



RELATIONSHIP BETWEEN ETHICAL RISKS AND PROCUREMENT MANAGEMENT IN SELECTED PUBLIC SECONDARY SCHOOLS IN KERICHO COUNTY

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ABSTRACT :

Economic and social challenges have obliged many organizations to re-evaluate their manner and approach in maintaining sustainable relationships with their customers. It has been witnessed in most successful organizations that implementation of ethical risks in procurement has ensured customers get the best services. It is on this basis that this study sought to determine the relationship between ethical risk and procurement management in selected public secondary schools in Kericho County. The study adopted correlation research design. The target population was 220 public secondary schools which comprised of 1100 tendering committee. The study used stratified and simple random sampling techniques. The sample size was 294 respondents which were derived using the Taro Yamane's formula. Questionnaires were used for data collection. Descriptive and inferential methods were utilized for data analysis and presentation. The regression coefficients indicate that ethical risks have a positive and statistically significant relationship with procurement management ($B = 0.703$, $SE = 0.050$, $\beta = .757$, $t = 14.147$, $p < .001$). The positive unstandardized coefficient ($B = 0.703$) suggests that improvements in ethical risks are associated with substantial improvements in procurement management. The study recommended that ethical risks should be adhered to since it significantly improves on procurement management. Hence, there is need to tighten internal control systems in detecting procurement corruption and fraud to ensure integrity in the process.

Keywords: *Ethical Risk, Procurement Management, Public Procurement, Procurement Ethics*

INTRODUCTION

1.1 Background of the Study

Ethics plays a very important role in business environment which may cause impact to the public and also to the brand of the company. Ethics in procurement should be adhered to avoid the consequences. In relation to this monopoly should not be practiced in the procurement process. The risk increases in the public sector where single supplier is used (Kinoti, 2013). Public procurement is a key economic activity of government that has implications on the organization's operation since the various resources of the organization are acquired through procurement (Lysons & Farrington, 2006).

For organizations to achieve value for money and 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 and using slicing to avoid adopting the appropriate procurement method (Leenders, Johnson, Flynn and Fearon (2014)

Globally, organizations view establishment of a regulatory body, and framework that is comprehensive, legal and transparent in procurement activities as one among the most essential activities that guarantees accountability and transparency concerning public funds (Prier & McCue, 2006).

According to previous empirical studies, it is noted that, implementation of ethical practices in procurement leads to higher organizational performance hence the need to minimize unethical risk in procurement process (Banihashemi, 2011). Odhiambo, (2012) stated that procurement has both economic and political impact thus it is vital to make sure the process is economical. Meaning it should be understood by all players such as, procuring entities, government, academic entities, stakeholders, general public and suppliers.

Some of public sector organizations such as schools are not free from unethical behavior during procurement process. Unethical behavior is an act committed by government at the highest level to change the central functions of the state, allowing leaders get public goods (Lindskog, 2010). The

applicable ethics in public procurement in government entities must be adhered to so as to maintain codes of conduct, ethical concepts and principles and avoid ethical risks and actions from unethical risk (GOK, 2015). Occasionally procurement is mannered by mechanisms that are related to, unfair procedures, tender awards and lack of transparency. Several entities are faced with challenges at prequalification level, during quality assurance, warehouse supplies, customs clearance, under-invoicing during in imports among other issues (Chigudu, 2014). Therefore, this study was carried out to establish the relationship between ethical risk and procurement management. (Lindskog, Staffan & Brehmer, 2010).

The applicable ethics in public procurement 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 processes (GOK, 2015).

Several studies have given more importance on the ethical risk in procurement process such as (Achuora, 2011) who concurs that adopting procurement regulation improves efficiency in public sector procurement management. Ndolo& Eunice, (2014) indicated that ethical behavior in procurement process is built in a corporate and functional framework that is beneficial to all stakeholders. This was further supported by (Kizito and Khomba, 2013) who emphasized on the importance of ethical risk on procurement as necessary for the purpose of long-term relationship and establishment of supplier goodwill.

1.2 Statement of the Problem

An effective ethical procurement system that entails transparency, accountability and stakeholder participation enhances governance reforms. Procurement ethics ensures integrity in public funds, efficiency and accountability which are vital drivers of procurement management in organizations. Ethical risk in public procurement ensure proper use of public funds towards quality service delivery, customer satisfaction, timely payment of suppliers and efficient supply selection among other benefits. The major challenge faced by most organizations globally is lack of effective application and implementation of ethical risk in procurement process. Despite the adoption of ethical risk in many organizations being, there is yet a non-compliance culture, coupled with lack of transparency and accountability that has led to embezzlement of public funds and unethical issues in procurement practices currently. Recently there has been cases of some stakeholders in the schools and especially parents who have been known to be involved in outcries regarding the utilization of resources in these schools. A number of studies has been carried out relating to ethical risk in procurement process and the finding indicates that many organizations observes guidelines put in place by public procurement Act 2015 and manual for secondary schools 2005. However, it is not yet clear if procurement process in public sector in Kenya is free from unethical risk. Therefore, this study was carried out to ascertain the relationship between ethical risks and procurement management in public secondary schools in Kericho County, Kenya.

2.0 Literature Review

Ethical risks refer to unexpected negative consequences of unethical actions and it allows identification, transformation and mitigation of risks thus improving efficiency in procurement. Functions of procurement drew up statements of policy to guide its conduct in various aspects for instance conflict of interest, fraud, corruption and collusion (ICT, 2010). It is believed that an individual may have conflict in procurement process with another party if they are competing for the same contract (PPOA, 2009).

Israel, Mchopa, Mwaizeje and Mashene (2019) in their study on ethical procurement and performance of public procuring entities in Tanzania. The study used a descriptive research design with sample size of 44 participants in Moshi District Council. The study utilized mixed sampling techniques, simple random and purposive sampling to draw sample size. The data was collected were Questionnaires and documentary review, and data analysis was through descriptive and quantitative statistics. The study found that ethical public procurement practices either jointly or single handedly improved organization performance by ensuring timely and quality delivery as well as achieve cost efficiency in procurement. The study recommended on the need to strengthen internal and external legal framework, enhance ethical training, hiring technically, qualified and professional procurement staffs. However, the study focus was on performance of public procuring entities in Tanzania. The current study is focusing on procurement management and it was done in Kenya.

Nikolay, (2013) conducted a study on judicial system conflict of interest in procurement he found out that the proceedings for conflict were administrative in nature. Buyers should always declare any conflict of interest for instance suppliers who are close friends or shareholders in a supplier firm or relatives. Graafland, (2012) in his survey of public procuring entities reveals that in most institution, purchase of goods and services by individuals who have relationship expose the organizations to fraud and other unethical procurement hurdles.

Arrowsmith, (2011) expounds that a favored bidder in collusion with procuring entity could make a favorable bid to win the contract based on the rules of the competition but the procuring entity could permit the bidder to undermine the terms of the contract. Hendi, (2014) showed that fraud is a crime of benefit which makes use of deception as its' principal modus operandi. According to (PPOA, 2009), no public official, procuring entity, supplier or any other person should attempt to collude or collude with another to make hike proposed prices.

Murray, (2014) in a case study of procurement fraud and vulnerability found that procurement fraud has become a pertinent issue in several institutions

and is no longer just a perceived risk. Kroll, (2013) reveals that 19% of organizations at global level have been victims of procurement fraud. This implies that the cost of procurement bribery and fraud has to be recouped from the market since the prices paid were higher than would be the case in a fraud free market.

3.0 Research Methodology

This study adopted correlation research design to examine the relationship between ethical risks and procurement management. Correlation design describes in quantitative terms the degree to which variables are related. Correlation research design involves collecting data to determine whether and to what extent a relationship exists between two or more quantifiable variables. The degree of relationship is expressed as a correlation coefficient (r) (Mugenda and Mugenda, 2003). This study sought to establish the relationship between ethical risk and procurement management in Kericho County. The target population comprised of 1100 tendering committee in the selected public secondary schools in Kericho County. The schools selected from six sub-counties which includes: Belgut, Kipkelion, Bureti, Londian, Kericho and Soin/Sigowet.

Stratified sampling technique was used in the study to extract information from 246 tender committee in public secondary school in Kericho County. Stratification ensured that the data was representation of Kericho County. Proportion method was used to obtain the sample size per each strata representing the sub-county. This assisted to obtain equal proportion of element from each Sub-County based on the number of tender committees. Simple random sampling technique was used to select the respondents from each stratum. Simple random sampling technique ensured equal chance of respondents' participation in sample framework.

Structured questionnaires were utilized in data collection. The questionnaire contained both closed and open-ended questions. Kothari, (2013) indicate that closed questions in a questionnaire are used in restricting the respondents to the study variables while open questions allow free response and opinions being shared from the respondents. This technique was used because of its simplicity and relatively easy to construct.

The study adopted descriptive statistics analysis. Descriptive statistical analysis was done using means and standard deviation. Multiple linear regression models were considered in the study and inferential statistics as a tool that indicated relationship between variables. Statistical package for Social Science (SPSS) was utilized in data analysis. Presentation were done using tables.

4.0 Discussion of the Findings

Ethical risk was analyzed from 5-level Likert scale to produce minimum, maximum, mean and standard deviation. These descriptive statistics were then used to provide interpretation and therefore discussion. The results are given in the Table 1.

Table 1
Ethical Risk Results

	SA(5)	A (4)	N(3)	D(2)	SD(1)	N	Min	Max	Mean	SD
Staff or members involved in procurement management declare with immediate effect any conflict of interest	62 (23.8%)	179 (65.1%)	29 (11.1%)	0 (0.0%)	0 (0.0%)	261	3.00	5.00	4.1264	.57789
Suppliers and buyers do not participate in any form of procurement fraud	56 (21.5%)	183 (69.7%)	23 (8.8%)	0 (0.0%)	0 (0.0%)	261	3.00	5.00	4.1264	.53647
There is no internal or external collusion witnessed during procurement process	64 (24.5%)	160 (61.3%)	37 (14.2%)	0 (0.0%)	0 (0.0%)	261	3.00	5.00	4.1034	.61459
There is no form of corruption been witnessed or reported during the procurement process	69 (26.4%)	138 (52.9%)	54 (20.7%)	0 (0.0%)	0 (0.0%)	261	3.00	5.00	4.0575	.68539
The school has internal control systems then enhances integrity and detects corruption or fraud	50 (19.2%)	194 (74.3%)	17 (6.4%)	0 (0.0%)	0 (0.0%)	261	3.00	5.00	4.1264	.49157

According to Table 1 the staff or member involved in procurement management satisfactorily declared with immediate effect any conflict of interest (mean of 4.1264). The response is from neutral to strongly agreed which revealed low variation in declaration of conflict of interest (minimum of 3.00,

maximum of 5.00 and standard deviation of 0.57789).

Suppliers and buyers did not participate in any form of procurement fraud agreeably (mean of 4.1264). It found that the response was between neutral and strongly agreed (minimum of 3.00 and maximum of 5.00). It was found that variation in participation in any forms of procurement fraud was low (standard deviation of 0.53647).

Similarly, it was found that there was satisfactorily no internal or external collusion witnessed during procurement process (mean of 4.1034). Its response ranged from neutral to strongly agree (minimum of 3.00 and maximum of 5.00). Variation in interference in procurement process was low (standard deviation of 0.61459).

Corruption practices were also acceptably not witnessed or reported during the procurement process (mean of 4.0575). The response was neutral, agree and strongly agree (minimum of 3.00 and maximum of 5.00). Therefore, variance in no forms of corruption cases in procurement process was low (standard deviation of 0.68539).

Schools had internal control systems which greatly enhanced integrity and detected corruption or fraud (mean of 4.1264). The response ranged from neutral to strongly agree (minimum of 3.00 and maximum of 5.00). Due to internal control system the variation of integrity and detection of corruption or fraud was low (standard deviation of 0.49157).

Results concurred with Nikolay (2013) who found that there is need for procurement staff to declare conflict of interest to reduce corruption and other malpractice in procurement process. The current study however, reveals that procurement staff should declare conflict of interest.

Israel, Mchopa, Mwaiseje and Mashene (2019) concurs that ethical practice ensures timely and quality delivery as well as achieve cost efficiency in procurement. However, the current study added that following procurement process, independents of tender committee and cross checking of every involves with local purchase order and delivery note ensure better procurement management.

4.1 Test of Hypothesis

The study hypothesis was H_0 : *There is no statistically significant relationship between ethical risks and procurement management in selected public secondary schools in Kericho County.* To test this hypothesis, a simple linear regression was conducted, producing three outputs including model summary, ANOVA and coefficients. Table 2 shows the model summary.

Table 2
Model Summary Findings on Ethical Risks and Procurement Management

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.757 ^a	0.573	0.570	0.63735

a. Predictors: (Constant), Ethical Risk

The Model Summary presents the results of a simple linear regression examining the relationship between ethical risks and procurement management. The model summary indicates a strong positive relationship between ethical risks and procurement management ($R = .757$). This finding suggests that institutions with stronger ethical risk are more likely to perform better in relations to procurement management.

The coefficient of determination ($R^2 = 0.573$) indicates that 57.3% of the variation in performance is explained by ethical risk, while the remaining 42.7% is attributable to other factors not included in the regression model.

The Adjusted R^2 of 0.570 is only slightly lower than the R^2 value, demonstrating that the model is stable and provides a reliable estimate of the relationship between ethical risks and procurement management. The Standard Error of the Estimate (0.63735) indicates that this model provides the most accurate predictions of procurement management.

Table 3
ANOVA^a Findings on Ethical Risks and Procurement Management

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	81.303	1	81.303	200.151	0.000 ^b
	Residual	60.525	260	0.406		
	Total	141.829	261			

a. Dependent Variable: Procurement Management

b. Predictors: (Constant), Ethical Risks

The ANOVA table evaluates whether the regression model using ethical risk significantly predicts procurement management. The ANOVA results indicate that the regression model is highly statistically significant, $F(1, 260) = 200.151$, $p < 0.001$. This demonstrates that ethical risk significantly predicts procurement management and that the regression model provides a substantially better fit than a model without predictor variables.

The regression model explains a significant proportion of the variance in procurement management. As shown in the model summary, ethical risks accounts for 57.3% of the variation in procurement management ($R^2 = 0.573$). This highlights the importance of ethical risks in improving procurement

management.

Table 4
Coefficients^a Findings on Ethical Risks and Procurement Management

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.705	0.162		4.352	0.000
	Ethical Risks	0.703	0.050	0.757	14.147	0.000

a. Dependent Variable: Procurement Management

The coefficients table shows the direction, magnitude, and statistical significance of the relationship between ethical risks and procurement management. The regression coefficients indicate that ethical risks have a positive and statistically significant relationship with procurement management ($B = 0.703$, $SE = 0.050$, $\beta = 0.757$, $t = 14.147$, $p < 0.001$). The positive unstandardized coefficient ($B = 0.703$) suggests that improvements in ethical risks are associated with substantial improvements in procurement management.

The standardized coefficient ($\beta = 0.757$) indicates a very strong positive effect, implying that a one standard deviation increases in ethical risk results in a 0.757 standard deviation increase in procurement management. This demonstrates that ethical risks have the strongest influence on procurement management.

The estimated regression equation is:

$$\text{Procurement Management} = 0.705 + 0.703 (\text{Ethical Risks})$$

This equation indicates that for every one-unit increase in ethical risks, procurement management is expected to increase by 0.703 units, assuming all other factors remain constant. The t-test further confirms that ethical risks is a statistically significant predictor of procurement management ($t = 14.147$, $p < 0.001$). Since the p-value is less than the 0.05 significance level, the study hypothesis H_0 : *There is no statistically significant relationship between ethical risks and procurement management in selected public secondary schools in Kericho County* is accepted since the findings showed that there exists a significant positive relationship between ethical risks and procurement management ($\beta = 0.757$, $p < 0.05$). Consequently, the null hypothesis that ethical risks has significant relationship with procurement management was rejected.

5.0 Conclusions and recommendations

Findings relating to ethical risk revealed that staff and member involved in the procurement management satisfactorily declared with immediate effect any conflict of interest. Suppliers and buyers did not participate in any form of procurement fraud. The study found that there was satisfactorily no internal or external collusion witnessed during procurement processes. Similarly, there were no corruption practices witnessed during procurement process. The school had internal control systems that assisted greatly in improving integrity and detect corruption or fraud. The study found that ethical risk practice had significant influence on procurement management.

Ethical risk practices had significant influence on procurement practices. Ethical risk ensured that all procurement staff declare conflict of interest in procurement process. The schools also ensured that suppliers and buyers were not involve in any form of fraud. Similarly, the procurement process was free from any corruption practices. Ethical risk was managed through the use of internal control systems that detected procurement corruption or fraud and this ensured integrity in the procurement process.

The study recommended the schools need to ensure all ethical risk practices are followed to reduce corruption and malpractice in procurement processes. This is actualized by tighten internal control systems so as to detect procurement corruption and fraud hence ensures integrity in the procurement process. All suppliers, buyers and staff should be screen and vetted based on integrity and track record to reduce any form of corruption or fraud in procurement process. The study also recommends that all procurement regulations and laws governing procurement management should be adhered to reduce malpractices.

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