effects of supplier financial stability on the performance of county government procurement department in Kakamega County
- To examine the effects of quality management on performance of county government procurement department in Kakamega County
- To determine the effects of reliability of supplier on the performance of county government procurement department in Kakamega County

5. Research Questions

- What are the effects of supplier financial stability on performance of county government procurement department in Kakamega County
- To what extent does quality management affect the performance of county government procurement department in Kakamega County

- What are the effects of reliability of supplier on the performance of county government procurement department in Kakamega County

6. Justification of the Study

The study is of major help to the management of County Government to know the importance of good supplier appraisal in relation to performance of the procurement function and the company in general. The management is able to come up with recommendations on how to improve supplier's performance and consequently improve the performance of the procurement function. The study is of importance to the suppliers themselves as they can know the key parameters that are used to evaluate them and seek to improve on them. As such, the study is a learning tool for existing and potential suppliers.

7. Effects of Financial Stability of Supplier on Performance of County Government Procurement in Kakamega County

7.1. Theoretical Framework

7.1.1. Reinforcement Theory

This theory is based on operant conditioning developed initially by a psychologist by the name of B.F Skinner. The theory argues that the behavior of people is largely determined by its consequences. Those actions that tend to have positive consequences tend to be repeated in future while those with negative consequences are unlikely to be repeated again, (Otube, 2010). As such, decision makers in organizations should endeavor to ensure that consequences of good performance are pleasant while those of poor performance are unpleasant. With regard to supplier's evaluation, it should be made quite clear that meeting or surpassing the appraisal criteria would result in winning the confidence of the appraiser. This would ultimately result in the appraisee benefiting by having contracts awarded to them which according to this theory, can be referred to as the 'pleasant consequence', (Otube, 2010). The basic idea underlying reinforcement theory is the concept of reinforcement itself. An event is said to be reinforcing if the event following some behavior makes the behavior more likely to occur again in future. It may involve the following strategies:

- **Positive Reinforcement:** Entails use of positive consequences that stimulates the desired behavior and strengthens the probability of repeat in such behavior in future. Suppliers can get positive reinforcement by being assured of continued business partnership should they continue meeting the clients expectations. They can also be issued with recommendation letters or certificates of exemplary performance to motivate them to continue performing well (Otube, 2010).
- **Negative Reinforcement:** this is also referred to as "avoidance learning". It involves use of unpleasant consequences to condition individuals from behaving in undesirable manner. By making unpleasant consequences contingent on undesirable performance, suppliers will systematically change their ways and endeavor to meet the requirements of their clients. By so doing, the resultant win-win situation will ensure that the performance of the procurement function is positively affected. In supplier evaluation, consequences of not meeting the scoring criteria should be made known in the tender or request for quotation documents to serve as an alert against negative consequences (Otube, 2010).
- **Extinction:** This involves withdrawal of all kinds of reinforcement to extinguish undesirable behavior. There are individuals who like the attention that is brought about by undesirable behavior. A practical example is one where a supplier deliberately delays delivery of items just to have the client make several follow-ups. The supplier may come up with all sorts of excuses for the delay, most of which are fictitious as he is only seeking attention. By ignoring such a supplier, the attention they are seeking is withheld and they will not repeat the same in future (Otube, 2010).
- **Punishment;** This works perfectly when an undesirable behavior needs to be reduced or eliminated. For example, the invoice amount of a supply may be deducted if the quality of goods delivered does not meet the clients' specifications. The whole consignment may be rejected and shipped back to the suppliers who have to replace it on top of meeting the cost of shipment. Such actions would deter suppliers from repeating the mistakes committed in future. Consequently, the performance of the procurement function would be greatly improved (Otube, 2010).

To continue enjoying the good results, the suppliers are likely to do all they can to ensure they keep scoring well and maintain good performance in future. The poor performance they may record in some areas or instances is unlikely to be repeated in future events. A procuring entity that applies prudent supplier evaluation stand to greatly benefit from good or improved performance of its procurement function now and in the future. Good supplier evaluation using the key parameters which are financial stability, quality aspects, reliability and past performance is a tool that can be used to put the reinforcement theory into practice in the area of strategic procurement management (Martin, 2004).

7.1.2. Systems Theory

This theory was first applied in the fields of science and engineering before finding its way into management in the late 1950s. The systems theory is not a set of principles for managing, but a way of thinking about organization and management. An organization is a system with many sections that are interrelated. These sections are affected in their operations by factors that are either internal, external or both. Systems can either be closed or open. Most if not all organizations are open systems meaning that they are dependent on the external environmental factors for survival (Drucker, 1988). Deming defines system as a series of functions or activities within an organization that work together for the aim of attaining the organization objectives (Deming seminar, cited from Louis E. Schultz,

"Profiles in Quality", 1994). Further he says "the flow of material and information from any part of the system must match the input requirements of the next stage" (Deming in 1993, cited from Louis E. Schultz, "Profiles in Quality", 1994).

The organization receives inputs from the outside world which it then transforms into output and takes it back to the world for use. An organization will need suppliers to provide the input it requires. The inputs could either be materials, information or even human capital. Lack of sufficient supplies will mean that the organization will not meet its operational capacity and thus will not be effective in its operations. This can be illustrated by the diagram below;

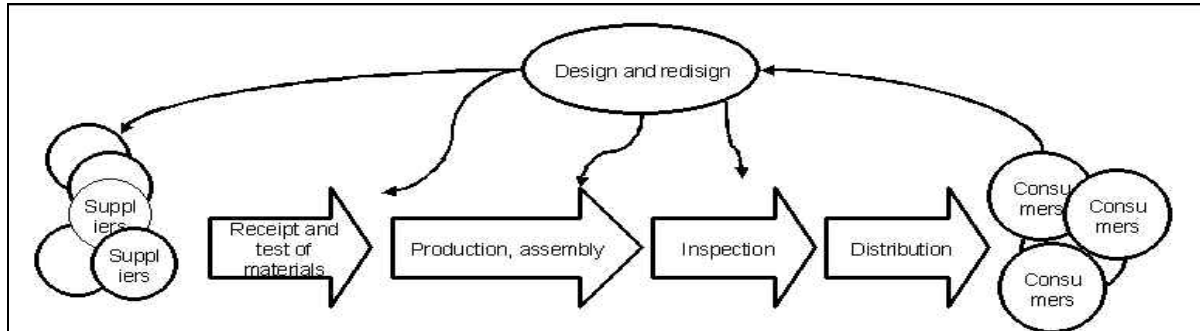


Figure 1: Deming's flow diagram
Source: Deming, *Out of the Crisis*, 1986

Systems theory is very significant in procurement as it clearly demonstrated the interrelationship of the organization and its environment. Proper management of that relationship ensures that the conversion process of inputs to outputs is smooth. Systems theory views the management in totality and helps in seeing the problems of the organization in a wider perspective (Deming, 1986). The systems approach is very useful in managerial decision making. By understanding that the organization must obtain inputs from suppliers, the procurement managers will be better placed to ensure that supplier selection is done thoroughly. The result will be a highly efficient procurement function that serves the organization well. The approach provides a framework through which organization-environment interaction can be analyzed before a decision is made (Deming, 1986).

8. Research Methodology

8.1. Research design

Research design is the basic plan that indicates an overview of the activities that are necessary to execute the research project. The study adopted a descriptive research design since the study intended to gather quantitative and qualitative data that would describe the effects of public procurement regulation on public procurement of devolved county governments in Kenya. According to Mugenda and Mugenda (2003) descriptive research was used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation. The study considered this design appropriate since it would facilitate gathering of reliable and accurate data that would clearly describe the factors that affect the performance of procurement department's with special focus on County Government of Kakamega.

8.2. Target Population

Target population as defined by Frederic (2010), is a universal set of the study of all members of real or hypothetical set of people, events or objects to which an investigator wishes to generalize the result. The target population was the employees of Kakamega County Government. This included both the employees on permanent and temporary contracts of employment which is 595 employees. The employees were categorized as follows in Table 3.1.

Category	Target Population	Percentage
Top Management	90	15%
Middle level Management	175	29%
Low level management	235	56%
Total	595	100

Table 1: Target Population

8.3. Sample Frame

The sampling frame describes the list of all population units from which the sample was selected (Cooper and Schindler, 2008). It is a physical representation of the target population and comprises all the units that are potential members of a sample (Kothari, 2004).

8.4. Sampling Technique

The total number of respondents in this study was 119 and since the sample was drawn from all cadres of staff, the population was regarded homogeneous. The sampling technique employed was stratified random sampling. This is because the respondents were stratified into three categories i.e. top management, middle level management and low level management.

Category	Target Population	Ratio	Sample size
Top Management	90	20%	18
Middle level Management	175	20%	35
Low level management	235	20%	47
Total	595	20%	119

Table 2: Sample size

8.5. The Study Area

The study was based at Kakamega County Government. The study targeted all members of staff including the top, middle and lower levels of management who are involved in the procurement process in one way or another. It covered a target population of approximately five hundred and ninety five members of staff who comprised of all members of management, Staff in the procurement department, Commercial department and the technical department. The research was undertaken between January and April 2014 and concentrated on supplier related factors affecting performance of the procurement function at Kakamega County Government.

9. Findings

9.1. Financial stability of the supplier

From the analysis, the study established that financial stability of the supplier affects county government supplies to a great extent, is essential that procurement officers get to assess the financial stability of the supplier firm any tender is awarded, the study also found that Firm must find a low-cost supply base where it can minimize manufacturing cost related to the production of the Product, the key objective of financial appraisal in the procurement process is to analyze a supplier's financial position and determine the level of risk that it would present to the client having regard to the contract requirements, Appraising the financial stability of suppliers provides information that enables sound decisions to be made either when sourcing suppliers or when evaluating tenders, a firm always requires the minimum price of the product to increase the profitability and consequently be financially stable and that cost management brings a lot of business to suppliers who offer least cost, holding other factors constant. The study further established that A financial analysis allowed for an assessment of the budgetary impact of projects by looking at the pattern of project related cash flows.

9.2. Quality Management Suppliers

On quality management of supplier, the study established that quality management affects county government supplies to a great extent, the study also established that maintaining best practices, supplies can dramatically improve their supplier quality and achieve their own business. Profitability is virtually guaranteed if quality is present, Quality assessment is a key factor of suppliers by which they can improve and maintain quality and delivery performance, if a product fulfills a customer expectation, the customer will be pleased and consider that product as of acceptable or even of high quality, It is also vital to establish which of the supplier knows about and is ready to implement the concept of total quality management, Suppliers' need competent technical ability to provide high quality product or service, ensure future improvements in performance and promote successful development efforts, and that for suppliers(firms) should require assessed on quality aspects before included in the approved list

9.3. Reliability of Supplier

The study revealed that reliability of supplier affects county government supplies to a great extent. The study further noted that; To be sure of supplier reliability, a procuring entity should further and establish the inventory levels that suppliers maintains, Low inventory levels would mean that the supplier will begin their own procurement process, Organizations that wish to attain competitive advantage need to engage in supplier reliability tracking, and that Long lead time has the impression that the specific supplier is less efficient or he just has more customers than he can serve thus delaying deliveries. the study also revealed that county governments should be keen in assessing whether the supplier can provide exactly the goods or services required and at the required quality; whether the supplier enjoys recommendations from other firms; whether the supplier features on approved lists drawn up by trade associations or business groups; how long the supplier has been in business; and how secure the supplier's financial position is (a credit check will help to establish if there are any possible cash flow problems that may compromise their ability to honor delivery promises this will Ultimately help to rate supplier reliability.

10. Conclusion

The study established that, appraising the financial stability of suppliers provides information that enables sound decisions to be made either when sourcing suppliers or when evaluating tenders thus the study concludes that financial stability of a supplier had a positive effect on county government supplies units in Kakamega County

The study also revealed that, Quality assessment is a key factor of suppliers by which they can improve and maintain quality and delivery performance thus the study concludes that quality management had a positive impact on county government supplies units in Kakamega County

The study further established that in order to be sure of supplier reliability, a procuring entity should go further and establish the inventory levels that suppliers maintain thus the study concludes that reliability of supplier had a positive effect on county government supplies units in Kakamega County

The study established that; performance of suppliers is treated as a primary criterion especially for common standardized products thus the study concludes that considering the performance of suppliers before awarding tenders to them, this had positive influence on the county government supplies units in Kakamega County

11. Recommendations

Suppliers should be judged on criteria that include price. Other factors which should be considered include: the speed with which supplies are delivered; the reliability of the supply; the quality of the goods or services provided; the balance between price, quality and reliability and the financial stability of the supplier

Procurement department should find out whether the supplier can provide exactly the goods or services required and at the required quality; whether the supplier enjoys recommendations from other firms. This should make clear precisely on what a county government procurement department should expect of its chosen supplier as far as price, quality, consistency and reliability are concerned.

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- **CBR** Case Based Reasoning
- **CBSMT** Case Based Supplies Management Tool
- **FRPUT** Failure Rate per Unit Time
- **TQM** Total Quality Management
- **MTFF** Mean Time to First Failure
- **MTBF** Mean Time between Failures
- **PPDA** Public Procurement and Disposal Act
- **PPOA** Public Procurement Oversight Authority
- **PPOB** Public Procurement Oversight Board
- **PPARB** Public Procurement Administrative Review Board