Effects of Procurement Planning on Organizational Growth and Development

Francis Mwau
School of Business and the Economics, Kenyan Methodist University
mwaufrancis@gmail.com

ABSTRACT

Procurement planning is integral aspect in any organization operations. It has seen many organizations succeed and others get extinct from the way it is planned, carried and implemented. It is an area that is prone to business cartels and corruption, hence no single day passes without a headline on the global dailies about a corrupt procurement deal. Procurement planning is the primary function that stage for subsequent procurement activities. The objective of this study is to examine the effects of procurement planning on organizational performance at the Kenya Methodist University (administration, human resource, ICT, internal audit, procurement and Finance) The independent variables in this study are, staff competence, top management support and management information systems. The dependent variable is growth and development of the organization. The literature review explains theories that relate to procurement planning and its effect on organizational growth and development. These theories include, the agency theory and the stewardship theory. The paper ends with an analytical summary of the two theories and how they relate with the modern procurement of resources in organizations.

Keywords : Procurement, Agency Theory, Stewardship Theory.

1. Introduction

Every organization, whether it is a manufacturer, wholesaler, or retailer, buys materials, services and supplies to support operations. Historically, purchasing has been perceived as a clerical or low-level managerial activity charged with responsibility to execute and process orders initiated elsewhere in the organization. The role of purchasing was to obtain the desired resource at the lowest possible purchase price from a supplier. This traditional view of purchasing has changed substantially in the past several decades. As a result, procurement has been elevated to a strategic activity (Bowersox, Closs, & Cooper, 2002). Procurement in any organization must be transacted with other considerations in mind, besides the economy.

These considerations include accountability, non-discrimination among potential suppliers and respect for international obligations. For these reasons, organizational procurement is subjected in all countries to enact regulations, in order to protect public interests. Unlike private procurement, public procurement is a business process within a political system and has significant consideration of integrity, accountability, national interest and effectiveness (Wittig,2001) Procurement as one of the components of the overall organizations Supply Chain (SC) need to be effective as well as efficient.

Lack of public confidence and trust in the government's ability to effectively and efficiently procure its goods and services has been a continuing headlines issue (Abramson & Harris, 2003).

It is asserted that each time a new example of waste, fraud and abuse has occurred a new legislation and regulation has been implemented to address the particular problem. As a result, over the years a specialized way of doing business has built up based on volumes of legislation, regulations and practice. According to Jorge Lynch (2014), procurement planning is the process of deciding what to buy, when and from what source. During the procurement planning process, the procurement method is assigned and the expectation for fulfillment of procurement requirement is determined. He specifies the process to be important as it allows partners in trade to determine if expectations are realistic, particularly the expectations of the requesting entities, which usually expect their requirements met on short notice and over a shorter period than the application of the corresponding procurement method allows. Each year, departments are required to budget for staff, expenses, and purchases. This is the first step in procurement planning process. Burt et al (2004), further defined procurement planning as the purchasing function through which organizations, individuals or groups obtain products and services from external suppliers. A good procurement plan will go one step further by describing the process you will go through to appoint those suppliers contractually. Whether you are embarking on a project procurement or organizational procurement planning exercise, the steps will be the same. First determine the items you need to procure, next define the process for acquiring those items and finally, schedule the timeframes for delivery.

A procurement plan helps the procurement entities to achieve maximum value for expenditures and enables the entities to identify and address all relevant issues pertaining to a particular procurement before they can publicize their procurement notices to potential suppliers of goods, works and services. A procurement plan is influenced by number of factors and they include the following;

The value of procurement.

Type of procurement, for example, whether it is sensitive, risky, unique or of strategic significance to the procuring entity`s success. The nature of procurement, for example, whether it involves risk and ethical and process issues. Before any procurement transaction is conducted, procuring entities must determine their procurement needs which must be consistent with their organization's objectives. In this case, the procuring entity should assess whether or not, a particular procurement is necessary. The assessment should take account of; the need to ensure that the procuring entity uses its resources effectively and efficiently, how the proposed expenditure would contribute to the entity`s overall procurement philosophy.

A procurement plan must be integrated into annual sector expenditure programs to enhance financial predictability (PPOA, 2009) and Public Procurement and Disposal General Manual. Section 26 (3) of the Act and Regulations 20 and 21 make procurement planning mandatory. The procurement plans are prepared as part of the annual budget preparation process as they are necessary to inform the cash flow preparation. The annual procurement planning is an integral part of the budget processes. Therefore, it is important to appropriately plan multiyear procurement and to integrate them into the medium term budgetary frameworks. This paper gives a summary of procurement theories and how they relate with the modern day to day acquisition of resources in organizations

Agency Theory

Agency theory having its roots in economic theory was exposited by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). Agency theory is defined as "the relationship between the principals, such as shareholders and agents such as the company executives and managers". In this theory, shareholders who are the owners or principals of the company, hires the gents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents (Clarke, 2004). Indeed, Daily et al (2003) argued that two factors can influence the prominence of agency theory. First, the theory is conceptually and simple theory that reduces the corporation to two participants of managers and shareholders. Second, agency theory suggests that employees or managers in organizations can be self-interested.

The agency theory shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2000). Such a problem was first highlighted by Adam Smith in the 18th century and subsequently explored by Ross (1973) and the first detailed description of agency theory was presented by Jensen and Meckling (1976). Indeed, the notion of problems arising from the separation of ownership and control in agency theory has been confirmed by Davis, Schoorman and Donaldson (1997).

In agency theory, the agent may be succumbed to self-interest, opportunistic behavior and falling short of congruence between the aspirations of the principal and the agent's pursuits. Even the understanding of risk defers in its approach. Although with such setbacks, agency theory was introduced basically as a separation of ownership and control Bhimani, (2008). Holmstrom and Milgrom (1994) argued that instead of providing fluctuating incentive payments, the agents will only focus on projects that have a high return and have a fixed wage without any incentive component. Although this will provide a fair assessment, but it does not eradicate or even minimize corporate misconduct. Here, the positivist approach is used where the agents are controlled by principal made rules, with the aim of maximizing shareholders value. Hence, a more individualistic view is applied in this theory Clarke, (2004) Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. Due to the fact that in a family firm, the management comprises of family members, hence the agency cost would be minimal as any firm's performance does not really affect the firm performance Eisenhardt, (1989). The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority Jensen &Meckling, (1976). This theory prescribes that people or employees are held accountable in their tasks and responsibilities. Employees must constitute a good governance structure rather than just providing the need of shareholders, which maybe challenging the governance structure. This will in turn ensure growth and development of the organization.

Stewardship Theory

Stewardship theory has its roots from psychology and sociology and is defined by Davis, Schoorman & Donaldson (1997) as "a steward protects and maximizes shareholder's wealth through firm performance, because by so doing, the steward's utility functions are maximized". In this perspective, stewards are company executives and managers working for the shareholders, protects and make profits for the shareholders. Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Donaldson & Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained.

Agyris (1973) argues agency theory looks at an employee or people as an economic being, which suppresses an individual's own aspirations. However, stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust Donaldson and Davis, (1991). It stresses on the position of employees or executives to act more autonomously so that the shareholders' returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling behaviors (Davis, Schoorman & Donaldson, 1997).

On the other end, Daly et al. (2003) argued that in order to protect their reputations as decision makers in organizations, executives and directors are inclined to operate the firm to maximize financial performance as well as shareholders' profits. In this sense, it is believed that the firm's performance can directly impact perceptions of their individual performance. Indeed, Fama (1980) contend that executives and directors are also managing their careers in order to be seen as effective stewards of their organization, whilst, Shleifer and Vishny (1997) insists that managers return finance to investors to establish a good reputation so that that can re-enter the market for future finance. Stewardship model can have linking or resemblance in countries like Japan, where the Japanese worker assumes the role of stewards and takes ownership of their jobs and work at them diligently.

Moreover, stewardship theory suggests unifying the role of the CEO and the chairman so as to reduce agency costs and to have greater role as stewards in the organization. It was evident that there would be better safeguarding of the interest of the shareholders. It was empirically found that the returns have improved by having both these theories combined rather than separated (Donaldson and Davis, 1991).

2. Research Method

Meaning of Procurement

Lewis and Roerich (2009) insist that procurement is a key activity in the supply chain. Procurement can significantly influence the overall success of an emergency response depending on how it is managed. In most organizations, procurement represents a very large proportion of the total spend and should be managed effectively to achieve the desired objectives. Procurement works like a pivot in the internal supply chain process turning around requests into actual products or services to fulfill the needs (Caldwell, Roerich, & Davies, 2009).

Caldwell et al, (2009) further argue that procurement serves three levels of users namely the internal customer, programs in response to emergencies and ongoing programs and prepositioning of stocks, for both internal customers and program needs.

Benslimane and Plainest (2005) argue that the overall aim and objective of procurement is to carry out activities related to procurement in such a way that the goods and services so procured are of the right quality, from the right source, are at the right cost and can be delivered in the right quantities, to the right place and at the right time. There are 'six rights' in procurement and they can be achieved through following specific objectives of procurement (Benslimane &Plaisent, 2005). These specific objectives are to: buy quality materials, items and services economically from reliable sources; ensure timely delivery through the selection of capable and efficient suppliers continuously locate, evaluate and develop economical and reliable supply Sources, identify the most reliable sources of supply through either open tender, direct procurement, pre-qualifying suppliers & retaining only those that are capable of meeting the organization's requirements strategic sourcing and limited tendering investigate the availability of new materials and monitor trends in market prices and buy in accordance with organizations policies.

3. Discussion

There are three important principles of procurement (Caldwell, Roerich, & Davies, 2009). The first principle is transparency which emphasizes that the procurement process should be fair and accurately documented. The second principle is accountability to financiers who may require that certain rules and procedures should be followed by beneficiaries of the money they have provided. Finally, there is the principle of efficiency and cost effectiveness and this principle is about meeting the 'six rights' of supply; price, right time, right quantity, quality services, and delivery to the required places and from the most economical source.

Procurement has an important role to play and every organization should put in place effective systems of procurement to protect shareholder's funds. In Kenyan universities, (both private and public) procurement is important because they are beneficiaries of public funds or taxpayer's money that must be appropriately accounted for and it is for this reason that the procurement function forms a key part of management strategy. The particular features of procurement are the budgets involved, the frequency of activities and technical complexity of the functions. Procurement activity must, therefore, be considered as an internal part of the business planning process and must relate to the asset management strategy.

4. Conclusion

In the modern competitive world of business today, procurement is a core factor that should not be overlooked. The delivery of goods and services to the end user will entirely depend on the effectiveness and efficiency of the procurement department. Therefore, the procurement function of any business should be form an alliance and collaborations with suppliers to ensure there is no breakdown of production of goods and services. The top management of any organization should put procurement in t their strategic plans because the speed of Delivery of goods and services determines the how many customers an organization will attract.

Any company that has proper procurement planning will highly satisfy its customers hence more profits leading to growth and expansion. The reverse is true and in most cases, it forces companies out of markets. As stated in the agency theory the shareholders expect the principals who are the managers and directors to act in the best interest of the company. This calls for shelving off personal interests like receiving bribes to favors some suppliers. Every decision made should be aimed at propelling the company in terms of making profit hence leading to its growth. The stewardship theory aims at protecting the shareholders wealth through making profit's. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. It recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust. In order to protect their reputations as decision makers in organizations, executives and directors are inclined to operate the firm to maximize financial performance as well as shareholders' profits. In this sense, this firm will grow and expand satisfying both the shareholders as well as the customer needs.

Bibliographies

[1] Abramson, M. A., & Harris, R. S. (2003). The procurement revolution. Lanham: Rowman & Littlefield.

[2] Basheka, B.C. (2009), Procurement and Local Governance in Uganda: a factor analysis approach, International Journal of Procurement Management, Vol.2, No. 2, pp. 191 209.

[3] Baumann, J. F., & Kameenui, E. J. (2004). Vocabulary instruction: Research to practice. New York: Guilford Press.

[4] Baumann, J. F., &Kameenui, E. J. (2004). Vocabulary instruction: Research to practice. New York: Guilford Press.

[5] Bowersox, D. J., Closs, D. J., & Cooper, M. B. (2007). Supply chain logistics management. Boston, MA: McGraw-Hill/Irwin.

[6] Caldwell, N.D., Roehrich, J.K. & Davies, A.C. (2009).Procuring complex performance in construction: London Heathrow

[7] Chesang, S. (2013).Procurement challenges in public Universities in kenya http://erepository.uonbi.ac.ke. Nairobi: UON.

[8] Donaldson, T. (1994).The stakeholder theory of the corporation: Concepts, evidence and implications. College Park, MD: Center for International Business Education and Research, University of Maryland.

[9] Freeman, R. E. (1984). Strategic management: A stakeholder approach. Boston: Pitman.

[10] Gikonyo P.K. (2014). Factors Affecting Implementation of Public Procurement Act in SACCO Societies in Kenya.

[11] Helosekaran, A., &Sandhu, M. (2008). Handbook on business information systems. Singapore: World Scientific.

[12] Hillman, A. J., Cannella, A. A. and Paetzold, R. L. (2000), The Resource Dependence Role of Corporate Directors: Strategic Adaptation of Board Composition in Response to Environmental Change. Journal of Management Studies, 37: 235–256. doi:10.1111/1467-6486.00179

[13] Hölmstrom, B. (1994). The firm as an incentive system. New Haven, CT: Yale School of Organization and Management.

[41] Holmstrom, B. (1994). The firm as an incentive system. New Haven, CT: Yale School of Organization and Management.

[15] Hypo group alpeadria. (2012). Place of publication not identified: Duc.

[16] Interagency Procurement Working Group (IAPWG) in 2006 .

[17] International Journal of Academic Research in Business and Social Sciences, 4 (2), 169-194.

[18] International Journal of Economics, Commerce and Management United Kingdom Vol. II, Issue 11, Nov 2014

[19] Jensen, M. C., &Meckling, W. H. (1976).Theory of the firm: Managerial behavior, agency costs and ownership structure. Rochester, N.Y.: Center for Research in Government Policy & Business, Graduate School of Management, University of Rochester.

[20] Knight, L. (2007).Public procurement: International cases and commentary. London: Routledge.

[21] Lewis, M.A. &Roehrich, J.K. (2009).Contracts, relationships and integration: Towards a model of the procurement of complex performance. International Journal of Procurement Management, 2(2), 125-142.

[22] Lynch, J. (2013). Public Procurement and Contract Administration: A Brief Introduction; UK: Leanpub

[1] McKee, A., Boyatzis, R. E., & Johnston, F. (2008). Becoming a resonant leader: Develop your emotional intelligence, renew your relationships, sustain your effectiveness. Boston, MA: Harvard Business School Pub.

[23] Monczka, R. M., Handfield, R. B., Giunipero, L. C., & Patterson, J. L. (2016). Purchasing and supply chain management. Boston, MA: Cengage Learning.

[24] Mugenda, O. M., &Mugenda, A. G. (1999). Research methods: Quantitative and qualitative approaches. Nariobi, Kenya: African Centre for Technology Studies. procurement system: Approaches and practices of the United States and other selected countries. Place of publication not identified: International Trade Centre.

[25] Public Procurement and Disposal Act (2005) Nairobi

[26] Public Procurement, The Government of Kenya (2005)

[27] Savage, F., & Cosby, B. (2013). The Savage way: Successfully navigating the waves of business and life. Hoboken, NJ: Wiley.

[28] Sekaran, U. (2003). Research Methods for Business. New York

[29] Stewart, R. J., & Williamson, R. (1996).Celtic bards, Celtic druids. London: Blanford.

[30] Stewart, R. J., & Williamson, R. (1996).Celtic bards, Celtic druids. London: Blandford.

[31] Thai, K. V. (2011). Towards new horizons in public procurement. Boca Raton, FL: Pracademics Press.

[32] The Government of Kenya (2006) Public Procurement and Disposal Regulations, 2006 Nairobi.

[33] The Government of Kenya (2009)Public Procurement and Disposal General Manual(2009).Nairobi.

[34] Wheeler, D., &Sillanpää, M. (1997).The stakeholder corporation: A blueprint for maximizing stakeholder value. London: Pitman.

[35] Wittig, W. A. (2001). A framework for balancing business and accountability within a public procurement system: Approaches and practices of the United States and other selected countries. Place of publication not identified: International Trade Centre.