

The Strategic  
**JOURNAL of Business & Change**  
MANAGEMENT

ISSN 2312-9492 (Online), ISSN 2414-8970 (Print)



[www.strategicjournals.com](http://www.strategicjournals.com) Volume 4 Issue 3, Article 49

**EFFECTS OF ETHICAL ISSUES ON PROCUREMENT PERFORMANCE IN PUBLIC HOSPITALS IN KENYA: A CASE OF KENYATTA NATIONAL REFERRAL HOSPITAL**

**CHILION OTIENO OGOL, DR. MAKORI MORONGE**

---

**EFFECTS OF ETHICAL ISSUES ON PROCUREMENT PERFORMANCE IN PUBLIC HOSPITALS IN KENYA: A CASE OF KENYATTA NATIONAL REFERRAL HOSPITAL**

**Chilion Otieno Ogol<sup>\*1</sup>, Dr. Makori Moronge<sup>3</sup>**

<sup>\*1</sup> Jomo Kenyatta University of Agriculture & Technology [JKUAT] Nairobi, Kenya

<sup>2</sup> Jomo Kenyatta University of Agriculture & Technology [JKUAT] Nairobi, Kenya

**Accepted: September 27, 2017**

---

**ABSTRACT**

*The study focused on analyzing the effects of ethical issues on procurement performance in ministry of health in Kenya. In addressing the latter, the research established the effect of conflict of interest and professionalism on procurement performance as the specific objectives of the study. Descriptive research design was used for the study and the questionnaire was the main data collection instrument, Slovin's formula was used to pick a sample of 74 respondents from a target population of 294 staff working in procurement and operations department at KNH. Both quantitative and qualitative methods of data analysis were used to analyze the gathered data. The quantitative data generated was analyzed by use of descriptive statistics feature in SPSS to generate information. It was notable that there existed a strong positive relationship between the independent variables and dependent variable. This indicated that the set of independent variables were important factors that needed to be enhanced to facilitate procurement performance in public hospitals in Kenya. Based on the research findings, the study concluded that ethical behavior can help improve procurement performance in the organizations. Though the health sector was striving hard to embrace and adhere to ethical behavior there were still issues of conflict of interest and lack of professionalism. The study recommended that the current phenomenon of poor procurement performance in the health sector to be reversed if the government and other stakeholders ensured that ethical behavior exercised through assessing conflict of interest and professionalism.*

**Key Words:** Conflict of Interest, Professionalism, Procurement Performance, Public Hospitals in Kenya

## INTRODUCTION

Worldwide, public procurement has become an issue of public attention and debate, and has been subjected to reforms, restructuring, rules and regulations. World Bank, (2010) define public procurement as the acquisition of goods, services and works by a procuring entity using public funds. According to Thai, (2001) public bodies have always been big purchasers, dealing with huge budgets.

According to the Organization for Economic Co-Operation and Development, (2009), public procurement is regarded increasingly as a strategic profession that plays a central role in preventing mismanagement and minimizing the potential of corruption in the use of public funds (Organization for Economic Co-Operation and Development, 2009). Public procurement is progressively recognized as an instrument of government policy and a lever for wider economic, social and environmental change (Organization for Economic Co-Operation and Development, 2009). According to the Organization for Economic Co-Operation and Development (2009), many countries have not been able to tackle the integrity issues in public procurement. Organization for Economic Co-Operation and Development considers public procurement as the government activity most vulnerable to corruption. In this sense, lack of transparency and accountability are considered as the major threats to integrity in public procurement (Organization for Economic Co-Operation and Development, 2009).

Ethics are the moral principles or values that guide officials in all aspects of their work. Ethical behavior encompasses the concepts of honesty, integrity, probity, diligence, fairness, trust and respect. Ethical behavior includes avoiding conflicts of interest, and not making improper use of an individual's position (Palmer & Butt, 2005). 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 (Agaba & Shipman, 2009).

Ethical behavior is important in public procurement as it involves the expenditure of public money, and is subject to public scrutiny (Andrew, 2008). 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 (Patrick, 2010).

Palmer and Butt, (2005) indicates that any improvements in the public procurement system can have a direct and beneficial effect on the overall economic situation of a country. This underscores the importance of ensuring ethical standards are maintained in public procurement processes. This view is upheld by Wanyama, (2013) who state that in most countries procurement of goods, services and works required by government departments consumes a considerable part of government resources. Unethical practices involve public officials unlawfully enriching themselves and /or those close to them by misusing the public procurement trust bestowed on them (UNDP, 2010). Accountability constitutes a central pillar of any public procurement system (Tukamuhabwa, 2012).

Without transparent and accountable systems enabling governments and citizens to engage in a mutually responsive way, the vast resources channelled through public procurement systems

run the danger of increased unethical practices and misuse of funds (Tukamuhabwa, 2012). According to Shu *et al.*,(2011) a dishonest person in the purchasing department is in a position to demand or to receive personal enrichment or other personal advantages in return for granting a purchasing contract or placing an order, or for preferential treatment from the supplier. These personal advantages include, for example, gifts (both material and non-material), money in the form of kick-backs, and even bribes (Shu *et al.*, 2011).

Shu *et al.*,(2011) states that there are subtle areas where the purchaser may act unethically either consciously or subconsciously: the payment of fictive orders and invoices, double payment of invoices, the removal of information from computer records, dishonesty with tenders, e.g. making information known to a certain supplier so that he may submit the lowest tender, retaining credit notes for returned goods, purchasing larger amounts than needed, thus earning a kickback and knowingly purchasing products of poor, unusable quality.

The World Bank, (2010) indicates that many countries are yet to develop procedural frameworks that ensure: public procurement procedures are transparent and promote fair and equal treatment; public resources linked to public procurement are used in accordance with intended purposes; procurement officials' behaviour and professionalism are in line with the public purposes of their organisation and systems are in place to challenge public procurement decisions, ensure accountability and promote public scrutiny.

According to the Kenya Public Procurement and Oversight Authority (PPOA), (2007) unethical practices in public procurement are non enforcement of law, lack of transparency and accountability, breakdown or erosion of values and norms, weak management systems, procedures and

practices, lack of professional integrity, greed and abuse of discretionary power. Edward, (2009) states that procurement corruption can take place at every stage in the contracting process: at the first instance, a corrupt agent can inflate demand or create artificial demand for goods and services. The agent may also distort the allocation of scarce budgetary resources for purchasing these goods or services.

The Government of Kenya in recent years has been implementing numerous health sector reforms with health systems strengthening at the core of the reform agenda through the support of Kenya Medical Supplies Agency (Patrick, 2010). This work includes supporting the national government to formulate key policies and guidelines while assisting counties to better plan, manage and finance quality health services to meet local needs (Kinyanjui, 2012). KEMSA has offered improved stock management through computer software, and infrastructure for temperature and humidity controls, and hiring of skilled personnel on the area of supply Chain.

According to Kenya Public Procurement and Oversight Authority, (2007) defense is one sector that is prone to such manipulations. The second stage where corruption can take place is the tendering stage. Potential forms of corruption include tailoring specifications to restrict competition, restricted publicity, and abuse of confidentiality, bid rigging, and rejection of bids on frivolous grounds. The lack of legal precedence gives contracting agencies enormous discretion for determining and thus manipulating the rules of the game. The post-tendering stage also offers opportunities for abuse of authority (Obanda, 2010). The post-tender alteration of contract conditions, acceptance of inferior goods or services, and the waiver of penalties are some of the unethical practices usually committed at this stage.

Kenyatta National Hospital (KNH) is the largest referral hospital in East and Central Africa. Founded in 1901 with a bed capacity of 40 as the Native Civil hospital, it was renamed the King George VI in 1952. Kenyatta National Hospital has a capacity of 1800 beds and has over 6000 staff members. According to 2013-2014 budgets Kenyatta national hospital was allocated a budget of 1.2 billion Kenya Shillings of which more than 700 million was towards the purchase of medical Equipment, Pharmaceutical and Surgical materials. Due to the nature and costs of inventory that the hospital holds concerns have been how effective inventories are managed.

### **Statement of the Problem**

Effective application of procurement ethics is a major challenge facing many organizations around the globe (Edgar, 2006). According to a national perception survey, Kenya Anti-Corruption Committee, (2009) most Kenyans experienced some form of ethical issues in the Ministry of Health 41.3% of the respondents rated the Ministry of Health as the second most corrupt to the Ministry of Provincial Administration and Internal Affairs. The government hospitals were most involved in unethical practices public institutions, with 27.5%. A similar observation was made again by Kenya Anti-Corruption Committee, (2010) survey with a large number of the respondents 41.3% stating that the Health Sector is the most corrupt sector that is involved in unethical practices, further, 22.9% of the respondents ranked health facilities as the most failing on ethical issues.

Correspondingly, 27.5% of the respondents perceived government hospitals to have issues with conflict of interest, professionalism, transparency and accountability. The Kenya Anti Corruption Committee, (2011) survey results were no different, 27.5% of the respondents who were surveyed perceive the Ministry of Health as the second most

unethical ministry with the government hospitals being rated as the third most unethical government department, with 26.5%. In addition, the Global Corruption Report (TI 2010) that emphasized on unethical issues in the health sector revealed that unethical practices leads to the hemorrhage of the health system, results to market distortions and counterfeit drugs, undermines the fight against diseases and also threatens the achievement of the MDGs.

According to Patrick (2010), examination of systems, policies and procedures at Kenyatta national hospital (KNH) unearthed loopholes for corruption and other unethical practices and recommended to seal the loopholes and weaknesses in operational areas within KNH. Subsequent assessments and reviews conducted within the health sector also confirmed discrepancies in the procurement of pharmaceuticals and non pharmaceuticals and general malpractices in the operations of key institutions. This has affected procurement performance in terms of poor quality, increased lead time and cost.

Further, the Global Corruption Report (2011) cites Kenya's health care system as having issues with conflict of interest, lacking accountability mechanisms, transparency and professionalism resulting to abuse and misappropriation of the funds meant to alleviate disease. Addressing such ethical issues would lead to savings that can be directed to health care improvement and other poverty reducing programmes in Kenya. The aforementioned findings generated concern and provoked the need to undertake a more critical and in-depth study of the health care system in Kenya so as to understand the extent to which ethical issues affect procurement performance in health sector.

## Objectives of the study

The aim of the study was to establish the effects of Ethical Issues on Procurement Performance in Public hospitals in Kenya. The specific objectives were:-

- To evaluate the effect of conflict of interest on procurement performance in public hospitals in Kenya.
- To establish the influence of professionalism on procurement performance in public hospitals in Kenya.

## LITERATURE REVIEW

### Theoretical Literature

#### Game Theory

Game theory argues that many economic decisions involving more than one actor (e.g. a buyer and a supplier) take the form of a sequential, strategic game involving anticipation by one player of the other player's actions (Mahmood, 2010). Games such as the Prisoner's Dilemma have been used to show how co-operative behavior becomes more likely if two actors interact with one another on a repeated basis. This is because repeated interactions enable them to get to know each other, to build trust and to overcome the lack of information available in a one-off interaction about the other party's likely behavior (Agaba & Shipman, 2009).

In a one-off interaction, where the other party's intentions are unknown, the model suggests that both actors will behave competitively to try to maximize their individual utility (Armstrong, 2005). Based on this theoretical derivation, the underlying assumptions of the integrated SCM approach are that actors are rational, but may face information problems; and that actors are self-interested utility maximisers, but will co-operate through repeated interactions where greater net gains can be had from doing so.

The integrated SCM literature has applied this reasoning to develop an understanding of how buyers and suppliers can be encouraged to co-operate on a long-term basis and innovate to create a larger pool of value rather than competing over a static pool of value (Bailey *et al.*, 2008). A crucial aspect of this approach is the idea that buyers and suppliers should be trusting and transparent with one another, sharing information through mechanisms such as open book costing to signal their commitment and future intentions (Basheka, 2008). The theory can be related to the conflict of interest variable. This theory linked research question: How does conflict of interest influence procurement performance in public hospitals in Kenya?

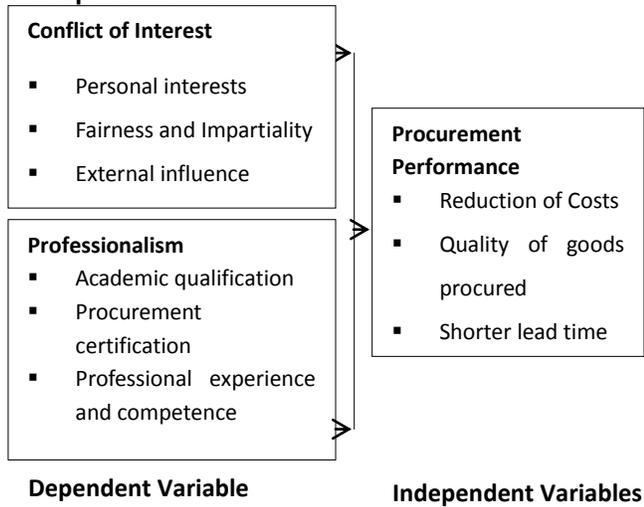
#### The Resource-Based View Theory

The resource-based view of the firm emphasizes that valuable, rare, imperfectly imitable, and non-substitutable firm's resources result in competitive advantage (Bolton, 2006). These resources can consist of assets, capabilities, organizational processes, information, etc. and are classified into tangible and intangible resources (Brammer & Walker, 2011). The theoretical mainstays are that resources that are entirely controlled or owned by the focal organization should be cultivated in order to enhance their contribution to the organization's competitive advantage in its industrial context (Raymond, 2013).

The RBV extends the resource-based view by highlighting that professionalism in carrying out procurement function might be a constraining factor impacting sustainable procurement performance and accordingly suggest that firms with competent procurement staff generate more sustainable procurement performance than others (Wanyama, 2013). This theory linked research question: To what extent does professionalism

affect procurement performance in public hospitals in Kenya?

**Conceptual Framework**



**Figure 1: Conceptual Framework**

**Procurement performance**

Procurement performance refers to efficiency and effectiveness in acquiring of goods and services in the procurement function in order to change from being reactive to being proactive to attain set performance levels in an entity (Baily *et al.*, 2005). Procurement performance has several benefits to an organization like cost saving, reduced lead time, policy adherence and compliance to procurement regulations (Bolton, 2006). Procurement activities have a relation to the organization’s economic performance which is evident by cost reduction (Kinyanjui, 2012). This can be divided to effects on turnover, gross profit, efficiency, total costs and organization’s equity. All of these categories correlate directly with how the supplier ratings are controlled and utilized for the benefit of the organization (Juma, 2012)

Ensuring efficiency, accountability and transparency in public procurement is critical to sustainable development (Obanda, 2010). Public procurement is a key tool to the overall achievements of

development goals such as reducing poverty and providing health, infrastructure, education and other services hence immensely contribute to best utilization of public resources. According to Odhiamo & Kamua, (2013) the limited public resources in developing countries especially in the Sub-Saharan Africa should be properly managed to get the most out of these resources. Studies have shown that out of the total public resources, procurement of goods, services and works account for about 70% of public expenditure.

Efficient public procurement practices contribute towards the sound management of public expenditure (Evenett *et al.*, 2005) which in turn can contribute towards the effectiveness of public sector management, and promoting the private sector. Besides, the objective of public procurement is to provide quality goods and services through open and fair competition in the exact quantity and proper quality as specified, and has to be delivered at the time and place where needed (Basheka, 2008,). The quality of goods, services, infrastructures, and the effectiveness of public services much depend on well-managed public procurement.

Three key principles, among others, are required for effective and well-managed public procurement: Efficiency, Accountability and Transparency (EAT). It is an evident that these principles are based on international best practices (Palmer and Butt, (2005). However, ensuring the level of compliance with best practices is a critical issue from the standpoint of practicality, therefore, in order to achieve the above mentioned objective, the three key principles should critically be investigated against the accepted standards. Efficiency in public procurement is of importance in ensuring that the best value for money is obtained by public entities. Lack of accountability can negatively affect the condition of efficiency (Patrick, 2010).

Ensuring transparency of the procurement process is also an important determinant of efficiency because it enhances and encourages competition by giving all potential suppliers a chance to bid. Transparency is crucial for sound decision making in procurement (Schapper *et al.*, 2006). There was an agreement that transparency is among the most effective deterrents to corruption in public procurement (Organization for Economic Co-Operation and Development, 2009). Transparency procedures allow a wide variety of stakeholders to scrutinize public officials' and contractors' decision and performance (Organization for Economic Co-Operation and Development, 2009). This is used as a mechanism to keep procurement officials and contractors accountable. Thus lack of transparency leads to lack of accountability.

The procurement system that is envisioned to contribute to effective service delivery is expected to be both accountable and transparent (Basheka, 2008). Accountability and transparency have been recognized as key conditions for promoting integrity and preventing corruption in public procurement (Organization for Economic Co-Operation and Development, 2009). Nonetheless, both of them should support efficiency in providing right quality, price and service within a timely delivery schedule. In designing transparency rules and procedures, serious reflection must also be given to establishing clear and precise disclosure requirements for various types of information. There is a need to use innovative approaches to promote transparency in procurement using new information and communication technologies.

The dictionary meaning of efficiency is productive use of resources, i.e., the ability to do something well or to achieve a desired result without wasted energy or effort. This is about ensuring value for money. Public procurement has to be practiced based on ensuring value for money. Driven by

considerations of value for money, governments have put increasing efforts into rationalizing and increasing efficiency of procurement. There has been recognition that procurement officials need to be equipped with adequate tools for improving planning and management and that their decisions need to be well informed (Organization for Economic Co-Operation and Development, 2009) so as to enhance efficiency in procurement.

According to Cohen *et al.*, (2003) good practices reduce costs and produce timely results, and poor practices lead to waste and delays. Lack of efficient procurement highly affects development issues such as service delivery, economic growth, private sector development and decentralization. In addition, inefficient procurement adversely affects professionalism and international trade and investment. Public procurement is challenged to make savings by improving efficiency. Standards can enable procuring entities and suppliers to work together so that they share the advantages of innovation and collaboration (Brammer & Walker, 2011).

Efficiency and value for money is delivered through the whole procurement cycle, from planning stage to contract management stage. The level of efficiency in public procurement is basically measured by the proper application of complete written procedures and standards of procurement such as pre and post qualification procedures; pre and post bid conference procedures; bid evaluation procedures; and bid challenge procedures. In addition professionalization of public procurement, institutional and professional capacity, extent of e-procurement, and the performance of procurement department indicate the level of efficiency (Cronbanch, 2011)

### **Conflict of Interest**

According to World Bank, (2010) conflict of interest may arise at various stages of the procurement process whenever public officials' decisions can be influenced by their private interests. The evaluation and award of bids is often assessed as one of the most vulnerable phases, due to the high level of technical expertise required and the specific features of evaluation committees. Therefore, in order to prevent and avoid conflict of interest in public procurement, countries should enact guidelines with a clear definition of conflict of interest, as well as put forth requirements for officials involved in the procurement process to disclose information on their private interests and assets, in addition to excusing themselves from certain decision-making processes and prohibiting them from performing certain functions if the opportunities for conflict of interest exist (Thai, 2001).

In addition, access to information, stakeholder participation in key stages of the procurement cycle and clear review mechanisms are essential to transparency and accountability in public procurement, and therefore, are essential in preventing conflict of interest and other forms of corruption. Moreover, effective implementation and enforcement of the law are key to create a deterrent effect and ensure integrity during the process (Shu *et al.*, 2011). Conflict of interest existed in public service is as old as public administration. Whereas in many societies in the past it had been assumed that elected or non-elected public officials would take advantage of public office to promote their own personal interests in modern societies they should be expected to act exclusively in the interests of the state (Schapper *et al.*, (2006).

As societies democratized and their governments became accountable to their publics citizens ask public officials to discharge their duties in the public

interest and with fairness and impartiality (Raymond & Jeanette 2008). Clean politics in democratic countries is subject to the effective and productive operation of democratic institutions as well as sustainable trust and guiding principles in government, namely openness, transparency and accountability (Schapper *et al.*, 2006). Contrary to the countries where democratic control is high "transparency" in public service and clear separation between "public" and "private" objectives are major problems in several democratizing countries due to corruption and abuse of power in their past (Patrick, 2010).

Conflicts of interest generally fall into two categories: pecuniary and non-pecuniary interests. (Organization for Economic Co-Operation and Development, 2009) Pecuniary interests involve an actual or potential financial gain. They may result from a staff member, or a member of his or her family, owning property, holding shares or a position in a company bidding for government work, accepting gifts or hospitality, or receiving an income from a second job. Money does not have to change hands - the benefit could be an increase in the value of a property because of a favorable rezoning decision, or the selection of a particular tenderer for a contract.

Non-pecuniary interests do not have a financial component. They may arise from personal or family relationships, or involvement in sporting, social or cultural activities. Similarly, if a government organization that gives grants to sporting organizations has a senior staff member whose daughter is a star player in a group, which is applying for funds, the staff member has, or could be perceived to have, a personal interest in the outcome of the grant application (Palmer & Butt, 2005). Moreover, there are also other interests which are not directly personal yet may be subject to conflict of interest. With the idea of reelection in

mind, elected officials generally pursue the interests of their constituents and/ of their party, and attempt to influence the relevant administrative process which is usually against the public interest.

### **Professionalism**

Brammer & Walker, (2011) define a profession as: “a calling requiring specialized knowledge and often long and intense preparation including instruction in skills and methods, maintaining by force of organization or concerted opinion high standards of achievement and conduct, and committing its members to continued study and to a kind of work to which has for its prime purpose the rendering of a public service”. According to Sutinen & Kuperan, (1999) “some of the indicators of professionalism include skills based on theoretical knowledge, existence of a professional association, extensive period of education, testing of competence, institutional training, licensed practitioners, work autonomy, code of professional ethics, self regulation, legal recognition, control of pay and high status and rewards.

The procurement system requires the input of professionals with good negotiating skills and a good grasp of market dynamics (Kinyanjui, 2010). This need is urgent in light of the diversity of functions that a procuring unit is charged with that are intricately connected to its efficiency and effectiveness (PPOA draft zero, September, 2009). The Public Procurement and Disposal Act 2005 and its Regulations of 2006 coupled with the Supplies Practitioners Management Act 2007 have helped in recognizing procurement professionalism in Kenya (Patrick, 2010).

According to Public Procurement and Disposal Act, (2010) within the Public Procurement Act, a ‘procurement professional’ is defined as a person who: Has a professional qualification in procurement and supply management from a

recognized institution, is engaged in a calling or occupation in which recourse to procurement is directly or indirectly involved and has experience in the practice of procurement, is a member of Kenya Institute of Supplies Management and any other recognized institute of Purchasing and Supply (Wanyama, 2013)

Procurement professionals need to acknowledge and devise strategies for managing all these complex challenges (Wanyama, 2013). The professionals must be seen as champions of efficiency and effectiveness and must acknowledge the challenges and their various forms, and their sources. The requirements to educate professionals and equip them with new and higher-level skills have consequently become urgent (Raymond, 2013). A skill is the ability either to perform some specific behavioral task or the ability to perform some specific cognitive process that is related to some particular task (Wanyama, 2013)

However, Obanda, (2010) report that finding, hiring and retaining dedicated, energetic, and ethical employees with special skills is always hard. While we understand that professionalism is a key mechanisms for, and primary targets of institutional change, the precise role of professions and professional service firms in processes of institutional change remain under-theorized (Lisa, 2010). Procurement professionals need to acknowledge and devise strategies for managing all these complex challenges. The professionals must be seen as champions of efficiency and effectiveness and must acknowledge the challenges and their various forms, and their sources. The requirements to educate professionals and equip them with new and higher-level skills have consequently become urgent (Evenette *et al.*, 2005).

A skill is the ability either to perform some specific behavioral task or the ability to perform some specific cognitive process that is related to some particular task (Edward, 2009). However, Cronbanch, (2011) report that finding, hiring and retaining dedicated, energetic, and ethical employees with special skills is always hard. While we understand that professionalism is a key mechanisms for, and primary targets of institutional change, the precise role of professions and professional service firms in processes of institutional change remain under-theorized (Hunja, 2011).

### **Empirical review**

#### **Conflict of Interest**

According to the United Nations report by the office of Internal Oversight Services (IOS- 2008) which was to be debated in New York, the united nations in Nairobi, may have lost 10 billion in procurement and administrative scandals over the past three years (Palmer and Butt, 2005). This was revealed by the internal audit report which stated that the money was suspected to have been stolen by UN employees who colluded with suppliers between 2004 and 2006. Some of the employees reportedly had links to the companies which were given contracts to do business with the Nairobi office which included the United Nations Environment Program (UNEP) and UN-Settlement (UN-Habitat).

Thai, (2001) conducted a research in Uganda to explain the causal factors for the unethical practices among public procurement officers in Uganda using the Bandura's moral disengagement variables and Durkheim's notion of anomie. The data was collected from both Central and Local Government. The study established that the interactive effect of moral disengagement and procurement planning behaviours diminishes the social construction of procurement officers' deviant behaviours.

Wanyama, (2013) conducted a research on public procurement ethics in the Less Developed Countries (LDCs) through the Norwegian Agency for Development Co-operation (NORAD) platform. The research established that the public procurement unethical behaviors manifest in terms of direct conflict of interests. In this sense, the research established that the causes of unethical issues in public procurement. Hunja, (2011) carried out seven studies using experimental and naturalistic studies in the United States of America (USA) on the factors that affect ethical standards in the public sector. The studies revealed that upper-class individuals behave more unethically than lower-class individuals (Jeppesen, (010). In this sense, the unethical attitudes of the upper class breeds unethical behaviour in the public sector procurement.

#### **Professionalism**

Organizations for Economic Cooperation and Development, (2009), study posited that enhancing professionalism in public procurement requires not only management procedures but also a clear set of values and ethical standards clarifying how to achieve these objectives. According to Patrick, (2010) study the buyer should follow ethical principles in order to build his own reputation and that of his organization. He can purchase everything but cannot buy either reputation for reliability. He asserts that these two can built by his professional ethics, moral s character wisdom and integrity. Since the buyer controls the purse of his organization as a custodian, the management expects that he will be fair, honest and dignified in his dealings. He is expected to follow ethical approach to the problem of purchasing (Shu *et al.*, 2011).

### **RESEARCH METHODOLOGY**

A descriptive research design was used in this study. The study population was 4700 employees of KNH.

The sampling frame consisted of staff from all management levels in the KNH procurement and operations department to ensure that all areas concerned with procurement was covered. This study used a questionnaire as a research instrument to collect the data relating to the independent variables. Secondary data was obtained from books, internet, journals and newspapers as indicated in the literature review. The Statistical Package for Social Sciences (SPSS) computer software version 22 was used specifically for the purpose of analyzing the quantitative.

### **DATA FINDINGS, ANALYSIS AND DISCUSSION**

A total of 74 questionnaires were administered to top level management, middle level management and lower level management in procurement and operations department at KNH, with 57 questionnaires returned successfully which represent (77.3%) of the total questionnaires administered. The study sought to find out the gender of the respondents. From the findings, the majority 54.9% of the respondents were male while 45.1% of the respondents were female. The study requested the respondents to indicate their age bracket by ticking against the appropriate range. From the findings, 43.1% of the respondents indicated that they were aged between 21-30 years, 39.2% of the respondents indicated that they were 31-40 years while 17.6% of the respondents were aged above 40 years. On job group level, the results revealed that majority of the respondent 41.2% worked at middle level management compared 37.2% in lower level management and 21.6% in top level management. The study requested the respondents to indicate the years they had worked in the organization. 51.0% of the respondents had worked for duration of 6-10 years, 23.5% between 1-5 years, 15.7% had worked for between 11-15 years, while 9.8% had worked in the organization for over 16 years. The study concluded that most respondents had worked in the

organization for 6-10 years. On academic qualification attained by the respondents, majority 41.2% of the respondents indicated that they had attained bachelor degree level of education, 33.3% of the respondents had attained Masters Degree level of education while 25.5% of the respondents had attained diploma level of education.

### **Conflict of Interest**

The study sought to know the extent to which the respondents agreed on the given statement concerning effect of conflict of interest on procurement performance in health sector in Kenya as indicated in Table 1. A scale of 1-5, the scores were as follows: The scores "Strongly disagree=SD" and "Disagree=D" were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale ( $1 \leq \text{Disagree} \leq 2.5$ ). The scores of 'Neutral' were represented by a score equivalent to 2.6 to 3.5 on the Likert scale ( $2.6 \leq \text{Neutral} = N \leq 3.5$ ). The score of "Agree=A" and "Strongly agree=SA" were represented by a mean score equivalent to 3.6 to 5.0 on the Likert Scale ( $3.6 \leq \text{Agree} \leq 5.0$ ). The results were presented in mean and standard deviation as illustrated in Table 1. From the study results, majority of the respondents were neutral that that the personal interests at the various stages of procurement process affect quality of goods procured in the organization as shown by a mean of 3.765, Lack of clear definition conflict of interest issues for the officials involved in procurement process hinder reduction of procurement costs as shown by a mean of 3.290; Personal interests act exclusively in the procurement process thus enhanced quality of goods procured as shown by a mean of 3.436; to a small extent fairness and impartiality is demonstrated in the procurement process thus leading to improved quality of goods procured as shown by a mean of 2.452 and Political and outside influence was being experienced in the

procurement process affecting reduction of procurement costs as shown by a mean of 3.210. This implied that conflict of interests influenced procurement performance in public hospitals in Kenya.

The study findings were in agreement with literature review by World Bank, (2010) conflict of interest may arise at various stages of the procurement process whenever public officials' decisions can be influenced by their private interests. The evaluation and award of bids is often assessed as one of the most vulnerable phases, due to the high level of technical expertise required and

the specific features of evaluation committees. Therefore, in order to prevent and avoid conflict of interest in public procurement, countries should enact guidelines with a clear definition of conflict of interest, as well as put forth requirements for officials involved in the procurement process to disclose information on their private interests and assets, in addition to excusing themselves from certain decision-making processes and prohibiting them from performing certain functions if the opportunities for conflict of interest exist (Thai, 2001).

**Table 1: Conflict of Interest**

Statement	Mean	Std
The personal interests at the various stages of procurement process affect quality of goods procured in the organization	3.765	.652
Lack of clear definition conflict of interest issues for the officials involved in procurement process hinder reduction of procurement costs	3.290	.231
Personal interests act exclusively in the procurement process thus enhanced quality of goods procured	3.436	.450
Fairness and impartiality is demonstrated in the procurement process thus leading to improved quality of goods procured	3.879	.390
Political and outside influence is being experienced in the procurement process affecting reduction of procurement costs	3.210	.392

### Professionalism

The study sought to know the extent to which the respondents agreed on the given statement concerning effect of professionalism on procurement performance in health sector in Kenya as indicated in Table 2. A scale of 1-5, the scores were as follows: The scores "Strongly disagree=SD" and "Disagree=D" were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale ( $1 \leq \text{Disagree} \leq 2.5$ ). The scores of 'Neutral' were represented by a score equivalent to 2.6 to 3.5 on the Likert scale ( $2.6 \leq \text{Neutral}=\text{N} \leq 3.5$ ). The score of

"Agree=A" and "Strongly agree=SA" were represented by a mean score equivalent to 3.6 to 5.0 on the Likert Scale ( $3.6 \leq \text{Agree} \leq 5.0$ ). The results were presented in mean and standard deviation as illustrated in Table 2.

From the study results, majority of the respondents were neutral that that the procurement staff had been certified by the professional body thus there was quality of procured goods and services in the organization as shown by a mean of 3.332, There was a continuous testing of staff competence which enhance diversity of procurement functions to

increase efficiency and effectiveness in the procurement process as shown by a mean of 2.990; The organization employed procurement and supply management from the recognized institutions to enhance timely delivery of goods and services as shown by a mean of 3.618; to a small extent the organization procurement professionals acknowledge and device strategies for managing complex challenges thus reduction of procurement costs as shown by a mean of 2.876 and there was a requirement to educate professionals and equip them with new and higher-level skills to have reduced procurement costs as shown by a mean of 3.210. This implied that professionalism influence procurement performance in public hospitals in Kenya.

The study findings were in agreement with literature review by Kinyanjui (2010) who stated that some of the indicators of professionalism include skills based on theoretical knowledge, existence of a professional association, extensive period of education, testing of competence, institutional training, licensed practitioners, work autonomy, code of professional ethics, self regulation, legal recognition, control of pay and high status and rewards. The procurement system requires the input of professionals with good negotiating skills and a good grasp of market dynamics). This need was urgent in light of the diversity of functions that a procuring unit was charged with that are intricately connected to its efficiency and effectiveness.

**Table 2: Professionalism**

Statement	Mean	Std
The procurement staff have been certified by the professional body thus there is quality of procured goods and services in the organization	3.332	.543
There is a continuous testing of staff competence which enhance diversity of procurement functions to increase efficiency and effectiveness in the procurement process	2.990	.093
The organization employs procurement and supply management from the recognized institutions to enhance timely delivery of goods and services	3.678	.209
The organization procurement professionals acknowledge and device strategies for managing complex challenges thus reduction of procurement costs	2.876	..206
There is a requirement to educate professionals and equip them with new and higher-level skills to have reduced procurement costs	3.210	.180

**Procurement Performance in Public Hospitals**

The study sought to determine implementation of procurement outsourcing practices reached attributed to the adoption of the supplier management, contract management, staff competency and regulatory framework. Findings in Table 3 below revealed improved implementation of procurement outsourcing practices across the 5

year period running from the year 2012 to 2016. In the cost reduction, a majority of respondents affirmed having reduced yearly from 0%-20% in 2012 (42%), to cost reduction by 0%-20% in 2013 (40%), 21%-50% in 2014 (35%), cost reduction by more than 50% in 2015(38%) and reduced by more than 50% (37%) in the year 2016. Reduced lead time also recorded improvement with a majority affirming a majority of respondents affirmed having

improved by reduction from 0%-20% in 2012 (42%), to shorter lead time by 0%-20% in 2013 (37%), reduced by more than 50% in 2014 (40%), shorter lead time reduced by more than 50% in 2015(40%) and reduced by more than 50% in 2016(38%). A similar trend was recorded in improved of quality of goods and services procured with a majority affirming a majority of respondents affirmed having improved by reduction from 0%-20% in 2012 (44%), to quality of goods and services procured by 0%-20% in 2013 (35%), reduced by more than 50% in 2014 (37%), quality of goods and services procured reduced by more than 50% in 2015(40%) and reduced by more than 50% in 2016(40%). It was deduced from the findings that key procurement performance had considerably improved with the adoption of the procurement ethics in the public hospitals.

The study findings were in line with the findings by Price Waterhouse Coopers (2014) established that outsourcing has moved markedly from attending to

a single function more efficiently, to reconfiguring a whole process in order to attain greater shareholder value across the enterprise. The goals of outsourcing often include reducing labor and overhead costs, maximizing profits, dominating a market, and gaining a competitive advantage. Procurement performance refers to efficiency and effectiveness in acquiring of goods and services in the procurement function in order to change from being reactive to being proactive to attain set performance levels in an entity (Baily *et al.*, 2005). Procurement performance has several benefits to an organization like cost saving, reduced lead time, policy adherence and compliance to procurement regulations (Bolton, 2006). Procurement activities have a relation to the organization's economic performance which is evident by cost reduction (Kinyanjui, 2012). This can be divided to effects on turnover, gross profit, efficiency, total costs and organization's equity.

**Table 3: Procurement Performance in Public Hospitals**

<b>Reduction of costs</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Reduced by 0%-20%	42	40	34	30	28
Reduced by 21%-50%	35	28	35	32	35
Reduced by more than 50%	23	32	31	38	37
<b>Lead Time</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Reduced by 0%-20%	42	37	34	30	30
Reduced by 21%-50%	32	33	26	30	32
Reduced by more than 50%	26	30	40	40	38
<b>Quality of Goods Procured</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>

Improved by 0%-20%	44	35	33	20	25
Improved by 21%-50%	32	33	30	40	35
Improved by more than 50%	24	32	37	40	40

## SUMMARY, CONCLUSION AND RECOMMENTATIONS

The study established that the personal interests at the various stages of procurement process affected quality of goods procured in the organization. Lack of clear definition conflict of interest issues for the officials involved in procurement process hindered reduction of procurement costs Personal interests act exclusively in the procurement process thus enhanced quality of goods procured. The respondents were neutral that fairness and impartiality is demonstrated in the procurement process thus leading to improved quality of goods procured. The political and outside influence was being experienced in the procurement process affecting reduction of procurement costs. This implied that conflict of interests influence procurement performance in public hospitals in Kenya.

From the study results, majority of the respondents were neutral that that the procurement staff had been certified by the professional body thus there was quality of procured goods and services in the organization. There was a continuous testing of staff competence which enhanced diversity of procurement functions to increase efficiency and effectiveness in the procurement process. The organization employed procurement and supply management from the recognized institutions to enhance timely delivery of goods and services. To a small extent the organization procurement professionals acknowledge and devised strategies for managing complex challenges thus reduction of procurement costs. There was a requirement to educate professionals and equip them with new

and higher-level skills to have reduced procurement costs. This implied that professionalism influence procurement performance in public hospitals in Kenya.

The study sought to determine the influence of conflict of interest and transparency on procurement performance in public hospitals in Kenya. The cost reduction, shorter lead time and quality of goods and services procured recorded low positive achievements in the organization. From inferential statistics, a positive correlation was seen between each determinant variables and procurement performance in public hospitals. Both independent variables were found to have a statistically significant association with the dependent variable at ninety-five level of confidence.

### Conclusion

Based on the study findings, the study concluded that procurement performance in public hospitals in Kenya was affected by ethical issues such as conflict of interest and transparency. The study concluded that professionalism was the first important factor that affected procurement performance in public hospitals in Kenya. Professionalism had a significant influence on procurement performance in public hospitals in Kenya. This implied that increasing levels of professionalism would increase the levels of procurement performance in public hospitals in Kenya. This showed that professionalism had a positive influence on procurement performance in public hospitals in Kenya.

The study concluded that conflict of interest was the second important factor that affected

procurement performance in public hospitals in Kenya. Conflict of interest had a significant influence on procurement performance in public hospitals in Kenya. This implied that increasing levels of conflict of interest would increase the levels of procurement performance in public hospitals in Kenya. This showed that conflict of interest had a positive influence on procurement performance in public hospitals in Kenya.

### **Recommendations**

In order to prevent and avoid conflict of interest in public procurement, there should be guidelines with a clear definition of conflict of interest, as well as put forth requirements for officials involved in the procurement process to disclose information on their private interests and assets, in addition to excusing themselves from certain decision-making processes and prohibiting them from performing certain functions if the opportunities for conflict of interest exist. In addition, access to information, stakeholder participation in key stages of the procurement cycle and clear review mechanisms are essential to transparency and accountability in public procurement, and therefore, are essential in preventing conflict of interest and other forms of corruption. Moreover, effective implementation and enforcement of the law are key to create a

deterrent effect and ensure integrity during the process

The study recommends that procurement practitioners involved in procurement should be committed to high standards for professional conduct. Competence is expected of supply management professionals. Developing business skills and increasing knowledge of supply management demonstrates a commitment to the profession and positively impacts you, your employer, peers, and suppliers. Professional development requires continuing education.

### **Areas for Further Research**

The study analyzed the effects of ethical issues on procurement performance in the public hospitals. Due to constraints highlighted in the first chapter, this study could not exhaust all the effects of ethical issues in health sector. Research should be conducted to establish other effects of ethical issues on procurement performance since those covered in this study account for 55.30% only. Future research should be broadened to other industries and sectors such as manufacturing sector, to establish their unique effects of ethical issues so that some harmonization can be realized.

### **REFERENCES**

- Agaba, E. & Shipman, N,(2009). "Procurement Systems in Uganda." *International Handbook of Public Procurement*, pp 394-406.
- Andrew, M. (2008), Procurement Reforms in Kenya. *Journal of Economics*, 22(1), 23-50.
- Armstrong, E.(2005). *Integrity, Transparency and Accountability in Public Administration: Recent Trends, Regional and International Developments and Emerging issues* pp 66- 96
- Asian Development Bank/ OECD (2006). *Curbing Corruption in Public Procurement in Asia and the Pacific. Progress and Challenges in 25 Countries*. Anti- Corruption Initiative for Asia and the Pacific, pp 102- 124
- Babbie, E. (2002). *The Practice of Social Research*. Belmont (California): Wadsworth Publishing Company.

- Bailey Peter and Farmer David (2008), *Purchasing principles and management* (8th edition) pitman publishing, press UK.
- Basheka, B., C. (2009). "Public Procurement Reforms in Africa: A tool for Effective Governance of the Public Sector and Poverty Reduction." *International Handbook of Public Procurement*, pp 131- 156
- Basheka, B.C. (2008). "Procurement Planning and accountability of local Government procurement systems in developing countries: Evidence from Uganda." *Journal of Public Procurement*, 8 (3) pp 379-406.
- Bolton, P. (2006). Government procurement as a policy tool in South Africa. *Journal of Public Procurement*, Vol. 6 No.3, pp.193-217.
- Brammer, S., & Walker, H. (2011). "Sustainable Procurement in the public sector: an international comparative study." *International Journal of operation and production management*, 31 (4). Pp 452-476.
- Cohen, J., Cohen, P., West, S. G., & Aiken, L. S. (2003). *Applied multiple regression/correlation analysis for the behavioral sciences*. Lawrence Erlbaum Associates, Mahwah: New Jersey.
- Cooper, D.R. & Schindler, P.S. (2003). *Business Research Methods*. New York: Mc
- Cronbach. N. (2011) *Regulating Procurement Practice*, 4th edition, Jaico Publishing House, New York, USA
- Edward, B. (2009). Public Sector Procurement Methods. *Journal of Procurement*, 11(1), 65-78.
- Evenette, Simon J. & Hoekman, Bernard (2005)." International Cooperation and the Reform of Public Procurement." *World Bank Policy Research Working paper*, No. 3720
- Hunja, R. (2011). Obstacles to public procurement reform in developing Countries, *International Journal*, Vol. 10 No. 2, pp. 167-170.
- Jeppesen R. (2010). *Accountability in public procurement- transparency and the role of civil society*. United Nations Procurement Capacity Development Centre. Vol. 6 No. 3, pp. 126-135.
- Juma, M. J. O. (2012). "Public Procurement Reforms" *Kenya Procurement Journal*, Issue No. 08, October 2010.
- Kenya Gazette Supplement No. 92 (2006). *The Public Procurement and Disposal Regulations*. Nairobi: Government of Kenya.
- Kinyanjui,P. (2012). Procurement Challenges in Kenya. *Journal of Procurement*, 13(1), 65-85.
- Kinyua (2011). *Research Methodology*. Methods and Techniques (Second Revised)
- Kombo, D. K., & Tromp, D. L. A., (2006). "*Proposal and Thesis Writing*", (2nd Re-print). Nairobi: Paulines Publications Africa.
- Kothari, C. R. (2008). *Research Methodology*: New Age International, (3rd Ed.). London: Longman Publishers.

Lisa, I. (2010). Compliance culture. A conceptual framework. *Journal of management and organization*, 19(7), 702-714.

Luhmann R. (2010). *Research Methodology. Methods and Techniques* (Second Revised)

Lysons K & Farrington B. (2006). *Purchasing and Supply Chain Management*. 7<sup>th</sup> Edition. Pearson Education Limited: England

Mahmood, S. A. I. (2010). Public procurement and corruption in Bangladesh. Confronting the challenges and opportunities. *Journal of public administration and policy research*, 2(6), 103-111.

Mugenda, O. M. & Mugenda, A. G. (2009). *Research Methods: Quantitative and Qualitative Approaches*. Nairobi: Acts Press.

Ngechu M. (2004). *Understanding the Research Process and Methods: An Introduction to Research Methods* Nairobi, Acts Press, 2004.

Obanda, W. P. (2010). Fighting corruption in tactical procurement. PHD dissertation.

Odhiambo, W. & Kamua, P. (2013). "Public Procurement: Lessons from Kenya, Tanzania and Uganda." *Working paper No. 208*, OECD Development Centre.

OECD (2009). "Integrity in Public Procurement: Good Practices from A to Z". Paris France Efficiency, Accountability and Transparency in Public Procurement 1291

Orodho, A.J (2003). *Essentials of Educational and Social Science Research Methods*. Nairobi: Mazola Publishers.

Palmer, R.D. and Butt, A.H. (2005), *Value for Money in the Public Sector, The Decision Makers Guide*, Basil Blackwell, Ltd, Oxford.

Patrick, K. (2010). *Procurement Reforms in Kenya*. Working Paper no 1. Nairobi: Government Press.

Public Procurement Oversight Authority (2007). Assessment of the Procurement System in Kenya. Nairobi: PPOA.

Raymond & Jeanette (2008). "Bench marking in Public Procurement." *An international Journal*, 15 (6), pp 782-793

Schapper, P. R., Malta Veiga J. N., & Gilbert, D.L, (2006). "An Analytical Framework for the Management and Reform of Public Procurement." *Journal of Public Procurement*, 6(1&3), pp 1-26

Shu, H. W., Othman R., Omar H., N., Abdul R., R., & Husna, H., N. (2011). "Procurement issues in Malaysia." *International Journal of Public Sector Management*, 24 (6). pp 567-593.

Sutinen, J. G. & Kuperan, K. (1999). A socio-economic theory of regulatory compliance. *International Journal of Social Economics*, 26(1/2/3), 174-193.

Thai, Khi V. (2001). "Public Procurement Re-Examined." *Journal of Public Procurement*, 1 (1) pp 9-50.

Transparency Ethiopia (2008). "Corruption Diagnostic Baseline Survey- Report." *African Economic Studies*. Addis Ababa

Tukamuhabwa B. R. (2012). Antecedents and Consequences of Public Procurement Non-compliance Behavior. *Journal of Economics and Behavioral Studies* .Vol. 4, No. 1, pp. 34-46, Jan 2012 (ISSN: 2220-6140).

UNDP (2010). *Public Procurement capacity Development guide*. [Online]. Available at [www.unpcdc.org](http://www.unpcdc.org). (Retrieved 7/11/2011).

Wanyama, J (2013). *The effectiveness of the Procurement Regulations in Kenya*. Pr Academics Press. pp. 19(5), 421-433.

World Bank (2010). "Use of country procurement systems: Second Progress Report." Washington.