

Effect of Supplier Ethics on Performance of Public Procurement Systems in Kenya

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Abstract

Public procurement system is essential in the delivery of government services yet it is affected by many constraints which impact performance. In spite of the many efforts by the government to improve the procurement system, a number of problems still face the system such as shoddy work, and lack of quality goods and services. Supplier rating has been proposed as cure of public procurement method. Despite its use in public procurement system in Kenya, a lot of complaints have been made by buyers regarding the capacity of suppliers. The study sought to evaluate the effect of supplier ethics on the performance of public procurement system in Kenya specifically at KEPHIS, Nairobi. A descriptive research design was adopted. The study targeted a population of 102 employees of KEPHIS, a public institution in Kenya. Primary data was obtained using questionnaires, analysed using both descriptive and inferential statistics and presented in form of tables and graphs. The relationship between variables were determined using correlation coefficient and multilinear regression equation. Hypothesis was tested using ANOVA. A pilot study was done to establish the validity and reliability of the questionnaire. From the findings there was a statistically significant positive relationship between Supplier ethics and the performance of public procurement systems ($r=.650$, $p =0.000$). The researchers suggest that further studies may be carried out by other scholars to establish other determinants of performance of procurement systems in other institutions more so private or even public ones.

Key words: Ethics, Governance, Public, Procurement, Performance, Supplier.

1.0 Introduction

In Kenya, approximately 60% of the revenue from the government is allocated to procurement. The government is a key purchaser of goods and services in the nation. Procurement by the government is done through a number of public institutions located all over the country. Because of this, the government has instituted a number of policies and requirements to be followed when directing public procurement systems (Mukabi, 2014; PPAD, 2015). The constitution of Kenya, (2010) has made a number of provisions related to public procurement as a procedure quoted in article 227. The Public Procurement and Asset Disposal 2015, was instituted to streamline and accelerate operations of public institutions by ensuring that procurement procedures are transparent, promote accountability and minimize the wastage of resources, because public institutions have a substantial role in the creation of value, job opportunities, demand for goods and services and contribute to the nation's wealth. Procurement hence must meet the required regulations (Yusuf, 2014).

Previous performance is taken into consideration before being assessed by state-owned institutions. In order to ensure compliance with the Public Procurement and Asset Disposal Act of 2015 and the Public Procurement and Asset Disposal Regulations of 2020, vendors are chosen in accordance with those statutes. In accordance with Regulation 51 (1) I "contracts must be awarded to the lowest assessed bidder..." Other factors include "compliance with requirements, technical acceptability, adherence to time delivery, local service and spare parts availability, and cost effectiveness." For a number of Kenyan public businesses, quality and dependability are also important drivers of success (Ibid, 2008). When it comes to purchasing, vendor rating is important since it helps organizations choose the best vendor for their needs, which saves them time and money while also providing them with the greatest value for their money. A significant benefit of the vendor rating is that it evaluates the whole performance of the suppliers rather than focusing on a single aspect of their performance. This also provides the customer with further information about the vendor's capabilities in terms of expertise, testing, transportation, and contractual willingness. Effective

vendor rating too promotes transparency in organization hence ensuring the organization receives the best from suppliers creating more room for advancement (Gopalakrishnan, 2010).

The debate on the role of vendor rating specifically on supplier ethics and procurement performance has elicited a lot of interest among scholars and practitioners in the country. According to Michira (2013), the assessment and management of suppliers in the real estate sector in Kenya has not been given the attention it deserves despite the fact that the industry contributes more than 5.1 percent of the country's GDP. He claims that the actual setae sector contributed KES 12.6 billion to the country's GDP in 2011 and employed more than 1 million people, both directly and indirectly, according to his study (KNBS, 2012). As a result, supplier inefficiencies have caused the National Housing Corporation to lose millions of dollars as a result of dealing with unscrupulous and unreliable vendors. On the other hand Okello & Were (2014) postulate that vendor rating process has improved operations performance by reducing cost, hence enabling organizations to offer their products and services at more competitive rates to beat the harsh competition. However, a number of Kenyan institutions consider supplier evaluation not influential to the purchase decisions since most of these decisions are under the influence of pricing and politics (Kavale & Mwikali, 2012).

The perception towards procurement is that of being prone to corruption; with occasional wastage and influencing quality of service and life (Medlin, 2013). Therefore a need arises to reverse this negative trend and improve public confidence (Mageto, 2016). In spite of much effort by the Government to rectify the procurement system, it is still affected by inferior works, and low quality of goods and services. A lack of proper implementation of acceptable performance standards makes operations costly, causes incoordination of business activities, results in the inaptitude to meet domestic policy goals, and fails in attracting and retaining professionals. Suppliers usually make complaints regarding the capacity of buyers from the public sector (Handfield, 2017).

Further, Report by PPOA (2015) indicates that up to 30% of procurement inefficiencies were detected in the public sector where a supplier who did not meet delivery requirement and quality threshold in previous report was awarded same tender in the current budget. Selection criterion like financial stability, technical competence, on time delivery as well as supplier ethical status can help in achievement of the objectives. Kenya Plant Health Inspectorate Service (KEPHIS) has tried to maintain quality products to its customers by selecting suppliers who deliver quality goods and services in time and at fair price. However they also face challenges such as delays in service delivery, low quality of products or services, failure to complete orders and even threats of litigation because of delays in payments (Wachiuri, 2018).

Studies have been done on the supplier rating concept and they include Lucas (2015) who conducted study on supplier selection factors and performance in nongovernmental Kenyan organizations and found that, a careful selection of suppliers should be made because they can either positively or adversely impact the organization's performance. Krop and Iravo (2016) evaluated the effects of selection of suppliers on performance of procurement in West Pokot County specifically evaluating the value derived, quality, cost management and delivery. They found that, cost factors, quality and selection principles were the crucial factors. Shiati (2014) evaluated how determinants of supplier selection affect performance of Kakamega County and found that, cost and supply quality had a positive substantial association to public institution's performance, Kenya. Odhiambo, (2014) also studied the effect of supplier selection and performance of procurement in Nairobi city county and found that supplier ethics was the most neglected crucial factor adopted by the county. It is evident that limited studies exist on the relation between supplier ethics and supply chain performance. To fill this gap, the study therefore sought to assess the effect of supplier ethics on public procurement systems specifically at KEPHIS.

Supplier ethics does not significantly influence public procurement performance?.

2.0 Literature Review

Before selecting a supplier, ethics should be considered as it has a significant influence on supply chain performance. Ngugi and Mugo (2014) studied the internal factors that affect procurement in the public

sector; surveying Kenya government ministries whose findings found out that poor communication and supplier selection had an effect on the procurement of health care supplies. Other studies have however arrived on contradictory findings as to whether supplier ethics has an effect on supply chain performance. Mogikoyo (2016) sought to establish how supplier evaluation attributes relates to supply chain performance whose results indicate a positive relation between supplier evaluations attributes and performance of the supply chain. On supplier evaluation attributes, these corporations consider financial health, ethics, turnover and level of profitability when evaluating suppliers. From the study it was found that supplier evaluation attributes had a positive but supplier ethics had an insignificant impact on supply chain performance.

Supplier ethics evaluation has been found to positively influence service delivery among hospitals. Gituru (2018) studied the impact of competitive procurement on service delivery among public hospitals in Nakuru. The target population was medical officer in charge of hospitals in Nakuru County, procurement officers and department head from user departments in sub-county hospital and referral hospital in Nakuru County. A census technique was adopted and incorporated all the targeted respondents, with a sample of 5 procurement officers, 63 head of departments from user departments and 12 medical officers who headed the various hospitals. In collecting the required primary data, a structured questionnaire was utilized. An analysis of quantitative data was made by use of inferential and descriptive statistics. The findings showed that supplier ethics was positively correlated with service delivery.

Supplier ethics has also been found to have a positive influence on procurement contract performance. Sauda, Ngeny and Datche (2019) examine how supplier evaluation impacted procurement in Coast General Hospital, Kenya. In addressing the research hypotheses, a quantitative correlation design applied. A Stratified random sampling method sampled 70 respondents from 85 respondents spread out in five departments within the hospital. The study relied on primary data that was obtained using self-administered structured questionnaires administered through drop and pick method. Analysis of data was made using inferential and descriptive statistics. Findings showed that supplier ethics was substantial to procurement contract performance in the Hospital.

An effective and efficient procurement process guarantees that supplies are acquired and made available as soon as they are needed, without any delays. As a result, it guarantees that supplies are purchased at the most competitive and fair prices possible, while also checking against the costs of stock outs. When comparing the overall execution of the procurement process between the private and public sectors, there are significant discrepancies to be found (Johnson, Leenders, & Flynn, 2011). Kipkemboichemjor (2015) conducted a study on supplier assessment criteria and procurement performance on behalf of Kenyan public sector organizations. Kenya Parastatals' procurement success would be determined by the supplier criteria that are utilized to seek suppliers for them, according to the findings of the research. The quality of the products/services, the pricing of the products/services, and the organizational culture of the company were all variables taken into consideration.

Aseka (2010) conducted a research study on the supplier selection criteria and performance of manufacturing companies that are publicly traded on the Nairobi Stock Exchange (NSE). According to the findings of the research, there is a favorable relationship between successful supplier selection and organizational performance. It demonstrated that firms gave greater weight to quantitative factors such as a supplier's technical expertise, commitment to quality, and ability to meet delivery deadlines in supplier selection than to qualitative factors such as a supplier's willingness to share confidential information when making supplier selection decisions.

3.0 Research Methodology

The study employed a descriptive study design. The study was executed at KEPHIS in their eight regional offices namely Kisumu, Nakuru, Embu, Muguga, Jomo Kenyatta International Airport, Mombasa, Kitale and Naivasha that man all the entry and border points into the country. The census study targeted all the 102 employees in the departments of procurement, finance, human resource and administration, ICT, seed department and phytosanitary department. Primary data was collected using semi structured questionnaires and analysed using both descriptive and inferential statistics. Results were presented using tables.

4.0 Findings and Discussions

Cronbach's alpha was utilized to examine the trustworthiness of the data in the research. Reliability is a measure of how consistently an instrument's measurements are the same each time it's used on a same set of conditions with a similar set of individuals.

Table 1: Reliability Statistics

Variable	Cronbach alpha	Comments
Public procurement System performance	.764	Acceptable
Supplier ethics	.806	Acceptable

Source: Field Data (2021)

The research found that the data instruments had a Cronbach alpha Value over 0.70, indicating their dependability. >0.9 – Excellent; >0.8 – Good; >0.7 – Acceptable; >0.6 – Indeterminate; >0.5 – Poor; 0.5 – Unacceptable (Connelly, 2011).

Descriptive Statistics Results of Supplier ethics and public procurement performance

In order to assess the effect of supplier ethics on public procurement performance, the third goal of this research has to be established. A Likert scale ranging from 1 to 5 (with 1 being strongly disagreed and 2 being disagreed) was used. The mean answer rate from the respondents was determined using the response scale (3 = not sure, 4 = agree, 5 = definitely agree). 4 and 5 (agree and strongly agree) were put together for the sake of interpretation, 1 and 2 (strongly disagree and disagree) were grouped together for the purposes of interpretation, and 3 was categorized as don't know. The findings of this investigation are represented in the following table:

Table 2: Supplier ethics on public procurement performance

Supplier ethics	SD	D	NS	A	SA	M	SD
Procurement staff declare gifts above Ksh 5000	24.8%	51.0%	3.3%	6.5%	14.4%	2.3	1.3
It is only via the adoption of ethical practices that businesses can guarantee that they get value for their procurement dollars.	14.4%	12.4%	3.9%	26.8%	42.5%	2.4	1.4
Accountability ensures that the company gets the most value for its money by improving the overall procurement performance.	12.4%	11.1%	4.6%	22.9%	49.0%	2.2	1.3
The procurement personnel is aware of the current rules regulating ethics in the procurement industry.	28.1%	41.2%	3.3%	9.2%	18.3%	2.3	1.4

Source: Field Data (2021)

Results in Table 2 showed that majority of respondent disagreed that procurement staff declare gifts above Ksh 5000, with mean score of 2.3 and standard deviation is 1.3. The results also showed that majority of the respondents agreed that it is only via the adoption of ethical practices that businesses can guarantee that they get value for their procurement dollars with mean score of 2.4 and standard deviation is 1.4 implying ethical status of suppliers was a factor. The results also showed that majority of the respondents agreed that accountability ensures that the company gets the most value for its money by improving the overall procurement performance with mean score for place is 2.2 and standard deviation is 1.3 implying that company profited from having the procurement office in place. Further, respondents disagreed that the procurement personnel is aware of the current rules regulating ethics in the procurement industry with mean score for place is 2.3 and standard deviation is 1.4 this might have been impacted by the fact that the organization did not organize staff retreat that are meant to reeducate their employees on the current trends.

4.3 Regression Analysis

This section contains inferential analysis for supplier ethics and public procurement performance as the dependent variable. Model fitness, ANOVA tests, and regression coefficients are examples of inferential statistics covered in this section. The findings reported in Table 3 demonstrate the suitability of the regression model that was employed to describe the occurrences under investigation.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.898 ^a	.806	.801	.19758

a. Predictor: (Constant) Supplier ethics

Source: Field Data (2021)

According to the findings in table 3, the value of adjusted R² is 0.801. This implies that, there was a variation of 80.1 % of performance of the public procurement system varied with supplier ethics at a confidence level of 95%. The remaining 19.4% is explained by other strategies put in place by the procurement function to enhance its performance. R is the correlation coefficient which shows that there is a strong correlation between the study variables as shown by the correlation coefficient of 0.898.

The findings of the ANOVA are shown in Table 4.

Table 2: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.488	6	0.372	3.131	.048 ^b
	Residual	16.121	50	0.329		
	Total	17.609	56			

a. Dependent Variable: public procurement system performance

b. Predictor: (Constant) Supplier ethics

Source: Field Data (2021)

From the statistics in table above, the processed data, which is the population parameters, had a significance level of 4.8% which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 0.05. The F critical at 5% level of significance was 3.131. Since F calculated is greater than the F critical (Value = 2.021), this shows that the overall model was significant.

Table 5: Regression of coefficient

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.833	.172		4.847	.000
supplier ethics(X)	.162	.063	.223	2.583	.000

a. Dependent Variable: public procurement system performance

Source: Field Data (2021)

From the finding in table the established regression equation is;

$$Y = 0.833 + 0.162X + E$$

From the above regression model, holding supplier ethics constant, public procurement system performance would be at 0.833. It was established that a unit increase in supplier ethics would cause an increase in performance of the procurement system by factor of 0.162. Supplier ethics is an indication that the supplier is well versed in their area of operation and is more market responsive as compared to a supplier who is new in the market. From analysis of data collected in the study, reliability of suppliers has been shown to affect performance of the procurement function to a very great extent.

For motivations behind this study, hypothesis was conveyed at 5% criticalness level utilizing p-values in Table 4. The study attempted to test the legitimacy of the hypothesis H₀: Supplier ethics does not significantly influence public procurement performance, since the p-values (.000 < .05), therefore the null hypotheses was rejected.

Research findings of this study have shown that Supplier ethics indeed affects performance of public procurement system to a great extent. These findings are in line with those of Pacini and Spagnolo (2012), who found out that there is a strong relationship between ethics of suppliers and performance of the procurement function and that of the entire organization at large. Review of literature in the study show that looking at the ethics of suppliers helps in determining the level of risk it would present if a significant contract is awarded to a given supplier. A supplier who has been evaluated and found to have a good past

performance history is stable in business and more experienced in their area of operation especially those dealing in standardized items. A procurement function that deals with such a supplier can expect better performance of their function especially when sourcing for items that are very critical to an organization.

5.0 Conclusion and Recommendations

Findings from the study show that ethics of suppliers affect supply chain performance at KEPHIS to a great extent. It can therefore be concluded that ethics of supplier's affects supply chain performance. The study recommends that orders should be placed to suppliers who have been evaluated based on their ethics and found to be satisfactory. Suppliers who have a bad past performance record should be blacklisted or entirely removed from the approved vendors list. A supplier performance index should be used to measure performance of suppliers. The study further recommends a study of other factors considered in vendor rating and their effect on the performance of public or private procurement system.

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