



Procurement And Supply Management Practice in Corporate Nigeria: An Investigation into The Financial Service Industry; Opay Lagos, CBN and NDIC Abuja

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DOI: [10.5281/zenodo.17257901](https://doi.org/10.5281/zenodo.17257901)

Submission Date: 28 Aug. 2025 | Published Date: 03 Oct. 2025

Abstract

In view of the rising demand for effective control over spends on goods, services, contracts, and acquisition processes, organisations need to adopt strategic procurement practices. This paper explores procurement and supply chain management practices in the Nigerian financial services industry. The study is based on a literature review and a questionnaire survey among senior management employees from various financial services firms in Nigeria. The respondents were randomly sampled from insurance, banks, investment firms, mortgage firms and pension management companies in Nigeria. The findings show that practices relating to marketing, financial and customer management are given higher priority than procurement and supply management activities. The research reveals that procurement and supply activities in the Nigerian financial services industry are not strategic but mostly transactional. While there are well-known procurement departments in the firms industry, procurement related tasks are currently handled by non-procurement professionals. Furthermore, the level of supplier development practices in the financial service industry is developing but not advanced. The findings will support a better understanding of procurement and supply management practices from the financial services perspectives. This paper provides reliable baseline data for future research into the strategic role of procurement and supply management in corporate organisations in developing countries.

Keywords: Procurement, Supplier Management, Corporate Nigeria, Financial Sector.

INTRODUCTION

Over the past four decades, procurement has evolved from a clerical function in the 1960s, through being an operational activity in the 1980s to the strategic nature in the 1990s (Gelderman and Van Weele, 2005; Spekman *et al.*, 1994; Kraljic, 1993). While several organisations have transformed their procurement capabilities into competitive advantage, others are still lagging behind. Today, proactive firms are expected to control their procurement operations in an effort to build competitive advantage (Carr and Smeltzer, 1997). In spite of the fact that procurement has gained recognition amongst companies in the developed countries; the reverse is the case however in the developing countries (Msiinangira, 2003). Specifically, African scholars have focused more on investigating public procurement reforms while little efforts have been made in the private sector (Abeille, 2003; Hunja, 2003; McCrudden, 2004). In view of the current global financial meltdown, It is imperative for private organisations in Africa to adopt more strategic approaches to procurement in order to facilitate commercial gains.

The aim of this study is to explore procurement and supply practices in the Nigerian corporate organisations while focusing on the financial services industry. Nigeria is one of the few African countries currently enjoying a democratic political and economic system.

It has a prosperous economy and happens to be the most populous country in Africa with a population of over 140 million people. Although procurement function exists in most Nigerian firms, little is known, however, about their operational perspectives. There are a number of reasons why the Nigerian financial services industry is a good case to investigate procurement practices. Firstly, it is incontestable that the financial system is the engine of growth in any economy. OIdmdu.(2009) financial services firms have been acknowledged as one of the most capitalised in the

Nigerian stock exchange market (Okigbo. 1991). Thirdly, research into procurement and supply management practices in Nigeria is limited. As such, the result of this exploratory study will aid a better understanding of procurement and supply management practises in the Nigerian financial services industry.

It is against this backdrop, that the following research questions are posed: what are the major challenges confronting financial services organization on procurement and supply chain? To what extent does financial service adhere to procurement principles? What are the best alternatives for better supply chain to financial services organization?

Objectives of the Study

The central objective of this work is to critically analyze procurement and supply chain management practices in the Nigerian financial services industry. Other specific objectives include:-

- To find out the major challenges confronting financial services organization on procurement and supply chain.
- To determine the extent to which financial service adhere to procurement principles.
- To examine the best alternatives for better supply chain to financial services organization

Literature Review

The Strategic Role of Procurement

According to Van Weele (2000) procurement refers to all the activities in a firm that involves getting a product or service from the supplier to the final customer. Quayle & Quayle (2000 pg7) sees procurement as procurement, coin-acting and logistics: where logistics is taken to be inventory control, warehousing, transport, quality assurance "and control": It is important to note that the term procurement is often used where government procurement is involved. Several organisations in the past have viewed procurement as much more administrative then strategic part of the oraanisation (Carter & Narasimhan, 1996). However, they failed to include the procurement professionals as part of the organisations strategic decision making team (Carr *et al*, 2000). Similarly, it has been noted that organisations nive more importance to issues relating to financial management, waste reduction marketing, strategy and leadership rather than procurement and supplier development activities (Quayle, 2005).

The strategic importance of the procurement function is well established in the literature. Makinen *et al*. (201 1) conducted a study on purchasing practices in the Finnish banking industry, results of this investigation revealed that banks can decrease their transaction costs and enhance competitiveness through the application of cooperative procurement Also, procurement has a direct effect on the ability of a firm to compete through its impact on quality, cost, technology and supplier responsiveness (McIvor *et al*. 1997). Aside the immediate contribution on price sa.ings. a performing procurement function can improve shareholders value as well (Lincoln *et al*, 1998; Van Weele. 2002). Although there are numerous assurances that procurement activities can influence corporate performance little or no studies have been conducted in this context in Nigeria.

An overview of Procurement and Supply Practices in the Nigerian Financial Services Industry

Little or no academic research work has been carried out on the procurement and supply practices in the financial se^l-vices companies in Nigeria. This however does not mean that these companies do not have procurement and supply management functions. While there are limited evidences regarding how procurement and supply management is being conducted by financial services companies in Nigeria, their willingness to implementing value added procurement practices cannot be doubted. For example, it is well-known that several public and private organisations might need to accelerate their procurement practice in order to withstand the current economic crisis (Ejrjpear, Commission.2008). Also, procurement has evolved over the years from a clerical function into a systematic function (Ellram & Carter. 1994: Carter & Narasimhan. 1996). Even so. it looks as if companies within the Nigerian financial system will be more familiar with the term outsourcing vendor management than practicing and supply. According to Adeleye (2002). financial services firms in Nigeria have a long history of contracting services such as training, security services, marketing and information technology to external providers.

This is not unexpected because many financial service firms have contracted their non-core functions to external vendors through outsourcing agenda. For example. Bank of America contracts her human resource function to external providers or vendors (Adeleye, 2002). Similarly, Computer Science Corporation in Switzerland (CSC') g< t live-) ear contract worth \$44 million to provide IT services for Coop Bank of Switzerland in 2001 (CSC. 2f00). Outsourcing is the act of contracting a range of services from a third party (Pearlson, 2001; Butler *et al* 2001). According to McIvor (2003), the number of companies that have adopted a strategy which led to the outsourcing of more activities to suppliers is rising. Nevertheless, the decision for outsourcing or procurement services should be based on a professional procurement strategy. Companies develop their procurement strategies from various perspectives which include price/cost, product/quality, and value added point of view (Kumar *et al*., 200.x Van Weele, 2002). Thus, it is necessary to understand the dimensions from which the Nigerian financial se vices organisations view their respective procurement functions.

Supplier Evaluation

The process involved in supplier selection is lengthy, and it utilises different standards and criteria ranging from different time, pricing structure, service level and product quality.

Supplier development

Supplier development has been an attractive concept to managers and the academic community since the early 90s (Felly, Spekman, and Kamauff, 1999; Dyer and Singh 1998; Madhok and Tallman, 1998). This is typified by the fact that an organisation can at times decide to invest in their suppliers to achieve certain benefits. Supplier development programmes can be deployed in various forms. Buyers may share their business information with their suppliers, provide financial assistance and involve suppliers in new product development (Zajac and Olsen. 2001). It requires companies to invest in their suppliers in order to accumulate substantial benefits, and improve the performance or capabilities of their suppliers. Interestingly, the debate on supplier relationship management practices is now admired by academics and practitioners. As a result of this, managers have realised the need to move from the traditional adversarial relationship to a more strategic partnership with their providers (Morrissey & Fittaway. 2004; Veludo *et al.*, 2004). Thus, effective supplier development and supplier relationship management are vital to achieving competitive advantage (Quayle 2002). According to Ellram (1995) firms faced with problems of deficient supplier performance and capabilities usually implement a wide range of supplier development practice, which could be deployed to upgrade the capabilities of suppliers purported to be the weak link in the firm's supply chain. Also, firms can achieve efficiency through risk sharing within the supply chain (Handfield *et al.* 2000). This has encouraged firms to increase investment in their supplier's skills and competence so as to be able to achieve a world class supply chain (Liker & Wu. 2000).

Supporting suppliers via training and capacity development programmes: Respondents examined regarding supplier development by provision of training and capacity support what extent do you agree that companies should help improve their suppliers' businesses. via ^ capacity development?" The results show that fifty seven (57.1) percent and eight (8.1) per ^ respondents answered that they disagree and strongly disagree respectively with this statement. u. as if suppliers' training and capacity development is not a common practice amongst the represent the organisations. However, about twenty five (25.7) percent of the respondent showed agreement with statement, while about ten percent of the respondents remained neutral.

Information sharing with suppliers: In order to know their view on the principle of sharing corporate identify with suppliers, respondents were asked the below question: Do you agree that organisations should be making their sales and other financial information available to their suppliers? And the result showed there was a strong interest in sharing information with suppliers, about thirty two (31.5) percent and j percent of the respondents strongly agree and agree to constantly sharing information with their suppliers respectively. In contrast about eighteen (18.5) percent and twenty (20) percent strongly disagree and disagree with the idea of sharing business information with suppliers. This implies that the sharing information with the suppliers is not an extraordinary act within Nigerian financial service industry. However, there no evidence to establish the level at which information is shared with suppliers.

Suppliers' involvement in product/service development: respondents were asked to describe their perspective about supplier engagement in new product/service development thus: To what degree do- you support the involvement of suppliers in new product/service development process? Out of the seventy (70) respondents, fifty seven (57.1) percent of them said they agree and strongly agree altogether towards involving suppliers in product/service development process. While (38.6) percent of the respondents disagreed with this statement, none of them strongly disagreed. This implies that some financial services companies .in Nigeria have involved suppliers in developing new products/service at one stage or the other. Generally, financial products are intangible and raw materials are not required from the suppliers in order to make them (e.g. current account, savings account, loans). Based on this, the likelihood of engaging suppliers in this context is relatively low.

Provision of financial support for suppliers: According to Zajac and Olsen, (1993), proactive organisations occasionally assist their strategic suppliers with financial support. We sought the views of respondents on the need to develop supplier through financial support programmes aid issue and the response received is summarised below: To what extent do you agree with the thought that companies should provide financial support for their suppliers when necessary? Approximately fifteen (15.5) percent of the respondents strongly agreed. An almost equal number of the respondents were undecided. While about twenty eight (27. 14) percent of the respondents agreed with this statement, thirty (30) percent of them disagreed. It is amazing to see that almost equal number of respondents share opposing views with this statement.

Research Methodology

The aim of this study is to explore procurement and supply practices in the Nigerian corporate organisations while focusing on the financial services industry. Firstly, a literature review was conducted to help in identifying established

theories, generic organizational perspectives of the procurement function, supply evaluation and supplier development programmes. Issues identified in the literature were phrased into variables and were used as a tool to capture primary data through an empirical survey. This study adopted the questionnaire method because it enables the authors to paraphrase the research objectives into definite questions that were asked the survey participants (Davis & Cosenza, 1993). This in effect, enables the gathering of responses in an objective and standardised way (Cohen et al, 2000). The survey population comprises of senior management personnel from the banks, insurance, investment, mortgage and pension management companies in Nigeria. Afterwards, questionnaires were sent to the participants by email, and while they were expected to respond within three weeks, we made additional efforts to expedite responses.

Research Design

Each section of the questionnaire was used to collect different kinds of response. The first section explores the perceived strategic role of procurement in the respondents companies. In this instance, respondents were asked to verify the following: the presence of a procurement department, existence of a formal procurement strategy, numbers of procurement experts and the perceived value of the procurement function within their companies. The percentages of respondents' choice were calculated and reported. The second section of the questionnaire aided the collection of data on the following issues:

- i) Perceived importance of the procurement function in the organisation.
- ii) Suppliers' capability assessment priorities.

The third section of the questionnaire helped in examining respondents' views on supplier management principles that are well known in the literature. Consequently, data from section two and section three of the questionnaire were collected and evaluated using closed ended questions with *Liken Scale* items. The perceived level of importance of each item in the second section of the questionnaire were computed and reported. The statements developed in section two of the questionnaire were modelled after (Ouarly, 2006).

The level of agreement of respondents' response to the statements itemized in section three of the questionnaire were computed and reported as well.

Sample Size and Sampling Technique

Sampling and Data Collection

Using a random sampling approach, we choose a sample size of one hundred and fifty (150) questionnaires for this survey. This sample size is not considered to be accurate but reliable for the purpose of statistical analysis (Saunders *et al.*, 2003). It has been noted that researchers do not have access to a complete statistical population of interest in most situations (Chua, 2006). In the same way, we were less encouraged to access a larger number of participants because of the problem of getting their cooperation and the time spent on expediting participants to complete and return the questionnaires. Out of one hundred and fifty (150) questionnaires sent to participants, seventy six (76) questionnaires were returned. This represents a response rate of fifty point six (50.6) percent. In order to establish a reasonable level of reliability, we further screened the returned questionnaires to identify any participants. Six (6) out of returned questionnaires were not fit for further analysis due to mistakes made by respondents in the process of completing the questionnaires.

Method of Data Analysis

The authors then applied the *casewise* deletion procedure by setting aside all incomplete questionnaires from further analysis (Hair *et al.*, 1998). Hence, only seventy (70) questionnaires were subject to final analysis. The SPSS software was used to analyze the data and analysis results are presented below.

Data Presentation and Analysis

Participants were drawn from a range of financial service organisations in Nigeria.

The above results show that about sixty three (63) percent of the respondents were personnel from the banks compared with twenty three (23) percent and eleven (11) percent who were working in insurance and pension companies respectively. Respondents from investment companies are nearly three (3) percent but no response was received from other financial services firms.

These criteria are neither fixed nor standardised to evaluate suppliers. Their applications in the entire selection process vary across organisations. Therefore the selection process has been described as a typical trade-off that allows a certain supplier to offer poor quality good at a reduced cost while another supplier offer higher quality item at an uncertain deliver time (Bhuta & Huq 2002). It is therefore a risk to minimise cost, and maximise quality with the wrong supplier (Ara & OAarnlian, 2006). furthermore. Burke *et al.* (2006) asserted that the sourcing strategy of a firm is characterised by three key decisions, firstly criteria for establishing a supplier base. Secondly, criteria for selecting suppliers who will receive an order from the firm and thirdly the quantity of goods to order from each selected supplier.

In order to overcome supply chain disruptions, excessive downtime of production and eventually a loss in revenue, firms apply effective evaluation process to select their suppliers (Cebi & Bayraktar, 2003; Burke *et al*, 2006). Supplier evaluation can be conducted based on price, quality, delivery, flexibility, warranties, technical capability financial position, performance history and several others factors (Cebi & Bayraktar, 2003; Demirtas & Ustim, 2006; Weber & Fillram, 1993; Bhutta & Huq, 2002). A recent publication on the supplier selection method of a Nigerian bank shows that "the bank has consistently relied on referrals, and employee contacts to identify and on-board local suppliers" (Business Day 2011). This depicts an informal sourcing practice which ends up in driving poor quality goods and services into the financial services supply chain. Having recognised this problem, efforts are being made to improve vendor management practices within the financial services industry in Nigeria via capacity development initiatives. For instance, the Edcomm Group Banker's Academy (BBA) recently developed sets of courses to train the staff of various financial services companies in Nigeria about the importance of good vendor selection (EBA, 2011).

Conclusion and Recommendations

This research highlights procurement practices in Nigeria, with reference to the financial services industry. The findings show that procurement and supply activities are not perceived to be as important as issues relating to marketing, financial and customer management. The reason for this could be traced to the fact that organisations in developing countries are just beginning to realise the strategic nature of procurement (Msimangira 2003). Consequently, it could be presumed that in the Nigerian financial services industry, procurement has not attained a strategic role; though our review of respondent views shows that positive steps are now taken in this direction. Furthermore, most of the respondents confirmed the existence of a department in charge of procurement activities in their firms. This indicates some progress and awareness of effective procurement practices within their firms. Nevertheless, there are other factors which show that companies in Nigeria financial services industry require aggressive efforts to achieving world class procurement status, this is underpinned by the way procurement functions are being treated. They are categorised as cost centres rather than being value-added activities.

Moreover, the respondents also shared some views in support of supplier development principles. They would rather aid their suppliers through activities such as engaging them in performance review, exchanging business information with them and involving them in the development of new products, then provide monetary support and invest in training suppliers staffs. A synopsis of their views on supplier development could be termed as basic supplier development practices (Sanchez-Rodriguez *et al* 2005). This reflects their limited involvement and investment of resources on the suppliers. A gradual movement from the basic towards advanced supplier development practices is however, expected to emerge in the long run. This would further drive strategic procurement practices within the industry; It is only then that procurement can be integrated into the overall co-porate strategy (Ammer. 1989).

In view of the rising demand for effective control over spends on goods, services, contracts, and acquisition processes, Nigerian financial services originations need to adopt strategic procurement practices. This can only be achieved if procurement and supply function is seen as a key component of the firm's competitiveness. According to Trent (2004) an effective organisational design aids in the provision of the foundation upon which firms can pursue progressive supply strategies. If efforts are made to facilitate strategic approaches to procurement, the financial services companies in Nigeria can enjoy continuous cost savings, effective services and value for money.

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CITATION

Sa'adatu M. (2025). Procurement And Supply Management Practice in Corporate Nigeria: An Investigation into The Financial Service Industry; Opay Lagos, CBN and NDIC Abuja. In *Global Journal of Research in Humanities & Cultural Studies* (Vol. 5, Number 5, pp. 25–30). <https://doi.org/10.5281/zenodo.17257901>