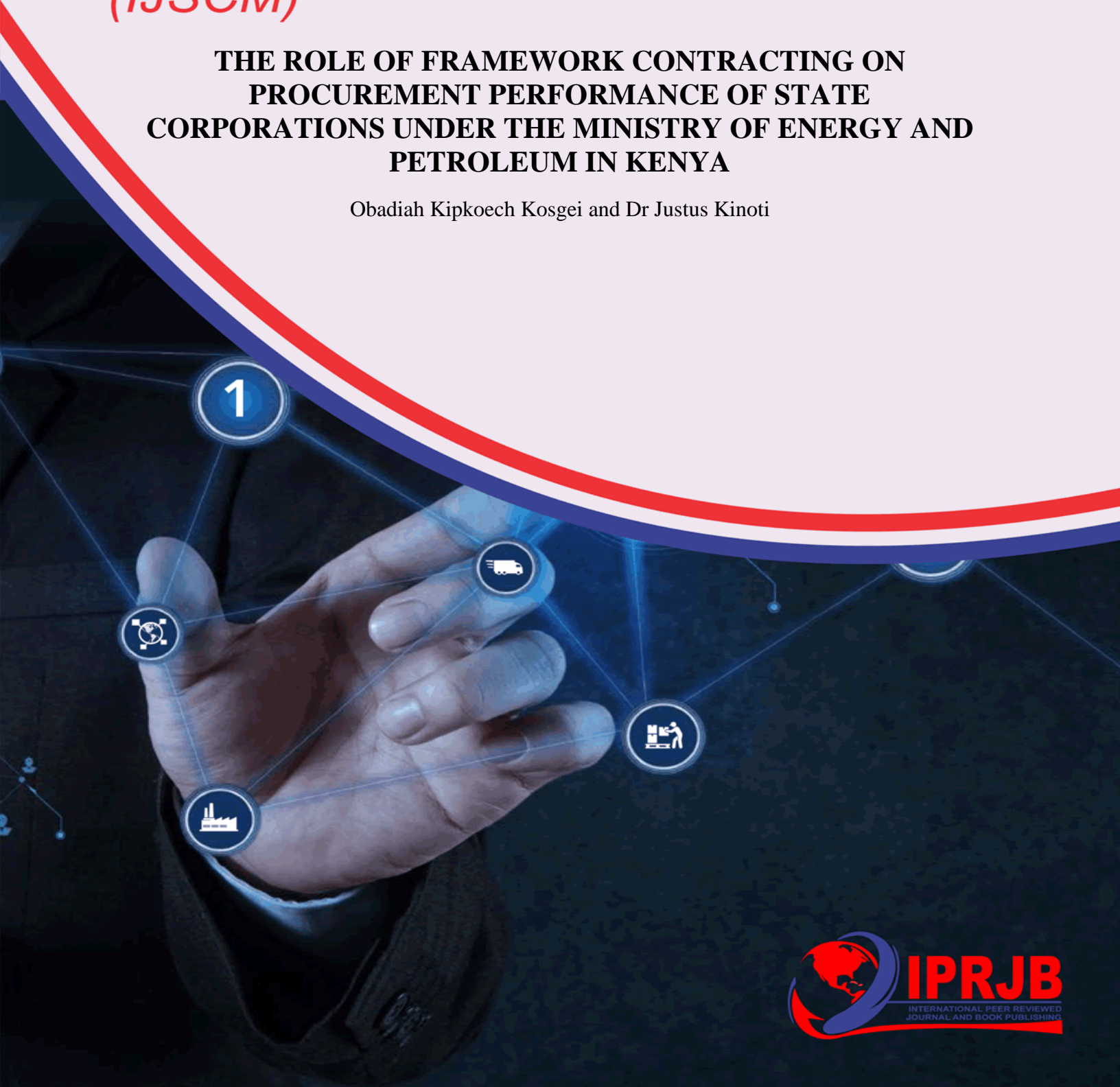


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THE ROLE OF FRAMEWORK CONTRACTING ON PROCUREMENT PERFORMANCE OF STATE CORPORATIONS UNDER THE MINISTRY OF ENERGY AND PETROLEUM IN KENYA

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Abstract

Purpose: The purpose of this study was to determine the role of framework contracting on procurement performance of state corporations under the ministry of energy and petroleum of Kenya.

Methodology: The study adopted a descriptive design and targeted 456 staff of the ten (10) state corporations under the Ministry of Energy of Kenya. The study employed stratified random sampling technique in coming up with a sample size of 214 respondents by use of Slovin's formula: $n=N/(1+e^2)$ whereas questionnaires were the main data collection instruments. The study used both primary and secondary data whereby both correlation and multiple regressions were employed to determine the relationship between and among the variables.

Results: Framework contracting plays a positive role in procurement performance of state corporations under the ministry of energy of Kenya. It was also found that procurement method adopted positively affects procurement. The study further showed that employee competence has an impact on procurement performance and ICT is a vital enabler of procurement performance

Unique contribution to theory, practice and policy: State corporations should embrace framework contracting as a procurement method. This will improve the performance of procurement function as it allows for flexibility and cost reduction hence improving responsiveness and service delivery by the state corporations..

Keywords: *Procurement method, supplier development, employee competence, ICT, procurement performance.*

1.0 INTRODUCTION

1.1 Background of the Study

Procurement largely contributes to spending of public entities funds thus the procurement processes must be highly monitored on how procurements processes are administered to ensure efficiency and effectiveness. Unless the procurement process is administered effectively and efficiently, the performance of the procurement entities will be highly affected (Wanjiru, 2013).

According to Kakwezi and Nyeko (2011), the importance of the procurement function and the need to have coherent methods of performance of the procurement function is necessary to investigate the measures that would enhance procurement efficiency and effectiveness of the purchasing function.

The selection of the most appropriate procurement method is critical for the success of any procurement as it is an important factor that contributes to the overall performance of procurement. This selection will be dependent upon a number of factors such as cost, time and quality which are widely considered as being the most fundamental criteria for clients seeking to achieve their end product 'at the highest quality, at the lowest cost and in the shortest time' (Hackett et al. 2007).

According to Karani (2014), procurement methods affect procurement performance of state corporations thus corporations should apply suitable procurement methods, policy makers in government, practitioners and stakeholders in Kenya should develop their awareness on procurement performance measurement for future procurement endeavors.

There is existence of a wide variety of procurement methods available to procurement practitioners in Kenya today. The most commonly used method by Kenyan public entities for low value common user items being the Request for Quotation (RFQ) method. As observed by PPOA in Circular No.6 of 2010, RFQ was rampantly used by Procuring Entities (PEs) in most of their procurements, it further stated that procurement units spent 90% of their time in processing procurements through the aforesaid method. This led the Public Procurement Oversight Authority (PPOA) currently the Public Procurement Regulatory Authority (PPRA) to prepare and issue guidelines for framework contracting as instructions for making awards of indefinite-delivery framework contracts under Section 9 (c) (i) and (iv) of the then Public Procurement and Disposal Act (PPDA), 2005. Further, the new Public Procurement and Asset Disposal Act (PPADA), 2015 recognized framework contracting as one of the procurement methods available to Procuring Entities (PEs) and procurement practitioners. This study therefore seeks to examine the role of framework contracting as a procurement method on procurement performance of state corporations under the ministry of energy and petroleum, Kenya.

The Kenya Government does not use state-owned enterprises to manufacture goods and services that public authorities require to perform their duties. The government therefore has to purchase various goods and services from the supply market. Procurement is a key economic activity of any government that significantly impacts how taxpayers' money is spent and is a function that hinges on effective service delivery to the citizens.

The Public Procurement Oversight Authority (PPOA) in a circular dated 18th June, 2010 (PPOA CIRCULAR No.6/2010) observed that there is rampant use of the Request for Quotations (RFQ) Method by procuring entities in most of their procurements. In regards to this, PPOA prepared and issued guidelines for framework contracting that were to be used as instructions for making awards of indefinite-delivery framework contracts by all procuring entities in Kenya.

Further, the Public Procurement and Asset Disposal Act (PPADA), 2015 recognized framework contracting as one of the procurement methods that is available to procuring entities.

This concept of framework contracting has been embraced by procuring entities such as Kenya Revenue Authority (KRA), Geothermal Development Company (GDC), Meru County government, Moi Teaching and Referral Hospital (MTRH), Kenya Power and Lighting Company (KPLC) and Kenya Electricity Generating Company (KENGEN).

1.2 Statement of the Problem

Procurement is one department that can contribute tremendously to the overall performance of an organization. If the procurement department is inefficient in its acquisition of goods and services or even works, other departments would be affected and sometimes the consequences can be grave (Snider and Rendon, 2011).

A study by Karani (2014), found that procurement methods affects procurement performance of state corporations and thus recommended that state corporations should apply suitable procurement methods, policy makers in government, practitioners and stakeholders in Kenya should develop their awareness on procurement performance measurement for future procurement endeavors.

In 2007, the Public Procurement Oversight Authority (PPOA) had estimated that procuring entities were buying at an average of 60% above the prevailing market price, an indicator that public procurement in Kenya does not receive the benefit of competitive procurement.

The Public Procurement Oversight Authority (PPOA) in a circular dated 18th June, 2010 (PPOA CIRCULAR No.6/2010) observed that there was rampant use of the Request for Quotations (RFQ) method by procuring entities in most of their procurements. Further, procurement units pre-occupy about 90% of their time in processing procurements through the aforesaid method.

In regards to this, PPOA prepared and issued guidelines for framework contracting that were to be used as instructions for making awards of indefinite-delivery framework contracts by all procuring entities in Kenya.

Okoth (2016), studied the factors influencing framework agreements at National Irrigation Board of Kenya (NIB). The findings of the study revealed that there was awareness of framework agreements as one of the procurement method prescribed by the Public Procurement and Asset Disposal Act, 2015 (Act). The study also found out that framework agreements were not majorly adopted by National Irrigation Board as a procurement method in its procurement processes. The findings concluded that framework agreements are only appropriate for particular procurement needs and that their suitability require to be assessed by the entities using an appropriate array of parameters before adoption.

Nyongesa and Wagoki (2013), conducted a study on the influence of Framework Contracting on Procurement Performance of Geothermal Development Company, Kenya.

The findings of the study established that framework contracting was adopted as a strategic technique at Geothermal Development Company and was frequently applied.

Previous studies have focused on factors influencing framework contracting and influence of framework contracting in individual organizations and not a ministry or entire state corporations. This study therefore seeks to fill the gap by examining the role of framework contracting on procurement performance of state corporations under the ministry of energy and petroleum of Kenya.

1.3 Objectives of the Study

1. To determine whether choice of procurement method had any impact on procurement performance of state corporations under the ministry of energy and petroleum of Kenya.
2. To examine the influence of supplier development on procurement performance of state corporations under the ministry of energy and petroleum of Kenya.
3. To establish the contribution of employee competence on procurement performance of state corporations under the ministry of energy and petroleum of Kenya.
4. To assess how information communication technology (ICT) affects Procurement performance of state corporations under the ministry of energy and petroleum of Kenya.

2.0 LITERATURE REVIEW

2.1 Transaction Cost Theory (TCT)

TCT explains the basic existence of organizations and why firms expand or outsource activities to external environment (Maina, 2011). The theory proposes that firms try to minimize the costs of exchanging resources with the external environment besides minimizing bureaucratic costs of exchanges within the organization (Saunders et al., 2012). Thus, companies weigh the cost of outsourcing against the bureaucratic costs of performing activities in-house. In this regard, the theory perceives firms and markets as different forms of coordinating and organizing economic transactions (Saunders et al., 2012). When the external transaction cost is higher than the internal bureaucratic cost, the company is likely to grow because the organization is in a position to perform internal activities cheaply. If the reverse is true, the company is likely to downsize (Maina, 2011). However, it is important to note that the procurements are supposed to be conducted within the allocated time and money. This theory is useful in highlighting the benefit of using framework contracting as a procurement method to minimize transaction costs and enhance value for money and efficient service delivery to the public.

2.2 Empirical Review

2.2.1. Procurement Methods

The selection of an appropriate procurement method is becoming an increasingly important issue due to complex decision making that needs to be made (Sawalhi and Agha, 2017). The principal

factors and criteria that influence the selection of a procurement system include the willingness of the client to be actively involved, flexibility to change design during both design and construction periods, risk allocation/avoidance, project size, client experience, certainty of cost and time, availability of experienced contractor, client trust in other parties, client requirement regarding value for money and project type (Onosakponome et al., 2011). However, the decision is not easy, as there are many factors that affect the project procurement method decision. These factors are related to time, cost, scope, quality, owner organisation, cash flow, project characteristics, risk and relationships. It is important that donors, clients and consultants understand these factors, as doing so will assist them in making the right choice regarding a procurement method for their projects (Sayegh, 2007).

Different procurement methods are used for different projects and thus, the correct choice may help to avoid problems and be the key to the attainment of specific procurement goals (Ojo and Gbadebo, 2012).

2.2.2. Supplier Development

According to Chartered Institute of Procurement & Supply (CIPS-UK), Supplier development is defined as the process of working with certain suppliers on a one-to-one basis to improve their performance and expand capabilities for the benefit of the buying organization.

Supplier development affords corporations an opportunity to bring together teams of suppliers to work in harmony for the benefit of the company, improving the bottom line in the long run. Additionally, these approaches can showcase the organization's commitment to the economic growth of local communities, while building the capacity of diverse businesses to serve the organization more effectively (CIPS-UK). Supplier development should lead to improvements in the total added value from the supplier in question in terms of product or service offering, business processes and performance, improvements in lead times and delivery for instance.

Wagner (2010) divided supplier development programmes into direct and indirect supplier development programmes. He found that indirect supplier development improves suppliers' product and delivery performance and that direct supplier development improves supplier capabilities. He also recommended that at any given time firms should engage in either indirect or direct supplier development not in both.

To succeed, a supplier development program requires participation and cooperation from both internal and external stakeholders. A cross-functional team representing internal stakeholders and with an executive sponsor needs to be created. This team gets the internal stakeholders on board and then ensures alignment of the external stakeholders to successfully accomplish the initiative (Hales and Arumugam 2012).

According to Simanye (2014), Supplier development is one of many strategic tools available to companies across the globe that help to ensure sustainable local content or to simply improve supply chains. Supplier development helps achieve high Preferential Procurement targets, by ensuring the development of capable suppliers in key areas, and is also encouraged by separate targets for enterprise development.

Supplier development involves taking those initiatives necessary to change the performance (quality, cost, speed, reliability, dependability, competitiveness, compliance etc.) of supplier firms. It is a collaborative exercise which requires the participation and involvement of various stakeholders from both the buying firm and the supplier (Moagi 2012).

2.2.3. Employee Competence

Competence is identified as the wholeness of intellectual resources, proficiency, intelligence and approaches which are requisite for the human being to perform tasks efficiently in a certain occupational environment (Savanevičienė et al., 2008).

According to Banda (2009), many procuring organizations do not have staff with the right competence critical to good procurement process management. There is need for authorities to give much greater emphasis to developing such competence and to adopt best practice more widely.

Humphrey (2007), a procurement function that is carried out professionally is the heart of delivery of any service on value for money principle. In order to sustain economic growth and effective performance, it is important to optimize the contribution of employees to the aims and goals of the organizations. Technological developments and organizational change have gradually led some employers to the realization that success relies on the skills and abilities of their employees, and this means considerable and continuous investment in training and development. (Sultana, 2012).

According to the Scottish Government (2008), the diversity of the work involved in public procurement necessitates that procurement officers are competent in a wide variety of generic procurement skills in addition to the specific technical skills and knowledge required when procuring for different sectors and commodities. Thus, it is arguably becoming more important to identify, develop and assess the competencies of procurement officers in public procurement to ensure that procurement activity is both compliant with legislation and obtaining value for money.

The performance and success of any organizations depends on its skilled employees and how efficient the organization can tap into that resource and make effective use of it (Antwi & Owusu 2015).

In Kenya, the law requires that each procuring entity establishes a procurement unit with qualified professionals. The Supplies Practitioners Management Act (2007) under Section 32 prohibits employment of unregistered staff. These provisions of the Act are meant to ensure that procuring units are manned by qualified personnel to enhance procurement performance in procuring entities.

2.2.4. Information Communication Technology (ICT)

Information and communications technology (ICT) refers to all the technology used to handle telecommunications, broadcast media, intelligent building management systems, audiovisual processing and transmission systems, and network-based control and monitoring functions.

Information and Communication Technology (ICT) enables organizations to create efficient workflows and processes that eliminate the existing procurement inefficiencies without disrupting their primary business activities (Masika 2013).

The procurement process has had many loopholes in the recent past due to the long and tiresome processes and lots of paperwork. The chipping in of ICT application in the procurement process has reduced this through the adoption of online methods of carrying out the procurement process. The use of online forms, emails, new software technologies in evaluating and making price comparisons has made this process efficient and at the same time will ensure transparency and accountability as well as reduction in errors and omissions (Caldwell, Roehrich and Davies, 2009).

Golder (2007) asserts that organizations that fail to integrate procurement functions with information communication technology systems like electronic data interchange, employs manual procurement procedures that are inefficient and ineffective and leads this to wastage of procurement funds since the procurement processes are characterized by a low degree of transparency.

Innovation in technology has played a major role in enhancing many organizations procurement performance (Harrison, 2014).

3.0 RESEARCH METHODOLOGY

The study adopted a descriptive design and targeted 456 staff of the ten (10) state corporations under the Ministry of Energy of Kenya. The study employed stratified random sampling technique in coming up with a sample size of 214 respondents by use of Slovin's formula: $n = \frac{N}{1 + e^2}$ whereas questionnaires were the main data collection instruments. The study used both primary and secondary data whereby both correlation and multiple regressions were employed to determine the relationship between and among the variables

4.0 RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

4.1 Procurement Method

The research sought to determine whether procurement method had any impact on procurement performance of state corporations. Majority of the respondents formally agreed that framework contracting influenced procurement performance as shown by a mean of 4.30; the respondents also agreed that choice of procurement method influenced procurement performance as shown by a mean of 3.95; respondents also agreed that nature of procurement determines use of framework contracting as shown by a mean of 3.76. From the findings, it was also evident that the legal framework guiding framework contracting was adequate in enhancing procurement performance of state corporations as shown by a mean of 3.56. From the research findings, majority of the respondents indicated that they agreed that procurement method plays a role in procurement performance of state corporations based on the average mean of 3.89.

This implies that majority of the corporations had started recognizing the role of framework contracting in enhancing procurement performance. The findings of this study are in tandem with literature review by Karani, (2014) who observed that procurement methods affects procurement

performance of state corporations thus recommended that state corporations should apply suitable procurement methods.

Table 1: Descriptive analysis of Procurement Method

Statement	Mean	Std. Deviation
Choice of Procurement method influencing procurement performance	3.95	.985
Framework Contracting plays a role in procurement performance	4.30	.687
Legal framework guiding framework contracting enhances procurement performance	3.56	.966
Nature of procurement determines use of Framework contracting	3.76	.614
Total	15.57	3.25
Average	3.89	.813

Source: Research Data

4.2 Supplier Development

The study further investigated the extent supplier development affects procurement performance. Majority of the respondents agreed that training of suppliers leads to improved procurement performance as shown by a mean of 4.23 and a standard deviation of 0.637, use of certified suppliers leads to improved procurement performance as indicated by a mean of 3.76 and a standard deviation of 0.823, proper partner identification and selection enhances procurement performance as shown by a mean of 3.86 and a standard deviation of 0.746 and on continuous supplier assessment, majority of the respondents concurred that it promoted procurement performance as indicated by a mean of 3.98 and standard deviation of 0.814. The result of the findings concludes that a majority of the participants agreed that supplier development influences procurement performance as shown by the average mean of 3.96 and standard deviation of 0.755. The findings of this study agree with literature review by Wagner, (2010) who found that indirect supplier development improves suppliers' product and delivery performance and that

direct supplier development improves supplier capabilities. He recommended that at any given time, firms should engage in either indirect or direct supplier development not in both

Table 2: Descriptive analysis of Supplier Development

Statement	Mean	Std. Deviation
Training of suppliers leads to improved procurement performance	4.23	.637
Using certified suppliers helps improve procurement performance	3.76	.823
Proper partner identification and selection promotes procurement performance	3.86	.746
Continuous supplier assessment helps promote procurement performance	3.98	.814
Total	15.83	3.02
Average	3.96	.755

Source: Research Data

4.3 Employee Competence

The study sought to investigate the contribution of Employee Competence on Procurement Performance of state corporations. Majority of the respondents agreed that employing qualified personnel leads to improved procurement performance as shown by a mean of 4.12 and a standard deviation of 0.548, professional skills and development influenced procurement performance as indicated by a mean of 4.07 and a standard deviation of 0.923, experience of procurement personnel influences procurement performance as shown by a mean of 4.06 and a standard deviation of 0.742 and membership to professional bodies influences procurement performance as indicated by a mean of 3.55 and standard deviation of 1.068. The results of the findings conclude that a majority of the respondents agreed that Employee Competence contributes to Procurement Performance as shown by the average mean of 3.95 and standard deviation of 0.820.

The findings of this study agree with literature review by Humphrey (2007), which found that a procurement function that is carried out professionally is the heart of delivery of any service on value for money principle. In order to sustain economic growth and effective performance, it is important to optimize the contribution of employees to the aims and goals of the organizations

Table 3: Descriptive analysis of Employee Competence

Statement	Mean	Std. Deviation
Employing qualified practitioners promotes procurement performance	4.12	.548
Professional skills and CPD influences procurement performance	4.07	.923
Experience of procurement practitioners influences procurement performance	4.06	.742
Membership to professional bodies influences procurement performance	3.55	1.068
Total	15.8	3.281
Average	3.95	.820

Source: Research Data

4. 4 Information Communication Technology (ICT)

The study sought to investigate how Information Communication Technology contributes to Procurement Performance of state corporations. Majority of the respondents agreed that embracing e-procurement enhances procurement performance as shown by a mean of 4.23 and a standard deviation of 0.776, systems integration leads to improved procurement performance as indicated by a mean of 4.16 and a standard deviation of 0.815, level of automation influences procurement performance as shown by a mean of 3.88 and a standard deviation of 0.578 and on Gov't policy, majority of the respondents concurred that it promoted procurement performance as indicated by a mean of 3.84 and standard deviation of 0.577. The results of the findings concludes that a majority of the respondents agreed that Information Communication

Technology affects Procurement Performance as shown by the average mean of 4.03 and standard deviation of 0.687.

The findings of this study are in tandem with literature review by Harrison, (2014) who observed that innovation in technology has played a major role in enhancing many organizations' procurement performance.

Table 4: Descriptive analysis Information Communication Technology (ICT)

Statement	Mean	Std. Deviation
Level of Automation influences procurement performance	3.88	.578
Embracing E-Procurement enhances procurement performance	4.23	.776
Systems Integration enhances procurement Performance	4.16	.815
Gov't Policy on ICT promotes procurement performance	3.84	.577
Total	16.11	2.746
Average	4.03	.687

Source: Research Data

4.5 Procurement Performance

The study aimed at assessing the state corporation's procurement performance, where it was rated to a great extent (mean score 4.05). According to Table 5, there was reduced costs to a great extent (mean score 4.04), there was reduced lead times (mean score 4.04), the corporation was flexible (mean score 4.06), there was improved quality services (mean score 4.09).

Table 5: Descriptive analysis Procurement Performance

Statement	Mean	Std. Deviation
Quality services	4.09	.683
Reduced Lead times	4.02	.575
Reduced costs	4.04	.696
Improved Flexibility	4.06	.643
Total	16.21	2.597
Average	4.05	.649

Source: Research Data.

4.6 Correlation Analysis

Table 6: Correlation Analysis

	Procurement Performance	Procurement Method	Supplier Development	Employee Competence	Information Communication Technology
Procurement Performance	1.000				
Procurement Method	.533	1.000			
Supplier Development	.747	.243	1.000		
Employee Competence	.591	.319	.203	1.000	
Information Communication Technology	.759	.285	.194	.261	1.000

Source: Research Data

The matrix showed high correlation between the response and predictor variables that is procurement method, supplier development, employee competence and information communication technology.

4.7 Regression Analysis

The results of regression analysis shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R^2 equals 0.776, that is, procurement method, supplier development, employee competence and information communication technology explains 77.6% of observed in procurement performance of state corporations under the Ministry of Energy of Kenya. The P- value of 0.000 (Less than 0.05) implies that the regression model is significant at the 95% significance level.

Table 7: Model Summary for Regression

Model	R	R Square	Adjusted R Square	Standard Error of Estimate
1	.881	.776	.769	.49423

A multivariate regression analysis was also carried out to determine the relationship between dependent variable and the four independent variables. The regression equation was;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \Sigma$$

Where: Y = Procurement Performance (Dependent Variable), β_0 = Constant Coefficient, X_1 = Procurement method, X_2 = Supplier development, X_3 = Employee Competence, X_4 = Information Communication Technology, Σ is error term and $\beta_1, \beta_2, \beta_3, \beta_4$ = Beta Co-efficient.

Table 8: Regression of Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig
1. Constant	0.903	0.123	0.000	7.367	0.000
2. Procurement Method	0.049	0.028	0.147	2.021	0.093
3. Supplier Development	0.048	0.027	0.101	1.686	0.210
4. Employee Competence	0.047	0.030	0.105	1.194	0.234
5. Information Communication Technology	0.043	0.028	0.158	1.149	0.045

From the Regression results, the multiple linear regression model finally appears as;

$$Y = 0.903 + 0.049X_1 + 0.048X_2 + 0.047X_3 + 0.043X_4 + \Sigma$$

The multiple linear regression models indicate that all the independent variables have positive coefficient. The regression results above reveal that there is a positive relationship between dependent variable (Procurement Performance) and independent variables (procurement method, supplier development, employee competence and information communication technology). From the findings, one unit change in Procurement method results in 0.049 units increase in Procurement Performance, one unit change in supplier development results in 0.048 units increase in Procurement Performance. Employee competence and information communication technology increases procurement performance by 0.047 and 0.043 changes in respectively.

4.8 Analysis of Variance (ANOVA)

The results indicate that the model was significant since the p-value (0.000) was less than 0.05 thus the model is statistically significant in establishing the role of procurement method, supplier development, employee competence and information communication technology in procurement performance.

Table 9: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	.852	4	.213	1.242	.000
Residual	20.35	171	.171		
Total	22.64	175			

5.0 CONCLUSIONS AND RECOMMENDATION

5.1 Conclusion

The study concludes that procurement method adopted positively affects procurement performance hence there is need to select the most appropriate method, to adhere to the set out legal framework and depending on the nature of the procurements; state corporations should adopt framework contracting.

The study also concludes that a robust supplier development program enhances procurement performance. Training suppliers, use of certified vendors/suppliers, proper partner selection and continuous supplier assessment leads to overall improvement in procurement performance. This is because suppliers' capacities is improved and hence are better able to meet the needs of the state corporations.

The study also concludes that employee competence has an impact on procurement performance. Employing qualified personnel, professional skills and CPD, experience of staff combined with membership to professional bodies enhanced the performance of the staff and the overall performance of the procuring units they work in. This is because the employees are better equipped with the right skills and competencies to be able to execute the duties.

The study further concludes that ICT is a vital enabler of procurement performance. Level of Automation, e-procurement, systems integration and government policy all contributed and worked towards enhancing procurement performance.

5.2 Recommendations

State corporations should embrace framework contracting as a procurement method. This will improve the performance of procurement function as it allows for flexibility and cost reduction hence improving responsiveness and service delivery by the state corporations. State corporations should also engage certified suppliers and engage them in continuous training, monitoring and evaluation to enhance their capacities, this will ensure that the suppliers are better able to meet and exceed the needs of the corporations as well as minimizing conflicts. Accounting officers and heads of procuring units of the state corporations should ensure that they hire qualified personnel to run procurement activities. State corporations should as well integrate the internal and external management information across all departments; facilitate the flow of information between all business functions as a way of enhancing procurement performance.

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