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THE MEDIATING EFFECT OF PROCUREMENT PERFORMANCE ON RELATIONSHIP **BETWEEN PROCUREMENT** THE GOVERNANCE AND SERVICE DELIVERY: EVIDENCE FROM MINISTRIES, DEPARTMENTS AND AGENCIES IN KENYA

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Abstract

The overall goal of the study was to establish the mediating effect of procurement performance on the relationship between procurement governance and service delivery in ministries, departments and agencies (MDAs) in Kenya. To fulfill this goal, a conceptual model was developed based on previously examined literature. A partial least squares structural equation modeling (PLS-SEM) that corresponded to the conceptual model was also created. This study adopted a descriptive cross-sectional survey research design. To test the proposed relationship, a survey was done and data collected. This study's population included all public procuring institutions in Kenya. A total of 157 questionnaires were issued. PLS-SEM was used to evaluate the relationship proposed in the conceptual and SEM model of the study. A software with graphical user interface for variance-based structural equation modeling (SEM) using the partial least squares (PLS) path modeling method known as SmartPLS 3.3.3 software was used in the analysis. The study involved establishing the mediating role of procurement performance in the relationship between procurement governance and service delivery. The mediation test in PLS-SEM required that a bootstrap test be carried out. When the mediator construct procurement performance is included in the model, this is referred to as the indirect path. The model results for the indirect path was found to be statistically significant at p < 0.001. The direct path results involving relationship between procurement governance and service delivery was statistically insignificant. Furthermore, the total effect results of procurement governance on service delivery without the presence of mediating variable (procurement performance) was analysed and was found to be statistically significant. Full mediation is indicated when the direct effect is insignificant but the indirect effect is significant, implying that only the indirect effect via the mediator exists. A more comprehensive technique of SEM mediation analysis, which not only checks for mediation's existence or absence but also analyzes the quantity of mediation in terms of variance accounted for (VAF). Furthermore, calculation of the magnitude of the mediation effect using VAF

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results indicated full mediation. The study results revealed that procurement performance fully mediates the relationship between procurement governance and service delivery in MDAs in the Kenya. Results on tests of this hypothesis indicated a positive and statistically significant mediation effect. In addition, the VAF test further revealed that the magnitude of mediation was 99%. This indicates that procurement performance strongly mediates the relationship between procurement governance and service delivery. This reveals that the effect of procurement governance on service delivery is strongly mediated by procurement performance. While the lack of or wrong use of procurement performance metrices might be an obstacle to change and degrade the purchasing function, according to Amaratunga and Baldry (2002), it is vital for any firm to shift its focus and increase its competitiveness. A key recommendation of this research is that MDAs in Kenya use procurement performance as a key component of their service delivery strategies in order to enhance service quality. Due to COVID-19's health dangers and government actions such as physical separation, conventional primary data gathering methods such as drop and pick surveys have been severely hampered. In order to collect primary data, the current study opted to employ remote methodologies for data collection, such as google forms

Keywords: Procurement Governance, Procurement Performance, Service Delivery, Mediating variable, PLS-SEM

Introduction

A procurement framework that supports provision of adequate, affordable, and highquality fundamental services via public administration has been a major public concern during the last decade. This framework is a basis in governing the supply of products and services, creating a rigorous procedure (Leenders, Johnson, Flynn, & Fearon, 2010). Business ethics in the process and structure of procurement governance expectations are putting procuring entities under pressure from the public for control and probity in service delivery (Knight, Harland, Telgen, Thai, Callender, & McKen, 2007). As a result, purchasing organizations are instituting procurement performance as a way to monitor how well they are meeting their operational goals (Van, 2010). According Sheng (2018),to governance is equitable and inclusive, participatory, responsible, transparent, consensus-oriented, effective and efficient, and founded on the rule of law. Sheng researched on the Social and Economic Commission of the United Nations for Pacific and Asia, and came to this conclusion. As per the World Bank's 2009 study, public procurement in South Asia depended heavily on value for money procurement procedures. Regulations and integration improve procurement governance and service delivery (Anane, Adoma & Awuah, 2019); promoting transparency and accountability along the supply chain (Benjamin & Wigand, 1995).

Procurement governance involves interactions among processes, traditions and determine structures that the responsibilities and powers are shared and exercised in service delivery (Knight et al., 2007). The concept extends to public decisions and the way citizens and other stakeholders are incorporated in service delivery. Governance is concerning itself with accountability, relationships and power in terms of who makes the decisions or influences the decision-making processes (Edgar, 2006). To efficiently provide goods and services to the public, procuring entities are applying regulated principles such as competitiveness, accountability, efficiency, fairness, transparency, value for money and equity (Rege, 1998). The application of procurement governance may be as a result of zeal to legal compliance or public pressure for accountability of public expenditure (Lysons & Farrington, 2012). Keuleers (2014) in a United Nations Development Programme (UNDP) report, describes governance from the concept of public procurement as the tools and principles used in collaborative decision making to efficiently deliver service to the public. Procurement performance is a measure that establishes how the acquisition and management of goods and services optimally achieves objectives. This measure depends on management support for the legal system (Garg & Van, 2012). Compliance with procurement legal framework is intrinsic management discipline for procurement process function (Raymond, 2008). External and legislative pressure are enforcing adherence governing law, annual procurement planning and relevant regulatory compliance leading to procurement performance (Salim & Kitheka, 2019). Regulatory compliance represents leadership and law enforcement in procuring entities with regards to tender evaluation criteria, awards and disposal procedures (KIPPRA. 2006). performance of public procurement system is enhancing national values (Wittig, 2003), through regulatory compliance, submission of mandatory reports and inventory record keeping.

Goldstein, Johnston, Duffy and Rao (2002) define service delivery as management of seamless processes within organization until customers' needs are fulfilled. Creating an effective service delivery within the

procuring entity involves recognition of competitive pressure as well as internal governance with good alignment with the needs to be met (Krajewski, Malotra, & Ritzman, 2016). According to Fawcett et al. (2014), entities are also members of a supply chain and should be well versed with best practices in order to remain competitive. Kovacs (2014) views service delivery in the organization and its sustainability in the form of maximizing value for procuring entities, embracing opportunities while at the same time minimizing risks in the procurement processes. In goods and service delivery, procuring entities regularly review speed of delivery, efficiency, quality of the goods, works and services, information sharing and payments to the suppliers (Bruel, 2017).

Government ministries form the basic functional units of national government in Kenya (Akicho, Oloko, & Kihoro, 2016). The role of the ministries is to provide and monitor implementation of government policies necessary for public administration. The state departments are responsible for implementing policies developed by the ministries. The government officials are expected to adhere to varying levels of regulations necessary for running the specific functions of the state department (RoK, 2020). The ministries, departments and agencies (MDAs) are defined as public entities that procure or dispose assets in line with public procuring practices. The entities are governed by the Public Procurement and Asset Disposal Act, 2015, prevailing relevant regulations and legislature. In Kenya, ministries are headed by Cabinet secretaries appointed by the president (CoK, 2010). The general public is the consumer of most goods and services procured through the systems of the public procurement (Leenders et al., 2010). Service delivery is attainable when procurement capacities and

compliance with procurement legal framework are institutionalized (OECD, 2005). Robust governance protocols become evident through social and economic reforms when transparency and competitive processes are enhanced (Knight et al., 2007). This study seeks to answer the following research question; what is the mediating effect of procurement performance on the relationship between procurement governance and service delivery in MDAs in Kenya?

Literature Review

laid Governance principle has the foundation for the administration of public entities through propagating for equity, competition, transparency and accountability of all transactions undertaken (Fearon et al., 2012). Procurement performance through regulations compliance mediates transparent and corruption free process in the delivery of goods and services to consumers (Ombaka, 2003). There has been deliberate move by stakeholders for collaboration starting from users, technical team and suppliers in assuring the public of service delivery (Newman, 2004). Transition from the principles of governance into best practices as outlined in the existing laws and regulations (Carter & Rogers, 2008) has placed public procurement performance centrally as a key pillar for ethical undertakings in service delivery and efficiency (Davy, 2003). However, in 2010 Kenya was ranked in position 139 out of possible 176 countries on corruption index (Kioko & Were, 2014).

Communication between vendors and procuring entities is essential in planning usage and enhancing supplier delivery speed (Lysons & Farrington, 2012). Delivery schedules are provided for in the contracts service level agreements between the parties to ensure efficient service delivery

(Simpson, Siguaw & White, 2003). A study by Mburu and Njeru (2014) revealed challenges faced by public procurement entities because procurement processes were not transparent and lacked competition. However, Muturi and Okinyi (2016) posit compliance with procurement regulatory framework can establish the procedure for public procurement that promotes economy, fairness, transparency, accountability, and competition in service delivery. This study makes the proposition that procurement performance mediates the relationship between procurement governance and service delivery. Baron and Kenny (1986) method is appropriate for testing relationship and mediation in the variables.

Service delivery indicators are necessary benchmarks to ensure that there accountability and transparency in access and acquisition of materials and equipment (Gayle & Obert, 2013). For the procurement system to optimally perform, institutions and their governance structures and processes must function in tandem. According to KIPPRA (2006), procurement policies are essential procurement performance, and foundation to procurement governance. Willy and Nieru (2014), in their study on the effects of procurement planning procurement performance: a case study of agricultural development corporation, found out that effective procurement portfolio influenced service delivery. According to Basheka and Bisangabasaija (2010),procurement governance in terms accountability and transparency is a driver for procurement performance as a necessity for service delivery due to the amount of resources involved. With an enlightened public, there is increased demand for accountability, transparency and fairness to improve on procurement performance.

Compliance with these requirements has led to better service delivery (Mahmood, 2010). Proper planning and budget absorption is an indication of robust procurement processes (Ogwel, Iravo & Lagat, 2016). With this trio effect, it will therefore be prudent to deduce that procurement governance through its

processes will influence compliance thus procurement performance and therefore ultimately enhanced service delivery. In the conceptual framework for the study is shown in Figure 1, the key independent variable is procurement governance, and the dependent variable is service delivery.

Independent Variable

Dependent Variable

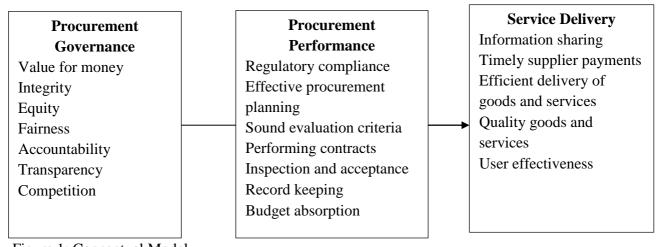


Figure 1: Conceptual Model

Methodology

This study adopted a descriptive crosssectional survey research design. To test the proposed relationship, a survey was done and data collected. This study's population included all public procuring institutions in Kenya. Government agencies that buy products and services under a regulated procurement framework are known as public procuring bodies. There are 157 public procuring entities in the government, which include ministries, departments, agencies (MDAs). MDAs are made up of 21 ministries, 42 state departments, and 94 state agencies (GoK). The unit of analysis was the sum total of all the MDAs. Therefore, a total of 157 questionnaires were issued. A total of 138 respondents returned their completed responses, resulting in an 88 percent

response rate. Response rates of 88% were deemed to be satisfactory and adequate for analysis as asserted by Hertman & Hedborn (1979), that, if a response rate of 50% is achieved, it is deemed sufficient, 60% and above good, and 70% or above excellent. The questionnaires were examined for accuracy, completeness, suitability, and consistency and coded into appropriate format. From 138 returned questionnaires 16 responses were found to be unusable hence rejected and eliminated. Consequently, a total of 122 questionnaires provided the data for subsequent analysis. This resulted in a reviewed response rate of 70.93%. The data was analysed using Statistical Package for the Social Sciences (SPSS) and PLS-SEM using SmartPLS 3.3.3. The following was the conceptual hypotheses for the study:

Procurement performance has no mediating effect on the relationship between procurement governance and service delivery.

Data Analysis and Results

This study utilized SmartPLS 3.3.3 software (Ringle, Wende & Becker, 2015) for model assessment. Quantitative data was analyzed through the partial least square structural equation modeling (PLS-SEM). PLS-SEM goes through two-phase analysis for the example measurement model specification model and structural assessment (Ringle et al. 2018). Henseler et al. (2009) recommend a two-step technique for analyzing and presenting findings from gathered data of PLS-SEM path models. Measurement model evaluation model) and structural model evaluation are both part of the two-step process (inner model). Measurement model specification is intended to carry forward for further analysis the constructs with good indicator loading, convergent validity, composite reliability (CR), and discriminant validity.

Structural model assessment weighs path coefficients and tests their significance. The measurement model assessment is based on the guidelines of Hair (2006) to affirm the reliability and validity of the constructs and their dimensions. All included indicators were judged intact from removal apart from 1 item from procurement performance and 1 from procurement governance as analyzed factor loadings were found above the suggested value of 0.40 criterion (Hair et al., 2011). Internal consistency has been shown by Cronbach's Alpha scores for three indicators exceeding the 0.7 threshold (Henseler et al., 2012). The average extracted variance (AVE) ranges between 0.370 and 0.485 which is below the recommended level of 0.5. However. according to Fornell and Larcker (1981), even if AVE is less than 0.5, but composite reliability is higher than 0.6, the convergent validity of the construct is still adequate. Table 1 presents all the factor loadings, Composite Reliability (CR), Cronbach's Indicator Reliability (CR) alpha, Average Variance (AVE).

Latent Variable	Indicators	Cronbach's Alpha	Indicator Reliability	CR	AVE
Procurement Governance	0.603	0.924	0.370	0.933	0.370
Procurement Performance	0.610	0.955	0.377	0.958	0.377
Service Delivery	0.694	0.924	0.484	0.934	0.485

Source: Research Data, 2021

The next step addresses the assessment of the structural model which involves examining the model's predictive capabilities and the relationships between the constructs by assessing the model for collinearity issues, significance and relevance of the model relationship, level of R^2 as a statistical measure that indicates the extent of variation in a dependent variable due to an independent variable, f^2 effect size

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which measures the strength of each predictor variable in explaining endogenous variables, predictive relevance Q² which measures whether a model has predictive relevance or not and the q² effect size which explains the relative impact of predictive relevance. All the variance inflation factor (VIF) values for the predictor constructs were within the acceptable limits below 5.0 signifying the absence of multicollinearity. The structural model path coefficients suggests that the hypothesized direct effects path relationships between procurement governance and procurement performance (0.835) and procurement performance and

service delivery (0.852) are statistically significant with p-values of <0.001 and < 0.001 respectively. However, the linkage between procurement government service delivery (0.053) is statistically insignificant with a p-value of 0.611. It is also worth noting that, even though the direct effect relationship between and procurement governance service delivery was not significant ($\beta = 0.053$, t = 0.509, p-value = 0.611), this path relationship becomes significant when the total effects is considered ($\beta = 0.764$, t = 11.274, p-value < 0.001) and indirect effects $(\beta = 0.711, t = 7.595, p-value < 0.001)$

Model Path Coefficients

Constructs	Path Coefficients	T Statistics	P Values	95% Confidence intervals
ISCT -> SD	0.194	2.971	0.003	[0.060,0.320]
PG -> SD	0.090	0.959	0.338	[-0.098,0.271]
PP -> SD	0.696	7.336	0.000	[0.514,0.88]

Source: Research Data, 2021

Thus, it can be concluded that the combined procurement effect governance. procurement performance and integrative supply chain technology has a significant effect on service delivery in MDAs in Kenya. The finding adds knowledge to the current literature by looking at combined procurement governance, effect procurement performance and integrative supply chain technology has on service delivery in MDAs in Kenya.

This study supports the notion that when the procurement performance mediating construct is considered, the relationship between procurement governance and service delivery is improved. The next step involved calculation of the magnitude of the

mediation effect. A full mediation is indicated in the case where the direct effect is not significant whereas the indirect effect is significant, which means only the indirect effect through the mediator exists (Zhao et al., 2010). The conclusion therefore is that relationship between procurement governance and service delivery is fully mediated by procurement performance (from study model direct effects effects insignificant and indirect significant). The variance accounted for (VAF) can also be used to calculate the type of mediation. According to Hair Jr. et al. (2014), one can interpret VAF values in the following way: VAF > 80% indicates full mediation, $20\% \le VAF \le 80\%$ means partial mediation, and VAF < 20% indicates no mediation. The formula for VAF is as follows:

VAF = Indirect effect/Total effect.(16.305*9.380/16.305*9.380 + 0.509)

In the current study VAF is 152.941/153.45 = 0.996

This indicates that the magnitude of mediation is 99.6%. The conclusion therefore is that the relationship between procurement governance and delivery is fully mediated by procurement performance. The model integrated one exogenous latent construct, procurement governance and two endogenous latent constructs, procurement performance and service delivery. The following are the R² values for the two variables at p < 0.05significant level; procurement performance with $R^2 = 0.698$, t = 8.355, p < 0.001 and

service delivery at $R^2 = 0.803$, t = 17.072, p < 0.001. This means that 69.8% (0.698) of the variance in procurement performance and 80.3% (0.803) of the variance in service delivery is explained by the model and that both are statistically significant. The study findings presented in the Table 2 shows the f^2 values for all combinations of endogenous constructs arranged in the columns and corresponding exogenous constructs arranged in the rows. According to Cohen (1988), f^2 values of 0.02 indicate small effect, 0.15 (medium effect), and 0.35 (large effect) of the exogenous latent variables. Whereas the effect size values of less than 0.02 indicate that there is no effect. Procurement governance has a small effect of 0.004 (effect was almost non-existent at 0.004) on service delivery and procurement performance has a large effect on service delivery.

Table 2: Effect size f^2

Latent Construct VariableProcurement GovernanceProcurement PerformanceService Delivery

Procurement Governance	2.311	0.004
Procurement Performance		1.110

Service Delivery

Source: Research Data, 2021

A 0.02 value of Q^2 represents a small predictive relevance, a value of 0.15 represents a medium predictive relevance while 0.35 and above indicates a high predictive relevance. This study findings indicated in Table3 the Q^2 values of the endogenous construct service delivery and procurement performance are significantly above 0.

More precisely service delivery has Q^2 value of 0.364 and procurement performance has Q^2 value of 0.244. These results provide clear support for the model's relatively medium predictive relevance regarding the endogenous latent variables of service delivery and procurement performance.

Table 3: Predictive Relevance Q²

Latent Construct Variable	SSO	SSE	Q ² (=1-SSE/SSO)
Procurement Governance	2928	2928	
Procurement Performance	4636	3506.16	0.244
Service Delivery	1830	1163.709	0.364

SSO - Sum of squared observations; SSE - sum of squared predictive errors

Source: Research Data, 2021

The q^2 effect size can be calculated for all constructs by using the following formula (Cogen, 1988): $q^2 = Q^2$ included - Q^2 excluded / (1- Q^2 included). The q^2 values less than 0.15 is a weak effect, between 0.15 and 0.35 is moderate, while above 0.35 is strong effect

indicating that the exogenous construct has a strong predictive relevance for the particular endogenous construct. Table 4 shows the effect size (q^2) . The negative q^2 effect size for procurement governance is no surprise, as the variables did not show any significant effects

Table 4: Effect Size q²

	Q ² (=1-SSE/SSO)	Q ² change (q ²)
Omission of PG	0.244	-0.008
Omission of PP	0.364	0.167

Source: Research Data, 2021

Discussion

The study sought to assess the mediating effect of procurement performance on the relationship between procurement governance and service delivery in MDAs in Kenya. A structural model and a hypothesis were developed to answer the research question. One exogenous latent (procurement construct variable endogenous latent governance) and one construct variable (service delivery) and mediating variable procurement performance (with following sub-constructs; regulatory compliance, effective procurement planning, sound evaluation criteria, performing contracts, inspection and acceptance, book keeping and budget absorption) were integrated in the The test then hypothesized model. mediation of procurement performance in the relationship between procurement governance and service delivery. PLS-SEM analysis was used to test this hypothesis.

Procurement performance has no mediating effect on the relationship between procurement governance and service delivery.

Mediation effect analysis was performed in accordance with the Hair et al. (2017). Nitzl et al. (2016) and Cepeda et al. (2017). This was meant to assess the mediating role of procurement performance (PP) on the linkage between procurement governance (PG) and service delivery (SD). The first step involves bootstrapping to establish the indirect effect when analyzing mediating effects. When the mediator construct procurement performance is included, this is referred to as the indirect path. The model was analysed after bootstrapping to test statistical significance. The model results for the indirect path was found to be statistically significant at p < 0.001. The indirect path results for the path coefficient were $\beta = 0.711$, t = 7.663, and p < 0.001 while those for coefficient of determination were and

R2 = 0.803, t = 16.643, P < 0.01 and f2 = 0.004. This indicates that procurement performance has a statistically significant mediating effect on the relationship between procurement governance and service delivery at the significance level of 0.05. It indicates that 80.3% of the variance in service delivery can be attributed to the mediation effect of procurement performance in the relationship between procurement governance and service delivery. The indirect effect is also significant since neither of the 95% confidence intervals include zero (0.530, 0.895).

The next step involves bootstrapping to establish whether the direct effect relationship between procurement governance and service delivery with inclusion of mediating variable procurement performance, was statistically significant. After bootstrapping the direct effect results were as follows; $\beta = 0.053$, t = 0.520. p = 0.603. This indicates that the direct path involving procurement governance and service delivery is statistically insignificant. With presence of mediator (procurement performance) the impact of procurement governance and service delivery insignificant. Furthermore, the total effects results on impact of procurement governance on service delivery without the presence of mediating variable (procurement performance) was analysed and was found to be statistically significant, the results were as follows; $\beta =$ 0.764, t = 11.214, p < 0.001. Furthermore, calculation of the magnitude of the mediation effect using VAF results indicated full mediation. Full mediation is indicated when the direct effect is insignificant but the indirect effect is significant, implying that only the indirect effect via the mediator exists (Zhao et al., 2010). This shows that the relationship between procurement governance and service delivery is fully mediated by procurement performance. In view of these results, hypothesis which proposed that procurement performance has no influence on

relationship between procurement governance and service delivery is rejected.

Hypothesis proposed that procurement performance mediates the relationship between procurement governance and service delivery. The analysis for the mediation involved testing for the mediation by running the model with bootstrapping to test the direct, indirect and total effects of construct variables. The direct relationship was revealed to be both positive and statistically insignificant. This indicated that inclusion of a mediator construct would be meaningful. The test results for indirect effect relationship were found to be positive and statistically significant at the significance level of 0.05. This means that 80.3% of the variance in service delivery can be attributed to the mediation of procurement performance on the relationship between procurement governance and service delivery.

Following the confirmation of mediation, a third test was performed to establish the extent of the mediation. The Variance Accounted For (VAF) test is used here. The VAF value was 0.996, or almost 99.6 percent. This means that procurement performance completely mediates the link between procurement governance and service delivery. Full mediation is indicated when the direct effect is insignificant but the indirect effect is significant, meaning that only the indirect effect via the mediator exists (Zhao et al., 2010). The procurement department, according to the agency theory, is a link that among interested organizational exists employees who work toward the achievement of common procurement goals. Staff should aim to build efficient supplier relationships in order to improve business operations and organizational efficiency and effectiveness. By doing so, trust between managers, who are agents, and shareholders, who are the principal, can be strengthened since the agents will be trying to achieve optimal procurement performance, which will generate more firm value and, as a result, raise shareholders' wealth.

The findings of the study present that procurement performance (regulatory compliance, effective procurement planning, sound evaluation criteria, performing contracts, inspection and acceptance, record keeping, and budget absorption) mediate the relationship between procurement governance and service delivery in MDAs in Kenya. ISCT support ethical standards such as transparency during the procurement process (Lysons & Farrington, 2012). Despite ISCTs, Barsemoi et al. (2014) traditional discovered that procurement methods and personnel incompetence were impeding the achievement of procurement governance output.

Conclusion and Implications

Similar past studies on the mediation role of procurement performance on the relationship between procurement governance and service delivery were hard to come by. The current study findings are in agreement with Yornu (2020), which concluded that procurement performance and service delivery are positive and directly related. This concludes and implies that, with proper procurement management the expected quality service in institutions can be affected positively. The study results revealed that procurement performance fully mediates relationship between procurement governance and service delivery in MDAs in the Kenya.

The hypothesis proposed that procurement performance does not mediate the relationship between procurement governance and service delivery in MDAs in the Kenya. Results on tests of this hypothesis indicated a positive and statistically significant mediation effect. In addition, the VAF test further revealed that the magnitude of mediation was 99%. This indicates that procurement performance strongly mediates the relationship between procurement governance and service delivery.

This reveals that the effect of procurement governance on service delivery is strongly procurement performance. mediated by Therefore, H2 was rejected. The study also established that procurement performance mediates the relationship between procurement governance and service delivery. This implies that, the governments agencies can increase the scale of procurement performance practices implementations which include regulatory compliance, effective procurement planning, sound evaluation criteria, performing contracts, inspection and acceptance, record keeping and budget absorption.

Amaratunga and Baldry (2002) argue that for any organization to shift its focus and become more competitive, procurement performance is a key driver to improving service quality, whereas its absence or use of inappropriate means can act as a barrier to change and lead to deterioration of the purchasing function. In view of the results on the aforementioned mediation role of procurement performance, this study recommends that procurement performance be employed as an integral part of MDAs in Kenya towards improved service delivery.

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