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ROLE OF INTEGRITY IN ENHANCING EFFECTIVE PROCUREMENT PRACTICE IN KENYA BUREAU OF STANDARDS

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Strategy

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Abstract

Purpose: Integrity risks occur in every stage of the procurement process, from the needs assessment over the bidding phase to the contract execution and payment. These risks include duplication of invoicing for goods and services not supplied and abuse of non-competitive procedures on the basis of legal exceptions such as contract splitting, abuse of extreme urgency, and non-supported modifications. There is therefore a genuine demand for public sector institutions to strengthen high integrity in their operations so as to promote good governance and in enhancing sound management of public procurement. This study investigates the role of integrity in enhancing effective procurement practice in Kenya bureau of standards.

Methodology: A case study design was adopted and a random stratified sampling method was used to select sample size from the target population. The target population for this study included Executives, procurement officers, and Quality Officers of Kenya Bureau of standards. This study used a random stratified sampling method to select a sample from the population and arrived to a total of 28 respondents as the sample size. The study used a questionnaire to collect primary data. The researcher used both qualitative and quantitative techniques in analyzing the data. Descriptive analysis such as mean, frequencies and percentages was used to analyze the data. The study used the following regression model.

Results: The study findings revealed that relationship between buyer and supplier plays an important role in effective procurement practice, and that, poor business relationship promote bad image to the organization. Transparency and accountability were found to be important in procurement and plays a significant role in ensuring effective public procurement practice. The study findings also revealed that risk management is useful in all public procurement projects.

Unique Contribution to Theory, Practice and Policy: The study recommends that Rules and norms that promote integrity in an organization should be adopted by management and embraced by employees. Developing competent integrity promotes good image to an organization hence attracting reliable business partners that offers a completely different set of services to a market that is similar to its own, allowing the business to increase its market size with little impact on the franchise business

Keywords: *Effective procurement, Buyer-supplier relationship, Transparency and accountability, Risk Management.*

1.0 INTRODUCTION

Integrity refers to upholding ethical standards and moral values of honesty, professionalism and righteousness, and it is a cornerstone for ensuring fairness, non-discrimination and compliance in the public procurement process (OECD, 2016). The risks of corruption in procurement are receiving increasing attention in the world of development assistance (Froystadd, 2011). Many economies mostly in the developing countries receive huge amount of funds from world governing bodies like the World Bank, and IMF for sustainable development. However, these funds are mostly misappropriated by public officials who are entrusted with management of government projects.

Public procurement is widely known as a power tool to drive and shape market Development through the high volume of public expenditure and the wide range of products purchased by government from stationery, furniture, vehicles to infrastructures management (Froystadd, 2011). In addition, public purchasing relies on rules and procedures defining the specifications addressed to product and service according to public policy. According to (APEC, 2013), Procurement forms part of high percentage of government expenditure. On average, 20% of the Gross Domestic Product (GDP) of OECD (Organization for Economic Co-operation and Development) countries is due to public expenditures, roughly 15% in non-OECD countries and in the United States public procurement accounted for 12% of GDP in 2011.

Statement of the Problem

Bribery, collusion, conflict of interest, and trading influence are perceived to be the greatest impediments for integrity practice in government institutions (OECD, 2009). Research estimates on damages and wastes in procurement indicate that an average of between 10 to 25% of contract value is lost in dire processes (Transparency international, 2010). In Kenya, Ethics and Anti-Corruption Commission received 117 reports relating to the public procurement irregularities in 2013/2014 financial year (EACC, 2015). An estimated amount on total kickbacks paid on government contracts amounts to 36 billion Kenyan Shillings and other bribes paid by Kenyan firm's totals to 69 billion Kenyan shillings (World Bank, 2012). The findings by the Public Procurement Oversight Authority for the final year 2008/2009 noted that KEBS floated very many quotations for similar items, which could be viewed as splitting of orders to avoid thresholds e.g. low value procurements of various items, procurement for laboratory chemicals, materials and equipment, repairs to motor vehicles and general office purchases. This study therefore investigates the role of integrity in enhancing effective procurement practice in Kenya Bureau of Standards. Buyer-Supplier Relationship, Transparency and Accountability and Risk Management are variables used to give more insight into the study.

Specific Objectives

The study was guided by the following specific objectives:

1. To establish the role of buyer-supplier relationship on effective procurement practice
2. To examine the role of transparency and accountability on effective procurement practice
3. To determine role of risk management on effective procurement practice

2.0 LITERATURE REVIEW

Buyer-Supplier Relationship

Emphasis on integrity in public procurement is a requirement when dealing with Stakeholders. Particularly in dealing with suppliers, integrity is essential to the creation of long-term relationships and the establishment of supplier good will. Business relations have become “strategic” and the process of relationship development is accelerated as firms strive to create relationships to achieve their goals (Kamau, 2011). Business relationships in procurement include the relationship between buyer and supplier. Without signals and/or behaviors demonstrating a willingness to work together to increase rather than merely redistribute value within the supply chain, buyers and suppliers will be motivated to look out for their own interests (Fram, 1995). Willingness, however, to work together and to share risks allows benefits to be achieved not only in cost, quality, delivery, and productivity, but also in product development, technology deployment, and problem solving

In working to build the right business relationships, organizations need to focus on doing business with contractors who place a premium on integrity, performance and quality (OECD, 2014). According to Abushaikha (2014), relationship is a term that encompasses different degrees of interaction across the supply chain. Thus, developing a strategic relationship is a key to achieving high level of trust that will ensure smooth running of the business. Trust refers to a willingness to rely on an exchange partner in whom one has confidence. Lambert (2003) defines business relations as a tailored business relationship based on mutual trust, openness, shared risk and shared rewards that results in business performance greater than would be achieved by two firms working together in the absence of partnership. Institution with high integrity attracts positive reputation from their clients and reduces incentives of opportunistic behavior in the inter-firm relationship (BITC, 2009).

Transparency and Accountability

Integrity in the context of public procurement implies that procurement procedures are transparent and promote fair and equal treatment for bidders, and, where bad performance is identified, especially where it concerns conduct that violates minimum standards, it should be addressed as a priority (CIPS, 2013). According to OECD, (2015) Government institutions should develop Integrity pacts with business partners, which are essentially an agreement between the government agency offering a contract and the companies bidding for it that they will abstain from bribery, collusion and other corrupt practices for the extent of the contract. Any form of discrimination discourages participation in public procurement and undermines any efforts to achieve value for money through open competition (PPDA, 2015).

The ability of all interested participants to know and understand the actual means and processes by which contracts are awarded and managed is defined as transparency by Wittig, (2005). It implies openness, Communication and accountability (Ssonko, 2010). This requires the release, at a minimum, of information sufficient to allow the average participant to know how the system is intended to work, as well as how it is actually functioning. According to Public Procurement Act 2015, all communication between the procuring entity and bidders or contractors shall be in

writing and communications in any other form shall be referred to and transcripts of any conversations made in writing (PPDA, 2015)..

Risk Management

According to Mentzer (2001), there are several risks which are involved in international trade such as political, economical, logistical and different cultures, hence the need for proper coordination in terms of movement of goods, services. When organizations depend on suppliers for capacity and capability, it is essential to manage risk in order to promote value addition and create a platform for proper decision making (Public Expenditure Statistical Analysis, 2009).

3.0 MATERIALS AND RESEARCH METHODS

Research design adopted for this study was a Case Study. A case study is an in-depth study of a particular research problem (Neil, 2010). It is often used to narrow down a very broad field of research into one or a few easily researchable examples. The case study research design is also useful for testing whether a specific theory and model actually applies to phenomena in the real world. It is a useful design when not much is known about an issue or phenomenon (Salkind, 2010). The target population for this study included Executives, procurement officers, and Quality Officers of Kenya Bureau of standards. This study used a random stratified sampling method to select a sample from the population and arrived to a total of 28 respondents as the sample size. The study used a questionnaires to collect primary data. The researcher used both qualitative and quantitative techniques in analyzing the data. Descriptive analysis such as mean, frequencies and percentages was used to analyze the data. The study used the following regression model.

The regression equation ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$):

Whereby;

Y = Effective Public Procurement

β_0 = Constant, explaining the level of performance given

β_1 = Slope or change in Y, given one unit change in X1

X1 =Buyer-Supplier Relationship

X2 = Transparency and Accountability

X3 = Risk Management

ϵ =represents the error term explaining the variability of the quality of performance as a result of other factors not counted for. Regression analysis also yields a statistic called coefficient of determination or R square.

4.0 FINDINGS AND DISCUSSIONS

4.1 Descriptive statistics results

4.1.1 Buyer-supplier relationship role in influence on organization performance

The study sought to establish the extent to which respondents agreed with the statement relating to buyer-supplier relationship role in influence on organization performance. From the findings majority of the respondents agreed that poor business relationship promote bad image to the organization as shown by a mean of 4.72. The study reveals that as a result of proper information flow between buyer and sellers, suppliers are able to manage volume of supplies. This is demonstrated by a mean of 4.60. Reduced lead time on deliveries is also achieved when there is a positive relations between buyer and supplier as a result of integrity in procurement practice as shown by a mean of 4.72. Lastly, majority of respondents also agree that due to trust between business partners, there will be an improved competitive advantage. This is shown by a mean of 4.04. The above findings concurs with the study by Stuart, Verville and Taskin, (2009) that trust as a result of business relations, loads significantly on two performance outcomes: that is; customer performance (satisfaction and loyalty) and financial performance (profitability and financial returns).

4.1.2 Transparency and Accountability

The study sought to establish the extent to which respondents agreed with statement relating to transparency and accountability that relates to effective Procurement Practice in Kenya Bureau of Standards. From the findings majority of the respondents agreed that; publication of procurement procedures for public consumption is a core element of transparency as shown by a mean of 4.92. Transparency is central to promoting good governance in the public sector as shown by a mean of 4.64. Majority of the respondents also agreed that Substantial Cost reduction is achieved by adopting transparent procurement process as shown by a mean of 4.48 and also that high integrity of procurement officials result into transparent procurement practice this is shown by a mean of 4.32. These findings are in line with the findings by (Tsaindi, 2015), that contract procedures must be transparent and contract opportunities should generally be publicized.

4.1.3 Risk Management

The study sought to establish the extent to which respondents agreed with the statement relating to risk management on effective public procurement in Kenya bureau of statistics. From the findings majority of the respondents agreed that; Risk management is crucial for sound decision making in procurement as shown by a mean of 4.32. Quality products are ensured as a result of risk control policies. This is shown by a mean of 4.12, whereas there is reduced defects on products due to early risk intervention as shown by a mean of 4.32 many respondents also agreed Risk management is useful in all public procurement projects. This finding concurs with CIPS (2009) that management need to consider what the risks are that might prevent organization from delivering essential services, goods and works, and that a rigorous programme of information gathering, monitoring and action is required to effectively manage risk.

4.2 Inferential Results

4.2.1 Regression Analysis

A multivariate regression model was applied to determine the relative importance of each of the four elements of integrity in enhancing effective procurement practice in Kenya Bureau of Standards. The regression model was as follows: $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_0$

Using the values of the coefficients (β) from the regression coefficient table 4.11 the established multiple linear regression equation takes the form of;

$$Y = 2.456 + 0.263X_1 + 0.486X_2 + 0.298X_3$$

Where;

Constant = 2.456; when value of the independent variables are zero, the effective public procurement would take the value of 2.456.

$X_1 = 0.263$; one unit increase in buyer supplier relationship results in 0.263 units increase the effective public procurement

$X_2 = 0.486$; one unit increase in transparency and accountability results in 0.486 units increase the effective public procurement

$X_3 = 0.298$; one unit increase in risk management results in 0.298 units increase the effective public procurement

Ranking the predictors variables in terms of their individual influence on effective procurement practice in Kenya Bureau of Standards, transparency and accountability had the highest influence (0.486), buyer supplier relationship (0.263) and risk management (0.298) respectively.

Table 1: Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.456	0.061		2.342	.005
	Buyer supplier relationship	.263	.073	.204	2.2234	.002
	Transparency and accountability	.486	.082	.543	4.344	.000
	Risk Management	.298	.057	.345	3.087	.002

Dependent Variable: Performance

4.2.2 Model Summary

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.902(a)	.813	.798	.04531

Predictors: (Constant), buyer supplier relationship, transparency and accountability, risk management.

The results as shown in the table 2 indicates that the coefficient of regression, $R = 0.902$ shows a good strength of the relationships between independent variables and the dependent variable. The coefficient of determination $R^2 = 0.798$ shows the predictive power of the model and in this case 79.8% of variations in the effective public procurement is explained by the independent variables. The adjusted coefficient of determination R^2 shows the predictive power when adjusted for degrees of freedom and sample size. In this case, after the adjustments 20.2% of the variations in the effective public procurement is explained by the independent variables.

4.2.3 ANOVA

Analysis of variance (Anova) was used to test the model fitness. ANOVA findings as explained by the P-Value of 0.000 which is less than 0.05 (significance level of 5%) confirms the existence of correlation between the independent and dependent variables. The model shows the model fitness i.e. how well the variables fit the regression model. From the results, the F ratio of 23.543 and the significance of 0.000 shows that there was not much difference in means between dependent and independent variables. The sum of squares gives the model fit and hence the variables fit the regression model.

Table 3: ANOVA

Model	Sum of Squares	d.f	Mean Square	F	Sig.
Regression	52.354	3	13.233	23.543	.000(a)
Residual	35.872	24	.594		
Total	88.226	27			

Predictors: (Constant), Buyer supplier relationship, transparency and accountability, risk management.

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Discussion of Findings

The study revealed that relationship between buyer and supplier plays an important role in effective procurement practice, and that, poor business relationship promote bad image to the organization. On the other hand, Information sharing among business partners help suppliers to manage the volume of supplies. Majority of the respondents also asserts that there is improved lead time in service delivery and an improved organizational performance and competitive advantage as a result of trust between buyer and supplier

The findings indicated that transparency and accountability important in procurement and plays a significant role in ensuring effective public procurement practices. The study notes that high integrity of procurement officials result into transparent procurement practice and substantial Cost reduction is achieved by adopting transparent procurement process. In order to ensure fair competition, Publication of procurement procedures for public consumption is necessarily a core

element of integrity. Lastly, transparency and accountability is a central element to promoting good governance in the public sector.

The study revealed that risk management is useful in all public procurement projects. There is proper decision making that makes organizations to achieve value for money as a result of proper risk management which includes; risk identification, risk analysis, response planning and risk mitigation. The study also revealed that Defects on materials are reduced as a result of early risk identification.

Conclusions

Suppliers benefit from lower risk, better visibility into invoice settlements, improved and more predictable cash flows as well as payment certainty and increased flexibility for their business. The role of Integrity is such that it promotes efficient public procurement process hence attracts wide range of suppliers who would wish to commit to business relationships with the organization in order to achieve a common goal. Similarly, buyers, benefit from an improvement in working capital through improved days sales outstanding measurements at a lower financing cost. Furthermore, trust in business relationship between buyer and supplier leads to improved lead times in terms of delivery of goods and services.

Transparency may undermine effective procurement if not well observed. The promotion of transparency in procurement complements procedure control and serves as a particularly effective tool for confronting fraud, mismanagement and corruption. Publication of procurement processes is essentially important in enhancing effective public procurement. It leads to easy access of information by various stakeholders and promotes fair competition thus improving public confidence in public procurement. The study concludes that managing risks in procurement process can lead to reduction of defects on goods and services. That quality products are ensured and proper decision making will enable organizations to achieve value for money and avoid unnecessary wastages.

Recommendations

Rules and norms that promote integrity in an organization should be adopted by management and embraced by employees. Developing competent integrity promotes good image to an organization hence attracting reliable business partners that offers a completely different set of services to a market that is similar to its own, allowing the business to increase its market size with little impact on the franchise business. Public Procuring entities should strive to make transparent all their procurement proceedings by making public their procurement announcements and making public the results of procurement proceedings.

As observed in the study, Risks related to order and payment include lack of adequate controls of works supplies and services provided by either internal or external audits, False accounting and cost misallocation or cost migration between contracts, Late payments of invoices false or duplicate invoicing for good and services not supplied and for interim payment in advance entitlement. Therefore, Risk management should be adopted by all levels of management at all levels of procurement so as to help Minimize the integrity risks. Management should also adopt risk management practices to enable them make rational decision in contract awards.

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