

# EFFECT OF SUPPLIER SELECTION METHODS ON PROCUREMENT PERFORMANCE AT KENYA MARITIME AUTHORITY

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**Abstract:** *The objective of the study was to determine the effect supplier selection methods on procurement performance in Kenyan public organization. Procurement professionals have always walked on a tight rope in order to implement objectives and goals. Their ability to accomplish these procurement objectives and policies indicate that procurement officials are influenced by political, legal- internal and external factors. Supplier selection method is very crucial when it comes to the procurement processes and procedures. The purpose was to support the attainment of value for money and ensure better service delivery. The general objective of the study was to determine the effects of supplier selection methods on procurement performance in Kenyan State Corporations a case study of Kenya Maritime Authority. The specific objectives of the study were based on supplier appraisal, competitive bidding, direct procurement and negotiation method. The study targeted 225 respondents from various departments and suppliers at Kenya Maritime Authority. The study employed transaction cost theory, theory of conflict and economic theory of competition. Descriptive research design was employed to formulate the best methodology to be used. A pilot study on the questionnaire was done in order to validate the questionnaire and correct any errors which may have been made. The sample size for the study was 144 derived using slovin formula. Secondary data was collected from both published and unpublished records. Data screening was done to identify any missing data and was further tested for reliability. Reliability was tested using Cronbach's Alpha. Inferential statistics such as Pearson's correlation and multiple regression analysis was used for further analysis. Data was analyzed using statistical packaging social sciences software (SPSS) version 22 to find the relationships and averages of the data in addition to tabular presentations for understandable presentation. The results shows that it was clear that there was a positive correlation between the independent variables, supplier Appraisal method, competitive bidding method, direct procurement method, competitive negotiation method and dependent variables procurement performance in Kenyan state corporations Kenya Maritime Authority. The results clearly depicts that supplier appraisal method greatly influenced procurement performance. The overall ANOVA results indicates that the model was significant at  $F=1.975$ ,  $p\text{-value} = 0.000$ , this shows that the overall model was significant and that supplier appraisal method, competitive bidding method, direct procurement method and competitive negotiation method have significant effect on procurement performance in Kenya Maritime Authority significantly affects firm's procurement performance. The organizations should enhance supplier-working relationship and establish the value-ass of these improved relationships, due its importance to help control total manufacturing and operations costs and to build market requirements to their products and services*

**Key Words:** *Supplier Appraisal, Competitive Bidding, Direct Procurement & Competitive Negotiation.*

## 1. INTRODUCTION:

### General Objective

The general objective of the study was to determine the effect of supplier selection methods on procurement performance in Kenyan State Corporations

### Specific Objectives

The study was guided by the following specific objectives:

- To establish the effect of supplier appraisal selection method on procurement performance at Kenya Maritime Authority.
- To evaluate the effect of competitive bidding selection method on procurement performance at Kenya Maritime Authority.
- To determine the effect of direct procurement selection method on procurement performance at Kenya Maritime Authority.

- To analyze the effect of competitive negotiation selection method on procurement performance at Kenya Maritime Authority.

## **2. LITERATURE REVIEW:**

### **2.1 Theoretical Framework**

#### **Transaction Cost Theory**

Transaction Cost theory might be one of the most important organization theories because of the studies that have been encouraged through it (Harry et al., 2006) and is one of the main perspectives in organizational studies. The vital commitment of Transaction cost theory to organization theory, resulted in a wide range of empirical contributions (Ware & Kynoch, 2013), using transaction cost theory, for instance as a make or buy decision help on verification of the right contract mode.

#### **Theory of Conflict**

Conflict is a pervasive element in our society. There is a possibility that it could occur at any time in our society. It can occur between persons, group, organizations and nations. The growth in the gap between the rich and poor has become inevitable with the emergence of industrial societies and free market economic systems. The development of more destructive technologies and the willingness to use them indiscriminately increased the cost for forceful solution of conflict. The last century survived in two Great World War and many of regional wars. The same conflict applies in the procurement fraternity where we have buyers and suppliers. In the procurement application both parties buyer and supplier would end up in the scenario of win-win situation where the supplier would wish to be paid promptly after delivery of goods while the buyer expects the supplier to deliver quality goods and with consideration of price issue. (Parkera & Hartley, 2003) pointed out that relative deprivation, dissatisfaction of basic needs, failure of organizational functions, asymmetric power relations and dominant social structures are the important components in the origin of conflict.

#### **Economic Theory of Competition**

Economic theory of Competition is widespread throughout the market process. It is a condition where "buyers tend to compete with other buyers, and sellers tend to compete with other sellers. In offering goods for exchange, buyers competitively bid to purchase specific quantities of specific goods which are available, or might be available if sellers were to choose to offer such goods. Similarly, sellers bid against other sellers in offering goods on the market, competing for the attention and exchange resources of buyers. Competition results from scarcity there are never enough to satisfy all conceivable human wants and occur "when people strive to meet the criteria that are being used to determine who gets what (Khayota, 2014). The simplest setting in which to study competition is in the sale of a single item by an open outcry auction. The bidding process reveals information because the seller initially may have known nothing about the value of the item.

### **2.2 Review of Literature Variables**

#### **Supplier Appraisal**

The goal of every organization is to utilize limited resources in the most efficient manner so as to realize its objectives with minimal costs. This necessitates the appraisal of suppliers so as to ensure that an institution gets the best contracts in terms of quality, costs, flexibility and reliability. According Nyambane (2013), supplier appraisal refers to the practice of approving and evaluating potential suppliers using quantitative methods to make sure that the best classes of suppliers are made available to supply products and services to an organization. Fledderus (2015) define supplier appraisal as "the process of quantifying the efficiency and effectiveness of supplier action." This means that supplier evaluation is a process of quantifying the abilities of the supplier and the buying institution conducts evaluation to stimulate the behavior of the supplier. Possible changes in behaviour range from implementation of green practices, improving social responsibility, improving quality, improving efficiency to lower costs, among others.

#### **Competitive Bidding**

Competitive bidding has long been an essential component of competition in the business arena. While a traditional method used by industrial firms in choosing suppliers/vendors and in making major purchases, competitive bidding has become increasingly important to the service sector (Ware & Kynoch 2013). With the continually increasing emphasis on controlling the spiraling costs of health care delivery, competitive bidding has been prominently presented as an integral part of what has become known as the concept of "managed competition (Nyambane, 2013).

With appropriately inclusive eligibility rules, a competitive bidding process allows the market to bring forward the technologies that can most cost effectively provide the required capacity (and fulfil whatever technical requirements are associated with the product being auctioned). Competitive pressure should provide bidders with incentives to bid at the level that corresponds to the funding they require to provide capacity, so such a process should identify the funding gap preventing adequate investment without the state support (Dobler, 2013).

### Direct Procurement

Direct Procurement is a subjective method of procurement and may not guarantee best value in the procurement process, Beard (2015). According to World Bank Procurement guidelines (2014), direct procurement may be used in the following circumstances: for an existing contract, for standardized equipment for example spare parts for heavy duty machines, where the required equipment is only available from a single source and in exceptional circumstance for example response to natural disasters.

Direct procurement is a method of procurement where goods, works or services are acquired from a supplier without subjecting the supplier to any form of competition. Open competitive processes for example, inviting quotes, tenders, or proposals from more than one supplier will not be applicable for all procurement by public entity (Hannon D., 2014). In some instances, a public entity may procure directly from a supplier. In deciding to take this approach, a public entity considers the value and risk of the purchase as well as the outcome that it intends from the procurement, ([http://www.ppbghana.org/common items](http://www.ppbghana.org/common_items)).

### Negotiation Method

Basically, negotiation is a process involving two or more people of either equal or unequal power meeting to discuss shared or opposed interests in relation to a particular area of mutual concern. “If you want to success in business...you have to learn how to negotiate” quoted by Simon Hazeldine. As adopted from Porter’s (2010) model, bargaining power is the most apparent force associated to procurement performance. Firm’s needs to find ways to compile resources to have more bargaining power with supplier as part of sustainable competitive advantage. Bargaining power with supplier been gained as part of negotiation skills in purchasing organization. According to Ware & Kynoch (2013), influencing and persuasion, understand business condition and customer focus are fundamental for negotiation process. Effective negotiation and communication able to foster good business relationship with supply chain partners.

## 3. RESEARCH METHODOLOGY:

### Research Design

The study employed descriptive research design which was the best for the research study. The aim of descriptive studies was to understand what was in a specific situation with an identified population. The study employed to use descriptive design because it was appropriate since it enabled the researcher to collect enough information necessary for generalization. Descriptive research was aimed at casting light on current issues or problems through a process of data collection that enables them to describe the situation more completely than was possible without employing this method.

### Sample Size and Sampling Technique

In determining the sample size, Slovin’s formula was used to calculate the sample size (at 95% confidence level and  $\alpha = 0.05$ ) as indicated below.

$$n = \frac{N}{1 + (Ne^2)}$$

Where,

n = is the desired sample size

N = is the population size

e = margin of error (at 95% confidence level

$$N = \frac{225}{1 + (225 \times 0.05^2)}$$

$$= \frac{225}{1 + (225 \times 0.025)}$$

$$= 144$$

**Table 1. Sample Size**

Category	Target Population	Sample Size
Procurement	10	6
Finance	15	7
Directorate	13	7
Information Technology	14	8
Human Resource	09	5
Suppliers	164	111
Total	225	144

Source: Researcher 2018

Simple random sampling was used to select the sample size as the researcher observed that almost all the respondents are available at Kenya Maritime Authority as classified in the sampling frame. The use of simple random

was used because it was easier to issue out questionnaires without using any procedure then once the respondents have responded they were returned back. The sample was selected randomly by the researcher on the basis that the sample size was representative of the whole (Kothari, 2014).

**Data Analysis, Processing and Presentation**

Data analysis involved data entry, data sorting and interpretations of the results. Responses were tabulated and analysed using descriptive statistics. Tabulation of results was done. Tables and percentages were used because among the focus was on the frequency of occurrence of various parameters. Mean scores, standard deviation and significance levels were also computed using SPSS version 22 to yield ANOVA and Regression analysis.

The relevancy and relationships of the data were determined by the simple regression analysis and correlation analysis techniques where

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \epsilon$$

Y – Outcome as a result of changes in any or all the variables, x1 to x4

‘a – is a constant, the results when all variables x1 to x4 are zero.

X<sub>1</sub> – Supplier Appraisal Method

X<sub>2</sub> – Competitive Bidding Method

X<sub>3</sub> – Direct Procurement Method

X<sub>4</sub> –Competitive Negotiation Method

‘B<sub>1</sub> – B<sub>4</sub> – Regression coefficients

ε – error term.

**4. RESEARCH FINDINGS AND DISCUSSIONS:**

**Supplier Appraisal**

The first objective of the study was to establish the effect of supplier appraisal selection method on procurement performance at Kenya Maritime Authority. From analysis, majority of the respondents agreed by a mean value of 4.70 and standard deviation of 0.458 that organization have adopted clear strategic plans and objectives that has made the organization to move to the next level. Commending on supplier selection criteria, (Ware & Kynoch, 2013) observed that as firms become more and more dependent on their suppliers; the capabilities of those suppliers serve as key resources in the development of the buyer's own capabilities and performance. Statement on agreement that organization considers financial capability appraisals for the suppliers competing in any bidding activity had a mean value of 4.36 and standard deviation of 0.728. On whether organization have the best evaluation committees that ensures technical competency for any procurement bidding process. Respondents agreed with a mean value of 4.43 and standard deviation of 0.774.

**Table 2: Suppliers Appraisal**

	N	Mean	Std. Deviation
To what extent does organization use quality control & management as tool for supplies appraisal	115	4.70	.458
Organization considers financial capability appraisals for the suppliers competing in any bidding activity	115	4.36	.728
Organization have in place best evaluation committees that ensures technical competency for any procurement bidding process	115	4.43	.774
The organization does supplier appraisal before awarding any contract to ensure compliance	115	4.71	.672
To what extend does the organization considers flexibility of suppliers before awarding any contract	115	4.47	.872
Valid N (listwise)	115		

**Competitive Bidding**

The second objective of the study was to evaluate the effect of competitive bidding selection method on procurement performance at Kenya Maritime Authority. On whether the government owned entity awards a contract to the lowest responsible and responsive proposer who demonstrates an ability to provide quality services and products. Respondents responded in agreement as indicated with a mean of 4.42 and standard deviation of 1.000 in Table 4.5 below. The statement on agreement that the organization procurement department normally uses request for quotations to procure goods, works or services had a mean value of 4.51 and standard deviation of 1.029. Respondents were in

agreement as shown with a mean value of 4.72 and deviation of 0.669 that the organization procurement department normally uses request for proposals to procure goods, works or services.

**Table 3. Competitive Bidding**

	N	Mean	Std. Deviation
The government owned entity awards a contract to the lowest responsible and responsive proposer who demonstrates an ability to provide quality services and products	115	4.42	1.000
The organization procurement department normally uses request for quotations to procure goods, works or services	115	4.51	1.029
The organization procurement department normally uses request for proposals to procure goods, works or services	115	4.72	.669
The organization always seeks competitive bids from its suppliers for service provision over a particular period of time	115	4.61	.802
The organization conducts tendering process in a fair and transparency manner that meets the procurement law	115	4.67	.758
Valid N (listwise)	115		

**Direct Procurement Method**

The third objective was to determine the effect of direct procurement selection method on procurement performance at Kenya Maritime Authority. From the analysis, majority of the respondents agreed with a mean value of 4.67 and standard deviation of 0.697 that direct procurement method takes the longest time from the requisition time to the time of availing the goods. On whether direct procurement method is used by organization in cases where there is urgency of delivering or providing services or goods had a mean value of 4.68 and standard deviation of 0.822. Respondents were in agreement that suppliers have effective communication channels with government corporations and that they keep on updating the corporations on available orders and stock. This is shown by a mean value of 4.65 and standard deviation of 0.676. On the statement that goods, services and works procured from one supplier does not meet the specifications of the user, respondents responded in agreement by a mean value of 4.61 and standard deviation of 0.734. Respondents also agreement as depict with a mean value of 4.77 and standard deviation of 0.622 that direct procurement method serves the purpose of helping the organization to have value of goods and services.

**Table 4. Direct procurement Method**

	N	Mean	Std. Deviation
Direct procurement method takes the longest time from the requisition time to the time of availing the goods	115	4.67	.697
Direct procurement method is used by organization in cases where there is urgency of delivering or providing services or goods	115	4.68	.822
Supplier have effective communication channels with government corporations and they keep on updating the corporations on available orders and stock	115	4.65	.676
Goods, services and works procured from one supplier does not meet the specifications of the user	115	4.61	.734
Direct procurement method serves the purpose of helping the organization to have value of goods and services	115	4.77	.622
Valid N (listwise)	115		

**Competitive Negotiation Method**

The fourth objectives of the study was to analyze the effect of competitive negotiation selection method on procurement performance at Kenya Maritime Authority. The statement in agreement that the organization has streamlined adversarial relationship management so as to strengthen relations between the suppliers and organization had a mean 4.69 and standard deviation of 0.705. With a mean value of 4.61 and deviation of 0.865, respondents agreed that the organization has collaborative relationship method that has worked out well for our organization. Respondents also responded in agreement that organization has accommodative relationship where it listens to suppliers complaints and handle them immediately. This is demonstrated by a mean value of 4.50 and standard deviation of 1.150. On whether organization procurement department uses competitive negotiation method to procure goods, works or services, respondents responded in agreement as shown with a mean value of 4.74 and standard deviation of 0.817. On the use of

competitive negotiation procurement method to provide the organization with the chance to negotiate and come up with viable way of procuring goods, works or services on win-win arrangements had a mean value of 4.52 and standard deviation of 0.776.

**Table 5. Competitive Negotiation Method**

	N	Mean	Std. Deviation
The organization has streamlined adversarial relationship management so as to strengthen relations between the suppliers and organization	115	4.69	.705
The organization has collaborative relationship method that has worked out well for our organization	115	4.61	.865
The organization has accommodative relationship where we have to listen to our supplier complaints and handle them immediately	115	4.50	1.150
The organization procurement department normally uses competitive negotiation method to procure goods, works or services	115	4.74	.817
The use of competitive negotiation procurement method provides the organization the chance to negotiate and come up with viable way of procuring goods, works or services on win-win arrangements	115	4.52	.776
Valid N (listwise)	115		

**Coefficient of Correlation**

In trying to show the relationship between the study variables and their findings, the study used the Karl Pearson’s coefficient of correlation (r). This is as shown in Table 4.11 below. According to the findings, it was clear that there was a positive correlation between the independent variables, supplier Appraisal method, competitive bidding method, direct procurement method, competitive negotiation method and dependent variables procurement performance in Kenyan state corporations Kenya Maritime Authority. From analysis, findings indicates that the coefficient of correlation, ‘r’ equal to 0.026 supplier appraisal, 0.090 for competitive bidding, -0.133 for direct procurement and 0.198 for competitive negotiation method on and 0.815 for awareness against corruption. This shows that there is a positive relationship between independent variables and dependent variable.

**Table. 6. Correlations**

	Appraisals	Bidding	Procurement	N_Method	Performance	
Appraisals	P.Correlation	1	.584**	.106	.032	.026
	Sig. (2-tailed)		.000	.000	.000	.000
Bidding	P.Correlation	1	.075	.055	.090	.000
	Sig. (2-tailed)		.000	.000	.000	.000
Procurement	P.Correlation		1	.052	.133	.000
	Sig. (2-tailed)			.000	.000	.000
N_Method	P.Correlation			1	.198*	.000
	Sig. (2-tailed)				.000	.000
Performance	P.Correlation				1	
	Sig. (2-tailed)					

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

**Correlation of Determination**

Table 4.11 above shows an overall p-value which less than 0.005 (5%). This shows that overall regression model is significant at the calculated 95% level significance. It further implies that the studied independent variables namely supplier appraisal method, competitive bidding method, direct procurement method and competitive negotiation method have significant effect on procurement performance in Kenya Maritime Authority. The regression model summary indicates the coefficient determination R square as 0.067. This means that at 67% of the relationship is explained by the identified four variables supplier appraisal method, competitive bidding method, direct procurement method and competitive negotiation method. The rest 33% is explained by other factors not studied in this research.

**Table 7. Coefficient of Determination (R<sup>2</sup>)**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.259 <sup>a</sup>	.067	.033	2.36094

a Predictors: (Constant), Competitive Negotiation Method, , Direct Procurement, Competitive Bidding

**Analysis of Variance (ANOVA)**

The study used ANOVA to establish the significance of the regression model. The significance of a model is considered significant if its p-value is less or equal to 0.05. Basing the confidence level at 95% the analysis indicates high reliability of the results obtained. The overall ANOVA results indicates that the model was significant at F=1.975, p-value = 0.000, this shows that the overall model was significant and that supplier appraisal method, competitive bidding method, direct procurement method and competitive negotiation method have significant effect on procurement performance in Kenya Maritime Authority significantly affects firm’s procurement performance.

**Table 8. ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	44.036	4	11.009	1.975	.000b
	Residual	613.146	110	5.574		
	Total	657.183	114			

a Dependent Variable: Procurement Performance

b Predictors: (Constant), Competitive Negotiation Method, Supplier Appraisals, Direct Procurement, Competitive Bidding

**Table 9: Multiple Regression Analysis Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	24.876	3.441		7.230	.000
	Supplier Appraisals	.026	.109	.028	.243	.000
	Competitive Bidding	-.094	.085	-.126	-1.113	.000
	Direct Procurement	.122	.087	.130	1.398	.000
	Negotiation Method	.143	.067	.197	2.137	.000

a Dependent Variable: Procurement Performance

From the analysis, the general regression Model arrived at was  $Y = 24.876 + 0.026X_1 - 0.094X_2 - 0.122X_3 + 0.143X_4 + \epsilon$

**Where**

X<sub>1</sub>= Suppliers Appraisals, X<sub>2</sub> = Competing Bidding, X<sub>3</sub>= Direct Procurement, X<sub>4</sub> = Negotiation Method and Y= Procurement Performance of state corporation Kenya Maritime. Hence; Procurement performance of Kenya Maritime = 24.876 + 0.026 Suppliers Appraisal -0.094X<sub>2</sub> Competing Bidding - 0.122X<sub>3</sub> Direct Procurement + 0.143X<sub>4</sub> Negotiation method.

The Beta Coefficients in the regression model show that all of the tested variables had positive relationship procurement performance in Kenya except Competitive Bidding and Direct Procurement ,although all the variables tested being statistically significant with p-values less than 0.05.

The findings implies that a unit change of X<sub>1</sub>(Suppliers Appraisal) = 0.026, will results in to 0.026 change in Procurement Performance in Kenya Maritime Mombasa County; X<sub>2</sub>(Competitive Bidding) = -0.094, will results in to -0.094 change in the Procurement Performance in Kenya Maritime state corporation; X<sub>3</sub> (Direct Procurement)= 0.122; will results in to 0.122 change in the Procurement Performance Kenya Maritime state corporation and finally X<sub>4</sub> (Negotiation method) = 0.143, will results in to 0.143 change in the Procurement Performance in Kenya Maritime state corporation.

The Y- Intercept (β<sub>0</sub> = 24.876), predict that Procurement Performance of state corporation when all other variables are zero, implying that without the independent variables that include; Suppliers Appraisals, Competing Bidding, Direct Procurement and Negotiation Method the procurement performance of state corporation will be 24.876.

From the analysis in table 4.12, Negotiation method  $X_3$  ( $\beta = 0.143$ ,  $p < 0.05$ ) has the strongest relationship with the procurement performance, followed by Supplier Appraisals  $X_1$  (0.026,  $P < 0.05$ ) then Competitive Bidding  $X_2$  (-0.094,  $p < 0.05$ ) and lastly Direct Procurement  $X_3$  (-0.122,  $P < 0.05$ ).

## 5. CONCLUSION:

The results were attributed by the organization investing much in supplier appraisal methods which helps the organization selects the best competent and qualified suppliers to transact business with the organization. The results clearly depicts that supplier appraisal method greatly influenced procurement performance. The overall ANOVA results indicates that the model was significant at  $F=1.975$ ,  $p$ -value = 0.000, this shows that the overall model was significant and that supplier appraisal method had significant effect on procurement performance.

The study concludes that competitive bidding method had significant effect on procurement performance in Kenya Maritime Authority significantly affects firm's procurement performance.

From the findings, it was clear that there was a positive correlation between the competitive bidding method and procurement performance with equivalent of coefficient of correlation 'r' 0.090.

The results clearly depicts that competitive negotiation method greatly influenced procurement performance. The overall ANOVA results indicates that the model was significant at  $F=1.975$ ,  $p$ -value = 0.000, this shows that the overall model was significant and that competitive negotiation method had significant effect on procurement performance. Findings on the correlation matrix indicated that there was a significant and positive association between competitive negotiation method and procurement performance.

## 6. RECOMMENDATIONS:

Procurement players, corporate managers in public institutions have the responsibility of formulating amicable structures and policies that provide free fair competitive procurement bidding process where public citizens are satisfied with the whole process. Such measures can only be enhanced through the public procurement and asset disposal Act that guides the whole entire process of procurement.

Policy makers and other key players in procurement public entities must initiate processes and systems that ensure direct procurement is done appropriately and where it is necessary thus achieving value for money. This is better done through adoption of better structures, policies and decisions that drive the organization to performance. Managers need to consider procurement performance to be beyond supplier selection methods and regard corporate accountability through regulation.

Organizations should provide proper avenues on negotiations mechanisms that provide room for win-win situation both on the buyer and supplier. The organizations should enhance supplier-working relationship and establish the value-ass of these improved relationships, due its importance to help control total manufacturing and operations costs and to build market requirements to their products and services

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