

Influence of Ethical Policies and Codes on Procurement Performance of State Corporations in Kenya

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Abstract: The main objective of the study was to determine the influence of ethical policies and codes on the procurement performance of state corporations in Kenya. Specifically, the study sought to determine the influence of ethical policy statements and ethical code of conduct on procurement performance among the state corporations in Kenya. The study used a descriptive research design and adopted a mixed research approach. The study targeted all the 187 procurement managers of the state corporations in Kenya. A self-administered questionnaire was used in collecting the research data and it was piloted for validity and reliability. Data was analyzed using both descriptive and inferential statistics. The study established that ethical policies and codes had a significant positive influence on the procurement performance of state corporations in Kenya. The study recommended that ethical policies and codes should be drawn and adhered to by all the procurement staff of the state corporations as well as by the suppliers that they deal with.

Keywords: Ethical Policies, Ethical Policies, Procurement Performance.

1. INTRODUCTION

Companies across industries include ethical sourcing policies in their operational standards and principles. While the primary goal is to ensure that products/goods and services are procured and delivered ethically, responsibility extends beyond the act of sourcing goods and services. It also includes the processes of evaluating and engaging with a supply market through to managing relationships with suppliers (CIPS, 2013). Lindskog, Staffan and Brehmer (2010) define unethical behaviour as acts committed at high levels of government that distort policies or the central functioning of the state, enabling leaders to benefit at the expense of public good.

Johnson, Leenders, Flynn and Fearon (2010) explain that in order to achieve value for money and to effectively contribute to the efficient service delivery, public procurement practice must adopt a strong ethical bent. It must be practiced so as to be void of leakages and loss, corruption and vendor favoritism. The way to address these concerns is by adopting a strong sense of ethics such as avoiding collusion, discouraging fake competition, removing any arbitrariness from the bid evaluation process, ensuring that the goods and services received reflect the precise quantities actually delivered, using slicing to avoid adopting the appropriate procurement method etc.

Procurement is not just about reducing cost. Regardless of whether the organization has an in-house sourcing team or engages external suppliers, the procurement 'middlemen' facilitate much more than sourcing the cheapest vendors, receiving externally procured goods or overseeing orders and approving payment (Thomas, 2014). Procurement therefore plays a central role to profitability and performance and its focus is fast shifting from cost centric approach to a larger recognition of the importance of procurement relationships. The field of supply chain management and in particular

procurement is quite vulnerable to ethical issues, majorly because procurement personnel are entrusted to spend huge financial resources in many firms (Rottig, Koufteros & Umphress, 2011). The procurement professionals are highly exposed to external organizational environment, representing an important risk to the firm reputation and performance when engaged in ethical conducts.

State corporations in Kenya play critical roles in the national development effort. First, government owned entities are important in promoting or accelerating economic growth and development. Secondly, they are critical to building the capability and technical capacity of the state in facilitating and/or promoting national development. Third, they are important instruments in improving the delivery of public services, including meeting the basic needs of the citizens. Fourth, they have been variously applied to creation of good and widespread employment opportunities in various jurisdictions and lastly, the state corporations are useful for targeted and judicious building of international partnerships. They therefore play a major role in enabling social and economic transformation of the economies in which they operate (GOK, 2010).

Ethical issues worldwide prompted the International Federation of Purchasing and Materials Management (IFPMM) to establish a code of ethics that should be applied by all procuring entities (ITC, 2010). Research has however shown that application of these guidelines is still a major problem in most organizations because emphasis is being laid on what is acquired rather than how it is acquired. Mlinga (2010) explains workers involved in public procurement should be cautious of any conflicts of interest that may arise in the course of their duties.

1.1 Specific Objectives:

- i) To determine the influence of ethical policy statements on the performance of state corporations in Kenya.
- ii) To study the influence of ethical code of conduct on the performance of state corporations in Kenya

1.2 Research Hypothesis:

H₀: There is no relationship between ethical policies and codes and procurement performance among state corporations in Kenya.

H_a: There is a relationship between ethical policies and codes and procurement performance among state corporations in Kenya.

1.3 Procurement Performance:

Performance monitoring is important because in many industries, the supply chain represents roughly 75% of the operating budget expense. Three common measures of performance measures used when evaluating performance are efficiency, responsiveness and effectiveness. According to Kakwezi and Nyeko (2014) measuring performance is difficult because it covers broad areas such as the procurement functions and departments, procurement employees, supplier base, procurement process on a given contract, among many others. They however agree that the most important measures of procurement performance are efficiency and effectiveness.

Procurement performance in the public sector concentrates on contracts performance that is, costs or prices, timely deliveries and quality of goods and services as well as performance based contracts (Keith & Rene, 2012). Gabriella, Roberto and Gian (2011) explain that procurement performance in the public sector can be highly enhanced by asking end users to give feedback inform of customer satisfaction surveys that seek to ensure both objective and subjective evaluation of contract performance.

There is need for a firm to have coherent methods of performance measurement in the procurement function of the procuring entities. Focussing on financial performance and neglecting non-financial performance cannot improve the procurement operations because only partial performance is considered. According to Gioconda (2010) the need for performance measurement in procurement has long been recognized but for a variety of reasons, many organizations fail to measure it adequately. Tawfik, Mady and Sarah (2014) provided empirical evidence linking purchasing strategies to two dimensions of procurement performance: efficiency and effectiveness. Broadly, procurement performance perspectives include on-time delivery, receiving the exact ordered quantities, bargaining for the best prices and quality assurance of the delivered parts and items. Rupert and Brandmeier (2010) used an empirical study to show indicators of procurement best practice discussed as procurement performance levers, because their implementation serves as a good guideline on how successful the procurement function should be. They include commercial levers, technical levers and supply chain process levers. Measurement of procurement performance has always been a big problem for many

procurement professionals in the Kenyan public sector. It is however unavoidable since it provides the basis of assessing how well the state corporations are doing in attaining their predetermined goals (Muya & Nyabwari, 2016).

2. LITERATURE REVIEW

Certain aspects of ethics are covered by law, such as fraud, bribery and other unethical behaviour. However, ethics in procurement must go beyond legal requirements. Procurement functions may draw up statements of policy to guide its conduct in aspects such as conflicts of interest, business gifts and hospitality (ITC, 2010). According to PPOA (2009) a person has a conflict of interest with respect to procurement if the person or a "relative" of the person seeks, or has a direct or indirect pecuniary interest in another person or vendor who seeks, a contract for the procurement. Nikolay (2013) in his comparison and analysis on the judicial system concerning conflict of interest found out that the proceedings for establishing the existence of conflict of interest are administrative in nature. These proceedings are conducted by administrative bodies, result in the issuance of administrative acts and in the event that the existence of conflict of interest is established most countries impose administrative penalties. Buyers should declare any conflicts of interest for example, suppliers who are close friends or relatives or shareholding in a supplier firm.

Many researchers in this area have used different methodologies and designs. Mathenge (2012) provided empirical evidence that a good procurement management policy should outline what constitutes a conflict of interest and forbid procurement where a conflict does exist. Graafland (2012) in his survey of public procuring entities also established that in most organizations, employees who purchase goods and services from individuals or organizations with whom they have a personal or familial relationship leave the organization open to fraud at the worst or overpayment for items or services procured.

Peter (2011) in a documentary research of the UK bribery Act established that facilitation payments aside, promotional items like gifts, hospitality and related promotional expenses are now a subject of controversy as this is said to fall within prosecutorial discretion particularly in respect of the bribery of foreign public officials. Thus, even when gifts, hospitality or other related considerations are at modest levels an offence is committed where these offerings are meant to influence a public official and to procure or retain a particular business advantage. Jessica (2014) in a survey of gifts and hospitality in government contracts established that most public corruption cases involving government contractors include references to the offering of lavish gifts, meals, travel, or entertainment to government officials. Moreover, nearly all governmental bodies have enacted ethical restrictions that limit the gifts and hospitality that may be accepted by government officials. According to ITC (2010) business gifts other than items of very small intrinsic value such as business diaries or calendars should not be accepted. When it is not easy to decide between what is and what is not acceptable in terms of gifts and hospitality, the offer should be declined or advice sought from management.

The buyer should always be fair when dealing with suppliers. In practice, this means that the buyer should always respect the confidentiality of information provided by the supplier. For example, information on bids should be treated as confidential and kept securely. Where it is considered reasonable to reveal certain information, it must be with the permission of the supplier. The buyer should also ensure that the principle of probity, that is fairness, transparency and equality in treating suppliers is strictly adhered to (Wade, 2013). Pagell, Wu and Wasserman (2010) also emphasize that buyers should treat their suppliers fairly and as strategic partners and never to exploit them. According to Poppo and Zheng (2014) the perceptions of fairness affect the transaction costs and without such considerations, procurement contracts will only favor the party with more bargaining power.

Mlinga (2010) in a survey of ethics in public procurement established that confidentiality is an important principle to uphold if competition is not to be undermined and recommended that procuring entities need to have measures in place to manage the security and confidentiality of documents, including physical security of submissions and related documents, access to secure documents, and confidentiality of commercial information. Gesuka and Namusonge (2013) in a descriptive study of public procurement regulations in Kenya established that confidentiality is a major issue in public procurement and the lack of it results in non-compliance with public procurement regulations. It is a legal requirement in Kenya for the procuring entities to keep confidential all information relating to the procurement process, the contents of tenders, proposals or quotations (GoK, 2005).

Jang (2015) stated that one of the first indicators that a company is beginning to focus on ethical behaviour is to establish a code of ethics. It is the artefact that announces to all, an interest in business ethics by a corporation. To this effect, numerous writers have proposed the notion that a code of ethics should exist as a means of enhancing the ethical environment of an organization. According to Mapulanga (2015) ethics are the moral principles or values that guide

officials in all aspects of their work. Ethical behaviour encompasses the concepts of integrity, diligence, honesty, probity, fairness, trust, respect, consistency, avoiding conflicts of interest and not making improper use of an individual's position. The Kenyan Public Procurement and Disposal Act stipulate that all procurement and disposal shall be carried out in accordance with the codes of ethics that may from time to time be specified by the PPOA (GoK, 2005). In a survey of marketing ethics, Dinah and Pressley (2013) provided a good reason to develop a code of ethics and argued that ethical codes can positively influence the moral thinking of employees by providing a clear set of ethical values and enforcing these policies.

All public sector employees should model their behaviours based on the public sector values and at all times to act in an ethical manner. Ethical behavior includes avoiding collusion, avoiding fraudulent activities, and avoiding improper use of an individual's position and is an important principle for the public sector procurement. Arrowsmith (2010) explains that a favoured bidder in collusion with the procuring entity could make a very favourable bid to win the contract in accordance with the rules of the competition but the procuring entity could then allow the bidder to undermine terms of its bid. Hendi (2014) explains that fraud is essentially crime for a benefit which makes use of deception as its principal modus operandi. He argues that under the common law, fraud is characterized by four general elements that is, material false statement, knowledge that the statement was false when it was made, relying on the false statement by the victim and lastly, damages arising from the victim's reliance on the false statement. According to PPOA (2009) no procuring entity, public official, supplier or any other person may collude or attempt to collude with another to make any proposed price higher than would otherwise have been the case.

Any kind of fraudulent practice undermines the objective of value for money, which is critical to achieving the efficient delivery of service. Pursuant to Section 41 of the Public Procurement and Disposal Act, 2005 no vendor, contractor, person or public official shall be involved in fraudulent practice in any procurement process (GoK, 2005). If a person acts contrary to this requirement the following shall apply: the person shall be disqualified from entering into a contract for the procurement; or if a contract has already been entered into with the person, the contract shall be voidable at the option of the buying entity (PPOA, 2009). Murray (2014) in a case study of procurement fraud and vulnerability asserts that procurement fraud has become a pertinent issue in many organizations and it is no longer just a perceived risk. Estimate by Kroll (2013) show that 19% of organizations globally have been victims of procurement fraud. According to Knowles (2014) the cost of procurement bribery and fraud has to be recouped from the market because prices paid will be higher than would be the case in a fraud free market.

According to Heungsik and John (2013) an ethics programme is essential in ensuring that employees behave in the right manner. An ethics programme is a set of activities, policies and procedures intended to support employees to understand and comply with ethical standards and policies set by the organization. An ethics programme begins with development of a code of conduct to guide employees on what is viewed as ethical behaviour. In their survey of public service organizations, they found out that ethical conduct influence behaviour. However, Clark and Leonard (2010) found that codes are ineffective in determining an employee's decision making. Ayoyi and Mukoswa (2015) in reviewing literature on ethical issues in Kenya's public procurement recommended that there is need for public procuring entities to establish a training policy and code of ethics to guide procurement staff in conduct of their duties and improve procurement performance.

The relationship between ethical policy statement and ethical code of conduct (independent variables) and procurement performance (dependent variable) was represented using the following conceptual framework.

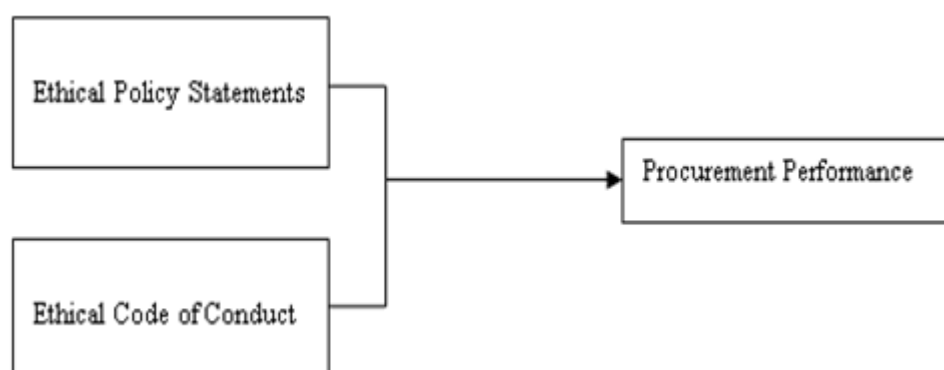


Figure 1: Conceptual Framework

3. METHODOLOGY

The study adopted a descriptive research design involving a mixed method approach. The study was grounded on pragmatism which is appropriate for mixed research methods (Mkansi & Acheompong, 2012). A structured questionnaire was used to collect data from the procurement managers in all the 187 state corporations in Kenya.

The questionnaire was piloted for validity and Cronbach's alpha coefficient used to test the reliability of the measurement scales, giving a 0.886 Cronbach's alpha coefficient which is above the minimum acceptable threshold of 0.70 (Hair, Black, Baibin & Anderson, 2010).

The questionnaire was administered personally by the researchers and both descriptive and inferential statistics were used for data analysis. 73.26% of the administered questionnaires were returned which represented a reliable response rate (Zikmund, Babin, Carr & Griffin, 2010).

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics:

The study sought to establish the effects of ethical policies and codes on procurement performance. The findings were presented in Table 1.

Table 1: Ethical Policies and Codes on Procurement Performance

Statement	SDA %	DA %	SMA %	A %	SA %	Mean	SD
Staff to declare conflict of interest	2.9	0	18.2	65.0	13.9	3.87	0.756
Staff not to deal with supplier firms in which they have beneficial shareholding	7	2.2	15.3	60.6	21.2	3.99	0.722
Firms' Policy on gifts and hospitality	0	1.5	19.7	51.8	27.0	4.04	0.726
Firms' policy on confidentiality of information	0.7	1.5	25.5	52.6	19.7	3.89	0.754
Firm verifies accuracy of information	0.7	1.5	13.1	59.1	25.5	4.07	0.714
Code of ethics prevents collusion	0	2.2	16.8	58.4	22.6	4.01	0.696
Code of ethics prevents any procurement fraud	0.7	2.9	20.4	55.5	20.4	3.92	0.768
Ethical guidelines prevent misuse of power	0	2.9	10.2	59.9	27.0	4.11	0.693
Code of conduct prevents inappropriate influence on procurement procedures	2.2	0.7	14.6	53.3	29.2	4.07	0.815
Overall Mean Score = 4.00							
N=137; KEY: SDA= Strongly Disagree; DA= Disagree; SMA=Sometimes Agree; A= Agree; SA=Strongly Agree; SD= Standard Deviation.							

A majority of the respondents agreed that ethical guidelines prevent misuse of power with a mean score of 4.11. Many respondents also agreed that their firm's verify the accuracy of information given and received from the suppliers and also that the code of conduct guiding procurement activities in their organizations prevent inappropriate influence on any procurement procedure both with means of 4.07. The overall mean for ethical policies and codes was 4.00 indicating that many of the respondents agreed that ethical policies and codes affected the procurement performance of state corporations.

The results in Table 1 show that 65.0% of the respondents agreed that staff always declare any conflict of interest in their procurement processes. 60.6% also agreed that their procurement staffs are not allowed to deal with supplier firms in which they have beneficial shareholding. 59.9% also agreed that ethical guidelines prevent misuse of power in the organization. The results show that for all the statements, on ethical policies and codes, most of the respondents agreed on their importance, with the least percentage being 51.8% for those who agreed that the firm has a policy on gifts and hospitality being followed by the procurement staff. These results were in support of a study by Heungsik and John (2013) which revealed that an ethics programme outlining ethical policies and codes is essential in boosting performance.

The study also sought to establish what other specific ethical policies and codes their firms had put in place for their procurement functions. Most of the respondents said that their procurement functions had put in place supplier appraisal audit policies to ensure that the suppliers complied with the ethical guidelines set by the procuring entity. Others explained that their organizations had established corruption prevention committees which keenly follow up on all the procurement processes to ensure that ethical policies and codes are adhered to. Many other respondents also explained that they had wholly incorporated the Public Procurement and Regulatory Authority's code of ethics into their own ethical policies and codes while others noted that they had adopted the ethical guidelines from the Kenya Institute of Supplies Management (KISM).

The respondents were also required to state what other ethical policies and codes they would recommend to their organizations so as to improve their procurement performance. Most of the respondents felt that having ethical policies and codes incorporating the ethical use of information technology in their procurement processes would go a long way in avoiding unethical procurement practices. Other respondents also advised that suppliers should be encouraged to adopt a responsible attitude towards various community groups and this can be effectively achieved if it is incorporated in their ethical policies and codes.

4.2 Correlation Results:

The correlation results showed that there is a significant positive relationship ($r=0.668$, $p\text{-value}=0.000$) between ethical policies and codes and procurement performance. This therefore implies that a change in ethical policies and codes would influence the procurement performance of Kenyan state corporations. This was in support of results by researchers on different elements covered in ethical policies and codes since they all agreed that the elements of ethical policies and codes positively influenced procurement performance (Nikolay, 2013; Mathenge, 2013; Gesuka & Namusonge, 2013).

4.3 Regression Analysis:

Table 2: Regression Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.781	.263		2.970	.104
EPC	.118	.070	.135	1.689	.001

a. Dependent Variable: Procurement Performance

Key: EPC=Ethical Policies and Codes

The individual ethical policies and codes factors were regressed against the aggregate mean score of procurement performance. The multiple linear regression model coefficients highlighted in table 2 showed that ethical policies and codes had a significant positive influence on procurement performance with $p\text{-values} < 0.05$. The regression results indicated that a unit change in supplier selection ethics resulted in 11.8% change in procurement performance ($\beta=0.118$).

4.4 Analysis of Variance (ANOVA):

To test the significance of the independent variable (ethical policies and codes) stepwise ANOVA was conducted and the results presented in Table 3.

Table 3: Stepwise ANOVA

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
2	Regression	6.239	1	3.119	32.466	.000 ^b
	Residual	12.875	135	.096		
	Total	19.114	136			
a. Dependent Variable: Procurement Performance						
b. Predictors: (Constant), Ethical Policies and Codes						

The ANOVA test on ethical policies and codes had an F statistic of 32.466 and was also significant at 0.05 ($p < 0.05$). This indicated that 32.466% of the change in procurement performance was as a result of the influence that the ethical policies and codes measures had.

4.5 Hypothesis Testing:

To assess the relationship between ethical policies and codes and procurement performance, null hypothesis was set as follows:

H₀: There is no relationship between ethical policies and codes and procurement performance in Kenyan state corporations.

The regression results indicated that there was a positive relationship between ethical policies and codes and procurement ($\beta = 0.135$, $T = 1.689$, $p = 0.001$). This was confirmed by the F-test results shown in Table 3. { $F(2, 134) = 32.466$, $P\text{-value} < 0.05$ }. The decision rule for testing the hypothesis was to fail to accept **H₀** if $P\text{-value} \leq 0.05$ otherwise accept **H₀** if $P\text{-value} > 0.05$. The second null hypothesis was therefore not accepted since $P < 0.05$ and concluded that there is a statistically significant positive relationship between ethical policies and codes and procurement performance in the Kenyan state corporations.

4.6 Discussion of Key Findings:

To compute the correlation between ethical policies and codes and procurement performance, Pearson Correlation was used and the findings indicated that there was a strong positive correlation between ethical policies and codes and procurement performance ($r = 0.668$, $p\text{-value} < 0.05$). The multiple linear regression results also showed the positive linear relationship existing between ethical policies and codes and procurement performance ($\beta = 0.0.118$, $t = 1.699$, $p\text{-value} < 0.05$). The ANOVA results showed an F statistic of 32.466 and $p\text{-value} < 0.05$, indicating that ethical policies and codes influenced procurement performance. The null hypothesis (**H₀**) of the study was also not accepted and therefore concluding that there is a relationship between ethical policies and codes and procurement performance.

These findings of the study supported the research by Katamba, Nkiko and Consolate (2016) who found out that embracing and living by the ethical policies and codes is highly rewarding and it's key in sustaining the ethical agenda. They however cautioned that when poorly introduced in an organization, ethical policies and codes will work against the firm since it will be received with intentional rebellion from the stakeholders. Freeman, Harrison, Wicks, Parma and De Colle (2010) also found out that business managers who abide by the business code of conduct and ethics are more likely to achieve sustained performance. Svensson and Baath (2008) also agreed that having an ethical code has a positive impact on the performance and ethical behavior of organizations.

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary:

The study sought to determine the influence of ethical policies and codes on procurement performance in the Kenyan state corporations. The indicators of ethical policies and codes considered were ethical policy statements and ethical code of conduct. The descriptive results showed that majority of the respondents agreed that ethical policies and codes significantly influenced procurement performance. The statistical results also showed that there was a strong positive correlation between ethical policies and codes and procurement performance. The regression results indicated that a unit increase in ethical policies and codes lead to an increase in procurement performance. The inferential statistics provided

enough evidence to justify the failure to accept the null hypothesis (H_0) and therefore indicating that there was a relationship between ethical policies and codes and procurement performance among the Kenyan State corporations.

The responses to the opinion statements on ethical policies and codes showed that ethical policies and codes prevent misuse of power, prevent inappropriate influence on the procurement procedures and that overall, ethical policies and codes significantly influence procurement performance in the state corporations. Most of the respondents explained that their management had gone an extra mile to establish corruption prevention committees and supplier audit committees to ensure that the guidelines on ethical sourcing are fully adhered to.

5.2 Conclusions:

From the research findings it was also concluded that ethical policies and codes had an effect on the procurement performance of Kenyan state corporations. The correlation results indicated that there was a positive and significant correlation between ethical policies and codes and procurement performance. A unit change in ethical policies and codes lead to a significant change in procurement performance, and significant change in procurement performance was as a result of ethical policies and codes. This conclusion was also based on the fact that the respondents agreed to most of the dimensions on ethical policies and codes being helpful in enhancing procurement performance. Cumulatively, Most of the respondents agreed to the fact ethical guidelines enacted in their firms prevent misuse of power by procurement officials and therefore improving procurement performance. From the responses, the study also concluded that coming up with supplier appraisal audit policies, establishment of corruption prevention committees and adopting the ethical guidelines given by PPRA and KISM helps a great deal in improving the state corporations' procurement performance. The study also concluded that the state corporations should ensure that there is ethical use of information technology with an aim of preventing unethical procurement practices. The responses also lead to the conclusion that having a responsible attitude towards different stakeholders in the community is essential in enhancing procurement performance of the Kenyan state corporations.

5.3 Recommendations:

Since ethical codes and policies significantly influenced the procurement performance of Kenyan state corporations, the study recommended that ethical policies and codes should be drawn and adhered to by all the procurement staff as well as by the suppliers that they deal with. The state corporations should therefore firmly deal with conflicts of interest in procurement, ensure fair dealings with the suppliers, treat suppliers' information with utmost confidentiality and adhere strictly to all their ethical policy statements, so as to improve their procurement performance. Specifically, the study also recommended that the management of the state corporations should establish corruption prevention committees that will be mandated with ensuring that all corrupt and fraudulent practices are prevented and firmly dealt with. The study also strongly recommended that the procurement staff should at large be encouraged to develop a responsive attitude towards all the community stakeholders including the suppliers and external customers since they all play a vital role in the firms' procurement processes.

The study recommended that the state corporations should establish supplier appraisal audit policies because this will help them ensure that they will deal with qualified and competent suppliers. It was also recommended that the state corporations should adopt the ethical policies and guidelines that have been established by the Public Procurement and Regulatory Authority (PPRA) as well as the Kenya Institute of Supplies Management (KISM) since they are all aimed at ensuring that all the public institutions conduct their procurement processes in line with the Public Procurement and Asset Disposal Act (PPADA) of 2015. The state corporations should also establish policies on ethical use of information technology since this will be a major boost to ensure that there is transparency and accountability in the procurement processes.

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