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A study on procurement performance evaluation

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ABSTRACT

The main objective of the study was to study procurement performance and its evaluation. Procurement processes are important functions within any enterprise. Procurement is the process of acquiring, buying goods or services or works from an external source, often via a tendering or bid process. The procurement process involves two categories i.e. direct procurement and indirect procurement. Direct Procurements affects the production process of manufacturing firms. It encompasses all items that are part of finished products, such as raw materials, components and parts. The indirect procurement activities deal with operating resources that a company purchases to enable its operations. The success of any organization is depends on supply chain and procurement, because of this it is very important to evaluate the performance of procurement. The financial performance is also indirectly linked with the procurement of material. For the efficient and effective working of any organization or company need to measure procurement performance. For this research purpose descriptive research design was used in executing the study. The targeted group of the study was staffs who deal with procurement. The questionnaire design according to objective and send to respective person and the analysis made on the response collected from them. The results describe using table, graphs, etc.

Keywords— Procurement, efficiency and effectiveness, and Procurement performance

1. INTRODUCTION

Procurement excellence is increasingly becoming an important factor in delivering efficient operations within successful companies. Procurement processes are important functions within any enterprise. Procurement is the process of acquiring, buying goods or services or works from an external source, often via a tendering or bid process. The procurement cycle typically starts with the requirement of a material or a service, and ends with processing payment to the supplier. The process of procurement management involves managing the ordering, receipt, review and approval of items from suppliers. Procurement activities are divided in to two different categories which are direct and indirect based on the consumption purpose. Direct Procurements affects the production process of manufacturing firms. It encompasses all items that are part of finished products, such as raw materials, components and parts. The indirect procurement activities deal with operating resources that a company purchases to enable its operations. It comprises of a large or vast variety of goods and services, ranging from standardized low value items like office supplies and machine lubricants to complex and costly products and services. For effective and efficient working of any company it is important to measure procurement performance and effectiveness. But effectively measuring procurement performance is no rocket science. However, looking deeper, adequate measurement of procurement success is a big issue. There has been increased pressure for the merging of procurement procedures and objectives with the organization's goals. The supply chain or procurement process has been directly linked to the overall company performance and this has therefore made procurement practices vital to company success. Procurement practices positively impact an organization's financial performance, the success of a new product depends on procurement and supplier involvement. Therefore, it is very important for any organization to measure its procurement performance, efficiency and effectiveness.

2. RESEARCH METHODOLOGY

2.1. Types of research

2.1.1 Descriptive Research: The descriptive research method used for the research. It includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. In social science and business research we quite often use the descriptive research studies. The main characteristic of this method is that the researcher has no control over the variables; he can only report what has happened or what is happening. Most of research project are used for descriptive studies in which the researcher seeks to measure item.

2.1.2 Analytical Research: The other method used for research is analytical research in which the researcher has to use facts or information already available, and analyze these to make a critical evaluation of the subject or material.

2.2. Research Design

Descriptive research was used in this study. A descriptive research is a research that attempts to gather facts from a population so as to establish the existing status of the respondents in regards to the variables. A design study is the culmination of a chain of resolutions by a researcher regarding how the research was performed. This study addresses effects of procurement practices on organizational performance. Research design focuses on how the research is to be conducted. It includes all main fractions of the research study such as the samples or groups, measures, treatments or programs, etc and work together in order to address the research questions.

2.3 Target Population

This is the precise population on which data is needed and in this case they are members of staff from the Supply Chain Department; Procurement section, Operations Planning and Logistics, Stores, Weighbridge and the staff and Payables section (pays suppliers) from random industry.

2.4 Sample Design

Stratified random sampling technique will be utilized to choose the sample. This is an estimate with precision. This is a sampling technique that relies on probability where the whole population is divided into subsections, then unsystematically selecting the final topics uniformly from unlike sections. For research purpose survey circulated in organization using google form. For this study form was send to about 30 employees randomly who are related with procurement department. This technique has a high statistical accuracy which saves on time and resources. This technique uses the same sampling proportion for each division irrespective of the diversities in population size of the divisions.

2.5 Source of data and data collection technique

The data collected from both primary and secondary data source. Primary data is information that you collect specifically for the purpose of your research. An advantage of primary data is that it is specifically tailored to your research needs. Primary data can be explained, therefore, as information collected from sources such as personal interviews, questionnaires or surveys with a specific intention and on a specific subject, and observation and discussion by the researcher him or herself, which information is then assessed by that person.

The secondary data is the data related to the study of Procurement Management is to be collect from the various sources such as reports, internet, etc. This is the data that have been already collected by and readily available from other sources for the purpose of research.

The study used a questionnaire to collect primary data from the respondents. A questionnaire comes in handy when gathering standardized information over a short period of time in a short time frame. The questionnaire was arranged according to the research objectives. This information was useful in comparing responses between various groups. The question explored the challenges affecting procurement performance. Primary and secondary data will be gathered. Primary data will be collected using unstructured questionnaire with closed and open-ended questions on the basis of background information, supplier selection procedures, buyer-supplier relationships, organizational capacity and lastly ethical practices. A structured and unstructured question saves on time and is easier to analyze. Questionnaires are efficient, cheap and easy to be administered.

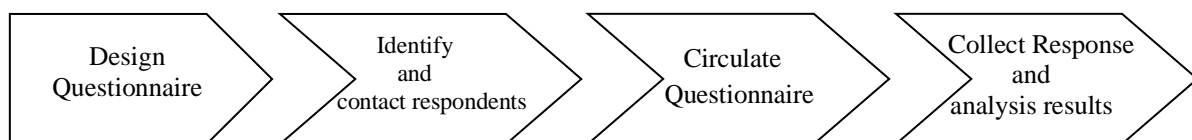


Fig. 1: Data collection method

2.6 Method of data analysis

The questions had following formats. There was a set of five-point Likert scale. The scale was ranked [1] is strongly disagree; [2] disagree; [3] neutral; [4] agree; and [5] strongly agree. The Likert scale offered the respondents an opportunity to rank their responses depending on strength of their opinion on the test items. The study also had open ended questions which gave the respondents an opportunity to give their opinions without restriction.

This presents the methodology used in the study to obtain data, which was used to analyze the performance measurement dimensions, indicators, benefits and challenges of procurement performance measurement. Analysed Data is presented using graphs, etc.

3. DATA ANALYSIS

The respondents were asked specific questions on Procurement performance. Each of the questions asked was assigned the following values; Strongly agree, agree, neutral, disagree and strongly disagree the data below shows the analysis of the responses obtained.

3.1 Response Rate

Out of the 29 questionnaires in the form of google form which were distributed, 25 of them were duly filled and returned. This presents 86% response rate as shown in Table-1. A rate of response greater than 60% is considered satisfactory and good for

analysis, (Mugenda & Mugenda, 2003). The lack of response for some of the questionnaires could be due to the lack of spare time in the busy environments the respondents operate in. Responses were obtained, analyzed and presented in tables, graphs and charts for ease of presentation.

Table 1: Response Rate

Category	Frequency	Percentage
Response	25	86.2
Non Response	4	13.8
Total	29	100

3.2 Gender of the respondents

The respondents were asked to indicate their gender. Table-2 shows that majority of the respondents indicated that they were males. The male respondents were 19 representing 76% whereas the female respondents were 6 representing 24% of the total respondents. This reveals that, the staffs employed in the study were male depicting a more representation of the male in the procurement & supply chain department.

Table 2: Distribution of Respondents by Gender

Gender	Frequency	Percent
Male	19	76%
Female	6	24%
Total	25	100%

3.3 Procurement function is dependent on other departments that will be reduce procurement efficiency.

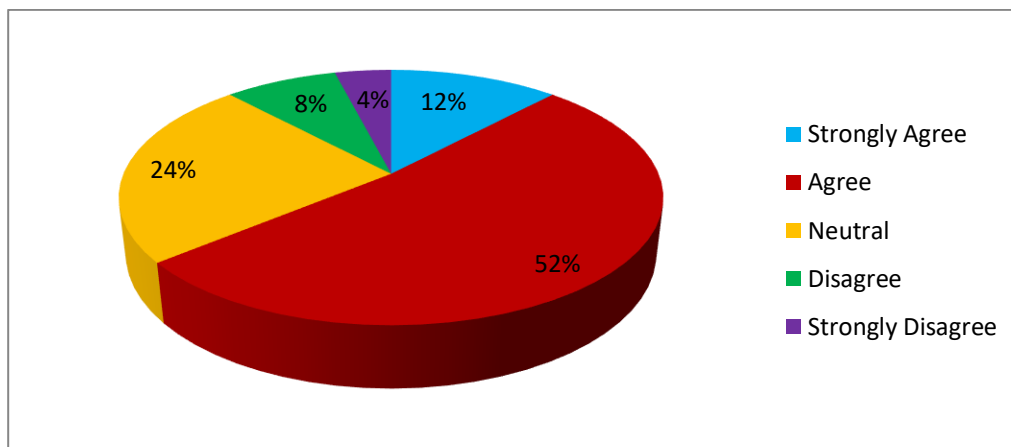


Fig. 2: Response rate on Procurement function is dependent on other departments that will be reduce procurement efficiency

The study results illustrated in the above figure show that 52% of the population sampled agree that Procurement function is dependent on other departments that will be reduce procurement efficiency. The study shows that 12% of population strongly agree to the statement and 24% of responded was thinking about this statement is neutral. The only 4% of population was strongly disagree with the statement and 8% responded as disagree. So, the above results conclude that procurement function is dependent on other department that will reduce the procurement efficiency.

3.4 E-procurement improve the performance of the procurement function.

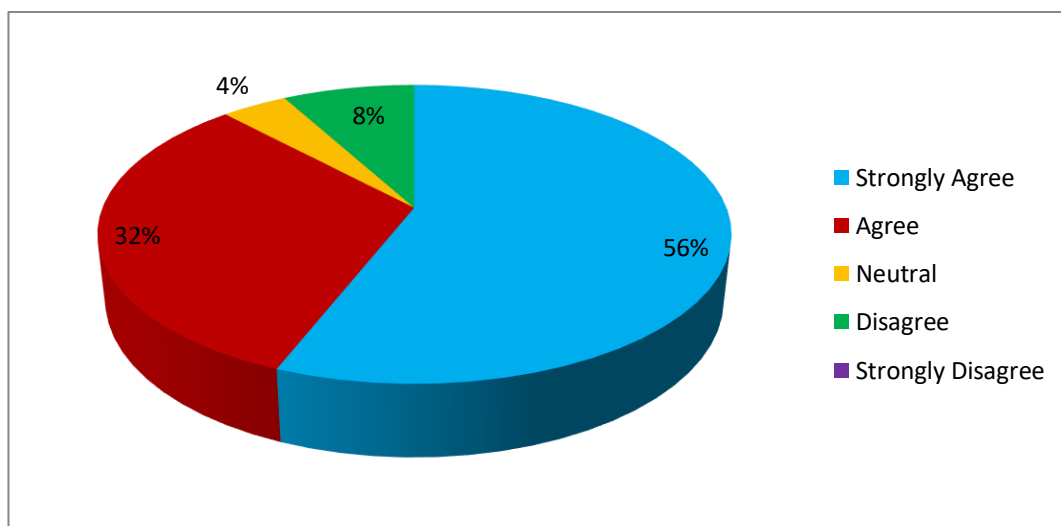


Fig. 3: Response rate on E-procurement improve the performance of the procurement function

The results for this question show that 56% of the population sampled strongly agree that E-procurement improve the performance of the procurement function. The study shows that the next highest with 32% of population agree to the statement and 4% of responded was thinking about this statement is neutral. The 8% of population was disagree with the statement but no one is strongly disagree. So, the above results conclude that performance of procurement function improve by using or implementing e-procurement in the company.

3.5 Quality of supplier service continuously evaluate.

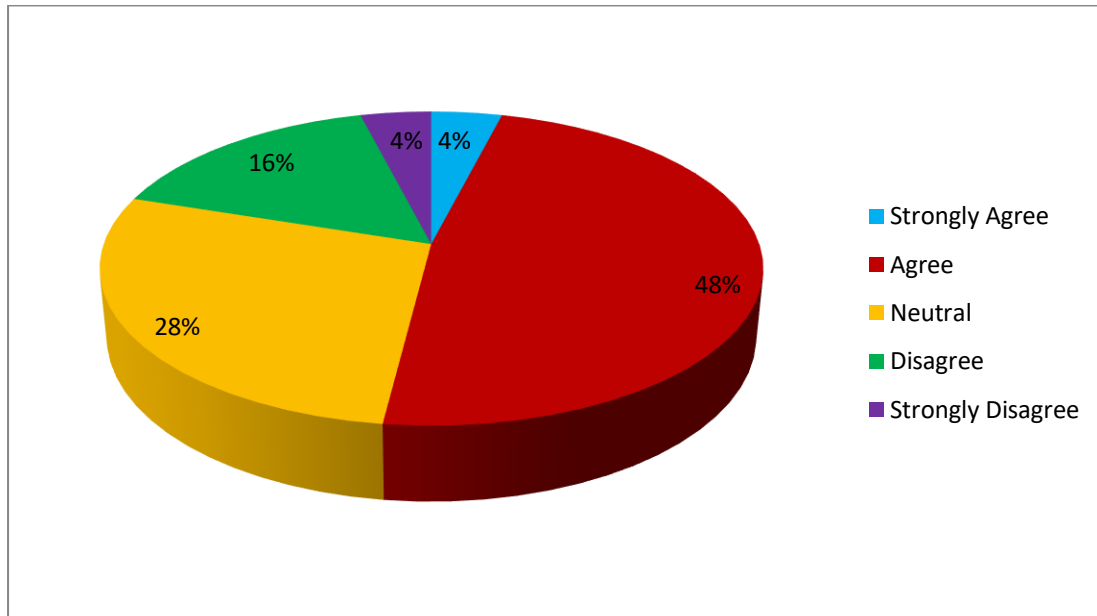


Fig. 4: Response rate on Quality of supplier service continuously evaluate

The results from the above figure show that 48% of the populations sampled agree that Quality of supplier service continuously evaluate. The study shows that of 4% of population agree to the statement and 28% of responded was thinking about this statement is neutral. The remaining 16% of population was disagree with the statement and 4% of respondent strongly disagree with the mention statement. So, from the above mention results it is concluded that most of respondents agree that quality of supplier should be continuously evaluate to improve procurement performance.

3.6 SAP or ERP software has made the procurement faster, cheaper and transparent.

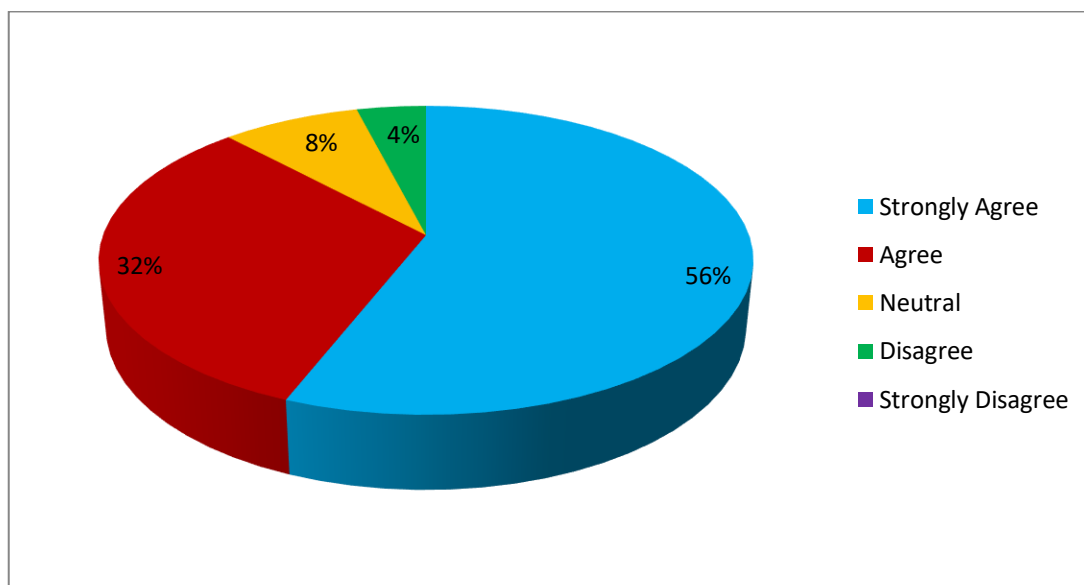


Fig. 5: Response rate on SAP or ERP software has made the procurement faster, cheaper and transparent

The study results are illustrated in the above figure show that 56% of the population sampled strongly agree that SAP or ERP software has made the procurement faster, cheaper and transparent. The study shows that 32% of population agree to the statement and 8% of responded was thinking about this statement is neutral. The only 4% of population was disagree with the statement and no one responded as strongly disagree. As per results majority of respondents agree and believe that SAP or ERP like software made procurement faster, cheaper and transparent, which leads to better and efficient procurement.

3.7 Government regulations and bureaucracy affect the procurement performance

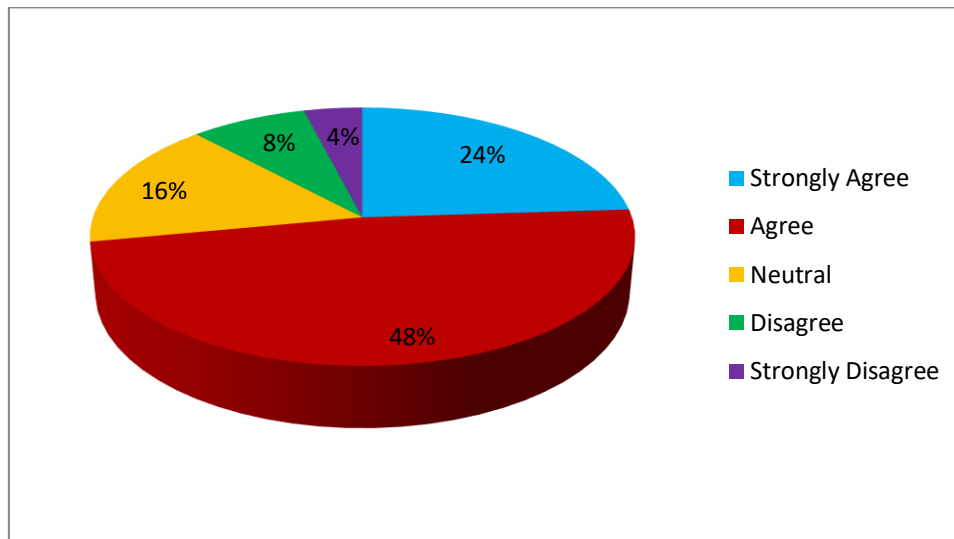


Fig. 6: Response rate on Government regulations and bureaucracy affect the procurement performance

The study from the survey shown in above figure, states that 48% of the population sampled agree that Government regulations and bureaucracy affect the procurement performance. The study shows that 24% of population strongly agree to the statement and 16% of responded was thinking about this statement is neutral. The only 8% of population was disagree with the statement and 4% responded as strongly disagree. So the above results conclude that the one of the factor which affects directly or indirectly the performance of procurement is government’s regulation and bureaucracy.

4. CONCLUSION

The conclusion made on the study that procurement efficiency and effectiveness can increase or maximize by establishing clear roles and procedures within the procurement processes. To ensure value for money, there should be continuous improvement in the efficiency of internal processes and systems and public entities should maintain structures that avoid unnecessary costs. The majority of respondents believe that procurement function is dependent on other departments that will be reduce procurement efficiency. About 56% of respondents responds that E-procurement improve the performance of the procurement function. Hence is it clear that by implementing the e procurement the performance and efficiency or effectiveness of the procurement will be increase. The study finds that the evaluation of supplier is very important for effective procurement management. The software like SAP or ERP has made procurement faster, cheaper and transparent. It is recommended to use such software to improve the procurement performance because is automatic create purchase order, request for quotation, good receipts note and various function very fast easily. It is also found that government rules and regulation also effect of procurement performance. By using above parameter, the performance of procurement should be evaluated.

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