

Ethics and Procurement Performance in State Corporations in Kenya

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Abstract: Despite the efforts put in by the government to oversee the introduction of the public procurement and disposal act of 2015 and the integrated financial management system, public institutions have continued to lose public funds through dubious procurement practices. The main aim of his study was to assess the influence that ethical practices have on the procurement performance of Kenyan state corporations with a case study of KenGen. A descriptive research design was used for this study. The population for the study included 381 procurement officers, procurement actuarial, and quantity surveyors at KenGen. Probabilistic sampling through the Yamane formula was used to arrive at a sample of 195 respondents. A questionnaire was the main instrument of data collection administered by the researcher in person. Data collected was then analyzed through descriptive statistics and inferential analysis. Results of the study were presented on tables and interpretation done narratively. The study found that there are bidders present during tenders opening as shown by a mean of 4.14. The study also found a ($\beta=0.319$, $t=5.281$ and $p\text{-value}=0.001$) between tendering transparency and procurement performance. The study concluded that tendering transparency had a positive and significant influence on procurement performance. The study recommended the continuous publication of tenders, continuous appraisal of tenders by auditors, public participation of bidders during the opening of bids by ensuring that tenders are not tampered with during opening.

Key Words: Ethics, transparency, procurement, Performance.

I. INTRODUCTION

Stakeholders' pressure has resulted in more accountability in organizations by encouraging the conduct of business ethically. The call of ethical practices in an organization is an urge to adopt behaviors that result in improved performance of the procurement of the organization and the performance of the organization as a whole in the 21st Century (Foerstl et al. (2017). Supply chain managers are required to uphold unquestionable ethical conduct in their daily duties of ensuring that organization obtains value for their money by outsourcing services and goods at the minimum cost possible but at the same time, the goods and services should be of high quality. However, they face ethical tests daily by contractors who want to circumvent professionals' standards and involve them in fraudulent dealings through canvassing (Atkinson, 2020; Vargas, et al., 2018).

The ethical behavior of managers and employees is a key aspect of the success of a business or organization. Many companies and organizations around the world are putting

more emphasis on ethical behaviors in business practice. According to Bernstein (2016) ethics, accountability and corporate responsibility are key issues in the business field. Despite the various advancements and improvements, either in technology or in knowledge, there still unethical issues and behaviors that have been arising over the years. Ethical issues such as child labor, the safety of the workplace, bribery, fraud, privacy disclosures, etc. have been seen in various business organizations around the world (Kaur, 2017). According to Nuseir and Ghandour (2019), ethical issues are mainly a result of conflicts of interest, issues surrounding workplace safety, poor management of employees, cultural diversity among the employees, etc. In light of this, the 21st century has seen companies finding it very difficult to ignore matters arising in the company's business practice that are associated with unethical behaviors among their employees. This has been attributed to the scandals seen as a result of unethical issues in the business practice (Hanum & Haddad, 2019).

The debate on public procurement has ignited a lot of debates both locally and internationally. In Malaysia for instance the public procurement officers have been blamed for colluding with economic criminals to carry out corruption deals that have led to the loss of public money. Efforts to instill high levels of public integrity and discipline in procurement have not yet yielded the desired goals of using procurement to achieve both social and economic goals (De Angelis, et al., 2018).

Seyram (2017) noted challenges in procurement in Ghana that included: the procurement officers accepting gifts and entertainment from prospective suppliers to make sure that the tenders are awarded in their favor; giving in to pressure from top management and bowing to political pressure to favor particular companies to win tenders. Eyo (2017) looking at corruption and challenges on sustainable procurement noted that in Uganda procurement professionals have failed in several ways to buy goods that meets the customers' needs as well as giving dishonest feedback to prospective suppliers, such as withholding crucial information about the tender or failure to explain to prospective clients details about a tender to mislead them during tendering so that they control tendering process in their selfish interests. Daily dealings with vendors and constant communications also adversely affect procurement performance.

Kilonzo (2017) looking at the public procurement regulation determinants and procurement performance at the ministry of foreign affairs in Kenya noted shortcomings in areas of staff training, low technology acceptance in procurement. He also noted that there was a relatively low percentage in the number of people that are aware of the laws and regulations governing procurement in the public sector. These laws and regulations are well stipulated in the public procurement and disposal act of 2015 (PPDA, 2015).

Ethics is a significant issue when it comes to public procurement. Public procurement involves spending public money, and it is important for buyers to always act in the best interest of their stakeholders. National Institute of Governmental Purchasing (2019) in Sweden noted that the central purchasing department was the most common in public procurement with 78% of procurement being done through this department. On the other hand, the decentralized outsourcing department had only 22% of procurement is done through it. This mix of procurement approaches has helped in improving procurement supervision and ensuring procurement for urgent contracts is done in a timely way, with more than 99% of procured projects coming to successful completion.

However, the instances of unethical practices have led to the loss of public funds due to low stakeholders' accountability in state organizations calling for the institutions to initiate measures to curb corrupt dealings between the contractors and insiders in the Kenyan public sector. These unfortunate incidences are evident despite the introduction of the public procurement and disposal act of 2015 which advocates for the value of money for public contracts through upholding public integrity in the procurement process by ensuring streamlined ethical practices (Ngovi, 2019). According to the office of the director of public prosecution (2020), there are over 234 procurement corruption and procurement fraud cases that are currently underway and at different stages of prosecution or legal procedures in Kenyan courts involving loss of billions in public money

Muhia et al. (2017) noted that inadequacy of confidentiality in the tendering process, conflicts of interest among public officers on public tenders, lack of competitive bidding, and lack of openness and transparency in outsourcing had adversely affected procurement of pharmaceutical drugs in county governments in Kenya. The subject of procurement ethics has not been adequately covered, Simiyu *et al.* (2017) studied the influence of supplier evaluation ethical practice on supply chain performance among G4s transport and logistics firms in western Kenya. The study revealed that ethical practice issues impacted negatively supply chain performance and the profitability of the firm as a whole. Besides, the study found that a higher percentage of the general public was not aware of the public procurement and disposal act of 2015. Mbae (2014) focused on determining the relationship between the procurement performance of county governments and the public procurement law in Kenya. The study revealed that the existing procurement laws had a profound effect on

procurement by reducing the speed at which both goods and services were being procured. Besides, the quality of these procured services and goods had improved significantly, the dispute resolution mechanism improved as well as the technical competencies of the staff involved in procurement in these county governments. Other studies (Ngovi, 2019; Simiyu, Keitany & Mukanzi, 2017), have been conducted among profit-making institutions where the ownership takes direct control of projects in most instances value for money is achieved. However, state agencies work on behalf of many stakeholders including the public at large, there is no direct control as state agents have in many instances deviated from serving the interests of their principals and have become culprits and facilitators of economic crimes. The studies conducted in public institutions have not delved into precise ethical practices, the scope of the studies have also been outside parastatals set-up or they have dwelled on compliance issues with laws. The purpose of the current study is to establish the influence of ethics on procurement performance in state institutions. Specifically, the study ought to answer the question what is the influence of tendering process transparency on procurement performance at KenGen?

II. THEORY AND HYPOTHESIS

Mbae (2014) focused on determining the relationship between Public procurement law and procurement performance of county governments in Kenya. A descriptive research design was adopted for this study with questionnaires being the main instrument for data collection. The questionnaires were administered by the researcher in person with procurement officers in the county governments being the target population. The study revealed that the existing procurement laws had a profound effect on procurement by reducing the rate at which goods and services were being procured, increasing the quality of these procured goods and services, enhanced transparency on the conduct of procurement, improved dispute resolution mechanism as well as improving the technical competences of the procurement staff in the county. The study further revealed that lack of transparency, unethical practices, dishonesty, and lack of accountability among procurement officers had adversely affected the procurement process. The study recommended for the training of procurement officers on procurement laws, strict punishment of officers found culpable as well as setting up of procurement oversight committee to help in ensuring that procurement laws are applied to the letter.

Odhiambo (2016) studied the influence of ethical practices on the procurement performance of the hospitality industry in Machakos County. Questionnaires were used in this study as the main tool for data collection with this study adopting a descriptive research design. The sample size for the study included 312 four-star hotels in Machakos County. This study revealed that transparency, fair treatment, and accountability were key factors in procurement. Acting responsibly in procurement was therefore concluded to be a major determinant in procurement performance.

Amelika (2019) studied the ethical challenges facing procurement in medical institutions in Malaysia. The study adopted a descriptive research design with the sample size of this study including 1232 medical facilities that are located in New York City. The collected data was analyzed descriptively and also through inferential statistics. The results of the study established a strong negative correlation between hostile culture, language barrier, and integrity in the supply chain, with organizations facing challenges of procuring abroad due to the challenge of language translation hindering effective communication on ethical issues.

Makali (2015) studied the dynamic link between ethics and procurement performance among humanitarian organizations in Kenya. The population of the study included 70 NGOs registered with the NGOs council in Kenya. The study surveyed the census sampled respondents. Both descriptive frequencies and percentages were used in data analysis. To determine the relationship between procurement performance and ethical issues e.g. integrity, conflict of interest, confidentiality, and competitive bidding, regression and correlation analysis were used. The study noted a positive relationship between a confidential tendering exercise, a process that upholds integrity, transparency, and responsiveness in procurement. On the other hand, negative relationships were established between gifts, conflict of interest, and responsiveness in procurement.

White *et al.* (2016) evaluated procurement in different organizations either private or public organizations. The study involved over 20 procurement managers and 15 finance officers working in state institutions versus private institutions who were selected purposefully for the study. The study sought to establish the frauds and ethical issues in procurement in these institutions. The study noted that fraud happens mainly at the selection of suppliers as well as at the stage of contract administration. Lack of project completion and unnecessary spending in this public sector was also linked to fraudulent activities in the tendering process and loss of public funds.

H0: Tendering transparency does not significantly influence procurement performance at KenGen

The study adopted a case study research design. The study chose a case study because it focused specifically on Kenya Generating Company as the location of the study, therefore participants and foundation of the research was solely based on the organization and its employees. The study population involved procurement managers and officers working in collaboration with the procurement department at KenGen. According to the human resource registry (2020) at KenGen, there are 381 procurement officers and staff in collaboration with the procurement department (procurement actuarial, quantity surveyors, and procurement offices).

Sampling for the study was probabilistic sampling through the Yamane formula at a 5% margin error margin to give each respondent an equal chance of being chosen.

The formula used was as follows:

$$Yamane\ Formula,\ n = \frac{N}{1+N(\epsilon^2)} \dots Equation\ (a)$$

Where n is the sample size to be used in the study, N is the population targeted by the study, ε is the error margin. Using the Yamane formula and an error margin of 5%, the formula gave a sample size of 195 respondents.

Therefore, the sample size was determined as follows:

$$n = 334 / [1 + 381(0.05^2)] = 381 / 1.9525 = 195.13 \text{ which is } 195 \text{ to nearest figure.}$$

Data Collection Instrument

Semi-structured questionnaires were used to collect data for the study. The choice for the questionnaire is due to the ease of collecting data and the ability of a questionnaire to give quick and accurate data that is not manipulated because of confidentiality. Data for the study was collected through the drop and pick method with the assistance of two research assistants. The researcher went face to face to explain the purpose of the study to the respondents at KenGen.

This study analyzed quantitative data through descriptive and inferential analysis. Frequency, standard deviation, percentage, and mean are among the descriptive statistics that this study used. Besides, inferential statistics through regression analysis was used for hypothesis testing. Tables and narratives were used to present the findings of this study.

A simple linear regression model was used in the study, expressed as follows:

$$Y = \alpha + \beta_1 X_1 + \epsilon$$

Where

Y is the procurement performance

α represented a constant

β₁.....β₄, is the coefficients tendering transparency

X₁ represented Tendering transparency

III. RESULTS AND DISCUSSIONS

Response Rate

The study aimed at collecting data from 182 respondents sampled. However, the study collected data from 182 respondents which represent 93.33%, only 6.675 of the respondents or responses were not useful or relevant to the study.

Demographic Characteristics

The majority of the respondents were male employees working in the procurement department at KenGen (71.4%). Besides, the majority of the respondents had worked at KenGen for a period of between 6 and 10 years (54.4%).

Descriptive Statistics for Tendering Transparency

Table 4.1 shown that the majority of respondents agreed there was publication for available tenders at KenGen as shown by a mean of 3.81 (A=53.3%); it was also agreed that there is an internal and external auditor who ascertain that funds are utilized well as shown by a mean of 4.10 (56.6%); it was also agreed that there are bidders present during tenders opening as shown by a mean of 4.14 (A=52.7%); it was also agreed that tenders are only awarded if there was a minimum of three bidders as shown by a mean of 4.16 (A=47.8%) and finally it was agreed that the employees at procurement do not tamper with tenderers documents as shown by a mean of 4.12 (A=63.7%). The study by Mbae (2014) on the relationship

between public procurement law and procurement performance of county governments in Kenya concurred that existing procurement laws had a profound effect on procurement by reducing the rate at which goods and services were being procured, increasing the quality of these procured goods and services, enhanced transparency on the conduct of procurement, improved dispute resolution mechanism as well as improving the technical competences of the procurement staff in the county. The study further revealed that lack of transparency, unethical practices, dishonesty, and lack of accountability among procurement officers had adversely affected the procurement process.

Table 1: Tendering Transparency Practices

Statement	SD		D		N		A		SA		M	Std
	F	%	F	%	F	%	F	%	F	%		
We make a publication for available tenders at KenGen	8	4.4	17	9.3	18	9.9	97	53.3	42	23.1	3.81	1.034
We have an internal and external auditor who ascertain that funds are utilized well	2	1.1	8	4.4	14	7.7	103	56.6	55	30.2	4.10	0.804
We ensure that there are bidders present during tenders opening	3	1.6	10	5.5	9	4.9	96	52.7	64	35.2	4.14	0.868
Tenders are only awarded if there was a minimum of three bidders	2	1.1	10	5.5	14	7.7	87	47.8	69	37.9	4.16	0.868
We do not tamper with tenderers documents	2	1.1	4	2.2	12	6.6	116	63.7	48	26.4	4.12	0.710

Descriptive statistics Procurement Performance

Table 4.2 show that .respondents agreed on the statement that tendering exercise is completed within the given timeframes as shown by a mean of 3.84 (69.2%); it was agreed that KenGen has the best suppliers and contractors as shown by a mean of 3.90 (A=53.8%); it was also agreed that Cost of

procurement at KenGen is low as shown by a mean of 3.95 (A=52.7%); also it was agreed that goods at KenGen are obtained within the appraised budgets as shown by a mean of 3.91 (64.3%); on Customer service being at optimal a mean of 3.98 was revealed showing it was agreed (A=61.5%); finally it was agreed that suppliers of KenGen are paid within a short time as shown by a mean of 4.10 (A=47.3%).

Table 2: Procurement Performance

Statement	SD		D		N		A		SA		M	Std
	F	%	F	%	F	%	F	%	F	%		
Our tendering exercise is completed within the given timeframes	3	1.6	18	9.9	10	5.5	126	69.2	25	13.7	3.84	0.844
We have the best suppliers and contractors	4	2.2	19	10.4	15	8.2	99	53.8	46	25.3	3.90	0.972
Our Cost of procurement is low	2	1.1	24	13.2	8	4.4	96	52.7	52	28.6	3.95	0.979
We obtain goods within the appraised budgets	0	-	19	10.4	12	6.6	117	64.3	34	18.7	3.91	0.816
our Customer service is at optimal	1	0.5	16	8.8	11	6.0	112	61.5	42	23.1	3.98	0.834
We pay our suppliers within a short time	5	2.7	16	8.8	5	2.7	86	47.3	70	38.5	4.10	1.003

Hypothesis Testing

Model Summary

Table 4.3 above shown an R square of 0.351. The results of the study, therefore, revealed that tendering transparency could explain 35.1% of the variations on the dependent variable (procurement performance).

Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0	1	.593 ^a	.0351	.342

a. Predictors: (Constant), tendering transparency

Table 4 on ANOVA, revealed an F ratio of 54.557 and a df=181 that was significant at 0.001 which was less than 0.05. Therefore the null hypothesis that: *Tendering transparency does not significantly influence procurement performance at KenGen*. The results indicated that the overall model was statistically significant in predicting procurement performance at KenGen.

Table 4: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	66.587	4	16.647	54.557	.000 ^a
	Residual	54.007	177	.305		
	Total	120.593	181			

a. Predictors: (Constant), tendering transparency
 b. Dependent Variable: procurement performance

Regression Coefficients

Table 5 shown the Pearson regression coefficient conducted to determine the significance of the tendering transparency on procurement performance at 0.05 level of significance. Results showed that $\beta = .319$, $t = 5.281$, associated with a p-value of 0.001. Which revealed the existence of a statistical significance between tendering transparency and procurement performance. Ndangweri (2018) who conducted studied the relationship between procurement performance in humanitarian organizations in Kenya and ethical practices concurred that transparency and accountability in procurement were significant determinants in enhancing responsiveness in disaster-stricken areas in the northern region through the timely supply of food aid, medicine, and psychological and social support.

Table 5: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	1.536	.346		4.434	.000
	tendering transparency	.319	.060	.441	5.281	.000

a. Dependent Variable: procurement performance

IV. CONCLUSIONS AND RECOMMENDATIONS

The study concluded that tendering transparency had a positive and significant influence on procurement performance at KenGen. Increased tendering transparency led to increased procurement performance. The study, therefore, rejected the null hypothesis that: *Tendering transparency does not significantly influence procurement performance at KenGen*

The study recommended the continuous publication of tenders, continuous appraisal of tenders by auditors, public participation of bidders during the opening of bids to ensure that tenders are not tampered with during opening at KenGen. The study also recommended for the training of procurement officers on procurement laws, strict punishment of officers found culpable as well as setting up of procurement oversight committee to help in ensuring that procurement laws are applied to the letter.

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