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The Influence of Procedural Justice on Procurement Performance of State Corporations in Kenya

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Abstract

Procurement performance of the state corporations in Kenya has been a major topic of discussion in the recent past, owing to the many procurement malpractices being witnessed. Various reasons have been advanced for the dwindling performance of the state corporations' procurement performance and many recommendations proposed on how such poor performance can be improved. The researcher advances one of the main factors affecting procurement performance of the state corporations in Kenya is procedural justice significantly affects the relationship between the buyers and suppliers. Procedural justice addresses the processes by which outcomes are allocated or distributed among partners to an exchange. Procedural justice in procurement majorly involves ensuring that probity standards which include fairness, impartiality and integrity are adhered to since they greatly influence the procurement and supply chain performance. It is, however, worth noting that there are numerous challenges in ensuring that these principles are understood and put into practice by the procurement professionals in the public sector. The purpose of this study was to determine how procedural justice affects procurement performance in the Kenyan state corporations. The study employed a descriptive survey design and the study respondents were the procurement managers of all the state corporations in Kenya. Data was collected using a structured questionnaire and it was analyzed using both descriptive and inferential statistics. The study discusses the benefits expected from practicing procedural justice and gives recommendations based on the findings of the study.

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1. Introduction

Ethical sourcing focuses on conducting procurement activities at the highest possible standards of responsible, sustainable and socially responsible business practice. Companies across industries include ethical sourcing policies in their operational standards and principles. While the primary goal is to ensure that products/goods and services are procured and delivered ethically, responsibility extends beyond the act of sourcing goods and services. It also includes the processes of evaluating and engaging with a supply market through to managing relationships with suppliers. Sourcing ethics has not only become a mantra for mitigation of operational risk and protection of brand reputation but also represents a means to gaining competitive advantage. If you are deploying best practice, your competitor's failure to source ethically can result in your competitive gain (CIPS, 2013).

Johnson, Leenders, Flynn, and Fearon (2010) explain that in order to achieve value for money and to effectively contribute to the efficient service delivery, public procurement practice must adopt a strong ethical bent. It must be practiced so as to be void of leakages and loss, corruption and vendor favoritism. The way to address these concerns is by adopting a strong sense of



ethics such as avoiding collusion, discouraging fake competition, removing any arbitrariness from the bid evaluation process, ensuring that the goods and services received reflect the precise quantities actually delivered and using slicing to avoid adopting the appropriate procurement method.

Narasimhan, Narayanan, and Srinivasan (2013) investigated justice in supply chain relationships and concluded that procedural justice is important in improving performance in the supply chain, but its role is an under-investigated subject in the literature. Nicholas *et al.* (2015) explored the impact of procedural justice in procurement management and established that procedural justice ensures equality of opportunity, bias suppression, representativeness, and ethicality, consistent and fair treatment of all stakeholders. According to World Bank (2011), good procurement is impartial, consistent and therefore reliable. It offers all interested contractors, suppliers, and consultants a level playing field, thus expanding the purchaser's options and opportunities.

There is need for a firm to have coherent methods of performance measurement in the procurement function of the procuring entities. Focussing on financial performance and neglecting non-financial performance cannot improve the procurement operations because only partial performance is considered. According to Gioconda (2010), the need for performance measurement in procurement has long been recognized but for a variety of reasons, many organizations fail to measure it adequately. Tawfik, Mady, and Sarah (2014) provided empirical evidence linking purchasing strategies to two dimensions of procurement performance, which is efficiency and effectiveness. Broadly, procurement performance perspectives include on-time delivery, receiving the exact ordered quantities, bargaining for the best prices and quality assurance of the delivered parts and items. Rupert and Brandmeier (2010) used an empirical study to show indicators of procurement best practice discussed as procurement performance levers because their implementation serves as a good guideline on how successful the procurement function should be. They include commercial levers, technical levers, and supply chain process levers. Measurement of procurement performance has always been a big problem for many procurement professionals in the Kenyan public sector. It is however unavoidable since it provides the basis of assessing how well the state corporations are doing in attaining their predetermined goals (Muya & Nyabwari, 2016).

Procurement is not just about reducing cost. Regardless of whether the organization has an in-house sourcing team or engages external suppliers, the procurement 'middlemen' facilitate much more than sourcing the cheapest vendors, receiving externally procured goods or overseeing orders and approving payment (Thomas, 2014). Procurement, therefore, plays a central role to profitability and performance and its focus is fast shifting from cost-centric approach to a larger recognition of the importance of procurement relationships. The field of supply chain management and in particular procurement is quite vulnerable to ethical issues because procurement personnel are entrusted to spend huge financial resources in many firms (Rottig, Koufteros & Umphress, 2011). The procurement professionals are highly exposed to external organizational environment, representing an important risk to the firm reputation and performance when engaged in ethical conducts.



A state corporation is a legal entity that is created by a government to perform activities on behalf of the government. The legality of the status of the state corporations varies from being part of the government to stock companies with the government as a stockholder (Njiru, 2008). State corporations in Kenya play critical roles in the national development effort. First, government-owned entities are important in promoting or accelerating economic growth and development. Secondly, they are critical to building the capability and technical capacity of the state in facilitating and/or promoting national development. Third, they are important instruments in improving the delivery of public services, including meeting the basic needs of the citizens. Fourth, they have been variously applied to creation of good and widespread employment opportunities in various jurisdictions and lastly, the state corporations are useful for targeted and judicious building of international partnerships. They, therefore, play a major role in enabling social and economic transformation of the economies in which they operate (GoK, 2010).

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: commercial state corporations; commercial state corporations with strategic functions; executive agencies; independent regulatory agencies; research institutions; public universities, tertiary education, and training institutions.

1.1 Research Problem

Government ministries have in several occasions manipulated public procurement procedures, unprocedurally obtained procurement information and awarded tenders to entities of their choice, but none of them has been censured appropriately for manipulating rules and procurement procedures. For example, ministers who presided over the finance and justice ministries during Anglo leasing scandals were welcomed back to the cabinet (Kameri & Akech, 2011). Fairness and transparency are key pillars for sound procurement framework. Integrity and transparency in public procurement need several mechanisms of control such as effective appeal systems, comprehensive information systems, and effective audit systems. (PPOA, 2007).

Previous review of literature on ethical sourcing is not adequate and many multinationals have over the time recognized the importance of ethical sourcing and strive to improve their image globally through ethical sourcing, with a specific interest in procedural justice (Seongtae, Claudia & David, 2016). According to Joachin (2011), ethics in procurement procedures is becoming an area of great concern because more and more companies are realizing the value of responsible procurement practices. Stevansson (2009) explains that procedural justice is an area that has received little attention in terms of research, and he recommends that generally,



ethical sourcing should be explored more. Two key elements in managing the supplier base are supplier selection and supplier assessment and they involve both information and process dimensions which must be conducted ethically to ensure fairness and equity to all the suppliers being considered (Chopra & Meindl, 2012). The inadequacy of literature and the emerging issues in Kenya's public procuring entities clearly indicate that there is need to bridge the knowledge and practice gap in procedural justice as experienced in public procurement. This study will, therefore, seek to address the influence of procedural justice on procurement performance in Kenyan state corporations.

1.2 Research Objective

The aim of this study is to establish the influence of procedural justice on the procurement performance of state corporations in Kenya.

1.3 Conceptual Framework and Hypothesis

The relationship between procedural justice (independent variable) and procurement performance (dependent variable) is depicted in Figure 1.

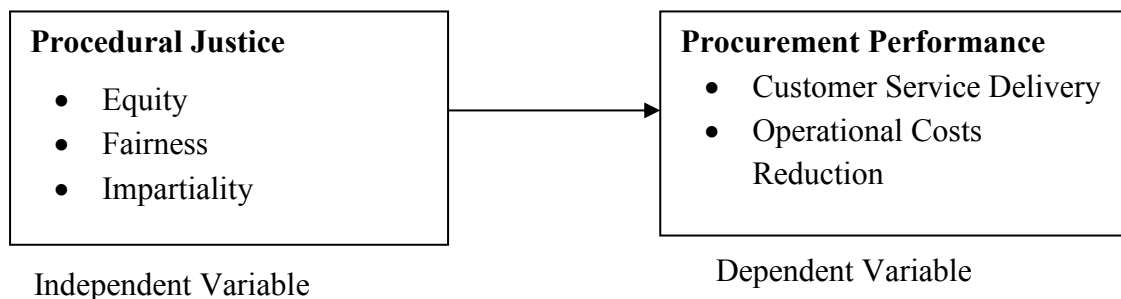


Figure 1: Conceptual Framework of Procedural Justice and Procurement Performance

Based on the conceptual framework, the following null hypothesis guided the study:

H₀: There is no significant relationship between procedural justice and procurement performance of state corporations in Kenya.

2. Literature Review

2.1 Theoretical Framework

This study was guided by the Theory of Justice. The Theory of Justice was advanced by John Rawls in 1971 and it presented justice as fairness (Ercan, 2009). Before 1975, the study of justice was majorly concerned with distributive justice. However, marketing and organizational justice researchers have identified three important dimensions of justice that is distributive, procedural and interactional. Distributive justice refers to the fairness of the outcomes that an individual receives (Chao-Min, Chiu, Wang & Shih, 2011). According to Nicholas *et al.* (2015), researchers were initially primarily concerned with the fairness of the decision outcomes. The extent to which distributive justice exists is dependent upon the context, goals, and motives of a particular situation with individuals evaluating the distribution of outcomes



with respect to some distributive rule namely equality, equity, and need. Interactional justice refers to the perceived fairness of the interpersonal treatment received during the enactment of formal procedures. Interactional justice comprises of two distinct classes; interpersonal justice which impact upon individual's reactions to decision outcomes, and informational justice which impacts upon reactions to procedures. The former reflects the degree to which individuals are treated with dignity, politeness, and respect by those involved in executing procedures or determining outcomes, whereas the latter is concerned with the explanations provided to individuals regarding the distribution of outcomes or enactment of procedures. Nicholas *et al.* (2015) explain that procedural justice is shaped around concerns of formal procedures and equity distribution. The six principles applicable to procedural justice include applying criteria consistently, suppressing bias, using accurate information, providing opportunity to suppress errors, providing representation in decision making and ensuring ethical treatment.

Many other researchers in different studies have used the theory of justice in explaining the importance of procedural justice practices in dealing with suppliers for buyer-seller relationships (Liu, Huangb, Luoc & Zhao, 2012; Narsimhan, Narayanan & Srinivasan, 2013). Generally, the theory of justice requires decision makers to be guided by equity, fairness, and impartiality. It relies on three types of moral prescriptions, that individuals who are similar in a relevant respect should be treated similarly and individuals who are different in a relevant respect should be treated differently in proportion to the difference between them and that rules should be administrated fairly and clearly and that individuals should not be held responsible for matters over which they have no control.

Colquitt (2001) explains that organizational justice is defined by four main elements, which is procedural, interpersonal and informational justice. Procedural justice is positively related to organizational commitment, loyalty, and satisfaction and it also affects motivation a great deal. According to Michael, John, and Jin-Feng (2010), lack of procedural justice leads to adverse results such as bad performance and lack of or lower organizational commitment. Kwong and Leung (2002) also point out that when people feel that there is procedural justice, they are more likely to trust the person making decisions. A study by Robbins, Summers, and Miller (2000) established that stakeholders adjust their effort and commitment based on levels of procedural justice. They established that procedural justice leads to improved performance in any organization.

The Theory of Justice was particularly important in explaining the concept of procedural justice because it was used to establish whether suppliers are equally treated without any form of discrimination, equity and fair dealings with the suppliers as well as ensuring that the procurement processes are themselves fair to all concerned stakeholders. The treatment and dealing with the suppliers should be in line with the basic principles of procedural justice.

2.2 Review of Extant Conceptual and Empirical Literature

Procedural justice is concerned with the processes by which outcomes are allocated or distributed among the parties to an exchange. Importantly, the basic assumption of procedural



justice is that fair treatment determines an entity's reaction to decisions made by the other party and is therefore central to their behavior vis-a-vis that party (Provan & Sydow, 2010). Procedural justice in procurement can be enhanced by ensuring that probity standards are established and strictly adhered to in an organization. Probity in procurement relates to fairness, impartiality, and integrity of the process. Consistency in the treatment of and interaction with potential suppliers is important in ensuring probity standards are met (PPOA, 2009). Grandia, Steijn, and Kuipers (2015) in their study of sustainable public procurement established that through effective commitment to change, procedural justice influences procurement both directly and indirectly.

The procurement objective of transparency which is closely related to the administrative principle of openness is the cornerstone of public procurement systems in and the public procurement principle, that possess the minimal, if not inexistent, reflect in the private/commercial context. Transparency consists of conducting procurement in an open manner so as to ensure that all parties involved in procurement and the general public know the rules applicable to the acquisition process and have access to the same information regarding procurement opportunities (Thomas, 2014). Hiroshi (2009) explains that transparency in procurement processes is important because it largely determines efficiency and competitiveness in public procurement. Lack of transparency discourages suppliers and contractors and this may result in substantial losses.

Promoting transparency in procurement complements procedure control and serves as an effective tool for confronting unethical behavior but it takes a special concerted effort and requires great administrative burden. Entities should make transparent their procurement proceedings by making public their procurement announcements and making public the results of procurement proceedings (Mpeera, Ntayi, Ngoboka, Mutebi & Sitenda, 2012). Lisa and Johan (2011) also agree that public procurement laws are designed to ensure that there is increased efficiency in the public procurement processes.

In Kenya Public Procurement and Regulatory Authority (PPRA) takes advantage of the developments in internet technology to promote transparency and supports the procuring entities in this area. However, extensive lack of access to such technology is not an excuse for not promoting transparency. The publication of the results of request for quotations (RFQs) on notice boards, for example, serves as effective mechanisms for promoting transparency. To the extent, possible procuring entities should make public procurement announcements, the results of bidding processes and the awards of contracts (PPOA, 2009). In the case of a major purchase, it is usually a good idea to also debrief unsuccessful bidders after the selection process. This gives them some benefit for the effort that they have invested in preparing and submitting their offers and enhances your company's reputation for fairness, openness, and transparency. (Johnson *et al.*, 2011).

In his descriptive study on public procurement benchmarking, Jeanette (2011) explains that transparency in government procurement provides an assurance for both domestic and foreign investors that contracts will be awarded in a fair and equitable manner. Public service agencies should, therefore, strive to maximize overall value for money for citizens and this requires



considering issues such as client satisfaction, public interest, fair play, honesty, justice, and equity. According to Siriluck (2013), good governance in procurement consists of integrity, transparency, accountability, and fairness. It requires a fair process of transactions and services with accountability administration. Laurie and Gabriela (2012) provide empirical evidence that policymakers in public procurement must ensure procedural fairness and transparency within a more complex evaluative matrix, and that public perception of favoritism can backfire for local governments.

Kinoti, Arasa, Waititu, and Guyo (2013) in a study of supply chain management ethics recommended that procurement decisions in government ministries should be made objectively free from any personal considerations and the suppliers should be paid promptly. Government procurement managers should also maintain integrity and be fair by making supplier pricing confidential and giving all the suppliers equal opportunity to compete for tenders. Buyers should consider probity training for staff involved in tendering. Probity advisors could be appointed to advise on appropriate action to address probity issues arising from the tendering process. The level of probity oversight should be commensurate with the scale and complexity of the procurement, and the degree of probity risk. Melkonian, Monin, and Noorderhaven (2011) in a survey of supply chain relationships established that in the context of supplier search and evaluation, procedural justice relates to the situation where parties involved assess the fairness of the formal procedures governing the process. When the process is perceived as fair, each party will experience procedural justice and vice-versa and this affects performance and relationship management.

3. Methodology

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

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

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

4. Results and Discussion

4.1 Descriptive Analysis

Table 1 highlights the descriptive findings on the key measures of the study variables.



Table 1: Procedural Justice on Procurement Performance

Statement	SDA %	DA %	SMA %	A %	SA %	Mean	SD
There is transparency when inviting supplier to offer bids	1.5	0.7	15.3	69.3	13.1	3.92	0.665
There is transparency in opening suppliers' bids	0	1.5	21.2	60.6	16.8	3.93	0.660
Bid evaluation process is always very clear	0.7	1.5	21.2	47.4	29.2	4.02	0.793
There is equity when evaluating suppliers' offers	0.7	1.5	22.6	59.1	16.1	3.88	0.708
There is consistent application of same standards when screening suppliers	0	1.5	19.0	57.7	21.9	4.00	0.686
Suppliers are dealt with objectively without favour	0	0.7	17.5	54.0	27.7	4.09	0.691
Procurement processes are evaluated for fairness	0	0.7	17.5	60.6	21.2	4.02	0.647
Equal opportunity is given to all suppliers	0	2.2	17.5	60.6	19.7	3.98	0.680
Payment deadlines are met as per law	0.7	1.5	16.1	56.9	24.8	4.04	0.732
There is unbiased dispute resolution	0	1.4	8.8	51.8	38.0	4.26	0.678

Overall Mean Score= 4.02

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 resolve disputes with suppliers in an unbiased manner, with a mean score of 4.27. Most of the respondents also agreed that they objectively dealt with suppliers without favoritism with a mean score of 4.09. They also agreed that payment deadlines are met as per the procurement law in order to encourage supplier participation, with a mean score of 4.04. The overall mean score for procedural justice was 4.02 indicating that most of the respondents agreed that it was necessary to enhance procedural justice in order to improve procurement performance.

The 69.3% of the respondents agreed that they ensured transparency when inviting suppliers to offer and 60.6% agreed that there is transparency in opening the suppliers' bids. To enhance procurement performance, 60.6% of the respondents agreed that they give equal opportunities to all the suppliers irrespective of gender, race or religious affiliations and they evaluate all their procurement processes for fairness. This was in line with the study by Noorderhaven (2011) which established that procedural justice affects procurement and relationship management.

4.2 Hypothesis Testing

To preserve the natural ordering of the data, the SPSS ordinal procedure (Polytomous Universal Model-PLUM) was used to perform the regression of procedural justice against procurement performance of Kenyan state corporations. The aggregate mean of procedural justice measures



was regressed on aggregate mean score of procurement performance measures. The equation used for the model was $f(\Pr(Y_{i1} \leq y_{i1})) = \emptyset - (\beta_1 X_{i1})$ and the results were as shown in Table 2:

Table 2: Regression Results for Procedural Justice

a) Model Fitting Information						
Model	-2 Log Likelihood	Chi-Square	Df	Sig.		
Intercept Only	339.621					
Final	206.734	132.887	17	.000		
Link function: Complementary Log-log.						
b) Goodness-of-Fit						
	Chi-Square	Df	Sig.			
Pearson	145.635	255	1.000			
Deviance	137.407	255	1.000			
Link function: Complementary Log-log.						
c) Pseudo R-Square						
Cox and Snell					.621	
Nagelkerke					.626	
McFadden					.634	
Link function: Complementary Log-log.						
d) Parameter Estimates						
		Estimate	Std. Error	Wald	Df	Sig.
Threshold	Procurement Performance=1	.301	.053	.627	1	.004
	Procurement Performance=2	.594	.102	.606	1	.001
	Procurement Performance=3	.734	.062	.628	1	.008
	Procurement Performance=4	.758	.079	.849	1	.008
	Procurement Performance=5	.788	.081	1.105	1	.007
Location	Procedural Justice=0	.702	.065	1.521	1	.017
	Procedural Justice=1	0 ^a	.	.	0	.

The model fitting information given in Table 2(a) gives the results of the ordinal regression model compared with complementary Log-log link function. From the results, the -2LL of the model with only intercept is 339.621 while the -2LL of the model with intercept and the independent variable (procedural justice) is 206.734. The difference (Chi-square statistics) is $339.621 - 206.734 = 132.887$ which is significant at .05 because $p\text{-value} < .05$. This, therefore, means that there is a significant association between the dependent variable (procurement performance) and the independent variable (procedural justice) in complementary Log-log link function.

The results presented in Table 2(b) (Goodness of fit) show the test of consistency between the observed data and the fitted model. The null hypothesis was stated as the observed data is consistent with the estimated values in the model fitted. The null hypothesis was accepted and



it was concluded that the observed data was consistent with the estimated values in the model since the p -values $> .05$ (p -values = 1.000; 1.000).

The Pseudo R-squared results presented in Table 2(c) show that the fitted model has a strong predictive value of the outcomes. The Cox & Snell's Pseudo R-squared likelihood value was .621 implying that the model strongly predicts the outcome. The Nagelkerke full model implied a strong predictive power of the model with a likelihood value of .626. For McFadden's R-squared, the ratio of the likelihood shows that the model could strongly predict the outcome as its likelihood is .634.

The parameter of estimates results presented in Table 2(d) show the significance of procedural justice in predicting procurement performance. The threshold coefficients represent the intercepts and the following models were derived to show the prediction categories of the influence of procedural justice on procurement performance of Kenyan state corporations:

$$\begin{aligned}f(\theta_1) &= 0.301 - (0.702X_1) \\f(\theta_2) &= 0.594 - (0.702X_1) \\f(\theta_3) &= 0.734 - (0.702X_1) \\f(\theta_4) &= 0.758 - (0.702X_1) \\f(\theta_5) &= 0.788 - (0.702X_1)\end{aligned}$$

Under the location parameter, the variables are positive indicating that the presence of procedural justice increases the likelihood of higher value of response.

This supports the findings by Laurie and Gabriela (2012) who established that for a firm to improve its procurement performance, it must ensure that there is fairness in the procurement processes. These findings are also consistent with findings by Yuling *et al.* (2018) who established that procedural justice significantly improves procurement performance and affects stakeholder satisfaction.

To test the stated hypothesis, the aggregate mean scores of procedural justice were regressed against the aggregate mean scores of procurement performance and the findings are as presented in Table 2. The results show that there was a significant positive relationship between procedural justice and procurement performance ($\beta=0.702$ and $p=0.017$). The null hypothesis was therefore rejected since p -value < 0.05 and $\beta \neq 0$ and the study concluded that there is a statistically significant positive relationship between procedural justice and procurement performance in the state corporations in Kenya.

5. Conclusions and Recommendations

5.1 Conclusions

On the basis of the results, it was concluded that procedural justice positively and significantly influenced procurement performance of the state corporations in Kenya. The results also indicate that having adequate procedures for resolving disputes in an unbiased manner greatly improves procurement performance. Cumulatively, most of the respondents agreed that unbiased dispute resolution with their suppliers had positively influenced their procurement



performance. A few respondents disagreed with the statement that in their firms there is transparency in the criteria used in inviting suppliers to offer bids, transparency in opening of suppliers' bids, objectivity in dealing with suppliers and meeting of payment deadlines. This led to the conclusion that practicing of such ethical practices leads to improved procurement performance. From the responses, it was also concluded that debriefing of suppliers and creating effective procurement procedures leads to an improvement in procurement performance.

5.2 Recommendations

Given the positive and significant relationship between procedural justice and procurement performance, the study recommends that state corporations in Kenya should strive to adopt procedural justice in a bid to improve their procurement performance. Specifically, it is recommended that there should be a good and comprehensive dispute resolution mechanisms in the procurement process so that every party feels fairly treated in case of a misunderstanding. Procurement processes in state corporations in Kenya should also be regularly evaluated for fairness although any review done should always ensure that the public procurement procedures are within the Public Procurement and Assets Disposal Act (PPDA 2015) and the Public Procurement and Disposal Regulations (PPDR 2006). Supplier debriefing should also be encouraged in state corporations in Kenya as this goes a long way in boosting the confidence the suppliers have with the procuring entities, hence improving procurement performance.

Finally, it is suggested that dispute resolution processes to be followed by state corporations in Kenya should be well documented, clearly explaining the escalation procedures to be followed by all parties involved. This will help in avoiding uncertainties on what is to be done in case of a dispute. For international procurement transactions, procuring entities should adopt the dispute arbitration procedures given by the International Chambers of Commerce (ICC) or those of the United Nations Commission on International Trade Law (UNCITRAL). As a matter of policy, the state corporations should document the debriefing procedures to be used in their procurement process, and clearly communicate to the suppliers how to request for a debriefing and how to raise procurement related complaints.

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