

# EFFECT OF PROCUREMENT PRACTICES ON THE PERFORMANCE OF PUBLIC HOSPITALS IN KENYA: (A COMPARATIVE STUDY OF NYAMIRA AND KISII COUNTIES)

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**Abstract:** The purpose of this research study was to establish the effects of procurement practices on the performance of public hospitals in Kenya. Public organizations such as public hospitals are often tasked with a duty to provide quality and affordable health care services to their clients who mainly comprise of the members of the public. Hospitals in the public sector are charged with responsibility of high level and quality service provision to register good performance in Kenya, this call for proper procurement practices necessary to accomplish this endeavor. Some quarters of the society have argued that graft is putting health care in Kenya out of reach for many. This happens despite the enactment of procurement laws of PPOA and PPDA to control and manage procurement functions in public entities like public hospitals. The overall objective of this study was to assess the effect of procurement practices on the performance of public hospitals in Kenya. The specific study objectives were, to find out the effects of tendering practice, supplier selection practice and ethical practice on the performance of public hospitals with reference to Kenya and effect of inventory control practice on procurement performance of public hospitals in Kenya. The research study took a comparative study design. The target population comprised of 17 and 22 Level four and above public hospitals in both Nyamira and Kisii counties respectively, where a sample size of 279 subjects were chosen as respondents. Questionnaires were then administered to collect data from the respondents. The data was finally analyzed using both descriptive statistics such as the mean and standard deviation and inferential statistics like regression analysis and Pearson's correlation analysis to obtain findings vital for the research study. This helped to unveil the effects of procurement practices on the performance of public hospitals in Kenya. The findings indicate that tendering practices, supplier selection policies, ethical practices and inventory control had significant positive influence on performance of public hospitals in Kenya. Ethical practice showed a stronger positive influence among the variables on performance of public hospitals. The study recommends hospitals to streamline their sourcing processes to avoid recurrence of challenges. In addition, hospitals should revise their procurement policies more often to keep them updated to the best standards. I recommend use of inventory control system to manage the quantity and quality of stock held. Finally, hospitals should embrace competitive tendering processes to obtain value for money.

**Keywords:** Inventory Control, Ethics, Procurement Performance and Procurement Practice.

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## 1. INTRODUCTION

Procurement practices are considered as the procedures and guidelines or means of acquiring goods, services and works at the best possible cost to meet an organization's needs in terms of quality, quantity and location (Akech,2005). Procurement also extends to the ultimate disposal of property at the end of its useful life (Waters, 2004).Sound public

procurement policies and practices are among the essential elements of good governance (KIPPRA, 2006). The processes of procurement should uphold integrity by ensuring there are no malpractices, informed decision making which requires public bodies to base supplier selection on accurate information and ensure that expectations of procurement are being achieved.

### **Statement of the Problem:**

Despite the enactment of procurement laws, PPOA (2012) and PPDA (2006) to control and manage procurement functions of public entities in Kenya, procurement is still dominated by issues of corruption scandals and losses of public funds through unclear circumstances. In fact according to (EACC Survey, 2014), 80 percent of graft in Kenya happen in public procurement. Latest instance of procurement malpractice witnessed being the infamous NYS scandal, which saw the Kenyan government through the National Youth Service lose close to 981 Million shillings of public money. The other scandal relates to the alleged loss of 5 billion shillings through questionable procurement practices in the Ministry of Health (Auditor Generals' Report, 2016).

The greatest concern of many stakeholders in the health sector in Kenya today is in the degree of wastage of public resources or funds in the procurement functions especially by the devolved governments mandated to manage public health. There exists massive corruption and a myriad of challenges in procurement practices that affect the quality of service delivery in public health facilities of all levels (Transparency International, 2011).

Kenya through the Ministry of Health has not been able to adequately ensure quality health service provision to the citizens over the years. Most public hospitals are under bad conditions (Kenya Health Policy, 2014); characterized by dilapidated facilities, obsolete medical equipment, inadequate drugs and low bed capacity in the wards. Patients suffer in grief, due to inadequate care from medical personnel who complain about insufficient medical equipment and low pay among other poor working conditions. These factors can be linked to the procurement practices employed in the respective public health facilities in question (MOH Survey, 2015). Many studies have been executed on general procurement performance. For instance, Akitonye (2014) found out that sound procurement practices, although rarely adopted were necessary for the financial success of manufacturing firms in Germany. On the other hand for, Bartik (2009), inadequate procurement policies yield no benefits to organizations such as profitability and cost reduction, but instead create avenues through which money is lost. Erik and Vennston (2012) posit that procurement policies are intended towards optimizing operational chain performance by delivering the product or service to the ultimate customer at minimal cost, on time, despite their low adoption and acceptance by many organizations. Little information and academic research are available on the procurement practices and their effect on performance of hospitals since most studies dwelt more on procurement performance in financial institutions and manufacturing firms without incorporating the effects of procurement practices; this study was mainly focused on the effects of procurement practices on the performance of public hospitals in Kenya.

### **Objectives:**

1. To establish how tendering practice influences, the performance of Public hospitals in Kenya
2. To determine how supplier selection policies, influence the performance of public hospitals in Kenya
3. To find how ethical practice influence procurement on the performance of public hospitals in Kenya
4. To examine how inventory control practices influences performance of public hospitals in Kenya

## **2. THEORETICAL REVIEW**

### **Agency Theory:**

This theory attempts to describe the agency relationship in which one party referred to as the 'principal' delegates work to another party known as the 'agent' who performs that work (Eisenhardt, 1989). Two problems can arise in such kind of a relationship, that is the desires and goals of the principal and agent can conflict and it is difficult for the principal to verify

what the agent is actually doing. This theory can be applied to the buyer-supplier relationship in procurement. This theory is most relevant in circumstances in which tendering problems are difficult. These include situations in which there is a substantial goal conflict between principals and agents and sufficient outcome uncertainty to trigger the risk implication of the theory. Jones (1995) suggests that the long-term relationships with the vendors may in long term have higher effectiveness impact due to the stability of the relationship being dependent on controlling goal conflicts.

#### **Stakeholder Theory:**

The origin of stakeholder theory emanates from four key academic fields of sociology, economics, politics and ethics and especially on the concepts of corporate planning systems theory, corporate social responsibility and organizational theory. Freeman (1984) in his study titled, Strategic Management, a Stakeholder approach, defines how stakeholders with similar interests or rights form a group, An entity or an organization must have a varied numbers of stakeholders which help them achieve their mission, A typical entity whether public or private, is surrounded by customers, suppliers and donors who fund their operations.. In the study Freeman, was seeking to explain the relationship between a companies with its external environment..

#### **Utilitarian verses Deontological theory of Ethics:**

Ethics is a branch of philosophy, which seeks to unveil the question of wrong and right. There are two major ethics theories which attempt to specify and justify moral rules and principles i.e. utilitarianism and deontological ethics. There are several varieties of utilitarianism, but utilitarianism approach to morality implies that no moral act is intrinsically wrong or right. Rather the rightness or wrongness of an act or rule is solely a matter of overall non-moral good, produced in the consequence of doing that act or following that rule according to Bentham (1831). Philosophers and Theologians have both agreed that utilitarian theory of ethics is defective. According to them, utilitarian when adopted justifies morally appropriate things that are clearly immoral. As a result of the latter shortcomings, modern philosophers have advocated for deontological ethics.

#### **Conceptual Framework:**

Rachel and Ramey (1987) defines conceptual framework as a set of broad ideas and principles taken from relevant fields of inquiry and used to structure a subsequent presentation. Mugenda and Mugenda (2003) on the other hand says, conceptual framework is a concise description of a phenomenon under study or investigation by a graphical or visual depiction of the major variables of the study. Conceptual framework is used in a research study to outline the possible courses of action or present a preferred approach to an idea or thought. Performing organizations and entities normally invest in efficient procurement systems with the right personnel, to gain a competitive advantage over their competitors. For Bogdam and Biklen (2003), a conceptual framework is a basic structure that comprises of certain abstract blocks, which represent observational, experimental and analytical aspects of a process being conceived. The interconnection of these blocks completes the framework for certain expected outcomes.

A variable is a measurable characteristic or aspect that assumes different values among the subjects. Independent variable on the other hand refers to changes that occur in an experiment that are directly caused by the researcher executing the study. An independent variable is that factor that is presumed to affect or determine a dependent variable. The independent variable can be changed as required and its values do not represent a problem requiring explanation in the analysis but are used, as they are (Dodge, 2003). The independent variables under investigation in this study are tendering practices in procurement, supplier selection policies, and ethical issues in procurement. A dependent variable refers to that variable which depends on the independent variable. Any change on the independent variable causes a change on this dependent variable.

The dependent variable usually responds to changes on independent variable (Everett, 2002). Performance of public hospitals is a function of several variables, as can be displayed in figure.

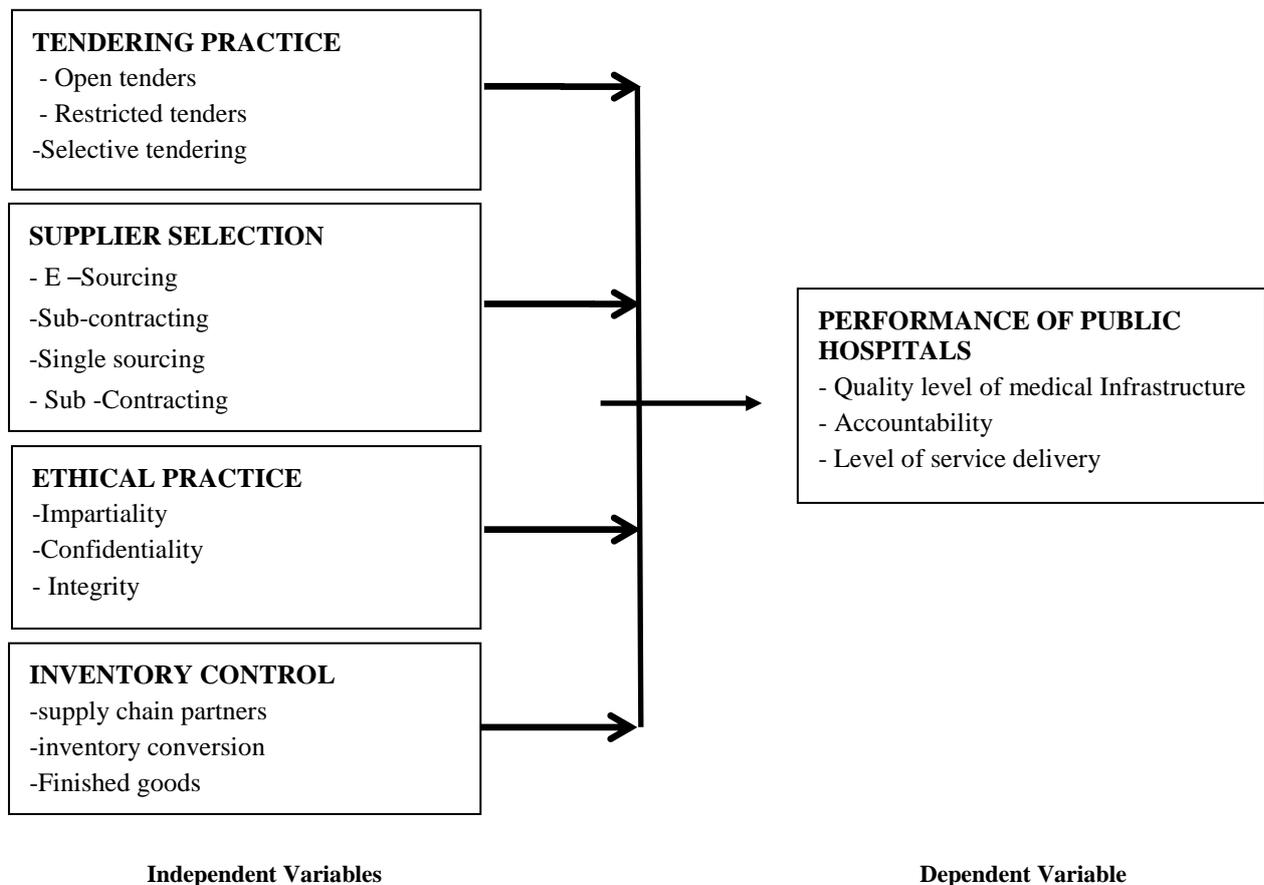


Figure 2.1: Conceptual Framework

**Critique of Reviewed Literature:**

The objective of the latter literature review is aimed at analyzing the past studies and research work executed on procurement practices that affect performance of entities, with greater emphasis on the performance of public hospitals. Nwabuzor (2005) describes a comprehensive procurement performance as a function of an all-inclusive procurement planning process that analyzes all the variables in a specific environment. Ranguraj N. and Ranghuram G. (2010) say that the measure to which procurement performance is judged is still a matter of debate. Financial performance indicators of individual firms or institutions in the supply chain will tell the story of 'post facto', but that alone is not enough to give managers information on which to base their actions. Public organizations which are not business oriented are not considered. Lack of better procurement metrics has been identified in the literature as one of the major pitfalls of Supply Chain Management. Other surveys have proposed a number of performance measures including supply chain cost, process capacity, customer retention measures, inventory management and lead times as some of the primary indicators of the procurement performance.

The major drivers for better performance measures in procurement and supply chain comprise of effectiveness, alignment, and driving behavior, (Mohanty, 2009). The studies and theories above have concentrated majorly on the metrics and or measures used in procurement performance, especially with emphasis on private organizations that are profit making, with a few variables which relate to public procurement performance of public hospitals. Moreover, in view of the variables mentioned above on this study, there is no single piece of knowledge that relates performance of public hospitals in Kenya with procurement practices, used to acquire goods, services or equipment necessary for the smooth continuous operations in those hospitals. Manhood (1983) asserts that effective procurement planning and performance is important route towards ensuring the right services, quality products or works are delivered to the members of the public. Effective procurement performance helps procuring entities and firms achieve value for money or expenses on services provided to the citizens.

A lot of emphasis has been laid on procurement performance by the previous studies with regard to studies on measures of procurement performance, supplier appraisal mechanisms for selection; little knowledge though has been put forward relating to the individual procurement practices or variables which influence the performance of public hospitals in Kenya. The findings on this study will help address the underlying issues threatening performance of public hospitals denying the public quality health care services.

#### **Research Gap:**

The principles of performance proposes that infrastructural development can be executed in harmonious environment with reduced interruptions to ensure essential economic and social services to the members of the public are not cut (James, 2004). Public procurement is often regulated by a set of laws and regulations, which encompasses the procurement practices in public hospitals. Through application of better procurement, practices, in public hospital procurement process, there are always three main objectives to be achieved by procurement. These include acquisition of goods, services and or works at the best possible price, resulting to competitive bidding among tenderers or bidders, and ensuring ethical standards are maintained among procurement personnel, through reduced corruption and favoritism towards particular suppliers.

In the Kenyan set up, procurement performance is a critical function that influences either positively or negatively on the level and nature of service delivery to the members of the public through public procurement practices especially with regard to hospitals and the health sector in general. Despite its importance, in determining the achievement of value for money by procuring entities, procurement performance in public hospitals, has been accorded little attention by the stakeholders involved, especially the effects of procurement practices on the performance of public hospitals in Kenya, which still remains a neglected area of study which needs further research, so as to improve the level of service delivery in those public hospitals. The level of service delivery in public hospitals can be indicated by the variables like, quality level of medical infrastructure,

### **3. SUMMARY OF EXISTING LITERATURE**

Whereas a milestone has been achieved in establishing public procurement legal framework in Kenya, through Public Procurement and Disposal Act (PPDA); and Public Procurement Oversight Authority (PPOA), there still exist numerous challenges that need urgent attention in government public purchases, to allow tax payers achieve value for their money spent. The situation has even been worsened with the advent of devolution, which led to health services being devolved to the counties. The major notable challenges or issues related to procurement practices which seem to ail performance in public hospitals, may include but not limited to the following; chronic corruption in the government procurement functions, ethical issues among the procurement personnel involved, longer lead times resulting from lack of selecting competent suppliers and non-achievement of value for money by the procuring entities.

Most of the previous studies indicates that there exists high degree in flouting of procurement rules, regulations and or policies, which requires an urgent redress, although there is little or no information on the effects of procurement practices on the performance of public hospitals in Kenya. A recent survey in Kenyan Public hospitals, by a research firm Ipsos Synovate suggested that most public hospitals in Kenya in all tiers of classification are poorly equipped or have dilapidated medical infrastructure. This is an indication of high degree of ethical behavior issues, awarding tenders based on favoritism, tribalism and cronyism, and selection of incompetent suppliers without capacity to deliver. The latter factors suggest that there are no proper procurement practices to turn around the performance in most public hospitals in Kenya, a phenomenon which this research study will address. Availability of sufficient drugs, accountability and volume of revenue collected through cost sharing

### **4. RESEARCH METHODOLOGY**

The research study basically employed a comparative study design. A descriptive comparative study was carried out in Nyamira and Kisii counties. The target population was all the employees working in all public hospitals in Nyamira and Kisii counties. The hospitals considered for the study ranged from level four health facilities to referral public hospitals in Nyamira and Kisii counties, whereas the target population of the study emerged from Medical Superintendents, Procurement officers, Supply chain officers and Store keepers working in the public hospitals. Records from health statistics used in Nyamira strategic plan report 2013-2017, shows that there are 211 public hospitals in the county,

whereas only 17 hospitals are categorized as level four and above. The data collection instrument for this study was a questionnaire. The questionnaire had both open ended questions and a Likert Scale on some questions. The questionnaire was pre-tested with a small representative sample aimed at identifying potential misunderstandings or biasing effects for various questions. The data was coded and thereafter analyzed using descriptive statistics and inferential statistics (mainly linear regression models) with the aid of Statistical Package for Social Sciences (SPSS) program and presented using appropriate tables to give a clear picture of the research findings at a glance. A multiple linear regression analysis was performed to test the effect of the independent variables on the dependent variable

#### Model:

The model was specified as follows:  $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$

Where,

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

Where;

**Y** – Is the performance of Public Hospitals;

**$\beta_1$ ,  $\beta_2$ ,  $\beta_3$  and  $\beta_4$** - Regression coefficients

**$\beta_0$**  . Constant

**$X_1$** - Tendering practice

**$X_2$**  . Supplier selection policies

**$X_3$** - Ethical practice

**$X_4$** . Inventory control

#### Correlation Analysis:

Pearson correlation was applied to measure the extent to which relationship between variables under study that is Procurement practices as the independent variable and performance as the dependent variables. Pearson correlation coefficients usually vary from negative -1 to positive +1. The Negative -1 value shows no correlation and positive values there is correlation where Pearson moment coefficient  $<0.3$  which shows a weak correlation, Pearson correlation coefficient  $>0.3 < 0.5$  shows moderate correlation and Pearson correlation coefficient  $>0.5$  show a strong correlation.

The study shows that supplier selection policies had a strong correlation (.606\*\*) indicates high relationships between procurement practices and performance of hospitals. The correlation between ethical practice and performance is (0.295, .000)  $<0.3$  which shows a weak correlation. This implied that there is no relationship between ethical practice and performance of hospitals. However, independent variables are positively correlated to performance of hospitals. The study implied that supplier selection policies had a strongest correlation between procurement practices and performance of hospitals. From the findings, the correlation matrix indicates that independent variables are very significant determinants on the performance of hospitals. This agrees with Aketch & Karanja (2013), states that there exists correlation between factors influencing procurement Performance.

**Table 4.1: Correlation Analysis in procurement performance**

Correlations		Performance	Tendering	Supplier selection	Ethics	Inventory control
<b>Performance</b>	Pearson Correlation	1				
	Sig. (2-tailed)	0.00				
	N	203				
<b>Tendering</b>	Pearson Correlation	.527**	1			
	Sig. (2-tailed)	0.00	0.00			
	N	203	203			

<b>Supplier Selection</b>	Pearson	.606**	.606**	1		
	Correlation	0.00	0.00	0.00		
	Sig. (2-tailed)	203	203	203		
	N					
<b>Ethics</b>	Pearson	.295**	.0162**	.208**	1	
	Correlation	0.00	0.00	0.00	0.00	
	Sig. (2-tailed)	203	203	203	203	
	N					
<b>Inventory Control</b>	Pearson	.462**	.302**	.567**	.692**	1
	Correlation	0.00	0.00	0.00	0.00	0.00
	Sig. (2-tailed)					
	N	203	203	203	203	203

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\*. Correlation is significant at the 0.05 level (2-tailed).

### Regression analysis:

The study employed regression analysis to test how dependent variable changes with changing environment. To test the relationship that independent variables relates to dependent variable, the study conducted multiple regression analysis using regression model summary in table 4.2. The procurement practices (three independent variables) under this study are explained by 39.3% of procurement practices as shown by  $R^2 = 0.393^a$ . This, thus, the researcher concluded that other variables not under this investigation contributed 60.7% of procurement practices in hospitals. This concluded that procurement practices as an independent variable had significant effect on the performance of hospital, hence, there is need to maintain its effect in order to improve performance of hospitals. This agrees with Mohanty, (2009) who argued that there are no appropriate procurement practices is used to improve the performance in most public hospitals in Kenya, a trend which this research addressed. Macha (2011) revealed that critical FV 88.33 is statically significant if F value in less than critical value 88.33.

**Table 4.2: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.393 <sup>a</sup>	.154	.141	1.07929

a. Predictors: (Constant), Ethical practice, Supplier selection policies, Tendering Practices Inventory control

### ANOVA Test

The p-value (level of significance) is  $0.000 < 0.05$ , thus the regression model is statistically significance since predictors show how independent variables (procurement practices) changes with performance of hospitals as a dependent variable. The calculated F value 12.028 is less than critical value set 88.33. This showed that the regression model should be maintained at statistical significance 0.05.

**Table 4.3: ANOVA Summary**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	42.032	3	14.011	12.028	.000 <sup>b</sup>
Residual	230.643	198	1.165		
Total	272.675	201			

a. Dependent Variable: Performance of Public Hospitals

b. Predictors: (Constant), Ethical practice, Supplier selection policies, Tendering Practices and inventory control.

### Beta Values:

The above multiple regressions were used to examine the relationship between procurement practices (independent variables) and dependent variable (performance of hospitals). The results as determined by SPSS is shown in table 4.4 and the regression equation now becomes new as follows;

Table 4.4: Regression Coefficients

Model	Un-standardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.218	.257		4.736	.000
Tendering Practices	.125	.107	.100	1.173	.242
Supplier selection policies	.195	.077	.207	2.523	.012
Ethical practice	.230	.071	.222	3.235	.001
Inventory control	.209	.221	.212	2.235	.021

a. Dependent Variable: Performance of Public Hospitals

$Y = 1.218 + 0.100X_1 + 0.207X_2 + 0.222X_3 + 0.212X_4$  Where; Y –performance of Public Hospitals, 1.218–Y intercept when  $X = 0$ ,  $X_1$  – Tendering Practices,  $X_2$  – Supplier Selection Practices and  $X_3$  – Ethical Practices and  $X_4$ –inventory control practices. In the regression equation it is established by taking all independent variables into this explanation.

## 5. CONCLUSION

The study examined the main decision maker on tenders' evaluation in hospitals. From this study, the researcher was also able to have confidence in medical superintendent since the respondents had received sufficient funds and this shows that senior procurement officers were well versed with tender valuation information. This can be concluded that corruption does not comprise competitive bidding except on material basis. The respondents were asked to rate how often their hospital reviews their procurement policies on supplier selection with Frequently, Rarely and None options. The study revealed that hospitals review their procurement policies on supplier selection were frequently done. Respondents ever heard suppliers complain on unfair selection was low with 1.2808 respectively. The study concurred with the study of Lysons (2006) argued that there exist a number of supplier selection policies, which comprise of the following; make or buy decisions, which tries to compare the cost of purchasing a component or providing a service internally with the cost of acquiring the same component or service from an external supplier on one more supplier selection policy is to classify the integrity of procurement personnel had high integrity on procurement personnel with 46.8% (95) of the respondents, 45.8 % (93) of the respondents had low integrity and 7.4% (15) of the respondents were not sure.

The study established that ethical practice affect performance of hospitals. The study show how respondents classify the integrity of procurement personnel, the study used high, low and not sure scale to rate the response. The findings show that respondents classify the integrity of procurement personnel had high integrity on procurement personnel with 46.8% (95) of the respondents, 45.8 % (93) of the respondents had low integrity and 7.4% (15) of the respondents were not sure. The findings shows that suppliers who lose bids are satisfied that they lose fairly with very satisfied 108(53.2%), are the majority satisfied. This implied that most suppliers are satisfied with bids in hospital.

## 6. RECOMMENDATIONS

The study established that the majority of the respondents agree that tender practices affect performance in hospital. Thus, the study recommended that there is need to prevent Corruption compromises during competitive bidding. The study also study recommended that the hospital management should be able to express in reviewing their supplier selection. The study recommended that hospital management should review their procurement policies based on supplier selection frequently. The results recommended that supplier selection policy should be used to make or buy had highest percentage while supplier selection policy on out-sourcing which should be enhanced. The study further recommended that ethical policies should be enhanced to optimize hospital transparency by delivery of good product or service. The study recommended that customer should be minimized with code of ethics governing procurement entities on time. The study recommended that hospital management should accept ethical policy used to acquire medical equipment and other services to enhance performance of hospitals. The study finally recommended that method of inventory conversion should be enhanced to improve performance. The study recommended that inventory control should be taken into consideration by procurement officers in maintaining equipment. The inventory available should be converted quickly or disposed to the market with the major inventory issues.

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