

Effect of Contract Management on Purchasing Performance in Procuring Entities: A Case of Rwanda Energy Group (Reg), Kigali

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Abstract: - Contract management has been of major concern in many procuring entities over service delivery and lack of value for money in implementation of many contracts. This study aimed at assessing the extent to which the contract management contribute to the Purchasing performance in Rwanda Energy Group as a selected procuring entity. The Study aimed at achieving the following specific objectives; to examine the effect of compliance with contract conditions on Purchasing performance, to establish the effect of contract documentation on Purchasing performance, to find out the effect of contract cost management on purchasing performance and to examine the effect of contract monitoring on Purchasing performance in the procuring entities. The research survey design was used for this particular study with the population of 66 respondents, a census was used. Primary data was collected using a reliable and validated questionnaire. The researcher adopted descriptive survey research design using both qualitative and quantitative research paradigms. The Data Collection Instrument was questionnaire that was self-administered with the help of research assistants. The collected data was analyzed using descriptive statistics and inferential statistics namely Pearson Product Moment Correlation and T-test and was presented by use of tables. The results from the survey show that there is a significant relationship between compliance of contract conditions and terms with purchasing performance as evidenced by the P-value of 0.000 which is less than 5% significant level. The Phi-value of 0.814 means that compliance to contract terms and conditions contribute 81.4% on the Purchasing performance. The results from the survey as indicated by the Pearson Chi- Square test show there is a significant relationship between contract documentation and purchasing performance as evidenced by the P – value of 0.000 which is below 5%. The results from the survey show that there is a strong relationship between contract management and Purchasing performance as indicated by R-square and adjusted R-square of 0.677 and 0.592 respectively. Furthermore, the results revealed that there is a positive relationship between cost management, contract monitoring and purchasing performance. The researcher concluded that contract management is a very important variable in enhancing Purchasing performance. The researcher recommends that procuring entities should ensure that they abide to the contract conditions and terms, prepare and maintain proper contract documents, establish contract cost control policies and monitor the contract. The study has proved the role of aspects pointed out in the contract theory in enhancing the effectiveness of procurement process and increasing the entity performance.

Keyword: - Contract Management, purchasing performance, Procuring entities.

1. Introduction

Contract management is defined as the process ensures both parties to a contract fully meet their respective obligations as efficiently and effectively as possible, in order to deliver the business and operational objectives required from the contract and in particular to provide value for money. (Saxena,

2008) asserts that “developing and managing contracts is a skill required by public sector entities in the management of the majority, if not all, programs. However, contract management is not an end in itself and it is important that all contracting

decisions and actions focus on the outcomes that entities are seeking to achieve”.

According to (Kakwezi, 2012), in a study on the “contract management activities can be divided into three broad sections that is service delivery management, relationship management, and contract administration. In this context, the service delivery management involves the full management of all the contractual deliverables, performance levels of the contract as well as the contract quality”. Silvana (2015) points out that “the aim of contract management is the optimization of the efficiency, effectiveness and economy of service in contractual relationship, balancing costs against risks and actively manages the relationship between procurement parties”.

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2. Statement of the Problem

Contract management has been of major concern in many procuring entities over service delivery and lack of value for money in implementation of many contracts. The auditor general’s report (2018) identified cases of delayed completion of contracted works at REG. These include the following Delayed completion of construction works for Nyanza-Rebero Mageragere, electricity supply system in Kicukiro and Nyarugenge. All these contracts have got huge cost to the government funds.

Silvana (2015) points out that “contract management is a critical component of procurement process of public bodies. Contract management enhances the procurement process in diverse ways including anticipating future needs of users, reacting to arising challenges, and achievement of product and services quality”. Other aspects include lead times in service delivery, budget considerations in procurement aspects, optimization of the efficiency, effectiveness and economy of service in contractual relationship,

balancing costs against risks and actively management the relationship between procurement parties.

Despite the importance of contract management amongst the procurement authorities, state corporation still face diverse challenges associated with contract management. The auditor general’s report (2016 and 2020) show that contract management is still of major concern in many public institutions. Concerns over service delivery and lack of value for money in implementation of many contracts have persisted, especially in Local Governments, Boards and Government Business Enterprises. The auditor general’s report (2016) show that there are still many contracts that had either been delayed or abandoned by the time of the audits, hence denying the public, envisaged services within the planned time frames. The audits identified that cases of delayed and abandoned contracts were still continuing in procuring entities. This study aimed at assessing the extent to which the contract management contribute to the Purchasing performance in Rwanda Energy Group as a selected procuring entity

3. Review of the Literature

3.1 Contract Management Practices

As Lowe (2013) points out, “a contract is the foundation of the establishment and maintenance of a favorable relationship between the contractor and contracting authority. It also forms a basis for the acceptance of the project deliverables hence ensuring the achievement of value for money. If a contract fails to address the relevant issues required in the agreement, such as, word ambiguities, it becomes hard for the contracting company to base a positive working relationship with the contractor. In spite of that, certainly there are activities that the contracting company can carry out upon awarding a contract so as to boost the contractor’s performance and subsequently the effectiveness during the contract implementation”

3.2. Purchasing performance

(Van Weele, 2006) maintained that “there is a link between procurement process, efficiency,

effectiveness and performance. Purchasing performance starts from purchasing efficiency and effectiveness in the procurement function in order to change from being reactive to being proactive to attain set performance levels in an entity. Performance provides the basis for an organization to assess how well it is progressing towards its predetermined objectives, identifies areas of strengths and weaknesses and decides on future initiatives with the goal of how to initiate performance improvements. Purchasing performance is not an end in itself but a means to control and monitor the procurement function. For any organization to change its focus and become more competitive, performance is a key driver to improving quality of services.

3.3. Purchasing performance indicators

3.3.1. The Right Quality

It can be defined in many ways but of the purpose of material purchasing. “Specifications where the buying organization lay down clear and ambiguous requirements that must be met, the specification of the product. This implies reducing unnecessary varieties and standardizing to the most economic sizes, grades shapes, colors, types of parts and so on (Gopalakshan and Sundaresan, 2002).

3.3.2. The Right Quantity

Regular requirements are brought either for stock or else for direct use in operations or production. Requirement quantity can be aggregated or sub divide in various ways, and the quantity notified to the purchasing department as required is not necessarily the same as the quantity the department order from supplier.

3.3.3. The Right Time

The recognition of „time“ as a key variable and the need to minimize time as waste in the supply chain has led to an increased degree of concern with time and responsiveness in recent years.

The achievement of delivery on time is a standard purchasing objective. If good and materials arrive late, work is not completed at the right time, sales

may be less, production halted, and damage clauses may be involved by dissatisfying customers.

3.3.4. The Right Supplier

The supplier has a strong enough financial base/financial capacity. Competency (the supplier, its people or its process competent and has adequate man-power to handle the order) the supplier in a position to honor the commitment without much follow-up Bail p. et al (1998).

3.3.5. The Right Price

The product or service offered at a competitive and reasonable price” i.e. Market Price. Bail p. et al (1998)

4. Empirical review and Research gap

This section reviewed literature from past studies that have linked. This section reviewed literature from past studies that have linked contract management on State Corporation. It linked four dimensions, compliance with contract terms and conditions, proper documentation cost management and contract monitoring of contract monitoring.

Marco (2013) “carried out a study on the contract management in Tanzania notes that contract management involves the proactive management of the relationship between the parties in a contract with a view of anticipating future needs and managing arising risks with a view of improving the performance over the lifecycle of the contract.

Rotich (2014) in a study on the contract management practice and operational performance of state corporations indicate that there are diverse aspects involved in contract management. These factors include contractor monitoring and acceptance management; managing the contractor relationship; contract administration; dispute resolution; and contract closure (Vatankhah, Barati, Tofighi, & Rafii, 2012).

Most “research regarding contract management have tended to focus on small and medium sized enterprise as opposed to large companies, (Williamson & Ram, 2009) investigated the implementation of compliance on contract terms among small and medium sized enterprises. Others have been with

respect to the effect of best procurement practices on profitability (Hassanzadeh, 2010) and others on quality improvement on contract management (Liker, 2004). It is evident that no research has been done on the determinants of purchasing performance of State Corporation. The researcher attempts to fill this gap by analyzing the relationship between contracts management and Purchasing performance and providing possible solutions to effective contracts management which will lead to Purchasing performance”.

5. Methodology

This particular research used descriptive research design. Questionnaires were used to collect primary data with a sample of 66 respondents since the

Table 1: Opinions on whether compliance with contract conditions enhance Purchasing performance

	N	Minimum	Maximum	Mean	Std. Deviation
Compliance with contract terms and conditions enhances procurement contract management	66	1.00	5.00	3.8636	1.17521
The organization comply with the contract terms and conditions by awarding contract to the most suitable party	66	2.00	5.00	4.1667	1.00128
Compliance with general contract terms and conditions	66	2.00	5.00	4.1667	.92126
Compliance with specific contract terms and conditions	66	2.00	5.00	4.4394	.76719
Enforcement level of compliance with contract terms and conditions are very high	66	2.00	5.00	4.1212	.95297
Valid N (listwise) Overall mean	66			4.1522	

Source: Survey data 2021

In table 4.5, the respondents were asked whether the organization comply with the contract conditions. The results from the survey that respondents agreed that there is compliance with contract conditions as evidenced by a mean score that is above 3.5. The results show that there is compliance with specific contract terms and conditions, compliance with general terms and conditions, the organization comply with the contract terms and conditions by awarding the contract to the most suitable part, there

population is small, a census was used. A universal sampling technique was used whereby there is no difference between the targeted population and the sample size.

Research question: What is the effect of compliance with contract conditions on Purchasing performance of procuring entities?

Research objective: To examine the effect of compliance with contract conditions on Purchasing performance of procuring entities.

Research hypothesis: Ho: Compliance with contract conditions has no significant effect on contract management of procuring entities.

is enforcement level of compliance with the contract terms and conditions and compliance with contract terms and conditions enhances procurement contract management. This is evidenced by the mean score of 4.44, 4.16, 4.12 and 3.87 respectively. The lower standard deviation of 0.76 indicates that there is little divergence from the expected means. The overall mean score of 4.1522 implies that respondents agreed that compliance with the contract terms and conditions enhances Purchasing performance.

Table 2: Chi-Square Tests of relationship between compliance and purchasing performance.

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	43.728 ^a	6	.000
Likelihood Ratio	36.856	6	.000
Linear-by-Linear Association	22.783	1	.000
N of Valid Cases	66		

a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .23.

a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .23.

Table 4.6 tests whether there is an association between two categorical variables that compliance with contract terms and conditions. The Pearson Chi-Square test shows that there is a significant relationship between compliance of contract

conditions and terms with purchasing performance as evidenced by the P-value of 0.000 which is less than 5% significant level. The results from the survey conform to findings from the previous studies. The study conducted by (Akech, 2005) shows that there is a significant association between compliance with contract conditions and terms with the procurement management.

Table 3: Symmetric Measures of the strength of the relationship between contract compliance and purchasing performance

		Value	Approx. Sig.
Nominal by Nominal	Phi	.814	.000
	Cramer's V	.576	.000
N of Valid Cases		66	

- a. Not assuming the null hypothesis.
- b. Using the asymptotic standard error assuming the null hypothesis.

Table 4.7 tests whether there is a strong relationship between the study variable. The results from the survey as indicated by the Phi-value shows that there is a significant and strong relationship between contract compliance and the Purchasing performance. The Phi-value of 0.814 means that compliance to contract terms and conditions

contribute 81.4% on the Purchasing performance. The results from the survey concur with findings from the previous studies. The study conducted by Aluonzi et al. (2016) shows that there is a strong relationship between compliance with contract terms and conditions and Purchasing performance.

The results from the survey show that model is statistically significant to predict the relationship between the study variables as evidenced by P-value of 0.000

Table 4: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.346	.095		3.642	.012
Contract compliance	-.446	.089	-.657	-5.011	.000

a. Dependent Variable: Right quantity are always ordered

Source: Survey Data 2021

H01: Compliance with contract conditions has no significant effect on contract management of procuring entities.

The computed t-statistic was -5.011 and the p-value under the null hypothesis was 0.000. The p-value did not exceed the 5% level (0.05 significance level) leading to a conclusion to reject the null hypothesis (H₀).

The study examined the effect of compliance with contract conditions on Purchasing performance of procuring entities. The results from the survey show compliance with contract conditions enhances Purchasing performance; this was evidenced by the overall mean score of 4.1522. This implies that majority of respondents agreed that compliance with the contract terms and conditions contribute to Purchasing performance. The Pearson Chi-Square test shows that there is a significant relationship between compliance of contract conditions and terms with purchasing performance as evidenced by the P-value of 0.000 which is less than 5% significant level. The Phi-value of 0.814 means that compliance to contract terms and conditions contribute 81.4% on the Purchasing performance.

6. Conclusion and recommendation

After data analysis, the research findings indicate that compliance with contract conditions has significant effect on contract management which enhances the purchasing performance of Rwanda Energy Group as a procuring entity. The entity has to comply with contract conditions by awarding the contract to the most suitable party, complying with both general and specific contract's conditions. The study recommends that in order for the procuring entity to improve on contract management, it must place emphasis on Enforcement of the law and guidelines in place. Emphasize should be done to contractors to review and understand the contract requirement including the case company invoicing requirements during kick-off meetings. This will act as reminder for contractors to meet the contract requirement.

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