

THE IMPACT OF PROCUREMENT ON THE FINANCIAL PERFORMANCE OF LARGE SCALE APPAREL MANUFACTURERS OF SRI LANKA

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Abstract- The apparel industry, beheld as one of the outstanding economic engines in history, has evolved over the years with its milestone establishment in 1977 with the liberalization of the economy. However, amidst the challenging environment of short product life cycles, the industry is consistently struggling to formulate strategies for competitive advantages for the purpose of surviving. In such environment, it is of importance to manage costs that could hinder the competitiveness of the company. Thus, the focus of the study was on one such area of rising cost; procurement. Upon this formulation, the next struggle that companies faced was in attempting to link the procurement performance with the company’s overall performance. It is against this backdrop that the study is aimed at identifying the type of consequence a value added procurement function will have upon the financial performance of large scale manufacturers of Sri Lanka. For the purpose of exploring the research problem, the research questions were developed to fill the void and absence of literature on this matter as to how and why does the procurement performance, developed through the internal and external factors affect the financial performance of large scale apparel manufacturers of Sri Lanka? A survey approach was used to explore the developed research gap. The approach of the study is a deductive approach and since the study indicates characteristics of both quantitative and qualitative researches, the study can be categorised as a mixed method. The time horizon of the study is cross sectional since it consists of a sample and collected data through various sources both past and present. The validity of the data was tested using an expert opinion such as the one of the supervisor. The sample adequacy measured with the KMO Bartlett’s test, stood at 0.503 along with a Cronbach Alpha value of 0.575, followed by a model fit CMIN/DF value of 1.338. With the use of the SPSS Amos Software data was analysed and supported the findings that the internal and external contributory factors influence the procurement performance in a positive manner and this in return affects the financial performance of large scale apparel manufacturers of Sri Lanka to a significant level, addressing the developed research gap.

Key Words: Procurement, Financial, Performance, Internal, External, Competitive, Survival, Advantage

I. INTRODUCTION

The craving of both men and women for apparels has made the industry what it is today. With its modest beginning in the 1960’s with the production of clothing for the domestic market, the industry as an export oriented one began only after 1977 through the liberalization of the economy. The turning point of the nation’s apparel industry took place in 1992 under the ‘200-Garment Factory Programme (200GFP), where with the support rendered by the BOI, gave birth to 163 garment factories by 1995. However, amidst the challenging nature of policy shifts, product variety and short product life cycles the industry remains as a driving force of the Sri Lankan Economy. As such a significant driver of the economy, the apparel industry of Sri Lanka, according to the Export Development Board, is currently the primary foreign exchange earner accounting for 45 percent of the total exports and 52 percent of industrial products exports. Over the years, the industry has shifted to exporting value added garments such as lingerie, and key players also known as the largest garment exporters in the country, have established an international reputation in this field. As indicated and represented in (figure 1) the export composition of Sri Lanka as of 2014, is made up of the largest exporter which is apparels holding a share of 45% of the total exports of the nation.

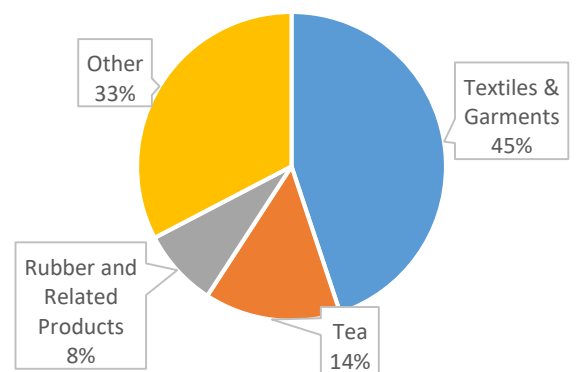


Figure 1- Export orientation of Sri Lanka, 2014

Additionally, Sri Lanka’s journey and desire of transforming from a developing country to a developed one bridging the gaps of development, resulting in employment opportunities for skilled labour coupled with the increasing number of regional players with the capacity to provide competitive

advantage by playing on the available strengths and Global recognition, has created the atmosphere for the enhancement of such industry. With its ownership been held completely by private entrepreneurships, the industry has undergone extensive development over the past couple of years in terms of its attributes ranging from colour, style or size and quality. What differentiates the Nation's apparels, highlighting it from those of the rest of the world is the environmental, social and economic sustainability of the industry that was born through concepts such as greenmanufacturing and ethical sourcing. As per the records of BOI Sri Lanka, the most number of apparel projects operate in the Western Province indicating that the opportunities for it. Apparel factories are available in emerging areas where enough employment is available.

In such growing nature of the industry survival of the fittest is highly dependent upon the strategies adopted to stand out from the crowd. Such strategies will ideally include the creation of a value added supply chain with a network of suppliers, intermediaries and customers. Thus the process kick starting the supply chain would be the procurement of prescribed materials. Although the terms 'purchasing' and 'procurement' are used interchangeably and the term 'Procurement' more loosely as a substitute to the term 'purchasing', they comprise of differentiated definitions. However, purchasing is more concerned with establishing and managing a commercial relationship, whereas procurement is also concerned with the more physical material aspects after the order is placed.

One wrong move in the initial link would lead to one of the two basic options. One, defect in an output or batch of outputs or two, the worst case scenario which would result in a loss of demand; the sole purpose behind an apparel manufacturers existence. With such increasing emphasis been placed by organizations on procurement management, the role of purchasing has shifted from a cost centre to an area of value addition with a great deal of potential yet to be unlocked. As companies are constantly struggling to develop new ways of gaining competitive advantages that will enable them to survive amidst the dynamism of the business environment. With such drastic changes, procurement and its role has transitioned from 'buying' to 'procurement' from thus making the procurement function an important aspect of a company.

For this reason, an in depth study was conducted on the existing procurement process of large scale apparel manufacturers within the western province with the intent of identifying the factors which contribute to the enhanced performance of the procurement function identify the consequences of using a value addition approach to the procurement function and to identify the consequences of using a value addition approach to the procurement function which in return will pose an impact on the comprehensive financial performance of the company.

In accordance with the risen research problems, the core objective developed for this study is directed at identifying the type of consequence a value added procurement function will have upon the financial performance of large scale manufacturers in the country, specifically in the western province of Sri Lanka. For the purpose of addressing the core objective of the study, the secondary objectives developed include,

i Optimising the procurement process through an in-depth study with regard to the both internal and external factors that influence the performance of the procurement function, leading to the enhancements in the financial performance (Net Income). ii To identify the relationship between the procurement function and financial performance and the extent to which the relationship exists. iii To explore the role and function of procurement in adding value to the company output by acting as a tool for expansion in financial performance and to contemplate the possible future of procurement beyond 2015.

II LITREATURE REVIEW

The evolution of purchasing, the process is argued to have evolved from a model such as the 'Reck and Long model' introduced in 1988. As per the model, purchasing initially began with the product centred stage which was concerned upon the purchasing of tangible products and outcome dimensions and then moved to the second stage known as the process centred stage which shifted concentration from the outcome itself to the process by which the outcome was delivered. Later, the relational stage came into play with emphasis on purchaser- supplier relationships and finally the performance centric stage which included integrated methodologies to manage products, processes and relationships with suppliers. Yuen and Cheng, 2013 stated that according to this model which was an outcome of case studies conducted in 15 firms to primarily address the issue of the contribution made by procurement towards the firm's competitive advantage, a company moves throughout four phases namely Passive, Independent, Supportive and finally Integrative and also shows how the function of procurement can become 'a competitive weapon in the battle of the market'

Today, the increasing focus and turn towards procurement is due to the struggle that companies go through in continuously enhancing its customer value. Malarvizhi and Al Mamun (2014) stated that with the change of time, the perception of companies' with regard to purchasing, have evolved to better withstand the test of time. Companies are constantly struggling to develop new ways of gaining competitive advantages that will enable them to survive amidst the dynamism of the business environment. With such drastic changes, procurement and its role has transitioned from 'buying' to 'procurement' from thus making the procurement function an important aspect of a

company. Today, procurement plays a vital role in the value chain and supply chain. An in depth analysis of this changing role of procurement also indicates a shift from the transactional relationship which was 'strictly business and nothing beyond' to a mutual relationship in which both the buyer and seller shared information, efficiency and technology on an equal basis. Further, literature indicates that such transitioning role can be viewed from the perspective of moving from 'reactive buying' to 'proactive buying'. According to Mc Ginnis and Mc Carty (1998) over the years companies have escalated their focus toward the function of procurement for the simple reason of decreasing the cost incurred for the smooth functioning of this part of the business. The simple causes that are stated include globalization and open access to a wide range of resources, the seeking of integrated supply chain solutions rather than independent solutions, supplier evaluation and deregulation and merging resulting in benefits from economies of scale. The fact that, regardless of the industry the goods and services purchased by a company accounts for approximately 50 to 70 percent has made a great contribution towards gaining the focus of large scale companies.

The terms purchasing and procurement, although used interchangeably, pose minor differences. The perceptions of purchasing vary from been known as a link in the supply chain with production and warehousing, a function to perform the relevant tasks, a process to achieve a desired outcome, a relationship with both internal and external focus, a discipline with knowledge as its basis and as a profession that displays skills. The classical definition of procurement however is the process of purchasing right quality, in the right quantity from the right source delivered to the right place at the right time at the right price. This definition can be contrasted against its modern definition whereby purchasing is considered as a process undertaken as a function or a part of an integrated supply chain which is obliged to procure or provide assistance in procuring materials at the right time, quality, quantity and price through the management of suppliers which in return contributes towards the achievement of the corporate strategy through the gaining of a competitive advantage. The Chartered Institute of Purchasing and Supply (CIPS) UK, one of the world's leading professional body in purchasing and supply defines procurement as 'all those processes concerned with developing and implementing strategies to manage an organization's spend portfolio in such a way as to contribute to the organization's overall goals to maximize the value released and/or minimize the total cost of ownership'. It further states that the term 'procurement' is much more comprehensive than the term 'purchasing' which focuses more on the 'tactical acquisition' of goods and the implementation of plans rather than the development and formulation of strategies. In Europe and Asia the term 'purchasing' is used as a definition to facilitate purchase orders and reconciling invoices while in North America its

used to define the entire procurement process from top to bottom.

'Procurement is the term most commonly employed to refer to the purchasing of goods and services for the day-to-day operations of a business. Procurement is an essential part of any organisation's ability to function effectively and efficiently' (Leonard, 2000). Procurement encompasses all activities involved in obtaining goods and services and managing their inflow into an organisation (Gebauer and Segev, 1998).

The function of procurement, once considered a 'cost centre' has now transformed and evolved to play the role of 'value addition' of an organization as a result of the struggle companies go through to formulate competitive strategies for its survival in the industry. Thus the importance of the role played by the procurement function in the augmentation of the organizational performance has been highlighted through numerous studies, Marlon Lezama et al (2004), Nantege (2009), Yuen and Cheng (2014), Mikalef et al (2013), Mokogi1 (2015). Musau (2015), demonstrates the impact of four external factors namely, market environment, legal environment, political environment and socio economic environment on the efficiency and effectiveness of the procurement function while Apiyo and Mburu (2014) in their study measure the performance of the procurement function with the use of internal variables namely management support, staff competence, Information Communication Technology (ICT) tools, and budgeting procedure as opposed to the study of Musau (2015). The common factor visible in the literature analysed to this point is the fact that they all demonstrate that there is a relationship between the procurement function and financial performance as well as the organizational performance of any industry. Taking this element into consideration the researcher then looks at the question of 'how' and 'why' it is related; a question only partially addressed through literature and an indication as to a gap that is visible in terms of the impact of procurement performance on the financial performance of apparel manufacturers, especially in the context of Sri Lanka which will be addressed through this study.

III. METHODOLOGY

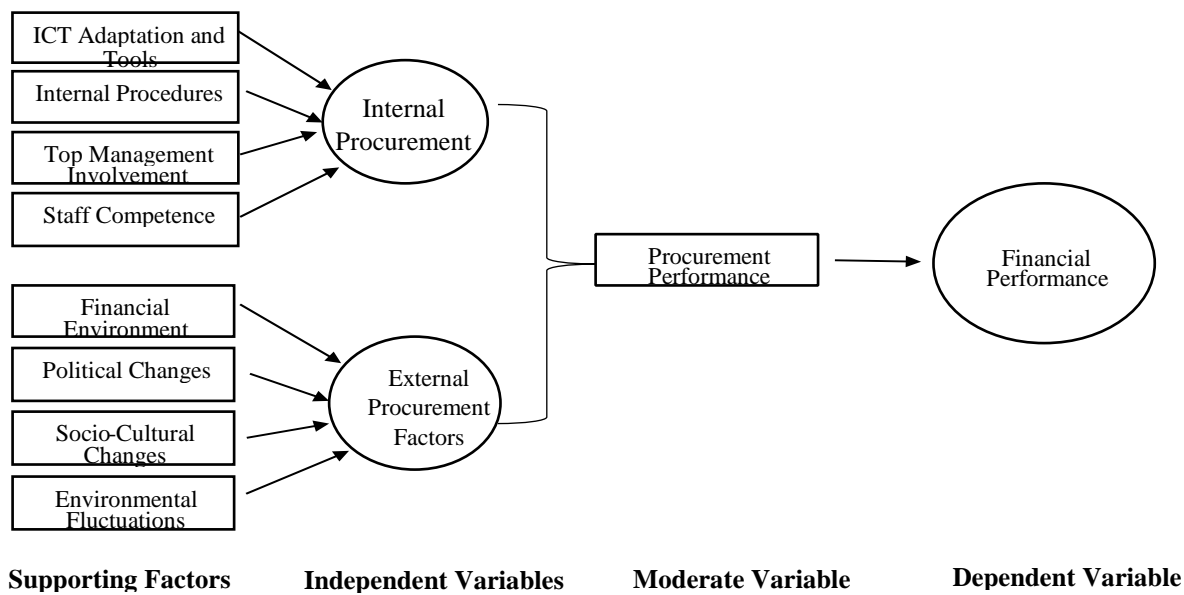


Figure 2: Conceptual Framework of the Study

As depicted in figure 2 the relationship that exist between the staff competence and procurement performance was illustrated through the studies performed by Kiage (2013), Barsemoi et al (2014) and Grant (1991). Phillips and Piotrowicz (2006), Karanu and Njeru (2014) and Wanyonyi and Muturi (2015) display the relationship between the second independent variable which is ICT adaoptation and tools with the moderating variable while Muraleetharan (2011) and Bashuna (2013) depict the relationship between internal procedures and procurement performance. Apiyo and Mburu (2014) and Nzau and Njeru (2014) illustrate that a positive relationship exist between the level of support by the top level management and has an impact on the performance of the procurement function. These studies coincide with the studies that prove that the independent variables selected in this study have an impact and subsequent relationship with the moderating variables which in return indicates a relationship with the dependent variable; the financial performance. While Mark and Nwaiwu (2015) demonstrate through studies the relationship and impact of the political environment on firm performance, Adeoye and Elegunde (2012) show the relationship between environmental factors and socio cultural factors on a firms performance. According the studies performed by Aluko (2003) a relationship between socio-cultural aspects and firm’s performance does exist.

Based on the developed conceptual framework an empirical model was formulated by the author as shown in equation 1.

Functions,
 $x = f(y)$
 $Y = f(i, j)$
 $i = f(a, b, c, d)$
 $j = f(e, f, g, h)$

- Where,
 X = Financial Performance
 Y = Procurement Performance
 i = Internal Procurement Factors
 j = External Factors
 a = Staff Competence
 b = ICT Adaptation and tools
 c = Internal Procedures
 d = Top Management Involvement
 e = Financial Environment
 f = Political Changes
 g = Socio-Cultural Changes
 h = Environmental Fluctuations

As per the above equation 3.1, x is a function of y and y is a function of i and j, where x is financial performance, y is procurement performance and i and j respectively are internal and external factors. Theses, internal and external factors are made up of four contributing factors each namely

abbreviated as *a, b, c, d* to staff competence, top level management support, ICT adaptation and use, internal procedures, financial environment, political changes, environmental fluctuations and social and cultural changes.

The purpose of sampling is to gain an understanding about certain features or attributes of the whole population based on the characteristics of the sample. Hence, the research took into consideration the apparel industry of Sri Lanka which according to *Epitawela, (2014)* consists of approximately 638 apparel manufacturers of various sizes in the Colombo district. The sample was selected under the random sampling method which is consistent with the studies of *Kiage (2013)*. Accordingly 30 companies were selected for the study by the researcher. The underlying basis of such selection would be the high labour density of such manufacturing companies that reside in the district.

Data collection for the study primarily was based on both primary data and many secondary sources of evidence including documents, archival materials, interviews and direct observation along with websites and past journals. However, the two primary methods of collection of data included Questionnaires which contain a 5 point Likert scale and personal interviews. According to *Wijesinghe et al, 2012*, personal interviews enables the researcher to minimise the distance between the researcher and respondents while developing a productive compatibility, to increase the response rate and quality of data. Hence the questionnaires enable the researcher to gather a greater proportion of data efficiently while simultaneously providing the researcher with the capability to analyse such data in a more scientific manner.

The relationship among the independent, moderating and dependent variables were exposed with the use of Statistical Package for Social Sciences (SPSS) Amos software version 21 which enables the researcher to specify, estimate, assess and present models to show the required relationship. The model fitness of the study was accessed using the Goodness of Fitness Index (GFI), Adjusted Goodness of Fitness Index (AGFI) and Root Square Measure of Errors (RMSEA). The sample adequacy was tested and measured with the use of KMO test and Reliability of the data was measured with the use of Cronbach Alpha, an inbuilt feature of the SPSS software while the validity of the data set was accessed through an expert validity approach with the assistance of the supervisor. Further, the data included will be descriptively, quantitatively, qualitatively, uni-variedly, bivariably and multi-variedly analysed.

IV. ANALYSIS

In this study measures and indicators such as correlation matrix, KMO (Kaiser Meyer-Olkin) test for the purpose of

testing the sample adequacy, Cronbach’s Alpha for testing the reliability of the data, the GFI (Goodness of Fit Index) to describe how well the model fits the set of observations or data, the AGFI (Adjusted Goodness of Fit Index) where the value of the index is adjusted for the number of parameters in the model., RMSEA (Root Mean Square Error of Approximation) table and the CMIN/DF table to measure how much the fit of data to model has been reduced by dropping one or more paths and to overall indicate the relationship among the variables.

The sample adequacy was tested through a KMO and Bartlett’s test for the factor analysis which shows how much the sample can be used to generalize the population. In simple, it’s an indicator of the suitability of the data gathered as well the proportion of variance in the variables selected that have the possibility of been caused by other underlying factors. The following table 1 shows the output of the KMO test for the study.

Table 1 : KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.503
Approx. Chi-Square	
Bartlett's Test of df	64.026
Sphericity	66
Sig.	.546

According to Table 1, the value of the sample adequacy is 0.503 which stands in the range of fairly adequate indicating that the sample is ‘fairly adequate’ to generalize the findings the population as a whole. Even though the ideal value would be one comparatively higher than what’s achieved, given the geographical limitation of the sample been the Colombo district in which the companies were widely spread making it challenging to reach the respective organizations within a limited time frame, the value gained is satisfactory.

When moving to the reliability test also known as an internal consistency test, which is a mandatory step in any research and is performed after the sample adequacy test, reliability estimates show the amount of measurement error in a test and hence was tested with the use of Cronbach’s Alpha which provided the output as shown in Table 2

Table 2: Reliability Statistics

Cronbach's Alpha	No of Items
.575	12

As shown in Table 2, the Cronbach Alpha value is 0.575 which is fairly reliable. The Cronbach's alpha is a measure of internal consistency. In other words it measures, how closely related a set of items are as a group. The reliability test indicates the

extent to which the sample can be applied to the population and this case since it's in the range of 0.5 0.7 it can be concluded that the extent to which the sample can be applied to the population its fairly adequate and hence was satisfactory from the researcher's point-of-view. Upon testing the reliability of the data, the next step was to test how well the model fits the set of observations and was performed with the use of a model fit, a feature of the SPSS Amos (Version 21) software. Hence, the discrepancy between the observed values and the expected values were summarised and structured in a manner that enabled the researcher to answer the research questions that were developed initially in the study. The multi variate analysis will hereon be structured in a manner that areas such as the model fit and coefficient analysis will be covered respectively.

The CMIN/DF is the minimum discrepancy, divided by its degrees of freedom. Several writers have suggested the use of this ratio as a measure of fit. For every estimation criterion the ratio should be below 0.5 for correct models.

Which in this study the value is 1.338 indicating that the model fit for the observed data is very good. In other words it measures the goodness of fit. However, different researchers have recommended using ratios as low as 2 or as high as 5 to indicate a reasonable fit Marsh & Hocevar, (1985).

The model consists of 35 parameters and the default model has a discrepancy of 73.589 and assuming that the default model is correct, the probability of getting a discrepancy as large as 73.589 is .048. Further analysis was done with the use of the RMSEA table and SPSS Amos (version 21).the output is represented table 3.

Table 3 Root Mean Square Error of Approximation

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.108	.011	.168	.102
Independence model	.100	.000	.157	.126

The Root Mean Square Error of Approximation is gained by dividing F_0 by the number of degrees of freedom for testing the model. The columns labelled as LO 90 and HI 90 contain the lower limit and upper limit of a 90% confidence interval for the population value of RMSEA. The LO 90 value depicts that with approximately 90 percent confidence, the population RMSEA is between .011 and 0.168 whilst Under the hypothesis of "close fit" (i.e., that RMSEA is no greater than .05 in the population), the probability of getting a sample RMSEA as large as .108 is .102. the Researches indicate that a value of the RMSEA of about .05 or less would indicate a close fit of the model in relation to the degrees of freedom and it is more reasonable than the requirement of exact fit with the RMSEA = 0.0 Browne and Cudeck, (1993). In

this case since the value is lesser than 0.5 it would indicate a close fit of the model.

The Total Effects of Internal and External Contributory Factors on the Independent Variables

When taking staff competence, top level management support, use and adaptation of ICT and internal procedures into consideration with internal factors as the dependent variable the outcome is represented in figure 4.5. Accordingly the total (direct and indirect) effect of internal procedures on internal factors is .097. That is, due to both direct and indirect effects of internal procedures on internal factors, when internal procedures goes up by 1, internal factors goes up by 0.097. The total (direct and indirect) effect of staff competence on internal factors is .211. That is, due to both direct and indirect effects of staff competence on internal factors when staff competence goes up by 1, internal factors goes up by 0.211. The total (direct and indirect) effect of use of ICT on internal factors is .096. That is, due to both direct and indirect effects of use of ICT on internal factors when use of ICT goes up by 1, internal factors goes up by 0.096. The total (direct and indirect) effect of top level management involvement on internal factors is .079. That is, due to both direct and indirect effects of top level management involvement on internal factors, when top level management involvement goes up by 1, internal factors goes up by 0.079. As depicted in table 4, when external factors is considered as the dependent variable, the total (direct and indirect) effect of the financial environment on external factors is .060. That is, due to both direct and indirect effects of financial environment on external factors, when financial environment goes up by 1, external factors goes up by 0.06

Variable	Std. Total Effect	Standard Error	Significance
Staff Competency	0.088	0.219	0.789
Top Level Mgmt. Support	0.184	0.160	0.315
Use of ICT	0.092	0.143	0.561
Internal Procedures	0.073	0.194	0.744

Table 4: Significance Table 1
Dependent Variables: Internal Factors

Variable	Std. Total Effect	Standard Error	Significance
Financial Environment	0.076	0.170	0.859

Political Changes	0.133	0.216	0.514
Environmental Changes	0.311	0.201	0.752
Social, Cultural Changes	0.351	0.218	0.141

Table 5: Significance Table 2
Dependent Variables: External Factors

The total effect of social and cultural changes on external factors is .105. That is, due to both direct and indirect effects of social and cultural changes on external factors, when social and cultural changes goes up by 1, external factors goes up by 0.105. The total effect of environmental fluctuations on external factors is .027. That is, due to both direct and indirect effects of environmental fluctuations on external factors, when environmental fluctuations goes up by 1, external factors goes up by 0.027. The total effect of political Change on external factors is .189. That is, due to both direct and indirect effects of political Change on external factors, when political Change goes up by 1, external factors goes up by 0.189.

Significance of Internal and External Contributory Factors on the Independent Variables

When the significance levels of internal contributory factors were analysed with internal factors as the dependent variable, the outcome that was obtained is represented through table 4. Accordingly, the standardized total (direct and indirect) effect of internal procedures on internal factors is significantly different from zero at the 0.001 level (p=.789 two-tailed). This is a bootstrap approximation obtained by constructing two-sided bias- corrected confidence intervals. The standardized total (direct and indirect) effect of staff competence on internal factors is significantly different from zero at the 0.001 level (p=.315 two-tailed). The standardized total effect of use of ICT on internal factors is significantly different from zero at the 0.001 level (p=.561 two-tailed) while the standardized total effect of top management involvement on internal factors is significantly different from zero at the 0.001 level (p=.744 two-tailed).

Table 6: Significance Table 3

Variable	Std. Total Effect	Standard Error	Significance
Internal Factors	.000	.000	.000
External Factors	.000	.000	.000

Dependent Variables: Procurement Performance

Table 7: Significance Table 4

Variable	Std. Total Effect	Standard Error	Significance
Procurement Performance	1.33	0.175	.332

Dependent Variables: Financial Performance

The output of the data analysed with regard to external factors is represented in table 6. Therefore, the standardized total (direct and indirect) effect of financial environment on external factors is significantly different from zero at the 0.001 level (p=.859 two-tailed). This is a bootstrap approximation obtained by constructing two-sided bias-corrected confidence intervals. The standardized total effect of social and cultural change on external factors is significantly different from zero at the 0.001 level (p=.514 two-tailed). The standardized total effect of environmental fluctuations on external factors is significantly different from zero at the 0.001 level (p=.752 two-tailed). The standardized total (direct and indirect) effect of political change on external factors is significantly different from zero at the 0.001 level (p=.141 two-tailed). When considering the internal and external factors as independent variables of the study, categorised separately as eight variables with four each, and procurement performance as the dependent variable, the significance as illustrated in table 6 is .000 which is an indication that there is a substantial significance among the two variables. Table 7 illustrates the standardized total (direct and indirect) effect of procurement performance on financial performance is significantly different from zero at the 0.001 level (p=.332 two-tailed). The above proven findings could be represented in a graphical manner as figure 3 shows.

Internal and External Factors and their Role in Procurement

Reflecting upon the objectives of the study, one of the three secondary objectives included the identification of the internal and external factors that have an impact on the procurement function and how it does so. In achieving this objective, the researcher identified and developed a conceptual framework through the use of literature. Musau (2015), in a study aimed at measuring the efficiency and effectiveness of the procurement function, identified four external factors namely market environment, legal environment, political environment and socio economic environment. Adeoye and Elegunde (2012), use a similar approach and in their study developed three external factors namely, environmental, economic and political. These two approaches combined with the interviews conducted were beneficial to the author in developing the external factors that impact the procurement performance and accordingly the researcher chose four external factors as financial environment, political changes, environmental changes and social and cultural changes. When it comes to the identification of the internal factors affecting

the procurement planning process. Karanu and Njeru (2014), identified similar variables for a study on the Factors Affecting Procurement Performance in the Milk Processing Firms in Kiambu County as information technology, employee competencies, organizational culture and packaging policy. However, through interviews with experts in the field of procurement in the apparel industry and assistance of the literature, the researcher developed four variables that are visible in the study, termed as staff competence, level of involvement and support from the top level management, the use and adaptation of ICT tools and internal procedures. Upon analysis of data, it was derived that 52 percent of the respondents strongly agree and 41 percent generally agreed whilst 7 percent of the sample remains neutral to the fact that staff competence has an impact on the procurement performance while 60 percent of the sample agreed and 30 percent strongly agreed to the fact that the involvement of the top level management has an impact on the procurement performance. 10 percent remained neutral to this fact and none however stated that the relationship between these two factors is negative under any circumstance. Figure 4.3 on the other hand depicted that 57 percent of the respondents agreed, 39 percent strongly agreed and only 4 percent remained

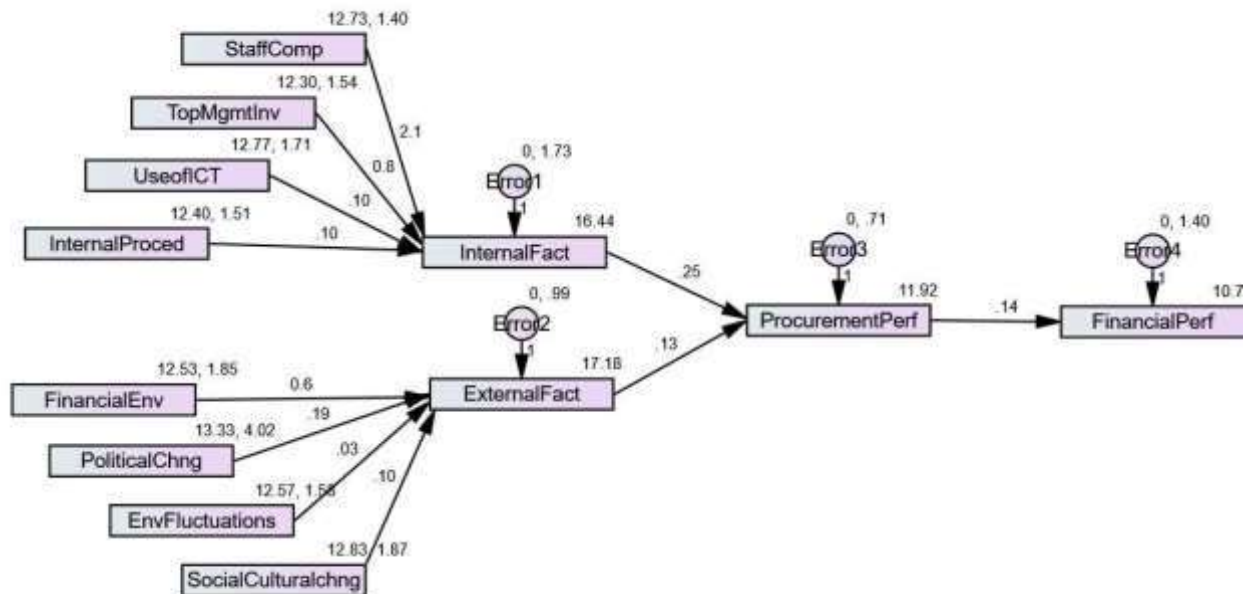


Figure 3: Total effect of Variables

procurement performance, the researcher accessed the existing literature by Apiyo and Mburu (2014) which attempted to identify the affect procurement planning in County Governments in Kenya with an aim of making recommendations on proper procurement planning, had selected four variables namely management support, staff competence, Information Communication Technology (ICT) tools, and budgeting procedure to observe how it affected

neutral in this case, to the fact that the adaptation and use of modern technology most commonly termed as Information, Communication and Technology does have an impact on the procurement performance. Further, statistically 62 percent of the sample generally agreed, 28 percent strongly agreed and 10 percent were neutral to the positive relationship that persists between internal procedures and procurement performance. From the

industry's point of view, the fact that these contributory factors have an impact on the procurement performance indicates that the management of these particular companies should pay attention to these criteria's regardless of the scale of their operations.

Upon interviewing the respondents for the survey, a majority stressed the fact that these internal factors, apart from internal procedures were not given much attentiveness and instead went with the flow of procuring materials when needed by paying attention to quality over cost, due to the catering of requirements to the foreign market. However, Sull (1999), states that though companies focus on quality rather than cost, in the end the cost is high and is inevitable which means that it has to be covered. Further, to avoid the situation of 'Good Companies Going Bad', it was suggested to focus on both quality and cost simultaneously. The procurement departments of such organizations confessed the fact that at one point or another they suffer from what is known as a 'paralysis' and it's not because of the inability to take action but instead the inability to take the most suited and appropriate action. A labour dispute in the procurement department, in an ideal situation would lead to a short term loss of productivity which ideally affects its performance but these large scale apparel manufacturers consider such issues as petty and are immediately disregarded or solved with no future references as to the impact it could have on the procurement performance. These findings are in consistency with those of Boyatzis (2007), Sobhani *et al* (2013), Eisenberger (1997), Apiyo and Mburu (2007), Bashuna (2013), Quesada *et al* (2010), Muraleetharan (2011) and Kiage (2013).

The external statistical analysis of the factors affecting the procurement performance shows that 53 percent of the sample, 38 percent and 9 percent stated their opinions as agree, strongly agree and neutral respectively to the fact that the financial environment of the external environment in which it operates in has an impact on the procurement performance whilst 49 percent of the sample agrees to the fact that political changes have an impact on procurement performance and a marginal 48 percent strongly agree to it with 3 percent been neutral. However, the fact that environmental fluctuations affect the performance of the procurement function was agreed to by 60 percent of the sample and strongly agreed to by 34 percent of the respondents. The percentage of respondents that remained neutral to this fact was 6 percent. With regard to the changes in the social and cultural environment included an agreement rate of 48 percent and 42 percent of the sample strongly agreed to this fact with 10 percent been neutral to this. These findings were further proven on a statistical basis which stated that the nature of relationship that exists between external factors and the procurement performance is positive since the R^2 value is positive.

Upon interviewing the respondents, 81 percent of the sample companies stated that more than 50 percent of their output is exported to the international market especially the

European Union indicating that these large scale manufacturers deal with the dollar more often than they do with the Rupee and as a result are prone to consequences from the financial environment. As a result, companies are highly vigilant to changes in the Dollar. Similarly, the researcher in the process of identifying the extent to which the government intervention is visible in the industry discovered that 72 percent of the respondents stated that the level of intervention of the government is quite less but the government influence on the other hand through changes in policies to the industry is quite high. Since these large scale apparel manufacturers are private owners with an average industry experience of approximately 45 years, they are not in favour of the government intervening in a major way in the industry but believe that to a certain extent it's required. Especially, in terms of provision of subsidies which would make their exports more competitive in the international market and linear policy applications that enable higher flexibility in importation and sourcing of raw materials. For a majority of the large scale apparel manufacturers, the only items sourced domestically are the energy sources, natural requirements such as water, sundry items and labour. The rest of the raw materials are imported from countries such as India, Pakistan, Malaysia and China. Just as these countries are importers of raw materials, they also compete with Sri Lanka as sellers of apparels setting the standards at a higher level simply because of the competitive advantages those countries have gained. Thus, it inserts pressure on the Lankan apparel manufacturers to develop competitive advantages that go beyond expectations. It is through this pressure that procurement received attention and began its transformation from a cost burden to a value addition, yet to exploit by our local apparel manufacturers. Thus, the secondary objectives of identification of the internal and external factors that have an impact on the procurement function and how it does so and to explore the role and function of procurement in adding value to the company output by acting as a tool for expansion in financial performance was addressed.

Another secondary objective of the study was to identify the relationship between the procurement function and financial performance and the extent to which the relationship exists. In doing so the researcher analysed the data in three forms as univariate, bivariate and multi variate. The findings indicate that the relationship that exist between procurement performance and financial performance when tested as a bivariate analysis indicated positive in nature with a positive R^2 value. These findings were further proven and illustrated a positive relationship between the two variables in consideration. These findings also show consistency with those of Bashuna (2013), Frøystad *et al* (2010), Musau (2015) which indicates that although regarded as petty, procurement as a function contributes towards the financial performance of any organization. Thus, the focus of large scale apparel manufacturers should be shifted on a larger scale towards their procurement as a means of formulating

the much requires competitive advantage, to ensure their share of the industry.

v. CONCLUSION

As one of the major exporters of the country accounting for 45 percent of the exports in the country, the apparel industry stands as a significant driver of the economy and has undergone several fluctuations since its awakening that took place with the liberalization of the economy in 1977. The milestone of the industry was the year 1992, under the 200 Garment Factory Programme (200-GFP) that established 163 garment factories by 1955. As a result of this, currently the most number of apparel projects operate in the Western Province indicating that the opportunities for apparel factories are available in emerging areas where enough employment is available. In such growing nature of the industry survival of the fittest is highly dependent upon the strategies adopted to stand out from the crowd, thus causing the struggle of organizations to formulate and develop strategies that lead them towards a competitive advantage. As a result of this struggle and increasing emphasis and pressure been brought on to procurement to reduce cost, the function of procurement has been brought into the spotlight and transformed its role from been considered as a cost burden to an area of value addition.

For this reason, an in depth study was conducted on the existing procurement process of large scale apparel manufacturers within the western province with Colombo district as the sample, with the intent of identifying the factors which contribute to the enhanced performance and to identify the consequences of using a value addition approach to the procurement function which in return will pose an impact on the comprehensive financial performance of the company.

The primary aim of this study was directed at identifying the type of consequence a value added procurement function will have upon the financial performance of large scale manufacturers in the country, especially in the western province of Sri Lanka and secondary objectives developed in par with it is to explore the role and function of procurement in adding value to the company output by acting as a tool for expansion in financial performance and to contemplate the possible future of procurement beyond 2015. As per these objectives the researcher developed variables categorised as contributory factors, independent, moderate and dependent variables. Accordingly, the selected contributory factors were staff competence, support of top level management, use and adaptation of ICT tools, Internal Procedures, Financial environment, political changes, environmental fluctuations and social and economic changes while the moderating variable selected was procurement performance and dependent variable, financial performance. With this framework and set objectives in mind, the researcher developed the research questions to address to question of

how and why procurement performance, developed through internal and external factors affect the financial performance of large scale apparel manufacturers. The findings of the research concluded that the nature of relationship between internal and external factors and the performance of the procurement function was positive and similarly, the nature of relationship that exist between procurement performance and the financial performance was also positive. Hence, organizations of the apparel industry should focus on adopting a value added approach to its procurement function to enhance its overall financial performance and remain competitive in the market.

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