

Original Research Article

Strategic Procurement Management Practices and Performance of Real Estate firms in Nairobi County, Kenya

Alicen Chepkoiit Jebiwott^{1*}, Njenga Gitahi², Hellen Sang³¹MBA-Candidate, Kabarak University, P. O. Private Bag 20157 Kabarak, Kenya²Lecturer, School of Business & Economics, Mount Kenya University, Rwanda, Kenya³Lecturer, School of Business & Economics, University of Kabianga, BOX 2030, 20200 Kericho, Kenya**Article History**

Received: 17.09.2022

Accepted: 21.10.2022

Published: 26.10.2022

Journal homepage:<https://www.easpublisher.com>**Quick Response Code**

Abstract: In Kenya, the real estate industry provided 9.0% of the GDP of the nation in the second quarter of 2020. It also made a large contribution to employment generation and the provision of residential and commercial space. But because of the weak housing market, which is demonstrated by the housing index's progressive and severe decrease in the 2019- 2020 period, real estate enterprises continue to encounter a variety of performance issues. The real estate firms in Kenya have also had challenges of late delivery of the housing projects, poor quality of delivered projects, client funds misappropriations, and legal challenges with their clients. This study sought to examine the effect of procurement management practices on the performance of real estate firms in Nairobi County, Kenya. This study utilized correlational research design. The study's population was the 100 senior managers of real estate firms in Nairobi County, Kenya. The study utilized a sample size of 50 respondent's generated using Naissuma coefficient of variation formula. The study collected data using structured questionnaires. The findings indicated that strategic procurement practices have a significant effect on the performance of real estate firms. The study concludes that applying aspects such as supplier optimization dynamics, supplier development and strategic alliances with suppliers is significant in organization performance among firms. The study recommends that supplier development strategies in terms of financial support and training ought to be underscored. The real estate practitioners and investors in the real estate may gain an understanding on the effect of the strategic management practices on the performance of the real estate firms.

Keywords: Strategic Procurement, Performance, Real Estate firms.

Copyright © 2022 The Author(s): This is an open-access article distributed under the terms of the Creative Commons Attribution **4.0 International License (CC BY-NC 4.0)** which permits unrestricted use, distribution, and reproduction in any medium for non-commercial use provided the original author and source are credited.

INTRODUCTION

Strategic management practices have been linked with the organizational performance of real estate firms across the globe. According to Daudi and Mbugua (2018) strategic management refers to the formulation and execution of major organizational goals while taking into consideration the resources availability of the firm and the business environment in which it operates. Procurement management practices are part of the strategic management practices that the real estate firms engage in. The procurement management practices is the act of acquiring goods and services in a manner that it meets the long term needs of the organization (Mwaiseje & Changalima, 2020). On the other hand, Kembero and Ombui (2018) views the procurement management practices as the act of acquisition of goods, services and labour through a

process of purchase, renting, hire purchase, franchise, license tenancy or by signing of a contract. According to Zuber, Nawi, and Nifa (2019) procurement management practice in real estate firms lead to completion of the real estate projects within budget, in a timely manner and in the required quality leading to an overall quality real estate project. The procurement practices of materials, labour, equipment, and machinery amongst other aspects in real estate firms may improve on the organizational performance in respect to operational costs and profit margins. The procurement management as a driver of organizational performance has been noted in Uganda (Kalenzi & Ong'unya, 2019).

In South Africa, Mafini, Dhurup and Madzimure (2017) linked electronic procurement to the

*Corresponding Author: Alicen Chepkoiit Jebiwott

MBA-Candidate, Kabarak University, P. O. Private Bag 20157 Kabarak, Kenya

organizational performance of small and medium enterprises. In this context, Mafini *et al.*, (2017) asserted that the aspects of electronic procurement that influenced performance include electronic sourcing, electronic negotiation, and electronic evaluation aspects. The use of electronic procurement has been linked to organizational performance through improvement of efficiencies and effectiveness in procurement aspects. In Uganda, Kalenzi and Ong'unya (2019) argued that the procurement performance influenced organizational performance through dynamics such as supplier delivery accuracy, price effectiveness, cost saving, inventory flow and quality conformance aspects.

The real estate firms in Kenya play a critical role in the social economic development of the country. According to (Government of Kenya., 2020) housing is one of the critical components in which the government seeks to deliver 500,000 affordable housing units to Kenyans in fulfilment of article 43 (1) b of the constitution. There are several organizational performance challenges amongst the real estate including challenges of unoccupied office spaces, and low prices being offered for commercial real estate products (Wanjiru, 2019). According to Central Bank of Kenya., (2019) the real estate firms contributed to 14.31% of the commercial banks' non-performing loans for the 2019 financial year that is Ksh 48,065.11 million shillings.

Nairobi City County being the capital city of the country and having the highest GDP amongst the counties have high number of real estate firms in the county. The real estate firms in Nairobi are scattered across various sub counties of Nairobi. The city often has development of gated communities, which lead to the increasing of various housing activities within the city.

Statement of the Problem

The real estate industry in Kenya makes a significant contribution to the GDP of the nation, in addition to creation of job opportunities, and provision of real estate projects for either residential or commercial use (Barasa, 2018; Kaibere, 2018; Nderitu, 2017). However, a variety of performance concerns continue to plague real estate organizations. The housing industry saw a depressing housing market in 2020, according to the Insurance Regulatory Authority (2021). The real estate companies in Kenya have also experienced problems with late project completion, subpar quality of completed projects, misuse of client funds, and legal challenges with their clients (Kamau, 2019; Kitoto, 2019). Researchers from a variety of fields have connected organizational success to strategic management practices (Otieno, 2018; Ndung'u & Kavinda, 2019). The aforementioned indicates that these research' scopes were not broad enough to take into account how strategic management practices, such

as procurement management procedures, affect the performance of real estate enterprises in Nairobi County, Kenya. If this connection is not explored, the real estate industry will continue to operate in a situation where crucial strategic information is sparse. This situation was the bedrock that motivated the current study.

RESEARCH OBJECTIVE

To determine the effect of strategic procurement management practices on the performance of real estate firms in Nairobi County, Kenya

LITERATURE REVIEW

Resource Based Theory

The resource-based theory was utilized in this study to explain the role of the procurement practices on the organizational performance of real estate firms. According to Zhang (2017) the Resource Based Theory (RBT) is associated with Barney, Ketchen and Wright (2021) further noted that diverse scholars had made their distinct contribution to the modern day RBT. The RBT places an emphasis on the procurement of both tangible and intangible resources as the sources of competitive advantages and improved organizational performance of firms. The tangible resources refer to those resources that can be touched including buildings and equipment while the intangible resources include those resources that can't be touched including intellectual properties. The thrust of the RBT argument is that the possession of the resources provided a competitive advantage to the firm and, hence driving their organizational performance. Studies that have linked RBT with organizational performance include (Aziz, 2019; Oladimeji *et al.*, 2020), & (Maingi *et al.*, 2019) amongst others.

There are several criticisms that have been levelled against the RBV. The theory has been noted to be tautological in nature and as such is deemed to be true under all the circumstances (Oladimeji *et al.*, 2020). This reduces the understanding of the manner in which it impacts on the organizational performance. The theory has also been critiqued on the basis that the mere presence of resources is not in itself sufficient to influence the organizational performance but rather the manner in which the resources are used is critical in provision of competitive advantage. In this context, the different resources combination may lead to achievement of diverse advantages and different resources combination may achieve a similar end result. The theory has been critiqued on the assumption that the resources exist and it is just a matter of use of such resources in achievement of competitive advantage (Maingi *et al.*, 2019). The theory has also been critiqued on the difficulty of the sourcing of a resource within the organizations that is able to meet all the VRIN criteria (Valuable, Rare, Inimitable and Non-substitutable) in

real world. This limits the applicability of the theory in real world.

The strategic procurement practices are about the acquisition of resources for the utilization in driving the organizational performance of the real estate firms. The real estate firms consume a lot of diverse materials including the material resources, equipment resources, labour, legal resources and marketing resources amongst others. The procurement of these resources influences the organizational performance of the real estate firms. This is the foundation of the use of this theory in discussing the link between strategic procurement management practices and organizational performance.

EMPIRICAL REVIEW

The impact of the strategic procurement management practices on organizational performance has been investigated. Researchers who have attempted to establish the relationship between procurement management methods and organizational performance include (Basweti & Achuora, 2020; Mahuwi & Panga, 2020; Gatobu, 2020).

In establishing the long-term aims and mandates of the procurement function, Basweti and Achuora (2020) claim that procurement management refers to the development of aligned and consistent actions.

Basweti and Achuora (2020), focusing on the state companies in Kenya, conducted a study to examine the relationship between procurement management and state corporation organizational performance. The study used a descriptive research approach and used structured questionnaires to gather quantitative data. The study discovered that several procurement management techniques have an impact on organizational performance, including supplier development, supplier optimization, and strategic alliance techniques that were found to enhance the organizational performance indicators of profitability, market share, and customer satisfaction. Further research by Basweti and Achuora (2020) revealed the importance of the procurement methods of just-in-time sourcing, vendor-controlled systems, and economic order quantity systems for the organizational performance metrics of market share growth, profitability, and customer satisfaction.

According to Nabiliki *et al.*, (2019), the enhancement of the supplier's performance capability in terms of cost, quality, lead time, managerial capacity, and financial capacity led to an improvement in organizational performance. The findings of Tindi and Kibet's (2018) study also revealed that Kenya Pipeline Company's organizational performance in terms of profitability and market performance was influenced by

supplier development strategies in terms of financial support and supplier training.

Mahuwi and Panga (2020) evaluated at organizational performance elements and the role of procurement operations in Tanzania. The study employed a descriptive research approach to achieve its goals and used structured questionnaires to collect data from a sample size of 80 respondents chosen from Tanzanian public entities. The organizational performance of public institutions in Tanzania was shown to be influenced by a variety of procurement operations by Mahuwi and Panga (2020).

Amongst the noted aspects influencing organizational performance include monitoring of procurement activities, adherence to procurement plans, staff training on procurement aspects.

According to Mahuwi and Panga's (2020) study, staff training on procurement-related tasks helped practitioners stay informed about changes in the industry, which improved organizational performance for the company. The findings by Okiria, Mwirumubi, and Mpaata (2016) and Mutoro, Namusonge, and Makokha (2018) also found the significance of adherence to the procurement plans on organizational performance. The results by Mahuwi and Panga (2020) on the relationship between the adherence to procurement plans and the organizational performance were consistent with those findings.

In a study based in Uganda, Abbey and Ong'unya (2019) examined the role of procurement on the organizational performance of the foam mattresses firms in terms of profitability. Using regression analysis, Abbey and Ong'unya (2019) found that the procurement has positive and statistically significant influence on the profitability of the Foam Mattress Manufacturing Firms in Uganda. The procurement indicators that were found to have a statistically significant influence on the organizational performance of form mattresses firms include supplier delivery accuracy, price effectiveness, quality conformance, cost saving, and inventory flow aspects.

Gatobu (2020) looked more closely at the impact of the procurement management function on the performance of the Nairobi County government. The influence of procurement management on organizational performance of county government was discussed in the study using the systems theory, expectation theory, and institutional theory. Additionally, the study used a structured questionnaire and a descriptive research approach to gather its data. According to Gatobu (2020), many procurement management tasks, such as including needs analysis, budgeting, timeliness, and requisitioning elements into the procurement plan, had an impact on the organizational performance. Gatobu's study (2020)

discovered additional evidence that the dynamics of procurement management, such as tender appraisal, contract management, and contract awards, had an impact on the organizational performance of the county government of Nairobi.

RESEARCH METHODOLOGY

The research design refers to the action plan that is adhered to in the actualization of the research process (Bordens & Abbott, 2011). This study utilized the correlational research design. The target population of this study was CEOs or appointees of the real estate firms in Nairobi region. In this study, 100 registered real estate firms in Nairobi County, Kenya were identified through Estate Agents Registration Board, 2020. The study utilized a sample size of 50 respondent's generated using Naissuma (2000)

coefficient of variation formula. The study collected data using structured questionnaires.

DATA ANALYSIS AND PRESENTATION

Data analysis is a technique for analyzing the evidence acquired during an experiment or survey and arriving to findings and recommendations from it. Data that were collected using questionnaires were cleaned, edited, coded. The degree of influence the independent factor has on the dependent variable was determined using a linear regression analysis.

RESULTS AND DISCUSSIONS

The main objective of the research was to determine the effect of strategic procurement management practices on the performance of real estate firms in Nairobi County, Kenya. The result of the analysis is presented in Table 1.

Table 1: Strategic Procurement Management Practices

Statement	NE	SE	ME	LE	VLE	Mean	S.dev
In our firm, we have identified suppliers whom are able to supply us with many products from the same firm	10.4%	27.1%	12.5%	43.8%	6.3%	3.08	1.18
In our firm, the use of few suppliers that are able to supply us with a majority of our products reduces on the costs of procurement	16.7%	25.0%	18.8%	33.3%	6.3%	2.87	1.23
We strategize with the suppliers on how they can provide us with better services	4.2%	16.7%	43.8%	14.6%	20.8%	3.31	1.11
We strategize with the suppliers on how they can improve on the timelines for providing us with their services	12.5%	29.2%	18.8%	29.2%	10.4%	2.95	1.23
In our firm we supervise the suppliers to ensure that they meet their obligations to us.	18.8%	31.3%	8.3%	27.1%	14.6%	2.87	1.39
All our staff are trained on aspects related to how goods and services should be purchased in our firm	22.9%	41.7%	2.1%	25.0%	8.3%	2.54	1.32
Procurement management practices mean index						2.94	0.96

Key: 1=No Extent (NE), 2=Small Extent (SE), 3=Moderate Extent (ME), 4=Large Extent (LE), & 5=Very Large Extent (VLE)

The process of strategic procurement comprises identifying the company's key expense areas and assessing the potential value of the procurement processes. The research's findings revealed that, in large part, 43.8% of respondents said they have found suppliers who can provide them with a variety of goods from the same company. 33.3% of respondents agreed that using a small number of suppliers who can provide the majority of the products for their company lowers procurement expenses. This research supports the findings of Basweti and Achuora (2020), who found that just-in-time sourcing, vendor-controlled systems, and economic order quantity systems have a crucial impact in the organizational performance metrics of market share expansion, profitability, and customer satisfaction.

Furthermore, it was discovered that 43.8% of respondents strongly agreed that they plan with their

suppliers to improve their services. However, it was found that 12.5% had not yet discussed with their suppliers how to increase the timeliness of their service delivery. The effectiveness of real estate companies may be impacted by this. Additionally, the results showed that, to a limited level, up to 31.3% of respondents said they regularly watch the suppliers to make sure they fulfill their responsibilities to them. Ultimately, 25% of the respondents stated that they had successfully been able to educate all of their employees on the various facets of how products and services should be purchased in their company. It can be argued that organizational performance of an organization and supplier development through training is related. This finding is consistent with that of Tindi and Kibet (2018), who claim that the supplier development strategies of financial assistance and supplier training had an impact on the organizational performance of

Kenya Pipeline Company in terms of profitability and market performance.

Regression Analysis

The goal of regression analysis is to see how one or more independent variables affect one single dependent variable. Based on each of the inputs, regression produces an equation that predicts performance. In this study, linear regression was run to estimate the effect of strategic procurement

management on the performance of real estate firms in Nairobi County. The outputs of the analysis are presented in the model summary, ANOVA and coefficients tables.

The model summary is presented in Table 2. It shows the correlation coefficient, r-square, Adjusted R Square and the error of the estimate, run at 0.05 alpha level.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.877 ^a	.768	.763	.51

a. Predictors: (Constant), Strategic Procurement Management Practices

The model for objective two shows that 76% of variation in organization performance is explained by strategic procurement management practices with a standard error of the estimate of 0.51. It also indicates that strategic procurement management practices correlate with organization performance by a positive relationship (r=0.8)

ANOVA

The strength and robustness of the model is important to determine how independent variable influences the dependent variable. The variable was analyzed using F statistics. Table 3 illustrates the results.

Table 3: ANOVA^a for effect of strategic procurement management practices on the performance of real estate firms in Nairobi County, Kenya

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	40.927	1	40.927	152.54	.000 ^b
Residual	12.341	46	.268		
Total	53.269	47			

a. Dependent Variable: Organizational Performance

b. Predictors: (Constant), Strategic Procurement Management Practices

The ANOVA table shows that the model is significant in prediction of the organization performance at 0.05 alpha level, R²=0.768, F (1, 46) =152.54; p <0.05. This suggests that the predictor's strategic procurement management practices significantly influence organization performance.

Coefficients^a

The extent of influence of each independent variable was established. Table 4 shows the nature of influence each variable on the dependent variable.

Table 4: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.374	.256		-1.460	.151
Strategic Procurement Management Practices	1.029	.083	.877	12.351	.000

a. Dependent Variable: Organizational Performance

Based on unstandardized beta coefficients, the regression analysis shows that strategic procurement management practices significantly influence organizational performance (β=1.029; t=12.351; p=0.000).

demonstrates how adopting elements like supplier development, supplier optimization dynamics, and supplier strategic alliances could enhance organizational performance in organizations.

CONCLUSION

By applying aspects such as supplier optimization dynamics, supplier development and strategic alliances with suppliers is significant in organization performance among firms. This

REFERENCES

- Abbey, K., & Ongâ, G. O. (2019). Procurement performance and profitability in foam mattress firms in Uganda. *African Journal of Business Management*, 13(18), 630-635.

- Aziz, N. N. A. (2019). Organizational Capabilities and Competitive Advantage: The Moderating Influence of Managerial Competencies. *International Journal of Academic Research in Business and Social Sciences*, 9(2), 782–794.
- Barasa, C. (2018). *Assessment of the Attractiveness of the Real Estate Management Industry in Kenya*. Unpublished Degree of Master of Business Administration Thesis: University of Nairobi.
- Barney, J. B., Ketchen Jr, D. J., & Wright, M. (2021). Resource-based theory and the value creation framework. *Journal of Management*, 47(7), 1936-1955.
- Basweti, M. N., & Achuora, J. (2020). Influence of Strategic Procurement Management on the Performance of State Corporations in Kenya. *International Journal of Supply Chain and Logistics*, 4(3), 25–49.
- Bordens, K. S., & Abbott, B. B. (2011). *Research Design and Methods: A Process Approach*. New York: McGraw-Hill Companies, Inc.
- Central Bank of Kenya. (2019). *Bank Supervision Annual Report 2019*. Retrieved from: https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/197965474_BSDANNUALREPORT2019.pdf
- Daudi, A., & Mbugua, D. (2018). Effect of Strategic Management Practices on Performance of Transport SACCOS in Nairobi County, Kenya. *International Journal of Social Sciences and Information Technology*, IV(IX), 37–50.
- Gatobu, F. H. (2020). Influence of Procurement Process on the Performance of Public Entities (A Case Study of Nairobi County Government). *International Journal of Academic Research in Business and Social Sciences*, 10(4), 40–61.
- Government of Kenya. (2020). *Big-Four-Agenda-Report-2018_19_2.pdf*. Retrieved from https://monitoring.planning.go.ke/wp-content/uploads/2020/10/Big-Four-Agenda-Report-2018_19.pdf
- Insurance Regulatory Authority. (2021). *Insurance Industry Report for the Period January – December 2017 Fourth Quarter Release February 2017*. Retrieved from <https://www.ira.go.ke/images/docs/new/Quarter-4-2017-Industry-Release.pdf>
- Kalenzi, A., & Ong’unya, G. O. (2019). Procurement Performance and Profitability in Foam Mattress Firms in Uganda. *African Journal of Business Management*, 13(18), 630–635.
- Kamau, G. K. (2019). *Effect of Technological Innovations on Performance of Real Estate Firms in Kenya: The Case of Real Estate in Nairobi County*. Unpublished Degree of Master of Business Administration Thesis: United States International University - Africa.
- Kembero, M. E., & Ombui, K. (2018). Determinants of Procurement Performance in Public Entities in Kenya: A Case of Kenya School of Law. *International Journal of Scientific and Research Publications (IJSRP)*, 8(5), 650–667.
- Kitoto, A. A. (2019). *Determinants of Demand for Credit by the Real Estate Sector in Kenya*. Unpublished Degree of Master of Arts in Economics Thesis: University of Nairobi.
- Mafini, C., Dhurup, M., & Madzimore, J. (2017). E-Procurement, Supplier Integration and Supply Chain Performance in Small and Medium Enterprises in South Africa. *South African Journal of Business Management*, 51(1), 1–12.
- Mahuwi, L. T., & Panga, F. (2020). Procurement Best Practices and Performance of Public Institutions in Tanzania: Experience from Higher Learning Institutions. *East African Journal of Social and Applied Sciences (EAJ-SAS)*, 2(2), 197–207.
- Maingi, J. K., Awino, Z. B., K’Obonyo, P. O., & Pokhariyal, G. P. (2019). Does Organizational Structure Moderate the Relationship between Strategic Planning and Competitive Advantage? A Study of Large Manufacturing Firms in Kenya. *International Journal of Business and Management*, 14(5), 141–153.
- Mutoro, J. W., Namusonge, P. G., & Makokha, E. N. (2018). Factors Affecting Procurement Planning in Bungoma County Government in Kenya. *European Journal of Business and Management*, 10(10), 24–33.
- Mwiseje, S. S., & Chagalima, I. A. (2020). Individual Factors and Value for Money Achievement in Public Procurement: A Survey of Selected Government Ministries in Dodoma Tanzania. *East African Journal of Social and Applied Sciences (EAJ-SAS)*, 2(2), 50–58.
- Nabiliki, J., Wanyoike, D. M., & Mbeche, W. N. (2019). Influence of Supplier Development Practices on Procurement Performance in Food and Beverage Manufacturing Firms in Nakuru East Sub - County, Kenya. *International Journal of Science and Research (IJSR)*, 8(10), 26–34.
- Naissuma, D. K. (2000). *Survey Sampling Theory and Methods*. Nairobi: Nairobi University Press
- Nderitu, C. (2017). *Innovation and Creativity as Determinants of Growth in the Real Estate Industry in Kenya*. Unpublished Degree of Master of Business Administration Thesis: University of Nairobi.
- Ndung’u, N., & Kavinda, L. (2019). Strategic Management Practices and Performance of Three Star Hotels in Nairobi City County, Kenya. *International Academic Journal of Human Resource and Business Administration*, 3(7), 590–604.
- Okiria, J. C., Mwirumubi, R., & Mpaata, K. A. (2016). Inventory Management Practices and the Effectiveness of the Supply Chain of Essential Medicines in the Public Sector. Evidence from Six

- Selected Public Hospitals in Uganda. *International Journal of Science and Research (IJSR)*, 5(4), 1447–1456.
- Oladimeji, M. S., Amida, O. A., & Essien, E. A. (2020). Business Innovation and Competitive Advantage in Nigerian Manufacturing Sector. (*EMAJ*)*Emerging Markets Journal*, 9(2), 37–43.
 - Otieno, D. O. (2018). Effect of Strategic Planning on the Financial Performance of Small and Medium Size Enterprises. *International Journal of Arts and Commerce*, 7(6), 57–71.
 - Tindi, J. A., & Kibet, Y. (2018). Effect of Sustainable Supplier Development on Organizational Performance at Kenya Pipeline Company Nairobi. *Africa International Journal of Multidisciplinary Research (AIJMR)*, 2(5), 35–49.
 - Wanjiru, S. N. (2019). *Social Media Advertising and Market Performance of Real Estate Companies in Nairobi*. Unpublished Degree of Master of Business Administration Thesis: University of Nairobi.
 - Zhang, S. (2017). Study of the Evaluation Framework of Management Quality of Primary and Secondary Schools Based on Resource-Based Theory. *Creative Education*, 8(6), 893–900.
 - Zuber, S. S., Nawi, N. M., & Nifa, F. A. (2019). Construction procurement practice: A review study of Integrated Project Delivery (IPD) in the Malaysian construction projects. *International Journal of Supply Chain Management*, 8(1), 777–783.

Cite This Article: Alicen Chepkoiit Jebiwott, Njenga Gitahi, Hellen Sang (2022). Strategic Procurement Management Practices and Performance of Real Estate firms in Nairobi County, Kenya. *East African Scholars J Econ Bus Manag*, 5(9), 256-262.