

Cost Evaluation Criteria and Quality of Consultancy Services in Ministry of Interior and Coordination of National Government

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Abstract

The Ministry of Interior and Coordination of National Government has over the years been involved in the procurement of consultancy services. However, there has been a concern about the quality of consultancy services procured by the Ministry of Interior and Coordination of National Government. Majority of the services procured do not meet the expectation in the procurement operations ranging from suppliers' failure to meet lead times, delivery of inappropriate quality supplies and even at times, failing to fulfill the orders all together. Therefore, the study sought to assess the influence of cost evaluation criteria and quality of consultancy services in the Ministry of Interior and Coordination of National Government. The study was guided by transaction cost economics theory, goal-setting theory and grey theory. The study was anchored on the descriptive research design. The unit of analysis was the procurement department at the Ministry of Interior and Coordination of National Government in Nairobi County. The unit of observation was 80 staff in the procurement departments at the Ministry of Interior and Coordination of National Government headquarters in Nairobi. Questionnaires were used as the instruments for collection of primary data. Descriptive and inferential statistics were employed in the study. Descriptive statistics involved the use of measures of central tendencies (mean) and measures of dispersion (standard deviation). Inferential statistics involved the use of correlation and regression analysis. From the findings, the study concluded that there is a positive association between technical cost evaluation criteria and quality of consultancy services in the Ministry of Interior and Coordination of National Government. The research recommended that the Ministry should assess the financial capacity of the supplier to ensure that the supplier has the financial capacity to supply.

Keywords: Consultancy services, quality of consultancy services and cost evaluation criteria

Introduction

Supplier evaluation is the process of evaluating and approving potential suppliers by quantitative assessment. The purpose of supplier evaluation is to ensure a portfolio of best-in-class suppliers is available for use. Supplier evaluation is also a process applied to current suppliers in order to measure and monitor their performance for the purposes of reducing costs, mitigating risk and driving continuous improvement (Sherry, 2018).

Supplier evaluation is conducted at the tender stage of purchasing, according to the Chartered Institute of Procurement and Supply (CIPS) (2018) and can be done using a questionnaire, interview, or site visit to assess the supplier's capability in terms of capacity, financial stability, quality standards, performance, and organizational structure and processes in place. Existing and future suppliers are evaluated and approved or rejected based on their appropriateness. The chosen providers' information is added to a list of authorized suppliers (ASL). This aids in the improvement of current suppliers' performance and may be utilized on a regular basis to guarantee that an organization's suppliers are the proper size and fit for the job (Nadir, 2018).

According Chartered Institute of Procurement and Supply (CIPS) (2018), supplier evaluation is conducted at the tender stage and can be in the form of either a questionnaire, interview or site visit to assess the supplier's capability in terms of capacity, financial stability, quality standards, performance and organizational structure and processes in place. Nadir (2018) alluded that supplier evaluation is perceived as a tool which provides the buying firm with a better understanding of which suppliers are performing well and which suppliers are not performing well.

Quality of consultancy service remains one of the greatest challenges facing public institutions across the world. In Australia, bureaucracy remains one of hindrances to quality service delivery. In an effort to enhance the quality-of-service deliver. Public institutions are required to have a clear accountability system, where there is a distinct division between

those who control the agency, the paid staff or bureaucrats and the users or clients who combine to restrict the scope and nature of their activities.

In most African states, the quality of consultancy service delivery is very poor. In an effort to enhance the quality-of-service delivery in nearly all African countries the privatization of delivery of some services has gained momentum. Privatization effectively includes contracting government functions out of the public sector or selling state assets. The government of Kenya was concerned with the poor performance and service delivery of state-owned corporations which have been ranked as the most inefficient public institutions in service delivery, employing staff through nepotism, unfair promotions to flawed procurement procedures (World Bank Report, 2019).

The Ministry of Interior and Coordination of National Government is one of the critical ministries for the functioning of the government of Kenya, however just like other ministries, the auditor general has raised various procurement issues. For example, in 2020, the auditor general indicated there were unaccounted finances. The report stated that although the state department for interior provided copies of payment vouchers from Mandera County Commissioner amounting to Kshs. 67,598,164 paid to four contractors for construction of IDPs' housing units at Rhamu. The payment vouchers were not supported by contract documents, Bills of Quantities (BQs), invoices and certificates of work done to confirm that the funds were utilized prudently and for the intended purposes, (Auditor General Report, 2020).

Statement of the Problem

The Ministry of Interior and Coordination of National Government has been involved in the procurement of consultancy services. However, there has been concern about the quality of consultancy services procured by the Ministry of Interior and Coordination of National Government. Majority of the services procured do not meet the expectation in the procurement operations ranging from supplier's failure to meet lead times, delivery of

inappropriate quality supplies and even at times failing to fulfill the orders all together. For example, an examination of an evaluation report for tender number NPS/002/2014-2015 for the provision of comprehensive group life insurance cover for National Police and Prisons services revealed that the lowest evaluated bidder submitted a bid totaling Kshs 629,019,316.00 while the contract was awarded to another bidder for Kshs.1,747, 209,700.00. However, examination of minutes of a meeting held on 30th June 2015 in which the renewal of the group life insurance cover was discussed, members were in agreement that renewal and payment must be based on satisfaction of the customer (Auditor General Report, 2014/2015). In addition, the National Police Service procured consultancy services for a comprehensive medical cover for a period of two years commencing 1st October, 2017 to 30th September, 2019. Therefore, the study seeks to determine the influence of cost evaluation criteria and quality of consultancy services in the Ministry of Interior and Coordination of National Government.

Literature Review

Theoretical Review

The study was developed by Transaction cost theory. Transaction cost theory was developed by Coase in 1989. It refers to the expense of procuring materials or services from outside the company rather than from inside the company. The expenses of selecting for the best supplier, writing an allegedly tamper-proof contract, and monitoring and enforcing the contract's execution are all included in transaction costs.

When a supplier is able to control these expenses, he or she may guarantee that the company gets the most bang for its buck, drawing more customers to the product or service (Dahlman, & Carl 2015). As a consequence of the enlarged customer base, the supplier's sales improve, resulting in higher profitability. Both the consumer and the seller gain from TCE since they both receive what they want at a good price, quality, and quantity. The theory is relevant to the study since it focuses on supplier evaluation criteria that are used to determine the need to assess the price of various suppliers.

Cost Evaluation Criteria and Quality of Consultancy Services

In Thailand, Ditkaew (2014) investigated the impact of cost evaluation criteria on the effectiveness of organizational performance. Data was acquired by postal surveys from a sample of 354 new manufacturing companies in Thailand in 2017. The study's findings revealed that cost evaluation criteria is important for businesses in the following ways: firms are able to negotiate prices with buyers to create long-term profit; it helped to reduce operational risks; it provided accurate predictions of activity cost control deviations in manufacturing and operations; and it provided accurate cost estimation that allows firms to effectively control stocked product administration.

Kumi (2017) investigated the influence of cost evaluation criteria on organizational performance. The research employed a case study strategy that combined quantitative and qualitative methods. Simple and purposive sampling approaches were employed to generate a sample size of 67 respondents from an 80-person target group. According to the results of the research on the impact of standard costing on organizational performance, standard costing explained the influence of variance on organizational performance.

In their study, Oluwagbemiga, Olugbenga and Adeoluwa (2015) sought to investigate the impact of cost evaluation criteria on manufacturing business performance in Nigeria. The analysis relies on secondary data taken from the chosen firms' audited financial statements. The independent cost management variables were direct material cost, direct labor cost, production overhead cost, and administrative overhead cost, whereas the dependent variable indicating the firm's performance was profitability (Operating profit). The findings revealed that cost management strategies and firm performance in the manufacturing industry had a favourable significant association.

Ezejiofor, Nkiru and Okoye (2016) investigated the impact of cost evaluation criteria on the performance of Nigerian business enterprises. The research specifically looked at the link between cost management, operating profit, and profits per share. The study's data came from

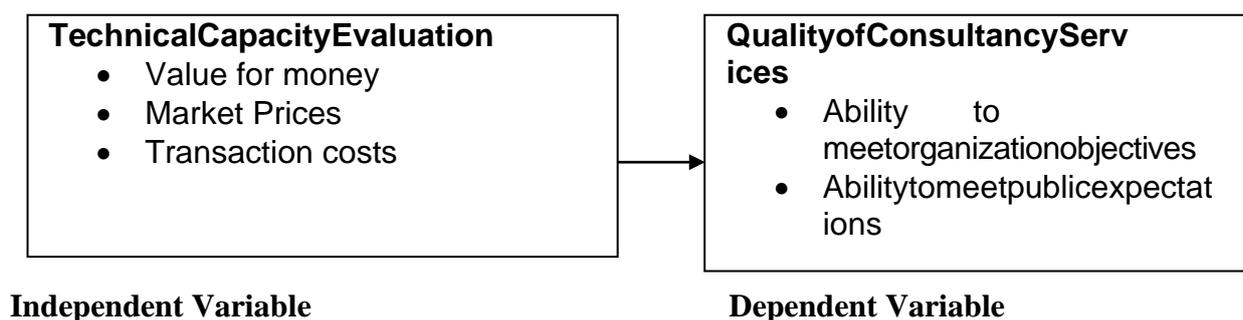
five years' worth of yearly accounts and reports. The hypotheses were tested using simple regression analysis and SPSS version 20.0. The analysis revealed that cost management, operational profit, and profits per share all had a substantial impact.

Quality Consultancy Services

Quality is one of the major considerations of procurement during supplier selection. The specified requirement is needed to produce a good quality of the final products. Achieving a good quality product, the whole operation requires labour, material and equipment. If the quality does not meet the requirements, it will affect the result of the finishing products. The supplier's delivery reliability is also part of the consideration. For instance, if the supplier is not able to fulfil the quoted delivery time, the interruption will occur during production due to a shortage of material. In addition, when placing an order with a supplier, delivery time should be fast, simple and efficient (Precoro, 2019).

Sila (2014) conducted an empirical analysis on the quality in supply chains. Six hypotheses related to supply chain quality management have been developed through literature review and tested using survey data from US manufacturing companies. The results also showed that although companies included their major customers in their quality initiatives, they did not include their major suppliers. However, according to the literature, companies must focus their efforts to improve the quality of the products they receive from their suppliers so that they can pass it on to their customers.

Conceptual Framework



Research Methodology

The study adopted descriptive research design. The unit of analysis was procurement department at the Ministry of Interior and Coordination of National Government in Nairobi County. The unit of observation was 80 staff in the procurement departments at the Ministry of Interior and Coordination of National Government headquarters in Nairobi. The procurement heads of department were targeted because they are directly involved in the supplier evaluation process and the procurement functions at the Ministry of Interior and Coordination of National Government. Primary data was used in the analysis. The study used semi-structured questionnaires to collect primary data. Furthermore, the researcher sought permission from the county government to collect data from county officials. Questionnaires were used to obtain the main data. The respondents were issued with the surveys in the form of a questionnaire-forwarding letter with an introductory letter from the institution. The researcher tracked down respondents who had asked to be removed from the survey and retrieve the completed instruments. A pilot test was undertaken at the Ministry of Finance, with procurement officials being given eight questions to answer. This accounted for 10 percent of the target population (Kothari, 2004). The questionnaires that were piloted were not used in the main research. The questionnaires in this study were validated through application of content validity. For the purposes of content validity, expert opinion were also utilized in assessing and improving validity status of the instrument (Heale & Twycross, 2015). Opinions from the supervisor as a research expert were considered adequate. Descriptive and inferential statistics were generated using the Statistical Package for Social Sciences (SPSS) version 25. Measures of central tendency (mean) and measures of dispersion were used in descriptive statistics (standard deviation). Inferential statistics involved the use of correlation analysis to establish the nature of the relationship between independent and dependent variables. Further, multiple regression analysis was adopted to analyze the extent to which each independent variable contributes to the independent variable.

Data Analysis, Presentation and Interpretation

The chapter focuses on data analysis, results presentation and discussion of the findings. Questionnaires were sent out to 80 respondents out of which 73 were fully completed representing a 77 percent response rate.

Table 1: Level of Education

	Frequency	Percentage
College	15	21
First Degree	36	49
Postgraduate	22	30
Total	73	100.0

Source: Research Data (2022)

From the analysis, 21 percent of the respondents of the sampled population had attained college education; 49 percent of the respondents had attained first degree level of education, while 30 percent of the sampled population had attained post graduate degree level of education.

Cost Evaluation Criteria

The respondents were asked to indicate their level of agreement on the influence of cost evaluation criteria and quality of consultancy services in ministry of interior and coordination of national government.

Table 2: Cost Evaluation Criteria

	SA	A	U	D	SD	Mean	Std
Statement	%	%	%	%	%		

The organization conducts market surveys to determine the ideal cost that suppliers should Charge for the consultancy service	26	47	17	10	0	3.887	0.907
Cost is a key consideration when selecting Suppliers for consultancy services	37	45	13	5	0	4.113	0.870
The organization tends to select suppliers who offer consultancy services at the lowest cost	55	42	3	0	0	4.516	0.565
There is perception that suppliers who charge high cost tend to offer quality consultancy services	57	37	6	0	0	4.500	0.621
Cost evaluation criteria helps in assessing the financial capacity of suppliers	39	44	11	6	0	4.145	0.866

Source: Research Data (2022)

According to the findings, majority of the respondents (73%) agreed that the organization conducts market surveys to determine the ideal cost that suppliers should charge for the consultancy service with a mean of 3.887 and the standard deviation of 0.907. The study findings concur with those of Dreyfus (2015) who found that market survey is the survey research and analysis of the market for a particular product/service which helps the companies to determine the ideal costs of suppliers. It also helps to assess the suppliers capabilities such as investment attributes. The findings further indicated that majority of the respondents (82%) agreed that cost is a key consideration when selecting suppliers for consultancy services with a mean of 4.113 and the standard deviation of 0.870.

In addition, majority of the respondents (97%) agreed that the organization tends to select suppliers who offer consultancy services at the lowest cost with a mean of 4.516 and the standard deviation 0.565. The study findings concur with those of Tannenbaum and Salas (2017), who found that when choosing suppliers, the business should consider supplier affordability. However, when the business is focusing on managing finances competitively priced, suppliers are an attractive option. If the quality of the supplier's product or service is poor, the company may incur extra costs

for returns and replacements, and risk losing business with any delays that result. If the business decides to pass poor quality on to the customers, the company may risk damaging their business reputation.

The findings further indicated that majority of the respondents (94%) agreed that there is a perception that suppliers who charge high cost tend to offer quality consultancy services with a mean of 4.500 and the standard deviation of 0.621. In addition, majority of the respondents (83%) agreed that cost evaluation criteria helps in assessing the financial capacity of suppliers with a mean of 4.145 and the standard deviation of 0.866. The standard deviation ranged from 0.565 to 0.907 indicating that the dispersion of the respondents from the mean was minimal. The findings agree with Ditkaew (2014) who found that the cost evaluation criteria is important for businesses as the firms are able to negotiate prices with buyers to create long-term profit; it helped to reduce operational risks; it provided accurate predictions of activity cost control deviations in manufacturing and operations; and it provided accurate cost estimation that allows firms to effectively control stocked product administration.

Quality of Consultancy Services

The respondents were asked to indicate their level of agreement on the quality of consultancy services in the Ministry of Interior and Coordination of National Government.

Table 3: Quality of Consultancy Services

	SA	A	U	D	SD	Mean	Std
Statement	%	%	%	%	%		
Services procured meet the set quality standard	37	34	10	16	3	3.855	1.185
The organization gets value for Money of services procured	55	34	8	3	0	4.403	0.778
Services are delivered within the set timelines	44	46	7	3	0	4.307	0.738

The organization is satisfied with the quality of consultancy services	55	33	7	5	0	4.387	0.869
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Source: Research Data (2022)

According to the findings, majority of the respondents (71%) agreed that the services procured meet the set quality standards with a mean of 3.855 and a standard deviation of 1.185. Majority of the respondents (89%) also agreed that the organization gets value for money of services procured with a mean of 4.403 and a standard deviation of 0.778. They further agreed (90%) that the services are delivered within the set timelines with a mean of 4.307 and a standard deviation of 0.738. Majority of the respondents (88%) also agreed that the organization is satisfied with the quality of consultancy services with a mean 4.387 and a standard deviation of 0.869. The findings agree with those of Frankenhuis (2019) who argues that quality levels of the procurement item should be a very important factor in supplier selection. Product quality should consistently meet specified requirements since it can directly affect the quality of the finished goods.

Correlation Between Cost Evaluation Criteria and Quality of Consultancy Services

The study conducted a correlation analysis between cost evaluation criteria and quality of consultancy services in Ministry of Interior and Coordination of National Government.

Table 4: Correlation between cost evaluation criteria and quality of consultancy services

		Cost Evaluation Criteria
Quality Consultancy Services	Pearson Correlation	.411**
	Sig. (2-tailed)	.021
	N	73

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

The finding revealed that there was a positive and statistically significant relationship between cost evaluation criteria and quality of consultancy services in Ministry of Interior and Coordination of National Government ($p < 0.05$; $r = 0.411$). The study findings concurred with those of Oluwagbemiga, Olugbenga and Adeoluwa (2015) who found that cost evaluation criteria had a positive linear relationship with performance of a firm. The study findings also concur with those of Ezejiofor, Nkiru, and Okoye (2016) who was investigating the impact of cost evaluation criteria on the performance of Nigerian business enterprises.

Table 5: Regression Coefficients on Cost Evaluation Criteria

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.309	1.143		2.894	.005
Cost evaluation criteria	.456	.132	.370	3.458	.001

Dependent Variable: Quality of Consultancy Services

From the findings a unit that increases in cost evaluation criteria leads to 0.456 units increase in quality of consultancy services.

$$Y = 3.309 + 0.456X_1 + e$$

Evaluating a supplier's cost structure needs a deep understanding of a supplier's total costs, including: direct labor costs, indirect labor costs, material costs, manufacturing costs and the general overhead costs. Understanding cost structure of the supplier helps a buyer determine how efficiently a supplier can provide an item and at the same time avail means for identification of areas of cost improvement. The findings agree with a study conducted by

Wachiuri (2018) who argues that, the procuring organization should equally look at a supplier's price and cost factors.

Conclusion and Recommendations

Regarding cost evaluation criteria and quality of consultancy services, the findings showed that majority of the respondents agreed that the organization should conduct market survey to determine the ideal cost that suppliers should charge for the consultancy service. In addition, the organization tended to select suppliers who offered consultancy services at the lowest cost but the same indicated that there is a perception that suppliers who charge a high cost tended to offer quality consultancy services. In addition, respondents showed that cost evaluation criteria helps in assessing the financial capacity of suppliers. The findings were supported by Ditkaew (2014) who found that the cost evaluation criteria is important for businesses because firms are able to negotiate prices with buyers to create long-term profit; helped to reduce operational risks; provided accurate predictions of activity cost control deviations in manufacturing and operations; and accurate cost estimation that allows firms to effectively control stocked product administration.

From the findings the study concluded that cost evaluation criteria helps in assessing the financial capacity of suppliers and there was a positive association between cost evaluation criteria and quality of consultancy services in the Ministry of Interior and Coordination of National Government. The study findings concur with those of Oluwagbemiga, Olugbenga and Adeoluwa (2015) who found that cost evaluation criteria had a significant effect on the performance of the firm in a research study on the impact of standard costing on organizational performance. The study findings also concur with those of Ezejiofor, Nkiru, and Okoye (2016) who while investigating the impact of cost evaluation criteria on the performance of Nigerian business enterprises showed that cost management had a substantial impact on organizational performance.

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