

Supplier Sourcing and Performance of Total Energies Kenya Limited in Mombasa City County Kenya

¹Andrew Mnyika Soita and ²Dr. Anthony Osoro, PhD

^{1,2}Department of Procurement and Logistics, Jomo Kenyatta University of Agriculture and Technology

Corresponding Email: asoita58@gmail.com

How to cite this article: Soita, A. M., & Osoro, A. (2023). Supplier Sourcing and Performance of Total Energies Kenya Limited in Mombasa City County Kenya. *Journal of Procurement & Supply Chain*, 3(2), 1-8.

Abstract

The petroleum sector has been facing financial challenges leading to closure or merger of giant firms. This study assessed the effect of supplier outsourcing on the performance of Total Energies Kenya Limited in Mombasa City County, Kenya. This study is anchored on Transaction Cost Theory. A quantitative research method was adopted together with a descriptive research design. The study targeted a population of all direct employees of Total Energies Kenya Limited. The exact number of direct employees at Total Energies Kenya Limited is estimated to be 400 with other 300 indirect ones. The data was gathered with the help of questionnaires and analyzed through the computation of descriptive and inferential statistics. The study revealed that supplier sourcing had a positive and significant effect on procurement performance. The study concluded that supplier sourcing had a positive and significant effect on the procurement performance of Total Energies Kenya Limited and the organization's performance as a whole in that it greatly reduced the cost of production increasing profitability, and also gave access to a variety of new products and services widening its market share.

Keywords: *Supplier Sourcing, performance, Total Energies*

1.0 Introduction

Loosemore (2016) reiterated that while private firms set their own procurement rules, a significant majority of public organizations in both developed and developing nations have instituted reforms within their procurement departments, which involve laws and regulations. However, the main challenge in the procurement process has been inadequate regulatory compliance (Coviello, Guglielmo, & Spagnolo, 2018). den Butter and Linse (2018) noted that strategic procurement management in Europe is associated with building rapport between purchasers and suppliers. Collaboration with suppliers helps to streamline the time needed to process an order with the supplier, thus reducing the need to maintain a larger inventory. The use of strategic procurement within the financial institutions in the Caribbean and European economic blocks has resulted in the successful automation of the entire procurement process, to ensure that routine tasks can often be set up for completion by software or other automatic means.

At a regional level, procurement among organizations in Africa has remained an issue of great concern. Stakeholders in the African region have expressed both individual and joint efforts to

ensure success in the procurement processes (Rogerson, 2018). As described by Mackintosh et al. (2018), nine middle-income nations in Africa agreed to work towards pooled procurement procedures in the bid to better their access to affordable life-saving vaccines. The process entailed first sharing information on their vaccine purchasing practices that was considered vital, including the prices and suppliers. Sharing information and ultimately pooling their orders has led to the betterment of the individual countries' purchasing power and, thus, strengthening their vaccine security while increasing access to affordable life-saving vaccines.

According to the Southern Africa Economic Block Forum on Supply Chain Management and product sourcing, strategic procurement is a process of creating alignment and consistency of action that establishes the long-range objectives and overall strategy or course of action by which the procurement function fulfills its mission (Doran, 2017). DE Mariz, Ménard, and Abeillé (2015) argued that many procurement managers in many African governmental institutions are not qualified for successful procurement performance, and this contributes to the wasting of procurement funds. The existence of weak contract performance marked by delays in payment payments for vendors greatly hinders capacity to provide a timely service resulting in delayed deadlines and timeframes in corporate procurement. Aliyu (2016) added that most organizations in Africa have not been able to apply the required procurement principles and practices that enhance the realization of the organization's objectives.

Mair (2017) noted that Kenya has been experiencing challenges in the implementation of the Public Procurement and Disposal Act of 2015. This has been attributed to various problems and challenges that face procurement. Procurement managers and players especially in the public service often face varied challenges, complex statutes, laws, regulations, and policies which complicate the procurement process. Due to the complexity of institutions and risks, there is duplication of roles, loss of revenues and resources, inefficiency in the procurement process, and low levels of compliance with procurement regulation. This compromises the Interaction with international actors between the Kenyan government and internal as well as external providers of procurement products. This is especially so in large contracts which have been the source of legal litigation between the Kenyan Government Institutions and Multinational Companies and also a source of conflict between the Kenyan Government and other governments seeking to influence the allocation of government contracts in Kenya.

The process of procurement has a vital role in ensuring that Total Energies Kenya Limited gets suppliers promptly, at the best price, and free from all elements of foul play (Magawa, & Karanja, 2019). The purchase section of Total Energies Kenya Limited has the responsibility of purchasing and procuring all non-petroleum services or goods needed by the various departments within the company, both for internal use and for resale to our customers (Kimathi, 2017). The section manages the purchasing tender process by the company as well as the disposal of the assets for the assets that are no longer required.

1.1 Problem Statement

Oil is essential in almost every economic sector in Kenya, particularly in manufacturing, transportation, and power production. Petroleum is a vital source of energy and has for many years contributed to approximately 80% of Kenya's requirements of energy for commercial use. The petroleum sector provides direct and indirect employment to an estimated 16,000 persons. The petroleum sector has been facing financial challenges leading to closure or merger of giant firms. The Energy and Petroleum Regulatory Authority (EPRA) in Kenya is under pressure from the citizens and consumer protection lobby groups resulting in pump price

control by the government (ERC, 2017). The price regulations set by the EPRA affect white fuel oils such as petrol, diesel, and kerosene.

Petroleum products face acute challenges mainly due to high demand since it's the main source of energy. According to a report by the Petroleum Institute of East Africa (PIEA) (2019), fuel consumption has dropped to its lowest level in three years; this drop has been attributed to the 8% VAT that was added to petroleum products in 2018. The low sales volume has a ripple effect on corporate tax collection from the oil marketing companies who have reported reduced revenues, affecting their income tax contribution. The sales may reduce further as a result of international crude prices (Ondongo & Nyambane, 2020). This study sought to find out the effect of supplier sourcing on the performance of Total Energies Kenya Limited in Mombasa City Council, Kenya.

2.0 Literature Review

2.1 Theoretical Review

Transaction Cost Theory was developed by Coase (1937). The theory states that related transaction costs and production costs associated with the process and the services determine whether to outsource or not to outsource. According to Mahnke et al. (2005), the three most important dimensions of cost transactions are: how often the transactions are conducted, the unpredictability of the transactions, and the degree of asset specificity to the firm. If all the dimensions of the transaction are found to be low and of poor quality, then the firm will resolve to outsource its business processes to a competent service provider. Williamson (2009) observed that outsourcing services, processes, or business functions contribute to reduced production costs than doing it in-house due to the various benefits of economies of scale. Such cases could however increase transactions because external suppliers must be monitored and managed. Transaction cost theory shows that firms outsource production and the production process to reduce costs, achieve cost efficiency, and increase their profit margins. Costs that are associated with production are a result of service delivery and can be identified. Coordination costs involve monitoring, controlling, implementing, and managing the work internally as some of the production-related costs. If these processes are transferred to an external provider, the coordination costs become transaction costs. Kulmala (2013) indicated that outsourcing services or production processes will result in reduced production costs as compared to doing it internally due to the theory of economies of scale. But in such a case, normally the transaction cost remains high because vendors need to be managed, corrected, and monitored.

2.2 Empirical Review

Isaksson and Lantz (2015) carried out a study on the effect of outsourcing strategies on the performance of SMEs in Sweden. The target population was 700 SMEs and 50 were sampled using stratified sampling. Questionnaires were used for data collection. The findings revealed that there is no significant relationship between outsourcing strategies and SME financial performance. Jyoti et al. (2015) examined the impact of outsourcing on the performance of medium-scale industries in India. A census was used to sample 64 organizations. Questionnaires were used for data collection. Results revealed that outsourcing of non-core critical activities and non-core non-critical activities positively affect organizational performance.

Tenkorang (2015) examined the effect of outsourcing on the operational performance of telecom firms in Ghana. Descriptive research design was used in this study. Both primary and secondary data were used. The target population was 445 and 160 were sampled using simple

random sampling. Findings established that telecom firms that outsourced non-core functions recorded improved operational costs. Agburu1, Anza, and Iyortsuun (2017) studied the effect of outsourcing strategies on the performance of small and medium-scale enterprises (SMEs) in Benue State, Nigeria. The study adopted a survey research design. A stratified random sampling technique was used in selecting ten SMEs. Questionnaires were used to collect data. Findings showed that outsourcing of back office activities has a significant effect on the organizational profitability of SMEs.

Narigisi (2016) conducted a study on the impact of outsourcing on organizational performance in Century Bottling Company Limited in Uganda. The study used both qualitative and descriptive study designs. The target population was 30 staff. Data was collected using questionnaires and interviews conducted in Century Bottling Company. The findings revealed that companies outsource to access special expertise, speed up the delivery of services, reduce costs, and get enough time to concentrate on their core activities. Companies benefit from outsourcing in several ways like reduction in costs and company staff getting enough time to concentrate on their core activities to promote the company's competitiveness in the market. Fendo (2016) sought to determine the global outsourcing practices used in textile industries in Kenya. The study adopted a cross-sectional survey design. Census was used in sampling 63 firms. Data was collected using questionnaires. Findings showed that global outsourcing, off-shoring, and contract manufacturing had a positive but insignificant effect on operational performance.

Kamanga and Ismael (2016) studied the effect of outsourcing on the performance of Del Monte Kenya Limited. The study employed a descriptive research design method. The target population was 42 management staff and census was used in sampling all staff. Questionnaires were used for data collection. Findings established that business process outsourcing affects organizations since internal resources are redirected to perform main activities hence reducing operational costs.

3.0 Methodology

The study adopted a quantitative research method together with a descriptive research design. The study targeted a population of all direct employees of Total Energies Kenya Limited. The exact number of direct employees at Total Energies Kenya Limited is estimated to be 400 with other 300 indirect ones. The study selected a sample size of 200 employees using a stratified random sample. The data was gathered with the help of questionnaires and analyzed through the computation of descriptive and inferential statistics. The study findings were presented in tables.

4.0 Results and Discussion

4.1 Response Rate

The study distributed 200 questionnaires to sampled officers who worked in the Organisation's various Departments at Total Energies Kenya Limited. Out of those, 200 sample respondents filled in and returned the questionnaire contributing to a 100% response rate. The response rate demonstrates a great willingness of the respondents to participate in the study.

Table 1: Response Rate

Departments	Issued Questionnaires	Returned Questionnaires	Percent
Finance	12	12	6.00
Human Resource & Administration Planning	12	12	6.00
Strategy & Corporate Affairs	37	37	18.50
Operations	37	37	18.50
Planning and Supply	38	38	19.00
Retail and Lubricants	38	38	19.00
Health, safety, and security	13	13	6.50
Environment, and quality	13	13	6.50
Total	200	200	100.00

4.2 Supplier Sourcing

The study sought to determine the effect of supplier sourcing strategies on procurement performance. The descriptive statistics were performed and the result is shown in Table 2.

Table 2: Descriptive Results-Supplier Sourcing

Statement (N=200)	Mean	Std. Dev.
The number of goods purchased abroad has increased in the last one year	3.3500	1.14633
The number of services purchased abroad has increased in the last one year	3.4450	1.06897
The business has spread significantly to different parts of the world in the last one year	3.3600	1.05163
The volume of orders completed has increased in the last one year	3.3500	1.08785

Supplier sourcing was assessed using four sub-variables, namely, the number of goods purchased abroad, the number of services purchased abroad, business spread to different parts of the world, and the volume of orders completed. Through the descriptive analysis, the study obtained mean values equal to 3.35 (SD=1.146), 3.445 (SD=1.069), 3.36 (SD=1.052), and 3.35 (SD=1.088) for the number of goods purchased abroad, the number of services purchased abroad, business spread to different parts of the world and the volume of orders completed, respectively. On average, the adoption of the global sourcing strategy by departments of Total Energies Kenya Limited was moderately high as all mean values for the four variables were above 3. However, the variation among these variables was high, as witnessed by the high values of standard deviations (SD) and the wide range of 4. The results triggered the desire to investigate whether the variation in the adoption of global sourcing was associated with those in the procurement processes. Supplier sourcing within the context of procurement plays a critical role in effective procurement performance. Many procurement processes would suffer poor performance simply on account of a lack of embracing effective and efficient sourcing

strategy. The necessity to incorporate it in all the procurement stages including planning, choice of procurement method, preparation of materials specifications, evaluation of tenders, and inspection and acceptance of delivered goods and services is no doubt imperative.

4.3 Procurement Performance

The procurement performance was the study's dependent factor. Descriptive analysis was carried out for the dependent variable to compute the mean and standard deviation scores as shown in Table 3.

Table 3: Descriptive Results-Procurement Performance

Statement (N=200)	Mean	Std. Dev.
The department has been able to access new sources of procurement in the last year(market share)	3.3550	1.03165
There has been a significant reduction in the cost of procured goods and services in the last year(profitability)	3.3300	1.06148
The department has benefited from acquired newfound knowledge and technology in the last year	3.4350	1.07777
The overall procurement performance has improved significantly in the last year	3.3250	1.07944

The factor was assessed using four sub-variables: access to new sources of procurement, reduction in the cost of procured goods and services(profitability), benefits from acquired newfound knowledge and technology (market share), and overall procurement performance. The descriptive statistics produced mean values equal to 3.355 (SD=1.032), 3.33 (SD=1.061), 3.435 (SD=1.078), and 3.325 (SD=1.079) for the access to new sources of procurement, reduction in the cost of procured goods and services, benefits from acquired newfound knowledge and technology, and overall procurement performance, respectively. It was evident that the procurement process varied significantly. The results triggered the desire to investigate whether the variations were influenced by the changes in the adoption of procurement.

4.4 Correlation Results

The study used Spearman's rho correlation coefficient (r) technique to analyze the degree of relationship between two variables (independent and dependent). The independent variable of this study was supplier sourcing while procurement performance was the dependent variable.

Table 4: Correlation Matrix

		Procurement Performance
Supplier Sourcing	Spearman's Correl.	.610
	Sig.(2-tailed)	.000
	N	200

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

As shown in Table 4, there is a highly significant (r = 0.610, P= 0.000) relationship between supplier sourcing and procurement process) and therefore, if the global sourcing index is high the organization's performance is also high.

4.5 Regression Results

The regression analysis techniques were critical to establishing the link between procurement strategies and organizational performance.

Table 5: Regression Model's Coefficients Analysis

	Unstandardized		Standardized	t-values	Sig.
	B	Std. Error	Beta		
(Constant)	0.167	0.108		1.539	0.125
Supplier Sourcing	0.335	0.072	0.345	4.674	0.000

Table 5 shows that supplier sourcing had a positive and significant effect on procurement performance ($\beta=0.335$, $p=0.000$). The equation representing the regression model was:

$$y = 0.167 + 0.335x_1$$

Where;

Y will be the success and efficiency level of the procurement performance and X_1 , the supplier sourcing. The equation suggested that the procurement performance's success was expected to increase by 0.335 for a unit change in supplier sourcing.

5.0 Conclusion

The study concluded that supplier sourcing had a positive and significant effect on the procurement performance of Total Energies Kenya Limited and the organization's performance as a whole in that it greatly reduced the cost of production increasing profitability, and also gave access to a variety of new products and services widening its market share.

6.0 Recommendations

The study found there was a positive and significant effect of supplier sourcing on the procurement process, thereby recommending sourcing from a variety of suppliers to provide a range of differentiated products to their consumers.

References

- Agburu, J. I., Anza, N. C., & Iyortsuun, A. S. (2017). Effect of outsourcing strategies on the performance of small and medium scale enterprises (SMEs). *Journal of Global Entrepreneurship Research*, 7, 1-34.
- Coviello, D., Guglielmo, A., & Spagnolo, G. (2018). The effect of discretion on procurement performance. *Management Science*, 64(2), 715-738.
- Isaksson, A., & Lantz, B. (2015). Outsourcing strategies and their impact on financial performance in small manufacturing firms in Sweden. *The International Journal of Business and Finance Research*, 9(4), 11-20.
- Jyoti, J., Arora, H., & Kour, S. (2017). Outsourcing and organizational performance: role of cost leadership, differentiation, and innovation strategies. *Sustainable Competitive Advantage: A Road to Success*, 171.
- Kamanga, F. N., & Ismail, S. N. (2016). Effects of outsourcing on organization performance in the manufacturing sector in Kenya: A case of Del Monte Kenya Limited. *European Journal of Logistics, Purchasing and Supply Chain Management*, 4(3), 32-58.

- Kimathi, S. N. (2017). *Effects of Price Regulation on Company Performance of Oil Marketing Companies in Kenya Case Study: Total Kenya Limited* (Doctoral dissertation, United States International University-Africa).
- Kulmala (2013) Outsourcing a satisfied and committed workforce: a trucking industry case study. *International Journal of Human Resource Management*, 15(1), 147-162.
- Loosemore, M. (2016). Social procurement in UK construction projects. *International journal of project management*, 34(2), 133-144.
- Mackintosh, M., Tibandebage, P., Njeru, M. K., Kungu, J. K., Israel, C., & Mujinja, P. G. (2018). Rethinking health sector procurement as developmental linkages in East Africa. *Social Science & Medicine*, 200, 182-189.
- Magawa, A., & Karanja, N. (2019). Procurement practices and customer service delivery in the petroleum industry in Kenya. *The Strategic Journal of Business & Change Management*, 6(2), 1461-1476.
- Mahnke, V., Overby, M. L., & Vang, J. (2005). Strategic outsourcing of IT services: theoretical stocktaking and empirical challenges. *Industry & Innovation*, 12(2), 205-253.
- Rogerson, C. M. (2018). Pro-poor local economic development in South Africa: The application of public procurement. *Local Economic Development in the Changing World*, 101-130.
- Tenkorang, G. (2015). The effect of outsourcing on the operational performance of telecom firms in Ghana: a case study of Millicom Ghana Limited. Unpublished Masters. Thesis. Nkrumah University of Science and Technology
- Williamson, O.E. (2009). 'Outsourcing transaction cost economics and supply chain management'. *Journal of Supply Chain Management*, 44, 2, 5-16