

ORGANIZATIONAL EFFECTIVENESS: THE ROLE OF PROCUREMENT RISK ASSESSMENT

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Abstract

Procurement risk assessment is an essential aspect of the procurement process that focuses on identifying, assessing, and managing potential risks throughout the procurement cycle. It helps ensure that risks are minimized, compliance is upheld, and the organization's goals are achieved. This study examined the relationship between procurement risk assessment and effectiveness of bottled water firms in Port Harcourt. The aim was to theoretically review the relationship between procurement risk assessment and effectiveness of bottled water firms in Rivers State, with a particular focus on key measures: innovativeness, adaptability customer satisfaction. The qualitative approach was adopted while dynamic capabilities theory constituted the theoretical framework to provide the structure upon which the paper was built. After adequate literature review, the study found that procurement risk assessment has a positive relationship with effectiveness of bottled water firms in Rivers State and concludes that by prioritizing adequate procurement risk assessment, organizations can be innovative in operations, adapt to rapid changes in the environment and ultimately drive customer satisfaction in the region. Therefore, the study recommends that bottled water firms in Port Harcourt should thoroughly assess the risks associated with different procurement options, so they can make more informed decisions that align with their long-term goals and objectives, thereby enhancing their overall effectiveness.

Keywords: Adaptability, customer satisfaction, effectiveness, innovativeness, procurement risk assessment

Introduction

Efficiency of procurement processes directly impact companies' ability to create value, and inform product availability, cost control and overall market competitiveness. The complexity of information, finance and material flows in a value chain expose firms' procurement activities to risks. Consequently, the need for a robust procurement risk assessment (PRA) framework becomes imperative to mitigate potential risks and enhance organizational effectiveness.

PRA involves systematic evaluation and mitigation of situations that could adversely affect procurement processes and, by extension, a firm's overall performance (Sinha & Jha, 2021). Eze (2020) states that procurement risks are compounded unique, socio- cultural and economic conditions, including frequent disruptions of transportation infrastructure, fluctuating fuel prices, and inadequate power supply; and these have adverse effects on organizational effectiveness

Organizational effectiveness refers to the ability of firms to achieve their strategic objectives, particularly in terms of operational efficiency, customer satisfaction and profitability. The extent to which firms are effective is largely determined by the seamlessness with which they secure required material to feed productions processes and other routine requirements. Effective organizations maximize the use of resources; reduce waste and improve their efficiency.

Thus, it can be conjectured that PRA and organizational effectiveness are related. Normally, effective risk management practices in procurement can lead to improved operational outcomes, better resource allocation, and enhanced competitive advantage (Christopher & Peck, 2004).

However, despite this apparent relevance of PRA to organizational effectiveness, there is relative shortage of studies (conceptual and empirical) focused to validating this relationship. This study was therefore, designed to delve into the concept of PRA and examine its contribution to organizational effectiveness. By exploring this relationship, this research seeks to provide insights into how firms can optimize procurement processes to mitigate risks and achieve better organizational outcomes.

Theoretical Framework

Theoretical framework provides a structure upon which a research is built. This study adopted dynamic capabilities theory (DCT) ((Teece et al., 1997) as its foundation. DCT is a framework that extended the resource-based view by focusing on the processes through which firms adapt and reconfigure their resources in response to environmental changes (Teece et al., 1997).

Teece (2014) define dynamic capabilities as firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments. Helfat and Peteraf (2015) describe dynamic capabilities as capacity of an organization to purposefully create, extend, or modify its resources to maintain competitiveness in a changing environment.

The essence of DCT lies in a firm's capacity to sense opportunities and threats, seize opportunities, and reconfigure resources to maintain competitiveness (Teece et al., 1997). Three capabilities: sensing, seizing, and reconfiguring are critical to responding effectively to environmental change and achieving long-term success.

Sensing capabilities involve ability of an organization to identify and assess opportunities and threats in its environment. It involves scanning, monitoring, and interpreting information from the external and internal environment (Teece, 2007). Sensing is not just about recognizing opportunities but also about understanding potential risks and how they might impact the firm's strategic direction.

Seizing capabilities is used to mobilize resources to capture value from opportunities or mitigate threats. It involve decision-making processes, investment in new technologies, or reconfiguring existing assets (Teece, 2007). Effective seizing requires the organization to act swiftly and decisively, balancing the need for speed with the complexities of resource allocation and organizational inertia.

Reconfiguring capabilities involve continuous renewal of organizational resource base to adapt to new challenges and opportunities. It includes realignment of assets, restructuring of processes, and, if necessary, the acquisition of new resources (Eisenhardt & Martin, 2000). Reconfiguring is critical in dynamic environments where static capabilities can quickly become obsolete.

Helfat and Peteraf (2003) demonstrates that dynamic capabilities contribute to evolution of firm-specific competencies over time. Similarly, Zollo et al. (2022) highlight the role of dynamic capabilities in organizational learning and adaptation, showing that firms with robust learning processes are better equipped to develop and refine their dynamic capabilities.

In procurement, dynamic capabilities are crucial for adapting procurement strategies in response to change in the supply market, technological advancements, and regulatory changes. This adaptability enhances organizational effectiveness by ensuring that procurement processes remain efficient and aligned with organizational goals.

Concept of Procurement Risk Assessment (PRA)

Risk can be defined as the probability of an unwanted outcome happening or the effect of uncertainty on objectives. PRA refers to the systematic process of identifying, evaluating, and prioritizing risks that may arise during the procurement process. Hillson and Murray-Webster (2017) define PRA as a systematic process of identifying, evaluating and mitigating risks associated with procurement activities, and ensuring alignment with organizational strategies and objectives.

PRA identify potential risks that could adversely affect procurement activities, evaluates the likelihood and impact of risks, and determines appropriate strategies to mitigate or manage them (Handfield et al., 2011). Monczka et al. (2015) defined PRA as the identification and analysis of risks associated with sourcing decisions and supplier relationships, aimed at ensuring continuity of supply and alignment with organizational goals.

Zsidisin and Ellram, 2003) argued that PRA is a critical component of supply chain risk management that focuses on recognizing and mitigating risks associated with sourcing activities, including supplier reliability, market volatility, and geopolitical factors. PRA facilitates the evaluation of risks associated with operational inefficiencies, logistical challenges, and supplier reliability to optimize procurement outcomes.

PRA mostly focuses on geopolitical risks, including trade restrictions, tariffs, and political instability, which impact supply chains. Robust PRA touch on all types of risks, including financial, environmental, technical, political, legislation (compliance and probity), security (physical and cyber), supplier resilience, price increases and decreases, scheduling delays, natural disasters, accidents, product quality and service delivery risks.

Organizational Effectiveness

Organizational effectiveness is the degree to which an organization realizes its goals by making efficient use of resources while satisfying the expectations of key stakeholders. Daft (2016) defined it as the extent to which an organization achieves a balance between internal structure, external demands, and the attainment of its mission.

Organizational effectiveness as the degree to which a firm achieves its planned outcomes and sustains long-term viability through resource optimization and innovation; while in the view of Cameron (1980, as cited in Ateke & Nwiese, 2017), organizational effectiveness is the ability of a firm to fulfill its mission, adapt to environmental change, satisfy stakeholders and maintain operational efficiency.

Zehir et al. (2020) opined that organizational effectiveness include firms' ability to acquire resources, produce outputs and sustain adaptability over time. Thus, the concept encompasses

firms' ability to achieve strategic goals, maintain a competitive position, and manage internal and external challenges (Mitchell et al., 2022).

Often, a firm's effectiveness is measured by its efficiency in the use of resources to produce desired outcomes while maintaining internal coherence and responsiveness to external pressures (Alvesson & Spicer, 2019); as well as their capacity to align human, technological, and structural resources towards achieving strategic objectives while fostering a culture of continuous improvement (Vogel et al., 2020).

Organizational effectiveness is a relative and multidimensional concept. Tidd and Bessant (2018) identified innovativeness, adaptability and customer satisfaction as measures of organizational effectiveness. Cameron (1980, as cited in Ateke & Nwiepe, 2017) identify profitability, productivity, cost minimization, increased market share, as additional measures of organizational effectiveness. In this study, adopt innovativeness, adaptability and customer satisfaction.

Innovativeness

Innovativeness is the propensity of an organization to engage in, and support new ideas, novelty, experimentation, and creative processes that result in new products or processes. Lumpkin and Dess (2019) defined innovativeness as the capacity of an organization to introduce new processes, products, or ideas and to implement them effectively within the organization.

Innovativeness is the degree to which an organization or its members are open to, and actively seek out new opportunities, technologies, and processes that can improve business performance. It is a capacity that helps firms diversify products, spread risk and reduce impact of market failures (Hansen & Birkinshaw, 2019). Ateke and Harry (2021) states that innovativeness enable value differentiation and confer sustainable competitiveness on firms in the new economy.

Organizations sustain long-term growth by consistently introducing new offerings that meet evolving market demands (Hult et al., 2018). Innovativeness enable firms to achieve long-term success by enabling effective response to changing market conditions, including shifts in consumer behavior, advances in technology and competitive pressures (Ateke & Harry, 2021).

Adaptability

Denison (2007 as cited in Ateke & Nwulu, 2021) states that firms alter their behaviour, activities, structures and systems in order to survive changing environmental conditions. As market conditions change, firms must adapt to them swiftly, lest they get knocked off. Thus, adaptability is essentially a company's ability to adjust strategies, structures, and practices in response to change in the external environment, such as market conditions, competition, and customer needs.

Tushman and O'Reilly (2022) and Kotler and Keller (2012) describe organizational adaptability as the capacity of a firm to modify its marketing strategies and tactics to cope with market dynamics. They argue that adaptability is essential for responding to rapid changes in customer preferences and competitive actions. It however, requires a proactive approach to reconfiguring resources and capabilities to sustain competitive advantage (Day, 2011)

Adaptability allow firms to respond quickly to change in market conditions and enable them maintain and improve their competitive position (Brown & Eisenhardt, 2020). Adaptable

organizations continuously realign strategies with the changing external environment, ensuring that their long-term goals remain relevant and achievable. By adapting to evolving customer preferences and delivering personalized experiences, firms build stronger customer relationships, leading to increased loyalty and repeat business.

Customer satisfaction

Customer satisfaction measures how happy customers are with a firm's products. It is the level of positive and genuine contentment customer experience upon consumption of a product. Kotler and Keller (2012) define customer satisfaction is a feeling of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to expectations.

Customer satisfaction is a summary affective response of varying intensity with a time-specific point of determination and limited duration, directed toward focal aspects of product acquisition and consumption Giese & Cote 2000). Han and Hyun (2017) opined that customer satisfaction refers to the customer's emotional state that results from the discrepancy between expected and perceived performance of a product.

Satisfied customers engage in positive word-of-mouth and recommend a products to others. Moreso, high customer satisfaction leads to increased customer loyalty, as satisfied customers are more likely to continue purchasing from a company, leading to repeat business (Shin et al., 2021).

Empirical Review

The relationship between PRA and organizational effectiveness has been highlighted in both conceptual discussions and empirical research. This section of the review synthesizes existing empirical studies to gain insights into the dynamics between PRA and organizational effectiveness.

Martin and Lee (2022) investigated the role of PRA in building organizational resilience. The study highlight strategies for leveraging risk assessment to strengthen organizational resilience in the face of disruptions. And found that effective PRA improve organizational resilience by enhancing risk awareness and preparedness. This means that firms with robust PRA practices will demonstrate better recovery capabilities and operational continuity.

Moreso, Ho et al., (2018) examined relationship between procurement risk management practices and organizational performance; and found that effective procurement risk management practices positive correlate with improved organizational performance. In a similar study, Zhang and Zhao (2019) probed the effectiveness of risk mitigation strategies in procurement; and observed that supplier diversification, contract management, and technology integration are procurement risk management practices that impact organizational effectiveness.

Yang and Zhang (2021) studied procurement risk management frameworks and their impact on organizational effectiveness. This review provides an in-depth analysis of various procurement risk management frameworks and their impact on organizational effectiveness. It evaluates the effectiveness of these frameworks in identifying, assessing, and mitigating procurement risks, and their subsequent impact on overall organizational performance. The study found that effective implementation of risk management frameworks leads to better alignment between procurement and organizational objectives.

Summary, conclusion and Recommendations

This study probed the concept of PRA and assessed its contributions to organizational effectiveness. The study was essentially a review of extant literature, with a focus on analyzing and synthesizing reports and arguments of prior scholars. DCT was used as a theoretical framework for the study. Following a comprehensive literature review, it was determined that PRA has an association with organizational effectiveness. This is in lieu of reports that PRA enhance different organizational outcomes, including, resilience; performance; and effectiveness.

The study conclude that PRA significantly contributes to organizational effectiveness; and that organizational effectiveness largely depends on PRA. This means that by prioritizing PRA, firms can become more innovative, enhance their adaptive capacity and meets customers' requirements. The study therefore, recommends that firms should:

- i. Ensure adequate PRA to mitigate risks associated with supplier failure, price volatility, and supply disruptions. By addressing these risks proactively, they can avoid costly interruptions and maintain smooth operations.
- ii. Adopt a well-managed PRA process that mitigate risks and foster innovation by allowing them to experiment with new suppliers, materials, or technologies without the fear of significant disruptions.

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