

# **PROCUREMENT PLANNING: THE PRINCIPLE OF SOUND BALANCE BETWEEN PROCUREMENT CONTROL AND ACHIEVING VALUE FOR MONEY**

**Collins Ochieng Obura**

Tutorial Fellow, Turkana University College, Kenya

©2020

**International Academic Journal of Procurement and Supply Chain Management (IAJPSCM) | ISSN 2518-2404**

**Received:** 3<sup>rd</sup> February 2020

**Published:** 5<sup>th</sup> June 2020

Full Length Research

**Available Online at:** [http://www.iajournals.org/articles/iajpscm\\_v3\\_i2\\_19\\_27.pdf](http://www.iajournals.org/articles/iajpscm_v3_i2_19_27.pdf)

**Citation:** Obura, C. O. (2020). Procurement planning: The principle of sound balance between procurement control and achieving value for money. *International Academic Journal of Procurement and Supply Chain Management*, 3(2), 19-27

## **ABSTRACT**

Government institutions are expected to use procurement planning as an opportunity to evaluate the entire procurement process in order to make sound judgments that promotes the overall implementation of projects in the procurement of goods, works and services. As a fundamental part of the governance and public financial system, the relationship between Procurement Function and Larger Public Financial Management is key for budget preparations and executions. A procuring entity therefore needs to understand how each activity will translate into individual procurement requirement and to determine the method and duration of these procurement requirement for effective implementation of operational activities within the stipulated time. This paper critically examines the application of key issues in procurement planning that public sector institutions can embrace to influence positive operational performance in procurement. Need Identification, Market Survey, Aggregation, and Procurement Methods are key indicators discussed to bring out key areas of the study. Descriptive

research design was used to give a detailed description of the knowledge levels of respondents on procurement planning. Target population included procurement officers of National Government Ministries. An accessible population of 120 respondents was identified, with 74 forming a sample. 62% response rate was realized. The study used questionnaires to collect primary data. Secondary data was collected from the existing literature. ANOVA findings as explained by the P-Value of 0.000 which is less than 0.05 (significance level of 5%) confirms the existence of correlation between the independent and dependent variables. The study recommends that to avoid circumstances where organization attract huge pending bills at the end of the fiscal year, procuring entities are required to coordinate all procurement activities from procurement plan preparation to payment and organize major supply agreements for common use goods and also act as an advisory body for procurement related matters.

**Key Words:** *need identification, market survey, aggregation, procurement methods and procurement planning*

## **INTRODUCTION**

The basic concept of procurement is that advanced planning, scheduling and bulk purchasing result in economies of scale, hence cost savings, efficient procurement operation, and increased value for money (Guyana procurement planning manual, 2010). Significant procurement planning and development of sound procurement strategies lead to consistently better value for money; higher quality project and service delivery; improved opportunities for sustainable procurement; and reduced risks to institutions (Queensland government, 2018). The purpose of procurement planning is threefold. First, planning is required to clarify the extent possible the technical, cost, and schedule objectives of the procurement; to define the plan for accomplishing

the objectives; and, to determine methodology for evaluating performance against defined objectives during the time that the contract is being carried out (Northwest Territories, 2009).

Globally, the contribution of procurement planning in facilitating an efficient and effective service delivery is generally undisputed. The Government of Scotland uses a procurement journey which is an online resource maintained to provide an in-depth, step-by-step guide concerning procurement processes, including guidance notes and template documents (SIGMA, 2016). In developing countries, governments spend between 12-20% of their GDPs on the procurement of goods and services (OECD, 2005). The practice of public procurement significantly varies between nations. However, consolidation of various items is done so as to get an outlook of; unit cost, total price and timeliness in terms of purchase. To ensure a more realistic procurement plan, market analysis is carried out in-order to enable procurement objectives to be achieved and that the identified risks and opportunities related to the supply market are considered when developing an appropriate acquisition strategy. According to Public Procurement and Disposals General Manual (2009), planning the procurement requirements helps forecasting when a tender may be launched and proceedings are likely to result into a contract. Procurement planning therefore becomes an avenue for the entire procurement process review so as to inform sound judgments and good decision making that will facilitate the success of the overall project implementation in the procurement of goods, works and services.

## **STATEMENT OF THE PROBLEM**

Section 53 (2) of the Public Procurement and Asset Disposals (PPAD), (2015), states that an Accounting Officer shall prepare an annual procurement plan which is realistic in a format set out in the Regulations within the approved budget prior to commencement of each financial year as part of the annual budget preparation plan. However despite these guidelines many public sector organizations run into deficits at the end of every financial year resulting into huge number of pending bills. According to (Basheka, 2009), poor procurement planning is a major hindrance to economic development in most of the developing economies. To an extent, poor coordination of procurement activities with relevant user department has led to many organization developing inadequate procurement plans which cannot sustain the daily operations of an entity in a given fiscal year.

## **LITERATURE REVIEW**

### **Need Identification**

This is always the initial stage in the procurement cycle. Need analysis is defined by Innovation Procurement for Contracting Authorities (2017) as an investigation into a need of the organization. It helps in ensuring that any procurement process will focus on a solution to the exact problem. User departments are required to identify and submit to the procurement

department list of goods, works and services that they would want to use for that financial year or beyond. Needs are submitted in terms of item description and units of issue which is a requirement of the procurement plan preparation. According to Procurement Manual for Works (PMW), (2009), the requirement for procurement of works should be fully identified with detailed technical specifications, drawing and plans as well as the Bills of Quantities as appropriate. To enable organizations achieve better results, problems need to be identified and discussed with the relevant parties including the internal contracting authority.

### **Market Survey**

For a procuring entity to get an accurate unit price of goods, works and services they would want to purchase, market survey is required. Sigma, (2016) defines market survey as a process undertaken by, or on behalf of, a procuring entity to collect information that can assist in defining procurement requirements, selecting the most appropriate tender method, analyzing and evaluating bids, and determining more effectively the outcome of the most economically advantageous tender. Goods or services include large capital works, purchases of specialized items such as chemicals, personal computers, printers or photocopiers, etc. which are difficult to purchase due to their complexity. A more robust market research expands the scope of analysis to include the process of gathering, analyzing and interpreting information about: market or markets, products or services available in that market, the characteristics of those products or services, past, present and potential customers for the product or service and previous purchasing experiences for the product or service in the industry as a whole (The Professional Services Council (PSC), 2019). The objective of market analysis is to develop a thorough understanding of the nature of the supply market, how it works and how this impacts upon the market approach and acquisition strategy. Thorough market analysis can foster innovation as specifications can be developed that take into account market structure and dynamics, and ideas generated through engagement with suppliers.

### **Aggregation and Lotting**

Procurement planning in the public sector is prepared for each financial year by the accounting officer through the help of the head of procuring entity, as part of annual budget preparation process. Aggregation and lotting are important factors in procurement planning since they indicate which items to aggregate for procurement as a single package and which items to be packaged into lots respectively. According to Smith, (2017), Aggregation requires the total amount of any procurement to be carefully and objectively estimated and that, procuring entities shall not choose to apply any aggregation rule which helps break their spend up to avoid the procurement regulations i.e. not divide up contracts in order to bring them below the relevant thresholds. General procurement and disposals manual (2009) documents that aggregation techniques should be considered where specifications and needs are identical and are likely to

attract the same potential bidders and economies of scale can be made. In the long run, this will enable the attainment of value for money by the public sector procuring entities.

### **Method of Procurement**

Section 91 (1&2) of the PPDA, 2015 states that open tendering shall be the preferred procurement method for procurement of goods, works and services, and that the procuring entity may use an alternative procurement procedure only if that procedure is allowed and satisfies the conditions under the Act for use of that method respectively. A good procurement plan must detail procurement method to be used for the purchase of that particular good, works or services and whether the good works, or services is to be procured during the 1st ,2nd , 3rd or 4th quarter respectively. The selected method of procurement is one that gives the public entity the desired value for money.

### **RESEARCH METHODOLOGY**

Descriptive research design was chosen for this study in order to give a detailed description of the knowledge levels of respondents on procurement planning. Neil, (2007) documents that Descriptive research is used to obtain information concerning the current status of the phenomena and to describe "what exists" with respect to variables or conditions in a situation. Target population included procurement officers of National Government Ministries. The study adopted random sampling method to select a sample of 74 respondents of an accessible population of 120 respondents. The study used questionnaires to collect primary data. Secondary data was collected from the existing literature. ANOVA was used to test the level of significant of the variables on the dependent variable at 95% level of significance.

### **RESEARCH RESULTS**

Regression model was applied to determine the relative importance of each of the four indicators on operational performance in procurement. The regression model was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon_0$$

Using the values of the coefficients ( $\beta$ ) from the regression coefficient table 1 the established multiple linear regression equation takes the form of; Need Identification, Market Survey, Aggregation, and Procurement Methods

$$Y = 3.047 + 0.181X_1 + 0.441X_2 + 0.172X_3 + 0.247X_4$$

Where: Constant = 3.047; when value of the independent variables are zero, the operational performance in procurement would take the value 3.047;  $X_1 = 0.181$ ; one unit increase in need identification results in 0.181 units increase in operational performance in procurement;  $X_2 = 0.441$ ; one unit increase in market survey results in 0.441 units

increase in operational performance in procurement;  $X_3 = 0.172$ ; one unit increase in aggregation results in 0.172 units increase in operational performance in procurement;  $X_4 = 0.247$ ; one unit increase in procurement methods results in 0.247 units increase in operational performance in procurement.

**Table 1: Regression Coefficient**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.047	3.061		1.652	.104
	Need identification	.181	.073	.204	2.221	.030
	Market survey	.441	.079	.423	5.344	.000
	Aggregation	.173	.058	.375	3.063	.003
	procurement methods results	.247	.039	.232	5.328	.000

Dependent Variable: operational performance in procurement

The results as shown in the table 2 indicates that the coefficient of regression,  $R = 0.803$  shows a good strength of the relationships between independent variables and the dependent variable. The coefficient of determination  $R^2 = 0.644$  shows the predictive power of the model and in this case 64.4% of variations in the operational performance in procurement is explained by the changes in procurement planning independent variables. The adjusted coefficient of determination  $R^2$  shows the predictive power when adjusted for degrees of freedom and sample size. In this case, after the adjustments 61.8% of the variations in the operational performance in procurement is explained by the independent variables.

**Table 2: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.803(a)	.644	.618	.78381

Predictors: (Constant), Need Identification, Market Survey, Aggregation and Lotting, and Procurement Methods

Dependent Variable: operational performance in procurement

ANOVA findings as explained by the P-Value of 0.000 which is less than 0.05 (significance level of 5%) confirms the existence of correlation between the independent and dependent variables. The model shows the model fitness i.e. how well the variables fit the regression model. From the results, the F ratio of 24.815 and the significance of 0.000 shows that there was not much difference in means between dependent and independent variables. The sum of squares gives the model fit and hence the variables fit the regression model.

**Table 3: ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	61.144	4	15.286	24.882	.000(a)
Residual	33.789	69	.614		
Total	94.933	73			

Predictors: (Constant), Need Identification, Market Survey, Aggregation, and Procurement Methods

## **DISCUSSION**

### **Need Identification**

Need identification is arguably one of the most important steps in procurement planning since it influences efficiency and effectiveness in public spending. From the findings majority of the respondents strongly agree that user department are responsible for initiation of procurement through need identification and forwarding them to the procurement unit as shown by a mean of 4.51. This result is in line with the findings by Fitzgerald, et al, (2006), which documents that, to ensure continuous availability of products within the system, the procurement planning team established to develop, coordinate, implement and monitor the procurement process, should conduct a rapid need analysis in order to identify potential bottle-necks that may adversely affect the availability of product at the institutional level. Often, by consulting various experts and investigating the ‘need behind the need’, this casts new light on what the actual need is (InnProBio, 2017).

### **Market Analysis**

Performing market research is essential in determining correct estimates of the contract value. From the study findings, as represented by a mean of 4.44, majority of the respondents strongly agree that Market survey is often carried out to obtain an accurate unit price of goods, works and services to be compared with the quoted prices by bidders. Market analysis by procuring entities is a technique which enables a deep understand how a market works, the direction in which a market is heading, the competitiveness of a market, the key suppliers and the value that suppliers place on the contracting authority as a customer. Procurement practitioners can use information obtained from the market to inform both strategic and tactical decision-making throughout the procurement planning phase which would later result into value for money for the organization. According to Mishra, (2009) Market analysis can also be used as a basis for quality assurance in such a way that both the buyer and the supplier are satisfied with the quality and consistency of the goods or services being produced and provided respectively.

## **Aggregation**

Represented by a mean of 3.77, majority of the respondents agree that Aggregation is applied on items that are of similar nature and are likely to attract same potential bidders. In public procurement practice, several considerations should be made when examining the possibility of aggregation. They include attracting the greatest and most responsive competition taking into account the market structure for items required and, whether the storage capacity and cost offset any potential economies of scale.

## **Procurement Method**

Open tendering shall be the preferred procurement method for the procurement of goods, works and services. However, in developing a procurement plan, procuring entities are required to indicate any method of procurement that will be the appropriate method for each procurement requirement, and indicate whether the items shall be procured within a single year period or under multi-year arrangement. The findings of the study reveal that majority of the respondents strongly agree that the annual procurement plan should detail the appropriate procurement methods for each procurement requirement. This is shown by a mean of 4.81. The Accounting officer of a procuring entity where applicable is required to conduct pre-qualification procedure of suppliers as a basic requirement prior to adopting any alternative procurement method other than open tender (PPDA, 2015).

## **RECOMMENDATIONS**

A strategic procurement plan should be prepared based on the nature of the project. Technically complex, high market risk, and/or high-value projects or procurement contracts may require a detailed strategic procurement plan, while routine, low-risk, and/or low-value projects or procurement contracts may require a simple justification for the preferred procurement approaches as noted by ADB, (2018).

In-order to avoid circumstances where organization attract huge pending bills at the end of the fiscal year, procuring entities are required to coordinate all procurement activities from procurement plan preparation to payment and organize major supply agreements for common use goods and also acts as an advisory body for procurement related matters.

Public procurement entities should embrace good practice and linkages with wider public finance management as stated in Procurement manual 2009. These wider public finance management includes National Treasury, Finance, Accounts and Audit departments which performs key functions of budget preparation and execution, commitment control, and auditing respectively hence forming a firm and sound basis for effective expenditure control.



Decision making and actions in Procurement needs to be logical and structured so that it can withstand scrutiny. As documented in the Segment and Audit Guidelines, (2005) and various procurement laws globally, respective Accounting officers must approve the procurement of goods and services ONLY after ensuring that reliable estimates have been made for the procurement of goods or services, their quality, quantity, the timing and the cost. In case of procurement of public works, estimates should be prepared only after visiting the project site and carrying appropriate field tests.

Lastly, a proper procurement plan should be prepared in spreadsheets to have each and every items for example (general stationeries, office furniture, motor vehicles, printing, consultancies and workshops, air travel, etc.) appear on its own sheet for simplicity, easy read and identification.

## **REFERENCES**

- ADB, (2018). Strategic Procurement Planning Guidance. Note on Procurement
- Basheka, B.C. (2009), Procurement and Local Governance in Uganda: a factor analysis Approach. *International Journal of Procurement Management*
- Callender, G., & Matthews, D.L. (2000). Government purchasing: An evolving profession. *Journal of Budgeting, Accounting & Financial Management*, 12 (2), 272-290.
- Fitzgerald. J., Girón, N., Bermudez. J. (2006). A Practical Guide for Procurement Planning and Management of Strategic Public Health Supplies. *World health organization*
- Government Procurement Development Group (2010). Guide to Sustainable Procurement
- Guyana, (2010). Procurement planning manual
- InnProBio, (2017). Forum for Bio-Based Innovation in Public Procurement
- Mishra R. C. (2009). *Reliability & Quality Management*, PVT publishers, New Delhi
- Neil J. & Rasmussen, K., (2007) Descriptive research
- Organization for Economic Cooperation and Development (2005). Harmonizing Donor Practices for Effective Aid Delivery. Volume 3: *Strengthening Procurement Practices in Developing Countries*. OECD: Paris.
- Pan American Health Organization, (2006). A Practical Guide For Procurement Planning And Management Of Strategic Public Health Supplies
- Public Procurement and Disposals General Manual (2009). *Government Press*
- PPADA. (2015). Public Procurement and Assets Disposals Act 2015. Public Procurement. *Government Press*.
- Queensland government, (2018). Planning for significant procurement. *Department of housing and public work*
- Republic of Kenya (2015). Kenya Gazette Supplement Acts, 2015. *Nairobi: Government Printer*.
- Republic of South Africa (2015). 2015 Public Sector Supply Chain Management Review. *Pretoria: National Treasury*
- SIGMA, (2016). Market Analysis, Preliminary Market Consultations, and Prior Involvement of Candidates/Tenderers
- Smith, M. (2017). How to deal with aggregation – *A basic guide*.