

Supplier Selection Ethics and Procurement Performance among State Corporations in Kenya

Kitheka Samson Samuel¹, Dr. Shedrack Mbithi Mutua², Dr. Anwar Hood Ahmed³

¹PhD Candidate: Jomo Kenyatta University of Agriculture and Technology, Kenya

²Lecturer: Jomo Kenyatta University of Agriculture and Technology, Kenya

³Lecturer: Technical University of Mombasa, Kenya

Abstract: The purpose of this study was to determine the effect of supplier selection ethics on the procurement performance of state corporations in Kenya. Specifically, it sought to establish how ethical supplier evaluation and supplier ethical assessment affects the procurement performance of Kenyan state corporations. The study adopted a mixed research approach which was both qualitative and quantitative using a descriptive research design. The population of the study was all the 187 procurement managers of the Kenyan state corporations. Data was collected using a self-administered questionnaire which was piloted for validity and reliability. Both descriptive and inferential statistics were used for data analysis. The findings of the study revealed that supplier selection ethics had a positive significant effect on procurement performance. It was concluded that all the dimensions of supplier selection ethics are key influencers of procurement performance among the state corporations in Kenya. The study recommended that the Kenyan state corporations should ensure that the selection of suppliers is done ethically so as to optimize procurement performance.

Keywords: Ethics, Supplier Selection, Procurement Performance.

1. INTRODUCTION

Ethical sourcing majorly focuses on conducting procurement activities at the highest possible standards of responsible, sustainable and socially responsible business practice. (CIPS 2013). Sourcing decisions in the Kenyan state corporations are guided by the applicable sourcing ethics as outlined in the Kenya's public procurement and asset disposal Act (PPADA) of 2015 as well as the Public procurement and disposal regulations (PPDR) of 2006. Mlinga (2010) explains that provisions under public procurement, if adhered to can go a long way towards solving problems of ethics in procurement.

According to PPOA (2009) the applicable ethics in public procurement as outlined in the Kenya's Public Procurement and Asset Disposal Act, which the government owned entities must also adhere to include avoidance of collusion, avoidance of conflict of interest, equal opportunity, confidentiality and limited disclosure, avoidance of fraudulent practices, and avoidance of obstruction and undue delay in procurement processing.

Organizational performance will largely be determined by making the right supplier selection decisions. According to Mlinga (2010) determining the optimal supplier who offers the best all round package of product and services for the customers is extremely important in the organizational buying process. Supplier selection is essentially a process and procuring entities should strive in ensuring that suppliers are efficiently selected in a transparent manner. Olivier, Haithem, Gilles and Wehrle (2015) in their survey of supplier selection in the public selector also agree that supplier selection is a very important element of supplier relationship management and that the competitiveness and profitability of a firm largely depend on the effectiveness of the supplier selection process.

The Kenya Government forms state corporations to meet both commercial and social goals. They exist for various reasons including: to correct market failure, to exploit social and political objectives, provide education, health, redistribute income or develop marginal areas. The majority of key state corporations that exist today were established in the 1960's and 1970's. By 1995, there were two hundred and forty (240) parastatals in Kenya. According to the presidential task force on parastatal reforms report of 2013, all entities previously known as state corporations are clustered into five broad classifications: state corporations (pure commercial state corporations and commercial corporations with strategic functions); state agencies (executive agencies, independent regulatory agencies, research institutions, public universities, tertiary education and training institutions) (GOK, 2013).

1.1 Specific Objectives:

- i) To determine the influence of ethical supplier evaluation on the performance of state corporations in Kenya.
- ii) To study the influence of supplier ethical assessment on the performance of state corporations in Kenya

1.2 Research Hypothesis:

H₀₁: There is no relationship between supplier selection ethics and procurement performance among state corporations in Kenya

H_{a1}: There is a relationship between supplier selection ethics and procurement performance among state corporations in Kenya

1.3 Procurement Performance:

Performance of a firm should not be measured by financial performance only but also by operational and market indicators (Wadongo, Odhuno & Kambona, 2010). Iravo, Ongori and Munene (2013) explain that dissatisfied customers will be disloyal to the organization and are more likely to bad mouth the firm and talk about their bad experience. Kitheka and Ochieng (2014) in their survey of supermarkets argued that the performance of an organization can be evaluated by how it reduces cost or increases value.

Procurement performance is evaluated by whether the firm receives competitive bids, and whether purchase price savings are higher than expected. A common success measure in procurement has also been the percent of savings achieved. However, by using this measure, one would only focus on the price aspect of the sourcing event, neglecting some of the other objectives that may have been pursued, and which may have actually led to a higher price (Schoenherr & Mobet, 2011). Performance varies widely across all of the procurement's key value drivers e.g. spend coverage, sourcing programme velocity, sourcing project yields and outcomes, compliance rates and operating costs regardless of the company size, industry or spend mix.

Chimwani, Iravo and Tirimba (2014) argue that procurement performance starts from purchasing efficiency and effectiveness in the procurement function in order to change from being reactive to being proactive to attain set performance levels in an entity. They also argue that for any organisation to change its focus and become more competitive, performance is a key driver to improving quality of services

Ogulaba and Kiarie (2014) also agree that managing procurement performance begins with measuring purchasing efficiency and effectiveness. Public procurement in Kenya is also highly influenced by the efficiency and effectiveness of the tendering procedures conducted by the procurement department. To present performance of procurement, implementation of different performance measurement methods is crucial. Efficiency and productivity should be regularly recorded because they are key indicators in monitoring procurement performance (Erik, Daniel, Martin & Oliver, 2014).

2. LITERATURE REVIEW

Using a descriptive survey, Kannan and Tan (2011) also found out that supplier selection is a vital role of the procurement function because a firm's suppliers can largely affect price, reliability, delivery and availability of its products. Supplier evaluation depends largely on the supplier's abilities to meet the parameters of price, quality and delivery date required. However, the final decision might involve an ethical as well as a physical audit of the manufacturing entities. Mwikali and Kavale (2012) in their review of literature on optimal supplier selection recommended that supplier evaluation should be an open and transparent process, thorough and detailed to identify the salient and most important aspects of suppliers. It should be done by experts who are knowledgeable and have expertise to conduct the exercise professionally. According to

Hald and Ellegaard (2011) supplier evaluation is an activity whose main aim is to acquire information and to manage supplier relations by simultaneous consideration of factors such as price, delivery, lead times and quality.

Ombuki *et al.* (2014) held the view that selecting the right suppliers can be effectively achieved by adhering to procurement law. Using an ex-post facto survey research design, their study established that the PPDA (2005) in Kenya brought some sanity in the performance of procurement functions in the public sector. It recommended that politicians should be encouraged to adhere to the procurement Act so as to ensure competitive bidding and acquisition of services at the most reliable cost. Supplier selection should therefore be done according to the law and in a competitive manner. Jan and Per (2012) however, argue that strict regulations in the public sector that have dominated public procurement have underpinned the merits of tendering system as the main form of selecting suppliers in the public sector. Nyamongo, Mairura and Ombuki (2015) in a survey of procurement practices in state owned enterprises also agree that supplier selection procedures as guided by the PPDA (2005) and PPDR (2006) have serious limitations and have greatly contributed to using of unspecialized and briefcase suppliers as well as poor procurement performance in commercial state owned enterprises.

Apart from acting ethically in dealing with suppliers, it is becoming increasingly important to source only from ethical suppliers. This requires buyers to conduct an ethical assessment of the suppliers so as to understand whether a supplier employs unethical practices such as forced labour, poor working conditions, inadequate health and safety practices, poor regard for workers' rights and corporate social responsibility. A company should also watch out for suppliers involved in practices such as collusion with other suppliers to fix prices and divide up the market, lack of transparency, breach of confidentiality, dumping, bullying or threatening buyers and fraud or corruption (ITC, 2010). CIPS (2007) also outlines and describes the critical issues that buying organizations should watch out for when conducting supplier ethical assessments such as forced labour, employment relationships, fair remuneration, employees' working hours, suppliers' treatment of employees, working within the law, health and safety, and discrimination. Consumers International (2011) also acknowledges that the consumer demand for responsibly-sourced products has steadily been growing. Touboulic, Chicksand and Walker (2014) in their study of supply chain relationships established that there is growing concern over sustainability and ethicality of business practices and buyers are forced to account for the malpractices of their suppliers and also their suppliers' suppliers through the idea of boundary less responsibility.

Vonderembse and Tracey (2011) in a survey of procurement ethics among manufacturing firms observed that supplier selection and assessment tactics positively impacts a buying firm's performance. They also demonstrated that high performing companies attach greater importance to key supplier selection criteria such as quality and delivery performance than low performing companies. Greater use of advanced supplier selection and monitoring practices tend to increase profitability and product quality. Rashid (2014) explains that firms should select reliable suppliers and maintain strategic alliances with them. This leads to quality improvement and growth in market share.

The relationship between supplier selection ethics and procurement performance was represented using the following conceptual framework.

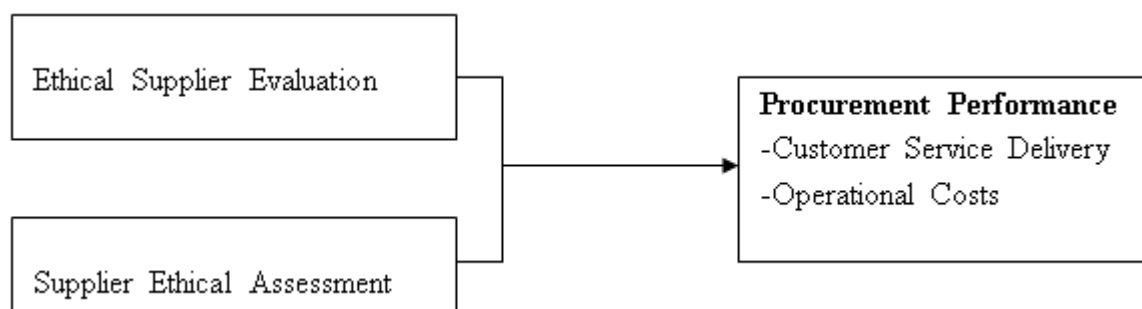


Figure 1: Conceptual Framework

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). Data was collected from all the 187 state corporations in Kenya using a structured questionnaire.

The questionnaire was piloted for validity and Cronbach’s alpha coefficient used to test the reliability of the measurement scales, giving a 0.725 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 data analyzed using both descriptive and inferential statistics. 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 determine the effects of supplier selection ethics on procurement performance. Table 1 summarizes the respondents’ level of agreement on how supplier selection ethics affected procurement performance in Kenyan state corporations.

Table 1: Supplier Selection Ethics on Procurement Performance

Statement	SDA %	DA %	SMA %	A %	SA %	Mean	SD
There are mechanisms to ensure objective supplier evaluation	1.5	0.7	14.6	60.6	22.6	4.02	0.732
Priority is given to suppliers meeting specifications	0	1.5	20.4	61.3	16.8	4.01	0.655
No selection of colluding suppliers	1.5	3.6	25.5	54.0	15.3	3.78	0.802
Regular assessment for forced labour	13.1	26.3	14.6	39.4	6.6	3.64	0.642
Regular assessment for child labour	12.4	32.1	16.1	28.5	10.9	3.62	0.639
Regular assessment of suppliers’ work conditions	15.3	32.1	13.9	28.5	10.5	3.86	0.652
Assessment of suppliers’ regard for workers’ rights	11.7	34.3	19.0	25.5	9.5	3.87	1.199
Assessment of suppliers’ health and safety practices	17.5	29.9	4.4	24.8	23.4	4.07	0.943
Overall Mean Score=3.44							
N=137; KEY: SDA= Strongly Disagree; DA= Disagree; SMA=Sometimes Agree; A= Agree; SA=Strongly Agree; SD= Standard Deviation.							

Most of the respondents agreed that their organizations conducted regular assessments of their suppliers’ work conditions to ensure an ethical source of suppliers as shown by a mean score of 4.07. Most of the respondents (60.6%) also agreed that their organizations have mechanisms in place to ensure objectivity in supplier evaluation, with a mean score of 4.02. 61.3% of the respondents agreed that priority is given to suppliers who meet specifications, recording a mean score of 4.01. 54.0% of the respondents also agreed that their organizations never select suppliers who collude either externally or internally in order to hike the prices.

Table 1 shows on a scale of 1-5 the extent to which the respondents felt supplier selection ethics affected procurement performance of Kenyan state corporations (where 1=strongly disagree, 2=disagree, 3=Sometimes, 4=agree and 5=strongly agree). Overall, most of the respondents had a neutral agreement that supplier selection ethics affected procurement performance with an overall mean score of 3.44. The standard deviations of majority of the responses were in the range of approximately 1.0 and this shows that the responses to the statements were not deviating much from the mean. Supplier selection ethics therefore qualifies as an important variable in enhancing procurement performance in the state corporations. These results were in line with the findings of Gilles and Wehrle (2015) that the competitiveness and profitability of the firm largely depends on supplier selections ethics.

The respondents were also asked to state what other supplier selection practices are used in their organizations to ensure that there is optimal procurement performance. Many of the respondents indicated that they use prequalified suppliers who have been selected through an open tendering process and they are also allowed to use the prequalified suppliers of

other established public procuring entities. Other respondents indicated that they conducted a lot of due diligence to ascertain the ownership and the capabilities of the supplier organizations during supplier selection. The other response that was dominating among many respondents was that they emphasized on clear, open and written communication between the procuring entity and the suppliers.

The suppliers were also requested to recommend any other supplier selection practices they felt would improve the overall procurement performance. A majority of the respondents recommended for more adoption of electronic procurement because the benefits were evident from the e-procurement initiatives by the government. Others recommended benchmarking with the best rated public procuring entities and other multinationals in order to adopt the best supplier selection practices in the market. Others felt that their management should make supplier evaluation a continuous exercise and participate actively in the development of their suppliers.

4.2 Correlation Results:

There was a significant positive correlation ($r=0.784$) between supplier selection ethics and procurement performance. Supplier selection ethics had a strong influence on the procurement performance of Kenyan state corporations, with a significant p-value of 0.000. This therefore implies that if the state corporations effectively engage in supplier selection ethics, they are likely to boost their procurement performance. These results were in agreement with the study by Vonderembse and Tracey (2011) which revealed that ethics in supplier selection and assessment positively impacts on a firm’s performance.

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
SSE	.104	.026	.032	.545	.000

a. Dependent Variable: Procurement Performance

Key: SSE=Supplier Selection Ethics

The individual ethical sourcing factors were regressed against the aggregate mean score of procurement performance. The multiple linear regression model coefficients highlighted in table 2 Showed that supplier selection ethics had a significant influence on procurement performance with p-values <0.05. The regression results indicated that a unit change in supplier selection ethics resulted in 10.4% change in procurement performance ($\beta=0.104$).

4.4 Analysis of Variance

To test the significance of the independent variables (supplier selection ethics, ethical policies and codes, procedural justice ethics and supplier diversity ethics) 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.
1	Regression	.235	1	.235	16.833	.001 ^b
	Residual	18.878	135	.140		
	Total	19.114	136			

a. Dependent Variable: Procurement Performance
 b. Predictors: (Constant), Supplier Selection Ethics

The ANOVA test results for supplier selection ethics showed an F statistic of 16.833, significant at 0.05 ($p<0.05$) and this indicated that 16.83% of the change in procurement performance was as a results of the influence that the supplier selection ethics measures had.

4.5 Hypothesis Testing:

To assess the relationship between supplier selection ethics and procurement performance, the null hypothesis was set as follows:

H₀₁: There is no relationship between supplier selection ethics and procurement performance.

The regression results revealed that $\beta=0.32$, $t=0.545$ and $p\text{-value}=0.000$. This showed a significant positive relationship between supplier selection ethics and procurement performance which was confirmed by the F test results shown in table 3. $\{F(1, 135)=16.833, P\text{-value}<0.05\}$. The decision rule for hypothesis testing was to fail to accept **H₀₁** if $P\text{-value} \leq 0.05$ otherwise accept **H₀₁** if $P\text{-value} > 0.05$. The results showed that $P<0.05$ and therefore the null hypothesis was not accepted and it was concluded that there is a statistically significant and positive relationship between supplier selection ethics and procurement performance in the Kenyan state corporations.

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary:

The study sought to examine the influence of supplier selection ethics on procurement performance. The indicators of supplier selection ethics considered were ethical supplier evaluation and supplier ethical assessment. Descriptive and inferential statistics methods were used to arrive at the results. Most of the respondents agreed that supplier selection ethics influence procurement performance as depicted in the results. The findings shown in the correlation matrix indicates that there was a significant positive relationship between supplier selection ethics and procurement performance.

The inferential statistics gave different findings and deductions. The dimensions of supplier selection ethics were found to be statistically significant in explaining procurement performance in state corporations. The regression results indicated that a unit change in supplier selection ethics caused a significant change in procurement performance. The results showed that procurement performance in the state corporations highly depended on objectivity in supplier selection, objective assessment of suppliers' health and safety practices as well as giving priority to those suppliers who met specifications.

5.2 Conclusions:

The correlation results indicated that there was a significant positive correlation between supplier selection ethics and procurement performance and the regression results showed that a unit change in supplier selection ethics results to a significant change in procurement performance. The ANOVA results showed that change in procurement performance was as a result of supplier selection ethics. It was therefore concluded that supplier selection ethics had a positive influence on procurement performance of state corporations. From the findings of the study, it was established that all the dimensions of supplier selection ethics were positively rated as being key influencers of procurement performance among the Kenyan state corporations. Having mechanisms to ensure objectivity in supplier evaluation had the greatest effect on supplier selection ethics. The levels of agreement for dimensions such as avoidance of collusion, selecting ethical suppliers and giving priority to suppliers who met the organizations' specifications lead to the conclusion that if the state corporations incorporated ethical practices in their supplier selection process, their procurement performance was bound to improve. There was a big percentage of the respondents disagreeing to the statements that their organizations conducted regular assessment for forced labour and child labour. The responses from the respondents also led to the conclusion that using prequalified suppliers who have been vetted and thereafter doing a post-qualification (due diligence) helps in improving the procurement performance of the state corporations

5.3 Recommendations:

Since supplier selection ethics positively affects procurement performance as shown in the findings of the study, it was therefore recommended that the state corporations should ensure that the selection of suppliers is done in an ethical manner with an aim of optimizing procurement performance. The study specifically recommended that the supplier prequalification process should be strictly supervised to ensure selection of the best suited suppliers who will drive the procurement performance of the state corporations. From the responses received, the study also recommended that the state corporations should adopt technology in their supplier selection process so as to promote efficiency and transparency in the procurement process. Post-qualification of suppliers is also highly encouraged to ensure that the selected suppliers have the required technical and financial capacities.

The state corporations should come up with policies which would enable them to continuously improve their procurement performance through supplier selection ethics. It is recommended that the state corporations should establish a communication policy during the supplier selection process which would ensure that all communications between suppliers and the firm is written or through an acceptable electronic media and that all potential suppliers will be getting

the same information for effective competition. From the conclusions, it was also recommended that conducting due diligence, benchmarking and supplier development should be part of the state corporations' procurement policy.

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