

**ST. MARY'S UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**



**ASSESEMENT OF PROCRUMENT PRACTICES AND ITS LINKAGE WITH  
OPERATIONAL PERFORMANCE: THE CASE OF ABAY BANK S.C**

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**MAY, 2018**

**ADDIS ABABA, ETHIOPIA**

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**ID. SGS/0042/2008B**

**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL OF  
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## DECLARATION

I declare that this thesis is my original work and prepared under the guidance of **Asst. Professor Mohammed Mohammednur**. All the sources of material used for this thesis have been duly acknowledged. I further confirm that this thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of awarding any degree.

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## **ENDORSEMENT**

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval of a University advisor.

**Asst. Professor Mohammed Mohammednur**

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**Advisor**

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**Signature & Date**

## **DEDICATION**

I dedicate this thesis to my wife Betel Tefera for her support and encouragement during my studies.

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## **LIST OF ACRONYMS**

**NBE:** National Bank of Ethiopia

**SPSS:** Statistical Package for Social Sciences

**SD:** Standard Deviation

**S.C:** Share Company

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## ABSTRACT

*Procurement is an important function of companies for several reasons such as to ensure continuity of supply of goods and services, reduces the ultimate cost of the goods and services and to attain the profitability of banks. Due to this it encompasses the whole process of acquiring property and/or services. Sound procurement policies and process are among the essential elements of good management practices. This research sought to assess procurement practice and its link with operational performance in Abay bank S.C. To achieve the objectives, the study adopted descriptive method of research since the study intended to describe the ongoing practice and conditions between procurement practice and operational performance of the bank. The target population was employees of Abay bank S.C. Total number of respondents in this study were 1,249. Primary data were gathered using structured questionnaires. Descriptive statistics was used to summarize the data. This included percentage, mean, standard deviation and frequencies. Tables and other figural presentations were appropriately used to present the data that were collected for ease understanding and analysis. Correlation analysis was used to identify the relationship between procurement practices and operational performance. A statistical package for social science version 23 was used for data analysis. From the study findings it was concluded that all procurement practices have a link with operational performance in Abay bank. Thus, the researcher recommended that the bank management should consolidate their efforts to persist the good procurement practices outcomes as a result of procurement planning, tendering process and ethical practices. Also the top management has to work to reduced delays in procurement process and to improve the quality of procured items periodically.*

**Key Words: Ethiopia, Procurement practices, Operational performance, Abay bank**

## CHAPTER ONE

### INTRODUCTION

#### 1.1. Background of the Study

In today's economic environment adopting the philosophies, methods and processes that will make organization best in class required an apple strategies that leading companies are being best practices because what the organizations perform at this time will no longer acceptable. Procurement represents a one part of firm's strategy sought to achieve the firms intended targets. According to Mangan et al. (2008) procurement is a process of identifying and obtaining goods and services to consolidate the companies' actions. Giunipero *et al.* (2006) also defined Procurement broadly as an acquisition of goods, services, capabilities and knowledge required by businesses, from the right source, at the right quality, in the right quantity, at the right price and at the right time to maintain and manage the company's primary and support activities.

According to Wanyonyi and Muturi (2010) the intention of implementation of procurement practices by firms is to improve both cost savings and quality procurement. Shalle and Njagi (2016) mentioned the need for procurement practices is just to enhance firms 'ability to offer more effective and efficient service delivery. Operational performance is the ability of an organization to fulfill its mission through sound management, strong governance and a persistent rededication to achieving results.. Effective procurement requires the utilization of sound business practices that maximize value to the organization through the acquisition of goods and services. Thai (2007) justified that effective implementation of procurement practices is determined by the level of practice with procurement regulations, procurement expenditure, transparency and accountability of procurement funds and quality of procured goods and services.

Previous studies such as Narasimhan and Das (2001) identified that a link between procurement practices and firm performance. Willy (2016) found a procurement practice has an association on the operational performance among firms. Evans (2016) pursued to

find the determinants of procurement performance among commercial banks across East Africa and the result indicated that positive relation between procurement practices and operational performance of banks. According to study of Kagendo (2012) procurement practices is one way of improving operational performance of state corporations. Mwangi (2016) found that poor procurement practices affect organizational performance negatively by lowering profits and bringing high costs. Furthermore, studies such as Karanja and Kiarie (2015), Beatrice (2017) and Lintukangas et al., (2010) indicated that there is a relationship between procurement practices and organizational performance.

Evans (2016) found that ethical practices positively related with performance of procurement practices and company performance. As to Khakata (2014) sought to examine public tendering process has a linkage with operational performance of firms. According to Kiage (2013) procurement planning has a significant relationship with procurement process and performance of firms. Abass (2014) revealed that delivery time and quality of the procuring items has a significant and positive relationship with procurement practices. Thus, procurement is an important function of companies for several reasons such as to ensure continuity of supply of goods and services, reduces the ultimate cost of the goods and services and there by attain the profitability of banks. Consequently, firms have to manage seriously the effectiveness of procurement practices because good procurement practices should lead to significant time and money savings..

Abay Bank S.C. is a youngest private commercial bank established on July, 2010 and started operation on November 4, 2010 based on NBE proclamation No 592/2008 with a total 823 shareholders. Annual report of the Bank, 2016/17 explained that the number of shareholders, customers and branches have reached to 2,600, 337,120 and 144 respectively. The bank's paid-up capital has been reported as one billion at the end of the fiscal year of 2016/17. Additionally, the bank has 1249 staffs with working in sixteen head office departments and branches. Hence, the procurement is one department of the Bank which expands its dimensions in terms of process and operations than before. Therefore, it is critical to examine the procurement practices of Abay bank and its association on operational performance.



## **1.2.Statement of the Problem**

Effective implementation of procurement practices entail implementation of strategies to be followed when making organization purchasing and procurement decisions. Shaw (2010) stated that organization should put in place an effective system of procurement practices to protect shareholders funds. Abay Bank S.C. structurally consists of Procurement and Facility directorate as a separate work unit centrally intended to accomplish procurement, general service, property management, fleet management and logistic related activities, which in turn is organized into two divisions the procurement and property administration division. And it is the responsibility of the procurement division to undertake procurement of goods and services that have bulky and high value nature. Although, branches have the authority to make small value petty-cash purchases not more than birr 3,000.00 more than 90% procurement activities are duties of the procurement work unit. Even through, the nature, diversity and complexity of purchases increase as the size of the bank expands and its service diversity.

Even though Abay bank's procurement division has been performing at its maximum effort to address the procurement requirements of the bank, branches and head office departments are repeatedly complaining on the inferior quality of the goods purchased and delay in delivering the goods timely as per the plan and schedule of user units (Abay bank, Jan 2017).Consequently, unless these problems are fixed urgently, they continue to hamper the overall operation of the Bank because every operation in the Bank is linked to the procurement activities. Therefore, it is important to examine the procurement practice and its linkage with operational performance of Abay bank in relation to the procurement planning, tendering process, quality product, delivery time and ethical issues.

To this end, Banchiamlak (2014) studied purchasing process importance and related challenges in Commercial Bank of Ethiopia. However, coming to Abay bank, this kind of study has not yet been investigated. This has created a significant knowledge gap that initiates the researcher to investigate the issue.

Therefore, this study is focused on the relationship between procurement practices and operational performance in Abay bank.

### **1.3. Research Questions**

The study mainly targeted to answer how the procurement practices connected with operational performance of Abay bank.

*Specifically the study has the following research questions;*

- How does procurement planning relate with operational performance?
- What is the linkage between tender processing and operational performance?
- How does delivery time associated with operational performance?
- Is there any correlation between quality of procured items and operational performance?
- Does ethical practice connected with operational performance of Abay bank?

### **1.4. Objectives of the Study**

#### **1.4.1 General objective**

The general objective of the study is to assess procurement practices and its linkage with operational performance in Abay Bank S.C.

#### **1.4.2. Specific objectives**

The study is intended to address the following specific objectives.

- To analyses how procurement planning related with operational performance.
- To examine the degree of association between tender processing and operational performance.
- To identify the linkage between delivery time and operational performance.
- To determine the association between quality items and operational performance.
- To scrutinize the relationship between ethical practices and operational performance.

### **1.5. Significance of the Study**

The findings of the study would have a good insight for the Abay bank management and all stakeholders about the current procurement practices and its linkage with operational performance of the Bank. It also helps for the bank management to improve procurement practices and to propose sound policies for the betterment of the overall operational performance of the Bank. Grossly, this study has an importance for the management of commercial banks, procurement professionals, and policy makers to see the linkage between procurement practices and operational performance. Therefore, this research provides background information to other researchers and scholars who may want to carry out further research in this area and add value in understanding the relationship between procurement practices and operational performances.

### **1.6. Scope of the Study**

Procurement practices and functions are a vast area; conducting research on the whole practices is unmanageable in terms of time and cost. Accordingly, this study focuses on the Procurement practices and its linkage with operational performance of Abay bank by taking planning, tender processing, delivery time, product quality and ethical practices as issues. Hence, it has to be taken into account that there are also differences in working policies, procedures and practices, scope of operations and size of the organizations. Moreover, Procurement practice and process is also affected by external factors; however the study only concerned on the internal factor. Methodologically, the research is focused only on the employees of head office and Addis Ababa branches of Abay bank. Despite of these limitations, the validity of the findings emanating from this study is very important to wide up understanding on the association between procurement practices and operational performance in Abay bank and at country level.

### **1.7. Definition of Basic Terms**

**Procurement performance:** is a measure of identifying the extent to which the procurement practices is able to reach maximization objectives and minimum costs (Van, 2002).

**Procurement planning:** The process begins with procurement planning and ends with it after being formalized, implemented and evaluated (Thai, 2003).

**Tendering Practice:** is a process of need identification, planning and specification of goods or services required, and sourcing, awarding, and supplier management to facilitate timely delivery (Shaw, 2010).

**Quality of goods and services:** the totality of features and characteristics of a production or service that bear on its ability to satisfy a given need (Nair, 1990).

**Ethical Practices:** Ethics are the moral principles or values that guide officials in all aspects of their work and not making improper use of an individual's position (Wee, 2002).

### **1.8.Organization of the Study**

The content of this research consists of five chapters. The first chapter deals (Introduction) indicates the background of the study, statement of the problem, research questions, objectives of the study, the significance of the study and scope of the study. This is followed by the literature review (chapter two), which analyses the existing literature on the subject study to develop the conceptual framework of the study. Chapter three describes the research methodology in which the execution of this study to achieve the research objectives. Thereafter, Chapter four focuses on the results of analysis and discusses the findings. Finally the researcher portrays the conclusions drawn from the findings and gives relevant recommendations on the basis of the conclusions; this is presented in Chapter five.

## CHAPTER TWO

### REVIEW OF RELATED LITERATURE

#### 2.1. Theoretical Review

##### 2.1.1. Definitions and Basic Concepts of Procurement

Procurement is a process of identifying and obtaining goods and services. It includes sourcing, purchasing and covers all activities from identifying potential suppliers through to delivery from supplier to the users or beneficiary. It is favorable that the goods/services are appropriate and that they are procured at the best possible cost to meet the needs of the purchaser in terms of quality and quantity, time, and location (Mangan, Lawani, and Butcher, 2008).

According to Kiragu (2012), procurements should be based on value for money (defined as the optimum combination of whole life costs and fulfillment of customer's requirements) rather than initial purchase price. Effective and efficient procurement systems and collaborative relationships are essential to the achievement of organizational goals, cost reduction and supply chain performance. This is achieved by identifying key saving potential areas and driving innovative sourcing models which can enable operators to reinvent their cost structures. According to Thai (2005), every organization that purchases goods or services must have effective standard procurement procedures, the methods they use to acquire those things required for an organization to provide goods/services to its clients. These procedures should cover all aspects of the procurement cycle, including the selection of the supplier, contract negotiations, order placement and payment and should ensure appropriate service delivery.

##### 2.1.2. Procurement Planning

Procurement begins with the planning decision to make the purchase and this will involve in the first place, deciding whether there is a need for the particular goods or services, ensuring that the purchaser has the powers to undertake the transaction, obtaining any relevant approvals within the organization hierarchy and arranging the necessary funding. It critical for a thorough procurement planning as firms are always facing budget

constraints that cannot satisfy all capital acquisition needs (Gianakis M. 2001). Procurement process can be divided into four different activities, or phases: planning, formalization, implementation, and evaluation. Procurement planning calls for early involvement of the purchasing office so that options and alternatives can be explored with the requesting user. Issues such as purchase estimates, product specifications, make or buy decisions, and outsourcing opportunities may very well be on the agenda. The process begins with procurement planning and ends with it after being formalized, implemented and evaluated (Thai, 2003).

According to Agaba & Shipman, (2007), procurement planning is the process used by companies or public institutions to plan purchasing activities for a specific period of time. This is commonly completed during the budgeting process. Each year, departments are required to budget for staff expenses and purchases. This is the basic step in the procurement planning process.

### **2.1.3 Procurement tendering process**

Shaw (2010) points out that the procurement process can be wrapped into three steps. These are need identification, planning and specification of goods or services required, and sourcing, awarding, and supplier management to facilitate timely delivery.

#### **2.1.3.1. Need Identification**

Procurement is done to desire to accomplish a specific task. Given that resources are always scarce, the task to be accomplished should be important to an organization (Nakamura, 2004)

#### **2.1.3.2 Planning and Specification of Goods or Services Required**

Once the needs have been identified, the procurement department should develop or communicate a plan on how to deliver the service or goods required. The plan must be developed in collaboration with the other functions within the organization, so that it is integrated into the organization's strategy and therefore provided for adequately (Shaw, 2010).

To be able to purchase the right goods or services, the specifications of what the organization needs must be clear. These specifications are used to communicate to the

supplier what is needed and what should be supplied. It is therefore important to have clear, precise and accurate specifications. Most organizations have standard specifications for the most regularly procured items and services such as medical and construction (Shaw, 2010). Thai, Araujo, Carter and Calendar (2005) provide that a specification is a detailed description of the design, the service, or materials. It describes in detail the requirements to which the supplies or services must conform. The basic requirement of a good specification is to clearly identify the Service or product to stakeholders. The specifications must be clear to all parties. That is the user, procurement and the supplier. Factors to consider in specifying a product include physical attributes, technical specification, and intended use (Thai et al, 2005).

### **2.1.3.3 Sourcing and Supplier Management**

Hinson and McCue (2004) say that sourcing is the process of identifying sources of supply that can meet the organization's immediate and future requirements for goods and services. The sourcing process adopted will depend on the situation and on the time available to carry out sourcing. For instance, in a sudden on-set emergency the need to respond quickly to the emergency will mean there will be limited time to gather sourcing information and approve suppliers; therefore, an organization may make use of existing suppliers.

### **2.1.3.4 Evaluation and Awarding**

The evaluation of tenders and awarding of contracts to suppliers is an important phase of the procurement process (Maurer, 2004). It is the process that determines the actual quality, reliability, delivery, etc. of the goods and services. The procurement department coordinates the following:

- Analyzing and evaluating the bids against set criteria, specification requirements and presenting the analysis to an procurement appointed committee
- Verification of supplier capability and quality control/assurance processes
- Reviewing product inspection results where necessary
- Verification of technical evaluation reports where applicable
- Negotiates with vendors where it is recommended by the committee

- Placing orders and expediting the delivery. In addition, Shaw (2010) contended that it is very important for the procurement department to assess and consult on any big price variations, to avoid potential conflict of interest, undue influence, price fixing and favoritism, and to ensure consultative decision making and sharing of responsibilities. Also, the tender box should not be opened by one person only, and the criteria used to evaluate bids should be tested and validated by the committee before reception of bids.

#### **2.1.3.5 Placing Orders and Contracting**

After evaluating and awarding of tender, the next step in the process involves placing orders for the goods or services with the supplier, or establishing contracts which need to be sent to suppliers. In emergency situations the approval levels and limits are adjusted, based on an approved process, to speed up the process of acquiring goods and services. Under normal circumstances, the approval processes may be more elaborate. The orders establish contractual relationships between the organization and the supplier (Shaw, 2010).

Important features of a contract or agreement include cost, specification/description, quantity, and lead time/delivery time, date of issue, and terms and conditions (including penalties for breach of contract). Place of delivery should also be indicated on the contract (Shaw, 2010).

#### **2.1.3.6 Progressing/Expediting**

Once the order is placed and the supplier has confirmed receipt and agreed to the contract terms and conditions, the role and the amount of work that staff in procurement have to undertake will be affected by the performance of the suppliers (Bovis, 2007). It is necessary therefore, for the procurement staff to monitor the progress of orders and the performance of the suppliers. Supplier performance will determine the amount of time and money that has to be spent in expediting orders and the managing of suppliers.

To ensure an uninterrupted flow of goods and services, expediting should be a continuous process, especially in emergencies. The continuous monitoring enables the organizations pick out break-down points in the system and quickly identify solutions (Shaw, 2010).



### **2.1.3.7 Delivery and Return**

Roehrich and Davies (2009), argue that procurement only facilitates delivery through expediting for timely delivery and trouble-shooting returns. The physical receipt and inspection of goods takes place at the delivery point. Procurement only needs to know that delivery has taken place and that the supplier has delivered in accordance with the purchase order and complied with delivery contract requirements. In addition, whoever is responsible for accepting delivery and inspecting the goods should understand the procedure to follow in the event that there are any problems or discrepancies. For certain goods or commodities an independent inspection company may be used to check the quality of the goods (Shaw, 2010).

### **2.1.3.8 Payment**

When goods or services are received and accepted into stock, procurement then facilitates payment of the supplier by providing necessary documentation to Finance Department. Orders are normally generated in procurement, as the goods are delivered in the warehouses and transported to final distribution points; additional documents are generated in the process to support transactions. All these documents are finally consolidated to support vendor payments (Shaw, 2010).

### **2.1.3.9 Review**

Shaw (2010) argues that it is very easy to forget the review stage, particularly when there is a lot of procurement activity taking place as in the case of an emergency. Consequently, the review stage is very important and has got three main objectives. These are;

- A review with the original user or beneficiary on whether the original needs they had have been met
- A review of the performance of procurement in carrying out the procurement process,
- A review of the supplier performance. In emergency situations, the review step happens much later in the emergency. Emphasis during the emergency is focused on obtaining the goods and services and meeting the needs (Shaw, 2010).

### **2.1.3 Timely Delivery of Goods**

The delivery of the contracted item to the right place at the right time is also an important function of procurement functions. Proper purchasing enhances delivery schedules without loading warehouse with excessive inventory and minimizes the unfavorable effects of price changes and stock outs. In case of regularly used or procured items, right time may mean the time when the stock reaches the minimum level adhering to the responsibility shared both by the purchasing unit and the approving body. The purchase action needs to be initiated at a time when the material reaches to its pre-decided reordering level. The reordering level is decided on the basis of the rate of consumption and the lead time. It should be decided on the basis of the probability of maximum periodic consumption and maximum lead time. As stock holding is directly related with the lead time, efforts should be directed towards the reduction of the lead time so that carrying costs can be reduced to the minimum (Javier et al., 2010).

### **2.1.4 Quality of Goods or Services**

Quality has become a strategic weapon being used by companies. Accompany with good quality has the tendency to have market share above its competitors. Many manufacturing companies have realized the importance of quality. There are different ways of defining quality. Some people view quality as performance to standards; others view it as meeting the customer's needs or satisfying the customers. In order to ensure total quality in manufacturing, the definition of quality needs to be defined from customers' perspectives. Right Quality is defined as simply 'fitness for purpose' or the British standard institution defines as "the totality of features and characteristics of a production or service that bear on its ability to satisfy a given need Nair (1990). The term quality as used in the field of purchasing carries quite a different meaning to the meaning that we usually associated with this word. In common usage, it refers to the excellent features of the subject, "The right quality is the suitable of an item for a given purpose Nair (1990).

### **2.1.5 Procurement Ethical Issues**

Ethics are the moral principles or values that guide officials in all aspects of their work. Ethical behavior encompasses the concepts of honesty, integrity, probity, diligence, fairness, trust and respect. Ethical behavior includes avoiding conflicts of interest, and

not making improper use of an individual's position (Wee, 2002). Ethical behavior supports openness and accountability in procurement with the result that suppliers have confidence in participating in the Government marketplace. It also reduces the cost of managing risks and enhances trust in public administration. Ethical behavior is important in public procurement as it involves the expenditure of public money, and is subject to public scrutiny. Public officials should always behave ethically and fairly in their business undertakings. Ethical behavior supports openness and accountability in a procurement process and gives suppliers confidence to participate in the Government marketplace. Ethical behavior can also reduce the cost of managing risks associated with fraud, theft, corruption, and other improper behavior; and enhance confidence in public administration (Karanja & Mugo, 2010).

Ethical behavior includes avoiding conflicts of interest, and not making improper use of an individual's position. Ethical behavior is important in public procurement as it involves the expenditure of public money, and is subject to public scrutiny. Public officials should always behave ethically and fairly, including in their business undertakings. Ethical behavior supports openness and accountability in a procurement process and gives suppliers confidence to participate in the Government market place. Ethical behavior can also reduce the cost of managing risks associated with fraud, theft, corruption, and other improper behavior; and enhance confidence in public administration (Wee, 2002).

A procurement process that conforms to the expected standards of integrity, uprightness and honesty is one in which clear procedures are consistent with Government policies and legislation are established, understood and followed from the outset. These procedures need to consider the legitimate interests of suppliers and ensure that all potential suppliers are treated equitably (Wee 2002). An important and effective way to maintain ethics awareness in agencies is to provide training for employees (Amos & Weathington, 2008). Ethics training and seminars can be provided, along with training in more specific areas, such as procurement procedures, record keeping, records management, and accountability and administrative law. Regular reviews or audits of

procurement processes can be done to ensure probity is being considered and achieved (Amos & Weathington, 2008).

Procurement remains to be a key sector in Kenya, which facilitates the acquisition and disposal of goods and services, thereby leading to smooth running of various institutions, both public and private. Therefore, with respect to green procurement process executed on the basis of ethical codes of conduct, reference is made to ethical purchasing, ethical procurement and ethical sourcing. Ethical purchasing issued here as generic term to include sourcing, purchasing and procurement. It is the acquisition of goods and services through supply chains and subcontractors in a responsible manner, with consideration of the conditions under which goods and services are made and delivered and a strategy that promotes improvements. When people or business deal with contracting as a means of Procurement for their company, there may be issues regarding who the company will deal with. Procurement process conducted correctly in ethical way can be a valuable tool when combating this problem (Fisher & Lovell, 2009).

One of the requirements of the legal framework is to ensure that those charged with the responsibility with its implementation are provided with adequate administrative instructions. To improve performance, governments should strive towards creating a competent corps of procurement specialists with high ethical standards. Governments should delegate procurement to these procurement specialists. The competent procurement after training should be transferred to different positions to strengthen procurement performance. None of these will succeed without government support commitment and that of other stakeholders in the procurement process governance in Government (Wessman, 1998).

#### **2.1.6 Operational Performance**

Operational is driven by operational aspects of human resource management, supply chain management, quality control management, technology deployed etc; it is also a function of both customer satisfaction and public perception (Scheraga, 2004). To achieve operational efficiency Scheraga (2004) noted that all data of an organization must be collected, recorded, and analyzed to determine the extent of profitability. Secondly, many organizations do not fully assess all areas of their business; and because success

might only be measured by one or two elements/criterion, many early signs of a crisis are missed. Thirdly, both broad and very specific measures of success should be developed and continually monitored over time. Finally, keep in mind, the effect of arbitrary support-department allocations on the measured cost of products and services can be profound. Operational efficiency is therefore the capability of an enterprise to deliver products or services to its customers in the most cost-effective manner possible while still ensuring the high quality of its products, service and support.

In order to attain operational efficiency a company needs to minimize redundancy and waste while leveraging the resources that contribute most to its success and utilizing the best of its workforce, technology and business processes (Muhittin & Reha, 1990). The reduced internal costs that result from operational efficiency enable a company to achieve higher profit margins or be more successful in highly competitive markets. Operational efficiency is often achieved by streamlining a company's core processes in order to more effectively respond to continually changing market forces in a cost-effective manner.

### **2.1.7 Operational Performance and Procurement Performance**

One of the basic rules of procurement is that in the end, it is important to think in terms of the total cost of ownership. This includes not only the purchase price, but also time and resources that are expended in the pursuit of the ownership. By understanding the steps involved with procurement, it is possible to get a better understanding of the real cost involved with attaining any good or service (Lardenoije et al, 2005). Only when the procurement function is well planned, it is easy to identify areas where it is performing well, and where there is need for improvement. If costs decline, the purchasing function will be praised, while if savings decline, the purchasing function will be queried. It is as if the purchasing function is established to focus on minimizing costs while maximizing efficiency. Financial measures ignore market dynamics and increased complexity in acquisition of goods and services for public entities (Lardenoije et. al, 2005). One of the most consistent problems organizations face in the procure-to-pay process is undetected financial leakage. Companies often fail to realize the efficiencies that can be gained through the automation of key business processes. The development of procurement function and its linkage on organization's performance depend on two factors; the

monetary value and the cost saving opportunities. Especially when the value and volume of the purchases is high, the opportunities to save money should be utilized.

Procurement has direct and indirect costs that clearly affect the effectiveness. The organizational structure, division of work and operation efficiency is components that modify the effectiveness of procurement function. The procurement processes and procedures have a close relation to other functions on the organization and on their efficiency as well. As an example, improvements in quality issues and on the delivery times reflect to the total costs on the logistics and production side. Reducing the total costs can be perceived as reduced quality of products. Cost efficient procurement doesn't imply that the quality of products would decrease .The efficient use of procurement methods is an answer to releasing the organization's capital. Controlling financial assets can be executed by balancing the payment terms between the sales of assets and purchases of debt providing the economically most advantageous solution. Correct controlling of components like investment and property management influences the release of capital when the knowhow of procurement staff is used properly (Javier et. al., 2010)

This will result in reduction of invested capital and depreciation of products. Using the supplier network as a tool to outsource parts of production or supply chain to supplier will give an opportunity to release capital. This won't change the capital structure of the organization in any way (Beer, 2011).Savings are very often considered as the natural consequence of transforming the acquisition process from one-to-one (say, a bilateral negotiation) to a one-to-many relationship (say, an auction).Knudsen, (1999) suggested that procurement performance starts from purchasing efficiency and effectiveness in the procurement function in order to change from being reactive to being proactive to attain set performance levels in an entity.

For any organization to change its focus and become more competitive Amaratunga and Baldry (2002) suggest that performance is a key driver to improving quality of services while its absence or use of in appropriate means can act as a barrier to change and may lead to deterioration of the purchasing function. Organizations which do not have

performance means in their processes, procedures, and plans experience lower performance and higher customer dissatisfaction and employee turnover (Amaratunga & Baldry, 2002). Measuring the performance of the purchasing function yields benefits to organizations such as cost reduction, enhanced profitability, assured supplies, quality improvements and competitive advantage as was noted (Batenburgand Versendaal, 2006).

## **2.2. Empirical Review**

As Narasimhan and Das (2001) suggested that there is a link between procurement practices and goals with a firm's objectives. Mwangi (2016) found that poor procurement practices limit the organizational performance negatively by bringing low rate increase of profits and low rate of reduction in costs among firms. Kagendo (2012) confirmed in his study that adopting efficient and effective procurement practices is one of the ways of improving operational performance of state corporations.

Willy (2016) studied the relationship between procurement practices on the operational performance of private institutions. A stratified random sampling technique was used to select a sample of 142 respondents. The finding was there is strong positive relationship between of compliance procurement practices and operational performance. Wanyonyi and Muturi (2015) found that staff competency, information technology and ethics positively related with procurement function performance. Organizations should therefore strive to adopt modern technologies, promote employees competence and enhance the implementation of good organizational moral code of conduct so as to attain improvements in their procurement departments.

Hassan (2012) found that procurement practices determined how goods and services were acquired within public organizations and these practices enhancing the service delivery of the organizations. As per Maskin (2004) wrong procurement practices distress Africa's resources and reduce development. Karanja and Kiarie (2015) undertake a study on the linkage of procurement practices on and organization performance in private sector in Kenya with focus on Guaranty Trust bank Kenya ltd. They found that procurement practices correlated with organizational performance at private sectors.

Makabira and Waiganjo (2014) sought to establish the role of procurement practices on performance of Kenya National Police Service in Makueni County. Stratified sampling and simple random sampling techniques were employed in the selection of 48 respondents. The study findings revealed that procurement planning played a great role in the performance of this institution. Walter et al. (2015) examined the relationship of Procurement Practices and Performance of Commercial State Owned Enterprises in Nairobi County. Their study findings revealed that buyer-supplier relationships, supplier selection procedures, organizational capacity and procurement process practices had a strong connection with the performance of commercial state owned enterprises.

Beatrice (2017) examined the relationship of procurement practices on the performance of logistic firms in Kenya. A multiple linear regression model was used to test the significance of the influence and found that there is a statistical significant relationship between E-procurement and procurement planning performance of logistics firms in Kenya. Therefore, it concluded that procurement practices have an association with organizational performance in logistic firms in Kenya. Evans (2016) pursued to find the determinants of procurement performance among commercial banks across East Africa. The study embraced a descriptive research design. The units of study were 125 commercial banks in East African countries. Factor analysis helped isolate the underlying factors. The study found that ICT, right procurement skills and ethical practices positively related with the performance of procurement performances.

Julius Nijiru (2016) the study main objective was to investigate the procurement practices and its linkage on the performance of listed firms at NSE. The study found that E-procurement and procurement planning has a link with the performance firms at NSE. Carolyn (2016) conducted a study to evaluate the practice of E-procurement and operational performance in pharmaceutical manufacturing firms within Nairobi. The study used descriptive cross sectional survey design. The regression analysis indicated that E-procurement enabled the pharmaceutical manufacturing firms to improve their operational performance via cost reduction, decreased transaction cost, improved order processing, reduced material lead time, decreased cost of delivery, improved product/service quality and increased order placement.



Hussein and Shael (2014) investigated the linkage of procurement practices and Organizational performance in Manufacturing Sector in Kenya: A Case of Unilever Kenya Limited and among others they found that ethical practices has a positive linkage with Unilever Kenya Limited performance. Khakata (2014) sought to examine public tendering practices and operational performance of energy sector pastoralist and the result showed that tendering practices has relationship with operational performance of an organization. In this context, Tai (2015) examined that the correlation between operational performance and tendering practices and he found that direct procurement tendering practices have positive link with the operational aspects of the public sector firms.

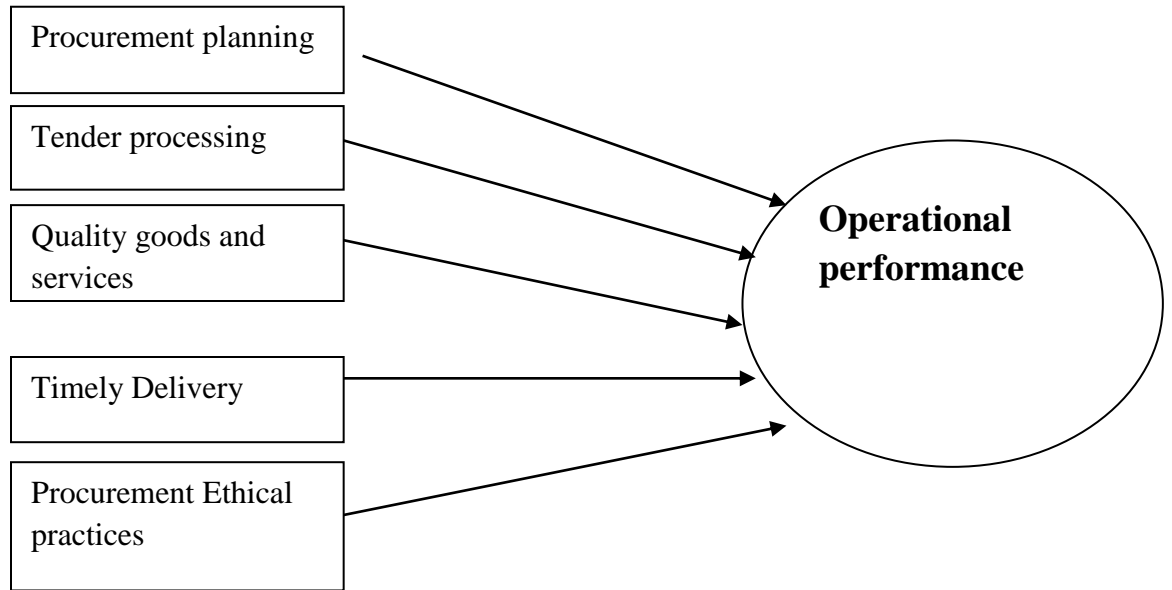
Kiage (2013) did a study on the linkage of procurement performance in the Ministry of Energy found that that procurement planning has a significant relationship with procurement performance. Onyango (2014) examined the association of procurement planning on public institutions performance. The study was conducted at the Mombasa Law Court. The study findings revealed that there was a significant statistical relationship between procurement planning and performance. Aladejebi and Adedeji (2015) investigated the relationship of procurement planning and agricultural firms' performance in Ondo State, Nigeria. The findings revealed that there was positive relationship between procurement planning and agricultural firms' performance. Nantege (2011) assessed the linkage of procurement planning and the financial performance of banks in Uganda with a case study of FINA Bank Uganda Ltd. The hypothesis that procurement planning positively connected with the performance of FBUL was accepted.

### **2.3. Conceptual Framework**

The general idea from the past literature is that there is a relationship between operational performance and procurement practices; the variable of the study comprises one dependent variable (operational performance) and four independent variables (procurement planning, tender processing, delivery time and product quality and procurement ethics practices).

Therefore, based on the above themes the following conceptual framework developed for this study.

**Figure 2.1: Conceptual Framework**



**Sources:** Researcher formulation based on hypothesis and review literature

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

This chapter presents the research methodology employed in this research. Hence, topics related to research approach, research design, population and sampling technique, data type and source, data collection procedure and method of data analysis are covered.

#### **3.1. Research Design**

Research design is master plan specifying the method and the conceptual structure within which research is conducted; it contains the mechanisms of data collection, variable measurement and analysis (Kothari, 2008). The main objective of this study is to assess procurement practices and its relationship with operational performance of Abay bank. S.C. Therefore, the study is applied descriptive research design because it attempts to explain a status phenomenon or conditions. Creswell (2005) asserted descriptive research design is helps to understand a topic systematically, factually, accurately, utilizing facts and lead to causal analysis.

#### **3.2. Research Approach**

The research approach which is used for this study is mixed in nature. The rationale for combining both quantitative and qualitative data is to have a better understanding on the research problem by combining both numeric values from quantitative analysis and the detail of qualitative research as well as to neutralize the limitations of applying any of a single approach. According to Creswell (2009), the mixed research approach uses separate quantitative and qualitative methods as a means to offset the weaknesses inherent within one method with the strengths of the other method. Creswell (2005) indicated that quantitative analysis is the one in which the researcher primarily uses for developing the causal relationship between known variables of interest that yield statistical data. While through a qualitative research approach as explained Kothari (2010) it can be able to understand thoroughly the research data gained from respondents via questionnaires.

### 3.3. Population and Sampling Design

#### 3.3.1. Target Population

According to Mugenda and Mugenda (2003), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. Thus, the target participants of the study are employees of Abay Bank S.C. working in different branches and head office which is 1,249 as of June 30, 2016/17.

#### 3.3.2. Sampling Techniques and Sample Size

Obtaining data from the population and interpreting vast amount of data is impossible to accomplish due to time and budget constraints. Through sampling it is not only save time and money again to achieve greater accuracy of results and greater speed of data collection without significantly affecting the research finding.

Hence, Kothari (2004) provides a simplified formula to calculate sample size (n) of finite population is given as under;

$$n = \frac{z^2 \cdot p \cdot q \cdot N}{e^2 (N-1) + z^2 \cdot p \cdot q}$$

**Where,** N = population

n= sample size

z= the value of standard value at a given confidencelevel95%=1.96

p= sample proportion P=0.5

q= 1-p

e = acceptable error = 5%

$$n = \frac{(1.96)^2(0.5) (0.5) 1249}{(0.05)^2 (1096-1) + (1.96)^2 (0.5) (0.5)}$$

$$n = \frac{1199.54}{4.0804}$$

$$n = 293.97 \approx 294$$

As a result, based on the formula this study needs a sample of 294 employees at 95% confidence interval. Samples are chosen to represent the relevant attributes of the population.

The researcher also has undertaken with caution whether the samples are representative of the population or not. To achieve the study objectives stratified sampling technique is adopted in selecting a sample from the total population. The need for stratified sampling in that it ensured better representativeness of the population and minimized the probable sampling error when the sample was influenced by heterogeneity and the population size.

Hence, the sampling frame is divided into three non-overlapping groups or stratum, Head office Support department, Head office Core department and Addis Ababa Branches. In selecting a sample from each stratum the researcher applied a lottery approach. Besides, in distributing the questionnaires the study is used proportionate allocation of sampling procedure to ensure the representative of each units in the stratum because this technique reduce the sampling error as a result of heterogeneity groups and population size. Consequently, the researcher is distributed two hundred ninety four (294) questionnaires to the respondents.

### **3.4. Sources of Data and Instruments of Data Collection**

The study is employed both primary and secondary data. The primary data were gathered using structured questionnaire and interview with team leaders of marketing department, Information technology department, procurement department and finance department. On the part of secondary data, written documents on corporate procurement strategies and procedures were used.

### **3.5. Procedures of Data Collection**

The primary data is collected through structured questionnaires and interview. The close ended questions have Likert rating scale of 1 to 5 where; strongly Agree (SA) = 5, Agree (A) = 4, Neutral (N) = 3, Disagree (D) = 2 and Strongly Disagree (SD) = 1. The use of Likert scale is to make easier for respondents to answer question in a simple way. The questionnaire will be composed of two sections. The first section portrays the general demographic information's and the second part covers dimensions of procurement practices in Abay bank.

After making revisions and having permission from Abay bank human resources directorate, questionnaires were distributed to staff members of Addis Ababa city branches and Head office departments. Since it has presumed that the employees can communicate and understand the intention of the questionnaire in English and the questionnaires were prepared in English language. For interview, questions for the discussion will be made ready and the responsible HR directorate contacted for arranging a meeting. During interview data was collected by taking notes based on the discussion questions designed. Finally, the data which gathered using the questionnaire was code and process using the Statistical Package for Social Sciences (SPSS).

### **3.6. Method of Data Analysis**

The study is carried out both descriptive and inferential data analysis with the aid of the Statistical Package for Social Sciences (SPSS). As a part of descriptive analysis the study has undertaken frequency, percentage, mean and standard deviations. For inferential statistics correlation was applied to show the direction and strength of the relationships.

### **3.7. Validity and Reliability Test**

#### **3.7.1. Validity**

Content validity of a measuring instrument is the extent to which it provides adequate coverage of the investigative questions guiding the study (Mugenda andMugenda, 2003). In this study, content validity is applied by consulting the Advisor and procurement experts. In order to improve the instruments, these experts and the research advisor looked at every question in the questionnaire and do their own analysis to ascertain that the questions answer research objectives.

#### **3.7.2. Reliability**

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. For this study, internal consistence reliability determined by Cronbach's alpha is used. It is useful in assessing the consistence of the results across items within a test. It represents number between 0 and 1. According to

Zikmund et al., (2010) stated that scales with coefficient alpha greater than 0.7 considered as adequate to determine reliability.

### **3.8. Ethical Consideration**

Participation of respondents was strictly on voluntary basis. Participants were fully informed as to the purpose of the study and consent verbally. Measures were taken to ensure the respect, dignity and freedom of each individual participating in the study. In addition, participants were notified that the information they provide were kept confidential and not be disclosed to anyone else.

## CHAPTER FOUR

### DATA ANALYSIS AND DISCUSSION

This chapter outlines the data analysis and interpretations of the results. Data was collected from the employees of Abay bank and analyzed to identify the relationship between the procurement practices and operational performance of the bank. Hence, the results of analysis are presented using descriptive and correlation analysis.

#### 4.2. Response Rate

The study administered a total of 294(100%) questionnaires where 277(94.2%) questionnaires were returned completely, of which four questionnaires were not appropriately filled. So, the analysis was made based on 273 successfully responded questionnaires and done in line with the research questions and objectives.

**Table4.1: Response rate**

Response rate	Items Response Rate	
	No.	Percent
Sample size	294	100%
Collected	277	94.2%
Appropriately filled	273	92.9%

**Source: Own survey data, 2018**

#### 4.2. Reliability Analysis

Before analyzing the collected data the reliability of the main items of the questionnaire was tested by using Cronbach's alpha. The coefficient of reliability of measures ranges from 0 to 1 and as for Zikmundet al. (2010); a reliability coefficient greater than or equal to 0.7 is considered acceptable and a good indication of reliability construct. Thus, the reliability coefficient for all items is 92.0% (see appendix) and this implied that the items were reliable and understandable by the respondents.



### 4.3. Demographic Characteristics of the Respondent's

This research was enclosed the main demographic characteristics such as gender, education, years of services and job position and the detailed discussions were presented respectively below the table4.2.

**Table4.2: Respondent's Profile**

		Frequency	Percentage
Gender	Male	173	63.4%
	Female	100	36.6%
<b>Total</b>		<b>273</b>	<b>100%</b>
Service Years	Less than one	27	10%
	1-3 years	84	31%
	3-5 years	105	38%
	5-7 years	57	21%
	<b>Total</b>		<b>273</b>
Education	Diploma	23	9%
	BA/BSC	165	60%
	MSC/MA/PHD	85	31%
<b>Total</b>		<b>273</b>	<b>100%</b>
Job position	Junior Officers	46	17%
	Officers	108	40%
	Senior Officers	74	27%
	Other	45	16%
<b>Total</b>		<b>273</b>	<b>100%</b>

*Source: Own survey data, 2018*

From the data presented in table 4.2, the majorities (63.4%) of the respondents were male and the remaining 36.6% of the respondents were female. This specified that out of 273 respondents around 173 were male and the remaining 100 were female. Therefore, the study comprises both male and female employees of Abay bank.

As indicated in the table 4.3 Majority of the respondents 105(38%) and 84(31%) were fall under 3-5 service years and 1-3 years respectively. Respondents with service year less than one is 27(10%) while representing 57(21%) of the respondents under 5-7service years. Respondents with four years service, five years service and six years service represent 13.2%, 18.4%, 21.1%, 5.3% and 7.9% respectively.

Regarding educational level of the respondents, the above figure portrays that the majority (60%) of the respondents were BA/BSC holders, 31% were MA/PHD and 9% were Diploma. Therefore, the educational backgrounds of most respondents were BA/BSC and MA/PHD holders reflecting that the respondents have in a good position to understand and answer the research questions.

The study covered different bank employees in terms of position held. The junior officer respondents were representing 46(17%), Officers level 108(40%), 74(27%) sampled respondents were senior officers while the remaining categorized under other job position. In short, the analysis comprising workers of varied positions all working towards the attainment of the bank's goals.

#### **4.4. Practices of Procurement in Abay Bank S.C.**

The prime objective of the study is to assess the procurement practices and association with operational performance of Abay bank. The most widely used model to measure attitudes in the context of behavioral sciences was developed by Rensis Likert (1932). In analysis of degree of agreement in Likert scale-based questionnaires setting up a cut-off point is relevant and he suggested that to use level three score (3=neutral) for cut-off point to decide the respondents level of agreement or disagreement. To meet this objective the respondents were asked to state the extent of agreement based on Likert fives cal points. Accordingly, the findings are presented using descriptive statistics included the mean for central tendency and standard deviation (SD) for variability

##### **4.4.1. Procurement Planning**

The study sought to establish the extent which procurement planning practice in Abay bank is fine or not and the reflection of the respondents towards this issue presented in the table 4.3 below.

**Table4.3: Practices of Procurement Planning**

<b>Item</b>	<b>Mean</b>	<b>SD</b>
Alignment of procurement goals with the Bank’s strategic plan.	3.39	1.168
Participation in preparing and formulating of annual procurement plan	3.32	1.200
top management supports the implementation of procurement plan	3.32	1.151
Budget approval before the procurement plan.	3.16	1.180
procurement need assessment periodically carried out	3.12	1.178
my needs are clearly indicated in the Bank’s annual procurement plan	3.26	1.061
adequate qualified staffs accelerate positively and procurement process	3.22	1.076
procurement planning reduces disputes purchase conflicts	3.05	1.122
Annual procurement plan of the bank is achievable.	3.29	1.089
<b>Average</b>	<b>3.24</b>	

*Sources: Questionnaire, 2018*

The higher the mean score, the high agreement is, the result on table 4.3 indicated that there was a strong agreement by the respondents on linkage between procurement goal and strategic plan (Mean=3.39, percentage=67.8). While procurement planning reduces disputes during various purchasing evaluation phases showed a mean of 3.05 and a standard deviation of 1.122 which is the lowest average score from all procurement planning items.

The respondents slightly agreed that the procurement need assessment was done by the respective heads as shown by mean score of 3.12 and this directly affects the soundness of bank’s annual procurement plan to not incorporate fully the demanded items. More to this point, the finding revealed that to some extent (Mean=3.12, SD=1.061) respondents agreed that their need is clearly and completely indicated in the annual procurement plan.

As also revealed in table 4.3 employees participation in giving inputs to prepare annual procurement planning score mean value of 3.32 (66.4) and standard deviation of 1.200 The result implied that employees of Abay bank have participated in the formulation and preparation of annual procurement plan of the bank though still there a significant gap towards the issues. So that efforts have to come in to practice to benefit more from employee participation.

In today's competitive environment it is important for procurement function to be competent, without top management support successful implementation of strategic practices at the operational level is impossible as they have the capacity to make an effective strategic decisions. With a mean value of 3.32 (66.4%) respondents confirmed that there is top management support in procurement implementation and operational activities even if their support is not at an ample level. Furthermore, budget before procurement plan and existence of adequate qualified in the procurement process registered a mean value of 3.16 with standard deviation of 1.180 and 3.22 with standard deviation 1.076 respectively. Lastly regarding to realization of annual procurement planning as it is reflected in the table 4.3 from the respondents only 65.8 percent (Mean=3.29 and SD=1.089) agreed that that procurement plan of the bank is achievable.

Grossly, the mean values for the responses ranges from 3.05(61%) to 3.39(67.8%) and the overall average score become 3.24(66.4%) which shows that respondents have a moderate level agreement for the procurement planning dimensions.

#### **4.4.2. Tender Processing Practice**

The study sought to establish whether tendering practice in Abay bank is fine or not and the reflection of the respondents towards this issue presented in the table 4.4 below.

**Table4.4: Practices of Tendering in Abay Bank S.C.**

<b>Item</b>	<b>Mean</b>	<b>SD</b>
Bid documents are adequately prepared.	3.53	1.071
Tender opportunities advertised adequately.	3.62	1.026
Tender evaluation is completed on time.	3.56	1.006
tender evaluation reports are based on the bidding document	3.36	1.048
supposed that tender awarded within tender validity period	3.46	1.094
undergo contract signature immediate after closing of the contract	3.51	1.011
effect the payment on time immediate after closing of the contract	3.44	1.175
<b>Average</b>	<b>3.50</b>	

*Sources: Questionnaire, 2018*

As revealed in table 4.4 above regarding the tendering practices of the Abay bank, the respondents were instructed to respond for the statements based on five point Likert scale: preparation of bid documents (Mean=3.53, SD=1.071), advertisement of opportunities (Mean=3.62, SD= 1.026), tender evaluation completed on time (Mean=3.56, SD= 1.006), tender evaluation reports (Mean=3.36, SD=1.048), tender awarded on validity period (Mean=3.46, SD=1.094), contractual agreement with winner (Mean=3.51, SD= 1.011) and effect payment to bid winner (Mean= 3.44, SD= 1.175).

From the tender practices dimensions above, one can deduced that the mean values for each items falls under agreed values ( Mean=3.36-3.62). Besides, the result of the aggregate mean value is 3.5 (70%). This inferred that the respondents agreed on that the bank has good tender practices.

#### 4.4.3. Timely Delivery of Goods and Service Practices

The extent to which the respondents agreement for the given statements concerning timely delivery of goods and services of Abay bank is presented in the table 4.5 using mean and standard deviation.

**Table4.5:Delivery Time of Goods in Abay Bank S.C.**

<b>Item</b>	<b>Mean</b>	<b>SD</b>
Items procured/purchased during a given budget received on same budget year.	2.80	1.161
Items distributed and delivered to users up on request by users.	3.00	1.148
No delay in distribution and delivery to users.	2.79	1.199
The bank has way to ensure timely delivery of requisition and delivery of goods and services.	2.97	1.194
Delivery times of the procured items are based on the bank's standardized time guideline.	2.76	1.113
Delay in delivery time may lead the bank to incur additional cost.	3.37	1.274
Lead times expected are effectively met.	2.86	1.137
<b>Average</b>	<b>2.94</b>	

**Sources: Questionnaire, 2018**

The mean values from the research finding in the table 4.5 explained that the respondents perceptions on delivery time dimensions and they rate those questions as; purchased during a given budget received on same budget year (Mean=2.8,SD=1.161), distribution the requested items for users (M=3.00,SD=1.148), no delay in distributionitems(Mean=2.79,SD=1.199), ensuring timely requisition and delivery of goods and services (Mean=2.97,SD=1.194), delivery times against the bank's standardized time guideline (Mean=2.76, SD=1.113), meeting the expected lead time effectively (Mean=2.86, SD=1.137) and delay in delivery time lead the bank to incur additional cost (Mean=3.37, SD=1.274).

Therefore, except for one item the mean result of the respondent's reflection for all delivery time dimensions showed disagreement. Furthermore, the overall mean score for these items is of 2.94(58.8%) implied that Abay bank has faced a problem of procurement practices particular in area of time delivery time to procure the requested items to the respective users.

#### 4.4.4. Practices of Delivering Quality of Goods and Services in Abay Bank S.C.

With this regard the researcher sought to measure the extent of respondent's feedbacks on the quality of goods and services dimensions. The findings are presented based on mean and standard deviation depicted in table 4.6.

**Table 4.6: Practices of Delivering Quality of Good and Services in Abay Bank S.C.**

<b>Item</b>	<b>Mean</b>	<b>SD</b>
Identification of defective product before distribution	2.67	1.244
Qualification and competency of inspection team	2.59	1.176
consistent quality of procured items	2.53	1.160
supplier evaluation is periodically undertaken	2.68	1.196
Reports on quality from users are documented and communicated to the respective management.	2.79	1.273
Quality of goods and service procured based on requirement of department.	2.67	1.154
Price against quality of procured items is reasonable.	2.74	1.208
<b>Average</b>	<b>2.67</b>	

**Sources: Questionnaire, 2018**

The finding revealed that all of the respondents offered disagreement feedbacks for all statements, that is the detection faulty product, qualification of inspection team, quality consistency, periodical supplier evaluation, reports on quality, matching quality with required order shown by mean score of 2.67, 2.59, 2.53, 2.68, 2.79 and 2.67 respectively. Likewise, respondents were asked to reflect their level of agreement on the reasonability

of cost of items relative to their quality and the findings depicted in the table 4.6 displayed that respondents were disagreed with a mean value of 2.74.

Generally, the mean values of the quality dimensions responses ranges from 2.53(50.6%) to 2.74(54.8%) and the overall average score become 2.67(53.4%) which shows that respondents were disagree with the quality of the procured item statements. Therefore, in Abay bank there is a problem or gap in aspect of quality of product and services of the procured items.

#### 4.4.5. Ethical Practices With Respect to Procurement in Abay Bank S.C.

Table 4.7 displayed the response for ethics practices items on procurement activities of Abay bank.

**Table4.7: Ethical Practices Abay Bank S.C.**

<b>Item</b>	<b>Mean</b>	<b>SD</b>
Accountability of tender evaluation committee.	3.69	1.048
Fairness in the supplier selection process.	3.69	1.012
Confidence of stakeholder and/or supplier on procurement process and tender evaluation committee	3.55	1.121
Procurement officers do not collude with suppliers.	3.77	0.874
procurement team and committees upheld professional code of ethics	3.68	0.973
budgets allocated for equipment acquisition utilized for the intended purpose	3.69	1.008
<b>Average</b>	<b>3.68</b>	

**Sources: Questionnaire, 2018**

The result disclosed that respondent were score lower agreement for confidence on procurement process and tender evaluation committee (Mean=3.55, SD=1.121). While not conspire between procurement staffs with suppliers obtained the highest mean value than other items (Mean=3.77, SD=0.874). Similar scores were observed for accountability



of the tender evaluation committee, fairness of supplier selection and budget allocated against intended purpose (mean 3.69 and SD 1.048).

Furthermore, the effectiveness of procurement process and evaluation only comes when the team worked in accordance with the bank’s law, rules and guidelines. This fact is supported by 73.6% respondent’s agreement to the statement that procurement department is ethical and practice professionalism at all times. Generally, the overall mean score of 3.68(73.6%) which means that more respondents were agreeing on the existence of better ethical practices in the procurement process of Abay bank.

#### 4.4.6. Procurement Performance at Abay Bank S.C

**Table4.8: Overall Procurement Practices**

<b>Variables</b>	<b>Mean</b>
<b>Procurement Planning</b>	3.24
<b>Tendering process</b>	3.50
<b>Delivery time</b>	2.94
<b>Quality of procured items</b>	2.67
<b>Ethical practices</b>	3.68
<b>Average</b>	3.21

**Sources: Questionnaire, 2018**

As illustrated in Table 4.8, the level of agreement of employees of Abay bank for overall procurement practices scored a mean value of 3.21(64.12%). It implies that employees of Abay bank somehow agreed on the existence of a good procurement practices. Also the finding indicated that the line share contributors for a good occurrence of procurement practices in the bank are as a result of good ethical and tendering practice.

#### 4.4.6. Operational Performance

The researcher sought to assess the procurement practices and its linkage with operational performance of Abay Bank. To achieve this objectives respondents were asked based on five point of Likert scale where 1=Strongly Disagree, 2=Disagree, 3=neutral, 4= Agree and 5= strongly agree. In view of this, Table 4.9 presents the responses of the employees on this issue.

**Table4.9: Operational Performances**

<b>Item</b>	<b>Mean</b>	<b>SD</b>
Improved quality of the services.	3.26	1.189
Reduced customer delay (waiting time)	3.13	1.227
Reduced complaints from users.	3.13	1.139
Increases employee's productivity.	3.033	1.298
<b>Average</b>	<b>3.20</b>	

**Sources: Questionnaire, 2018**

As indicated in the table above with mean of 3.03(60.6%) and 3.26(65.2%) of the respondents stated that the bank has increases employee productivity and improved quality of services respectively. In addition, as indicated in the table similar mean score (mean=3.13) observed for the bank reduced customer delay and user complain. Finally, the overall mean score for operational performance of the bank is 3.20(64%) revealed that respondents gave somehow an agreed feedback.

To sum up, according to Javier et. al., (2010) the procurement processes and practices have a close relation to other functions of the organization and on their efficiency as well. As an example, improvements in quality issues and on the delivery times reflect to the total costs on the logistics and production side. Reducing the total costs can be perceived as reduced quality of products. Van (2002) also asserted that procurement performance is a measure of identifying the extent to which the procurement practices is able to reach maximization objectives and minimum costs. Likewise, operational efficiency denotes the organization's ability to minimize waste of inputs and maximize resource utilization so as to deliver quality and cheaper products and services to their customers. It is a useful measure utilized in managing the available resources (Muhittin & Reha, 1990). Moreover, Scheraga (2004) confirmed that operational efficiency is driven by operational aspects of human resource management, supply chain management, quality control management, and technology deployed.

In view of this, as indicated in the above discussions Abay bank has somehow a good procurement practices and operational efficiency and hence it can be stated that the procurement practices of the Abay bank contributes for its operational efficiency.

#### **4.5. Interview Discussion**

Interviews were also conducted with Head of Procurement, Finance and Information Technology department. The interviews consisted of three structured questions. This section presents the results of each interview questions

In question number one, the researcher asked the general procurement practices of the bank and importance of having a good procurement process within the bank. The interviewers were agreed that good procurement practices and process will help the bank in increasing efficiency and getting quality product on the right time. Moreover, the director of procurement and facility mentioned that a better to have a good procurement practices simply because the process makes the sense of accountability by increasing efficiency within the bank in terms of getting high quality product on the right time and in cost minimization that will result to better production. Besides, the interviewee feedback revealed that the general picture of the procurement practices in the Abay bank is governed by a standard procurement procedure which approved by the Board of members and General Executive management teams. This procedure document give the specific sequences to be followed in procurement practices starting by identifying the needs of the each department, supplier source and selection, the tendering process selection and steps to be taken till end of process of contract award to be given for the successful tendered. All these steps should be passing through the principle of equity and transparency.

The second question forwarded to them was about indicate the main challenges during the procurement process of the bank in general and what can be done to minimize it in the procurement practices of the bank. The interviewers mentioned that the process itself is too long in operation that should be pass through many steps, ineffective lead time expected and procurement personnel skills is also are some of the challenges of procurement practices Abay bank. Other said that delays to post the required funds early as possible, lack of awareness of the procurement procedures and the financial issue

(budget) against the department need is another challenges explained by the interviewers in the procurement process. Additionally, the finance department head stated the big hindrance of the procurement process of the bank are buying off low quality specification of the items and re-tendering practices which leads the bank to incur unnecessary cost. Equally important, the other challenge in related with to sign the contract and condition of payment during again this cause the procurement process delayed

The final interview question forwarded to interviewers was to outline the possible measures to tackle the challenges of the procurement practices of the bank and they mentioned the following points.

- Developing own website for Procurement Management Information system to disseminates procurement information to the needed departments and suppliers.
- Furthermore, the procurement system does not have strong quality assurance performance evaluation teams or staffs and hence filling the gaps in this regard can manage the quality issues during the procurement process.
- In order to minimize delay and making the procurement process the director of procurement and facility replied that securing the procurement process is as per the bank guiding principles can create a good procurement process and strengthen to eliminating those obstacles.

Grossly, the findings of the interview analysis revealed that there were a number of obstacles in the procurement process which hinder the performance in the procurement functions practices in Abay bank such as delay in signing of the contract, failure to identify the need of the departments, low knowledge ,delay in tendering process ,supplier selection process.

#### **4. 6. Relationship between Procurement and Operational Performance**

Correlations measure the direction and association between two variables. The correlation coefficient, which ranges from +1 to -1; a correlation coefficient of +1 describes a perfect positive relationship in which every change of +1 in one variable is associated with a change of +1 in the other variable. A correlation of -1 describes a perfect negative relationship in which every change of -1 in one variable is associated with a change of -1 in the other variable. A correlation of 0 describes a situation in which

a change in one variable is not associated with any particular change in the other variable Gujarati (2003). Moreover, the researcher was applied the most common confidence level which is 95% to construct the probability of an interval that contains the actual true parameter value.

Hence, in this research Pearson correlation was computed to check whether the operational performance has any association with the independent variables.

#### 4.10. Relationship between Operational Performance and Procurement Practices

Independent Variable	Operational Performance	Sig (2-tailed)	N	Types of Correlation
Procurement Planning	0.504	0.001	273	Pearson Correlation
Tender practice	0.428	0.000		
Delivery time	0.302	0.000		
Quality of goods and services	0.331	0.000		
Ethical practices	0.531	0.026		

Sources: SPSS Ver. 23 Output

As shown in Table 4.10, a Pearson correlation coefficient indicates procurement planning is statistically significant and has strong positive relationship with operational performance of Abay bank ( $r = 0.504$ ,  $p < 0.05$ ) which implies that increases or decreases in procurement planning practices leads to increases or decreases operational performance of Abay bank. Concomitantly, tender practice has a moderate strong positive and significant association with operational performance at  $p < 0.05$  with coefficient values of 0.428. This entails that increase or decrease in tender practice improve or reduce the operational performance of Abay Bank.

As depicted in the table 4.10 the correlation coefficient ( $r$ ) for delivery time equals to 0.302. This revealed that delivery time and operational performance of Abay bank has moderately strong positive and significant linkages at  $p < 0.01$ , which means when the delivery time activities increases then the operational performance of Abay bank move to the same direction.

Equally important, there is a linear positive significant relationship between operational performance and quality of goods and services with coefficient value of 0.331 at  $p=0.000$ . This revealed that quality of the procured items has a moderate strong positive contribution to the operational performance of Abay bank. As also indicated in the table below 4.10, there is a linear positive significant relationship between operational performance and ethical practices of the bank with coefficient value of 0.531 at the acceptable 5% level of significance. Besides, the relationship between them is moderately strong. That means increases or decreases in ethical practices leads to increases or decreases operational performance of Abay bank.

In general, the correlation analysis results indicated that all the procurement practices variables such as procurement planning, tendering process, delivery time, quality of procured items and procurement ethical practices have a moderate strong positive association with operational performance of Abay bank at 5% significant level.

## CHAPTER FIVE

### 5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the discussion of key data findings, conclusion drawn from the findings and recommendation.

#### 5.1. Summary of Research Findings

The research on the title: The Relationship between Procurement Practices on Operational Performance taking Abay Bank as area of the study. As a result of the analysis and interpretation, the following are the summary of the findings.

- ✚ Largely the mean values 3.24(66.4%) of the respondents replied that the procurement planning items are good however lowest agreement observed for the bank undertake periodical procurement need assessment with mean of 3.12(62.4%).
- ✚ By and large, the overall mean score value of tendering dimensions is 3.5(70%) indicated that respondents showed an agreement response on the existence of moderate good tendering practices in Abay bank.
- ✚ The result shows that the overall mean of delivery time is 2.94(58.8%). Implied that the majority of the respondents disagreed that Abay bank has not good practices for all delivery time dimensions outlined in the analysis part.
- ✚ Average number of respondents 2.67(53.4) disagreed by the statement that Abay bank has: competent quality inspection team, proper detection of quality of goods and services before distribution, uniformity of quality of procured items, supplier evaluation is periodically undertaken, communicating the respective managements on report quality from users, quality of procured items by procurement is based on requirement of departments, and unfair of price of procured items against quality.

- ✚ Ethical practices contributed highly to the operational performance of Abay bank as the majority of the respondents agreed on the existence of better ethical practices in the procurement process of Abay bank with the overall mean score of 3.68(73.6%).
- ✚ Concerning the way procurement performance impact operational performance, the finding indicated that to some extent there is reduction in customer delay and compliant from users, improvement in quality of services, enhancement of employee productivity and impacted operational performance of Abay bank to moderate extent as shown by overall mean score of 3.24(64.1%).
- The correlation analysis explained that the independent variables: procurement planning, tendering process, delivery time, quality of procured item and Ethical practices has a moderate strong positive significant relationship with operational performance of Abay bank.



## 5.1. Conclusion

Financial sectors, particularly Abay bank has made profit in every years beginning from its establishment by maximizing and minimizing the available resources. Procurement process is the main department of Abay bank in which relatively large portion the bank's budgets allocated because the effectiveness of procurement process has a positive outcome on the operational efficiency of other departments of the bank and vice versa. Accordingly, there is a need to deal the procurement process of a given company. Hence, this study focused on the relationship between procurement practices on operational performance of Abay bank. Hence, based on the finding the study concluded the following points.

- Based on the findings of the study, the operational performance of Abay bank has poor procurement practices associated with procured quality of goods or services such as improper identification of defective items, unqualified quality inspection team, inconsistency of quality of procured items, irregular supplier selection and unfair price of procured items.
- Moreover, the Bank has poor delivery time practices: delay in distribution of goods and services, ineffective lead time and absence of ways to ensure timely delivery of procured items
- Procurement practices related with ethical issues, tendering process and procurement planning contributes to the soundness of procurement practices of Abay bank.
- Correspondingly, the findings also confirmed that the procurement practices; procurement planning, tendering process, delivery time, quality of procured items and procurement ethical practices has a moderate strong positive significant linkage with operational performance of Abay bank.

In general it can be conclude that operational performance of Abay bank to some extent has improvement in area of service quality, employee's productivity, reduction both complaints from the users and customer delay.

## 5.1. Recommendation

Based on the finding and conclusion this study suggests the following recommendations.

- Also the top management should be responsive and flexible towards to procurement department via hiring the right unit and skilled staff, follow up the effectiveness of procurement process controlling the unplanned purchasing requisition, and reorganizing the current quality inspection team based on professionalism and exposure. Hence, by doing so the Abay bank can control the defectiveness of the procured items before the procurement distribution.
- Furthermore, the concerned managements of the Bank should also evaluate the entire procurement practices in order to identify delivery time breakdown with a view to re-engineer the process in order to achieve required level of operational efficiency and effectiveness.
- The human resource management and development of the Abay bank has to arrange training for procurement staff department and quality inspection teams in techniques related with need assessment analyses, supplier selection model and quality checkup techniques in order to avoid the knowledge gap and to sustain the consistency of the quality of the procured items across times.
- The other recommendation is starting early the bid process can have significant advantages to accelerate the process and to tackle the problems before things are gone out of the track. Furthermore, early preparation and approval process of the specification, bid document and technical evaluation is vital accelerate on time delivery of procured items beforehand.
- Indeed, the tendering process, procurement planning and ethical aspects of the procurement practice in Abay bank existed at a moderate level. Thus, the top managements and respective concerned employees have to gear their efforts to consolidate the positive outcome of these and to solve the impediments associated with tender evaluation report, budget approval, purchase conflicts, effecting payment after closing tender.

- The top management of the Abay bank should monitor and evaluate periodically the procurement practices against the banks procurement procedure in order to ensure whether the procurement department is buying the best value in terms of the best quality, prices and services. In addition to this the managements should also assess the procurement process works on having reliable supplier whose delivery schedules are realistic and within the bank's requirements.
- Finally, the human resources management and development directorate has to incorporate as many as in procurement measurement quality and timely delivery of procured goods and services key indicator in Bank's Performance Management System (PMS).
- For further research, due to constraints, this study could not exhaust all the procurement practices and the relationship with operational performance of Abay bank S.C. Other procurement practices which have a linkage with operational performance of commercial banks in Ethiopia need to be established. These may include the Electronics procurement, legal framework, contract management, supplier relationship, support procurement expert (internal of external) and staff competency among others needs further investigation.

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## Appendix

### St. Mary's University School of Graduate Studies



#### Assessment of Procurement Practice and its linkage with Operational Performance in Abay Bank S.C

#### Research Questionnaire

Dear respondents:

I am currently attending a Master degree in Business Administration at St. Mary Graduate Study. I am conducting a thesis on **Assessment of Procurement Practice and its linkage with Operational Performance in Abay Bank S.C.** Hence, this questionnaire is designed to collect data on procurement practices of Abay Bank S.C. I kindly ask you to give few minutes to answer the questions provided below. Your answers will be handled strictly confidential and will exclusively be used for the purpose of this research. If you would like further information about this study, or have problem in completing this questionnaire please contact me via **+251-913-102-681**.

**Thank you in advance!!!**

#### Part I. General Information

Circle on your selection or mark (v) for the following questions as appropriate.

1. Sex:  Male  Female

2. Academic qualification,

Diploma  BA/BSC  MA/MSC/PHD

3. Number of years that you worked in Abay bank S.C.

Less than 1     1-3 years     3-5 years     5-7 years

5. Please indicate your position/ Staff Grade

Junior Office   

Officer   

Senior Officer   

Other-----

**Part II: Procurement Practice**

*Remark: Listed below are statements about the dimensions of procurement practice in Abay Bank. Please indicate (√) mark in the table under to measure your level of agreement.*

*1= strongly disagree    2 = Disagree    3 = Neutral    4 = Agree    5= strongly agree*

No	Parameters	1	2	3	4	5
	<b>Procurement Planning</b>					
1	I believe that the goals in the procurement plan are well aligned with the Bank’s strategic plan.					
2	I believe that the users are involved in preparing and formulating of annual procurement plan					
3	I assured that the Bank’s top management supports the implementation of procurement plan.					
4	I believe that budget approval is obtained for the required items on time.					
5	I believe that the bank perform need assessment periodically for goods and services needed.					
6	I think that my needs are clearly and completely indicated in the plan.					
7	I believe that adequate qualified staffs are involved in the procurement process.					
8	All purchases of the bank are made based on the plan.					

9	I assumed that the annual procurement plan of the bank is achievable.						
<b>Tendering process</b>							
10	The bid documents are adequately prepared.						
11	The Bank tender opportunities advertised via appropriate medias.						
12	The Bank tender evaluation reports are based on criteria stipulated in the bidding document.						
13	The Bank tender evaluation is completed on time.						
14	The Bank tender awarded within tender validity period.						
15	I believe that Abay bank properly undergo contract signature.						
16	I believe that Abay bank effect the payment on time after closing of the contract.						
<b>Timely Delivery</b>							
17	I believe that all items procured/purchased during a given budget received on same budget year.						
18	I believe that the purchased items are distributed and delivered to users organs up on request by users.						
19	I believe that there is no delay in distribution and delivery to users.						
20	I believe that Abay bank has a mechanism to ensure timely delivery of requisition and delivery of goods and services.						
21	I believe that the delivery times of the procured items are based on the bank's standardized time guideline.						
22	I believe that delay in delivery time may lead the bank to incur additional cost.						
23	I believe that the lead times expected are effectively met.						
<b>Quality of Goods and Services</b>							
24	I believe that Abay bank has a system to identify defective product quality before distribution.						
25	I believe that Abay bank has a qualified and competent quality inspection team.						
26	I believe that there is a consistent quality of procured items.						
27	I believe that supplier evaluation is periodically undertaken to ensure good quality of the goods and services.						
28	I believe that reports on quality from users are well documented and communicated to respective management.						
29	I believe that quality of the procured items is based on the requirement of department.						
30	I believe that the price/cost of the procured items is reasonable relative to product quality.						
<b>Procurement Ethical practices</b>							
31	I think that tender evaluation committee is accountable for procurement process.						
32	I think that there is fairness in the supplier selection process.						
33	I think that Procurement officers do not collude with suppliers.						

34	I think that tender evaluation and selection process has objective criteria.					
35	I think that the procurement team and committees upheld professional code of ethics					
36	I think that budgets allocated for equipment acquisition utilized for the intended purpose.					

No	Operational Performance	1	2	3	4	5
1	The quality of the services of the Bank is improved.					
2	The Bank reduced customer delay (waiting time)					
3	The Bank reduced complaints from users.					
4	The Bank increases employee's productivity.					

**St. Mary's University**  
**School of Graduate Studies**



**Assessment of Procurement Practice and its linkage with Operational Performance  
in Abay Bank S.C**

**Interview Questions**

1. How do you see the procurement practices of Abay Bank Share Company?
2. What are the major challenges face during the procurement planning, tendering process, delivery time, quality of procured items and ethical aspects in Abay Bank Share Company?
3. What possible solution (s) and strategies would you recommend(s) solving the challenges and problems of procurement process and practices of the bank?

### Descriptive Statistics

	N	Mean	Std. Deviation
pp2	273	3.3223	1.19993
pp1	273	3.3919	1.16799
pp3	273	3.3247	1.15056
pp4	273	3.1561	1.18044
pp5	273	3.1245	1.17849
pp6	273	3.2564	1.06075
pp7	273	3.2214	1.07620
pp8	273	3.0476	1.12194
pp9	273	3.2930	1.08898
tp10	273	3.5348	1.07087
tp11	273	3.6162	1.02576
tp12	273	3.5641	1.00573
tp13	273	3.3590	1.04814
tp14	273	3.4579	1.09438
tp15	273	3.5092	1.01138
tp16	273	3.4396	1.17457
td17	273	2.8059	1.16112
td18	273	3.0037	1.14884
td19	273	2.7912	1.19911
td20	273	2.9780	1.19415
td21	273	2.7656	1.11308
td22	273	3.3700	1.27423
td23	273	2.8645	1.13757
q24	273	2.6667	1.24361
q25	273	2.5897	1.17582
q26	273	2.5348	1.15987
q27	273	2.6813	1.19631
q28	273	2.7912	1.27345
q29	273	2.6740	1.15362
q30	273	2.7363	1.20814
e31	273	3.6886	1.04764
e32	273	3.6886	1.01194
e33	273	3.5495	1.12063
e34	273	3.7729	.87431
e35	273	3.6777	.97323
e36	273	3.6886	1.00830
Valid N (listwise)	273		

**Reliability Statistics**

Cronbach's Alpha	N of Items
.920	36