

EFFECTS OF PROCUREMENT PROCEDURES ON OPERATIONAL PERFORMANCE OF PRIVATE INSTITUTIONS IN KENYA

A CASE STUDY OF COOPERATIVE SOCIETIES IN KISII COUNTY

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Abstract

Procurement of supplies in private institutions has faced constraints that affect service delivery. The purpose of the study was to assess the effects of procurement procedures on the operational performance of private institutions. The specific objectives of the study was to establish the extent to which tendering procedures, supply regulation procedures, ethical procedures and operating procedures affect the performance of private institutions in Kenya. The target population of the study was 220 staff from various departments of cooperative societies relevant to the study. A stratified random sampling technique was used to select a sample of 142 respondents which was used in the study and data was collected from the field using closed ended questionnaires. The collected data was analyzed using both descriptive and inferential statistics. There was a strong positive relationship between compliance of public procurement regulations procedures and performance of the private sector. From the findings, 74% of the respondents strongly supported this discovery finally the findings revealed that there is significant correlation of 0.076 this implies that an increase in procurement ethical procedures increases the performance of cooperative societies sector by approximately 0.76. It was clear that respondents agreed that adequate training on matters of procurement procedures facilitates efficient and effective procurement practices and there was a strong positive relationship between procurement procedures of private procurement regulation procedures performance.

Keywords: Performance, Operational Performance, Procurement risk, Supply Chain, Ethics

INTRODUCTION

Kovacs (2004) defined procurement procedures as the guidelines for or means of acquiring of appropriate goods and services at the best possible cost to meet the needs of the organization in terms of quality, quantity, time and location. Providing private institutions with the best services is a very complex process that involves a large variety of actors from both the private and public sectors. Private institutions often lack the management skills required to write technical specifications, supervise competitive bidding, and monitor and evaluate the contract performance. Corruption can occur at any stage of the process and influence decisions on the model of procurement (direct rather than competitive), on the type and volume of procured supplies, and on specifications and selection criteria ultimately compromising access to essential quality services (Smith, 1990).

Sutinen and Kuperan (1999) propounded the socio-economic theory of compliance by integrating economic theory with theories from psychology and sociology to account for moral obligation and social influence as determinants of individuals' decisions on compliance. According to Lisa (2010) psychological perspectives provide a basis for the success or failure of organizational compliance. Wilmshurst and Frost (2000) also add that the legitimacy theory postulates that the organization is responsible to disclose its practices to the stakeholders, especially to the public and justify its existence within the boundaries of society. This theory, which focuses on the relationship and interaction between an organization and the society, provides a sufficient and superior lens for understanding government procurement system (Huiet *al.*, 2011). From this theory, the perceived legitimacy of public procurement rules has been identified as one of the antecedents of public procurement compliance behavior.

Ethical behaviour encompasses the concepts of honesty, integrity, probity, diligence, fairness, trust and respect. Ethical behaviour includes avoiding conflicts of interest, and not making improper use of an individual's position (Wee 2002). Ethical behaviour supports openness and accountability in procurement with the result that suppliers have confidence in participating in the Government marketplace. It also reduces the cost of managing risks and enhances trust in public administration. Ethical behavior is important in public procurement as it involves the expenditure of public money, and is subject to public scrutiny. Public officials should always behave ethically and fairly in their business undertakings. Ethical behavior supports openness and accountability in a procurement process and gives suppliers confidence to participate in the Government marketplace. Ethical behavior can also reduce the cost of managing risks associated with fraud, theft, corruption, and other improper behavior; and enhance confidence in public administration (Karanjaand Mugo, 2010)

A procurement process that conforms to the expected standards of integrity, uprightness and honesty is one in which clear procedures are consistent with Government policies and legislation are established, understood and followed from the outset. These procedures need to consider the legitimate interests of suppliers and ensure that all potential suppliers are treated equitably (Wee 2002). An important and effective way to maintain ethics awareness in agencies is to provide training for employees. Ethics training and seminars can be provided, along with training in more specific areas, such as procurement procedures, record keeping, records management, and accountability and administrative law. Regular reviews or audits of procurement processes can be done to ensure probity is being considered and achieved (Amos and Weathington, 2008).

Whereas previous studies have always looked at compliance and non-compliance of public procurement procedures not all factors have been dealt with in the private sector in Kenya, The aim of the Public Procurement Regulations of 2006 was to promote fairness, transparency and nondiscrimination in procurement in private institutions with the main aim of ensuring efficient use of public funds. However, studies reveal that even after the enactment of the Regulations, there are losses of public funds that can be attributed to private procurement. Further, studies indicate dissatisfaction among stakeholders brought about by loopholes left by the Regulations which may be used by dishonest people to make the process inefficient.

Statement of the Problem

Private procurement is very important since accounts for a sizeable proportion of the GDP. Public procurement by central government is estimated to account for 10% of the GDP in Kenya (Juma, 2010). It is further estimated that private procurement accounts for 9%-13% of the GDP of the economies of developing countries (Thai, 2004). Procurement procedures as in Legal Notice No. 60 2013 address budgetary allocations, Efficiency, service delivery and prudent financial management. However, there is a gap in procurement processes and service delivery particularly in the cooperative societies in Kenya. The government has put in place provisions to ensure realization of long term objective in improving the quality of life substantial resources have been committed towards improving service delivery in areas such as infrastructure development and maintenance, human development and management. The implementation of these interventions would be incomplete without proper procurement planning (KNBS, 2008). Due to the huge amount of money involved in private procurement activities and need for accountability, transparency is inevitable. Otieno, (2004) studied on procurement activities in public institutions ; Akech,(2005) focused on development partners and governance of public procurement in Kenya; Kiema (2014) study was determinants of procurement performance of

Kenya rural electrification authority (KERRA), Apiyo and Mburu (2015) a study focused on factors affecting procurement planning in county governments in Kenya among other studies, there exist inadequate findings on procurement procedures and performance of procurement in private institutions particularly cooperative societies. This study seeks to assess the effects of procurement procedures on the operational performance of the cooperative societies while delivering service to the public.

Objectives of the Study

The general objective of the study was to establish the effects of procurement procedures on operational performance of private institutions in Kenya.

RESEARCH METHODOLOGY

Research Design

The study employed a Descriptive survey research design. It enabled the researcher to collect data and report the way things were without manipulating any variables besides being less time consuming and able to capture a lot of data within the contained time and resources.

Target Population

Mugenda and Mugenda (2003), describes target population as the totality of cases of people, organization or institutions, which pose certain characteristics. They further asserted that target population is a group of individuals, objects or items from which samples are taken for measurement. The target population for this study was 220 consisting of 60 managers, 90 clerical officers and 70 accountants of private institutions within Kisii County. Managers, clerical officers and accountants were chosen since they are involved in the day to day running of private institutions operations.

Sample Size Determination

Kull (1984) noted that sampling is the process by which a relative small number of individual object or event is selected and analyzed in order to find out surrounding about the entire population from which it was selected using some systematic form. Since the overall population is heterogeneous, stratified random sampling was used in the study to select the respondents. Yamane (1967) provides a simplified formula to calculate sample sizes. This formula was used to calculate the sample sizes as shown below.

$$n = \frac{N}{1+N(e)^2}$$

Where, n is the sample size, N is the population size, and e is the level of precision or margin of error at 5% (standard value of 0.05). When this formula was applied to the above sample, we got;

$$n = \frac{220}{1 + 220(0.05)^2} = 142$$

The table 1 below shows sample size representing 64.55% of target population in which sampling technique was used to group the target population into homogeneous strata.

Table 1: Sample size

Category	Target population	Sample size
Managers	60	39
Accountants	70	45
Clerical officers	90	58
Total	220	142

Data Analysis Approach

Data analysis was done through descriptive and inferential statistics. Descriptive statistics involved the use of frequency tables and percentages. Product moment of correlation coefficient was used to show the strength of association between procurement procedures and the performance of private institutions at 5% of confidence level. Regression analysis was used to show the strength of association within the variables.

Data Collection Instruments

The main tools of data collection for this study were structured questionnaires. The questionnaire was suitable because it offers considerable advantages in the administration. It also presents an even stimulus potentially to large numbers of people simultaneously as it provides the investigation with an easy accumulation of data. Anonymity helped to produce more candid answers than is possible in an interview. The questionnaire comprised of closed-ended questions. Questionnaires contained items covering all the objectives of the study.

ANALYSIS AND FINDINGS

Compliance on Ethical Procurement Procedures Regulation on Performance of Private Institutions

The researcher sought to find out the influence procurement ethical procedures on compliance of public procurement procedures on performance of the private sector. The respondents were asked to state the extent of agreement or compliance with purchase regulation procedures and

lack of such procedures. Data obtained from findings were analyzed and presented in the table 4.6 below, where the score of 5 was given to rank 1, 4 to rank 2, 3 to rank 3, 2 to rank 4, and 1 to rank 5. According to the findings, requirements on purchase requisition procedures were followed to a large extent. A score of 3.92 indicated that organizations were keen on purchase requirements. The results show that PPDA procedures were also followed to a large extent. However, despite favorable results on the first two parameters, there were cases of weak enforcement measures and cases of un-ethical practice. Results indicate that such unethical cases and weak enforcement measures were rampant at 3.69 and 3.84 respectively. This implies therefore that the private sector has to put in place mechanisms to ensure effective compliance enforcement and root out un-ethical practice.

Table 2: Influence of procurement ethical procedures on performance of private sector

S.No	Category	Ranks					Weighted Averages
		1	2	3	4	5	
1.	PPDA Procedures followed	49	49	34	9	2	3.97
2.	Purchase Requisition followed	39	65	28	8	2	3.92
3.	Weak of un-ethical practice	51	29	37	19	6	3.69
4.	Cases of un-ethical practice	49	28	36	18	11	3.69
5.	Weak enforcement measures	51	37	38	10	6	3.84

Regression analysis

According to the result on table 4.7 the positive beta value indicates that a procurement ethical procedure on performance of cooperative societies has a positive influence on performance of the cooperative societies. This implies that an increase in procurement ethical procedures increases the performance of the cooperative societies by approximately 7.6%. The t-Value of 2.40 is higher than 2.0. This implies that the estimated results of the coefficients are both individually and statistically significant.

Table 3: Regression Coefficients Analysis on Procurement Ethics Compliance

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	1.568014	0.763809	2.052887	0.132396	0.86277	3.998794	0.86277	3.998794
X1	0.076756	0.040279	4.374162	0.175688	0.03143	0.22494	0.03143	0.22494

The estimated equation as generated above will be: $Y = 1.5680 + 0.076756b$

CONCLUSIONS

Effect of Procurement Ethical Procedures of Public Procurement on the Performance of the Private Sector

The first objective of the study was to determine the effect of procurement ethical procedures on the performance of the cooperative society's sector from the findings the respondents agreed that procurement ethical procedures affected performance of the private sector to a large extent. Compliance to public procurement regulations entailed following purchase requisitions and PPDA procedures. These regulations must be adhered to so as to achieve the expected performance. Therefore, we can conclude that there is strong positive relationship between procurement ethical procedures and the performance of the cooperative societies.

From the findings, it was discovered that a significant number of unethical procurement procedures are yet to be curbed. Despite the awareness and commitment to procurement ethics, a significant number of un-ethical practices take place. The government must step up efforts to curb such malpractices if any significant private performance is to be realized.

RECOMMENDATIONS

Effects of Ethical Procedures on Performance of Private Sector

The study recommends that proper mechanisms should be put in place to ensure that laxity on the part of compliance and commitment to procurement ethical procedures on compliance is curbed. In addition, information on the performance of the procurement departments should be availed and performance contracting engaged to enhance acceptable procurement performance that will lead to high performance in the cooperative societies

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