

ETHICAL PROCUREMENT PRACTICES AND PERFORMANCE OF PUBLIC PROCURING ENTITIES IN TANZANIA: EMPIRICAL EVIDENCES FROM MOSHI DISTRICT COUNCIL

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ABSTRACT

Compliance to ethical practices has emerged as one of the critical issues in government and non – governmental organisations over the past decades, particularly in public financed procurement projects. This empirical study was conducted to analyse the relationship between and influence of ethical public procurement practices and organisation performance. The study adopted descriptive research design while simple random and purposive sampling techniques were used to sample 44 respondents in Moshi District Council. Questionnaire, documentary review and key informants interview guide were the tools of data collection for quantitative and qualitative data respectively. Qualitative data were analysed using content analysis technique whereby data were transcribed, categorised, coded and thereafter grouped into themes. The analysis of quantitative data involved the use of chi square, correlation and ordinal logistic regression in order to determine the influence of ethical procurement practices on organisation performance. The study findings revealed that to a greater extent Moshi District Council adopted ethical procurement practices of transparency, accountability, fairness as well as procurement professional practices which were significantly related and associated with organisation performance ($p < 0.05$). The adopted ethical procurement practices also had significant and positive influence on organisation performance ($p < 0.05$). Therefore, adoption of ethical public procurement practices either jointly or singlehandedly improved organisation performance by ensuring timely and quality delivery as well as achieve cost efficiency in procurement. Despite effective adoption of ethical practices, the study recommended on the need to strengthen internal and external legal framework, enhance ethical training, hiring technically, qualified and professional procurement staffs.

Keywords: *Ethical, Practices, Public Procurement, Performance, and Tanzania.*

1.0 INTRODUCTION

Globally, Public procurement is an essential component for governance because of the impetus of meeting needs and expectations of the community through provision of goods and services in fulfilment of social contract obligations of Governments (Agbodzakey and Upshaw, 2018). Actually, a number of governments spend quite a sizable portion of their Gross Domestic Product (GDP) on public procurement for various sectors and categories of services (Snider and Rene, 2012). Thus, public institutions are required bylaw to adopt ethical practices, including the need for transparency, integrity, fairness, accountability, anti-corruption, and confidentiality in procurement process as a means of enhancing sustainable organisation performance (AFDB, 2014; World Bank, 2014). As a result, there are numerous reforms in procurement institutions and frameworks in order to strengthen ethical practices in public procurement (OECD, 2016; Mathew and Patrick, 2013).

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Ethical procurement practices purposely aim to improve availability and quality of procured services, goods or work at a reasonable cost and time due to increased accountability, competition and prevention of corruption among public servants (Mustapha, 2010). There is a great need to observe ethical practices in public procurement to protect organisation's resources, enhance performance and best value for money through taking into account all relevant costs and quality benefits (Nsiah-Asare & Kwadwo, 2016) over the whole process of procurement cycle. Similarly, Hussein and Shale (2014) observed that if the ethical practices are ignored there will be corruption, kickbacks, conflict of interest, bid rigging and manipulations leading to the ultimate loss of public resources and untimely delivery of procured goods and works and services.

Over the years, numerous institutions such as World Bank, Transparency International and Procurement Regulatory Authorities have reported unethical procurement practices in Africa which affect procuring entities' performance. On average, almost USD 100 Billion are lost in the implementation of donor funded projects through reckless procurement proceedings due to presence of corruption, fraudulent and obstructive practices (Transparency International, 2017; World Bank, 2016). Reports show that almost Ksh. 14.6 million were misused and lost in Kenya public procurement while R.46.36 billion in South Africa; UGsh 323,864,775 in Uganda and GH¢ 9,224,876 in Ghana were lost as a result of unethical procurement practices (AG, 2017; PPDA, 2017; AG, 2017; PPOA, 2015). In Tanzania, the Controller and Auditor General (CAG) Report (2016) indicates that the government incurred a loss amounting to TZS 1.9 trillion as the result of irregular practices in public procurement.

CAG (2016) remarked that the unaccounted or misappropriated TZS 1.9 trillion in public procurement undertakings was an increased by 18% compared to TZS 1.6 trillion in the Financial Year 2014-2015. Hence, public service delivery was jeopardised and/or failed to be effective and as the result 31.3% of the public were not able to access basic services (World Bank, 2016; UNDP, 2014). Thus, despite the legal and regulatory framework to strengthen ethical practices in public procurement, unethical practices such as lack of transparency, conflict of interest, corruption and unfairness still shroud public procurement leading to significant loss of public resources, deteriorations of quality and lack essential public services (CAG, 2016; PPRA, 2017; UNDP, 2014). Therefore, guided by the Principal – Agency Theory (Government - Procuring Entities - Procurement Professionals) the study aimed to assess the contribution of ethical practices towards improving performance of the procuring entities by focusing on transparency, accountability, fairness and professional practices.

2.0 METHODOLOGY

A descriptive research design was adopted to describe ethical procurement practices and organisation performance. The design was appropriate since what, who, where and how was the focus of the study questions with respect to research variables and phenomenon as it exists at present. The study was conducted in Moshi District Council since it was one among the 17 Procuring Entities highlighted by PPRA (2017) with likelihood of corrupt practices and unethical practices. The study applied survey method, interview and documentary review to collect data from the target respondents and key informants. A total of 44 respondents comprising Procurement Staff (4), Accounting Officer (1), Ward Councillors (18), Internal Auditors (2), and members of User Departments (19) were selected using purposive and simple random sampling techniques respectively.

Qualitative data from key informant interviews were analysed using content analysis approach. Data were recorded using field note books as well as voice recorders and thereafter transcribed, categorised, coded (open coding and axial coding) before grouped into themes. Analysis of quantitative data involved the use of chi-square, correlation and logistic regression to measure

the association, relationship and contribution of ethical practices on performance respectively. Performance as a dependent variable was considered relative to procurement practices including the need to ensure that goods, works and services are delivered or completed on time, being of the right quality and at a reasonable cost (Osei-Tutu *et al.*, 2010) in order to deliver the expected public services effectively without delays. Thus, based on the highlighted indicators of value for money in public procurement a performance index was developed and thereafter categorised on ordinal scale of high, moderate and low. In order to determine the influence of ethical practices on organisation performance an ordinal logistic regression model was used. The model choice was guided by the nature of the dependent variable (performance) that was measured using ordinal scale (indexed in terms of high, moderate and low).

$$P(y) = \frac{e^{\alpha + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \dots + \beta_kx_k}}{1 + e^{\alpha + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \dots + \beta_kx_k}} \quad (\text{Agresti and Finlay, 2009})$$

- P(y) = probability of performance being high, moderate or low
- e = natural log
- α = intercept of the equation
- β₁ to β_k = predictor variables regression coefficients
- x₁ to x_k = predictor variables

Table 1: Variable Matrix

Variable	Definition	Expected Sign
X ₁ Transparency	1 = Transparent proceedings; 0 = otherwise	+
X ₂ Accountability	1 = Bidders are accountable; 0 = unaccountable	+
X ₃ Professionalism	1 = Professional practices; 0 = unprofessional	+
X ₄ Fairness	1 = Fair proceedings; 0 = unfair	+

3.0 FINDINGS AND DISCUSSIONS

3.1 Demographic Characteristics

Academic and professional education has been remarked for its contribution towards shaping professional behaviour among employees. Hence, respondents were asked to indicate their level of academic education pertaining to their professional specialisation. The findings in Table 2 indicate that 59.1% had bachelor degree while 11.4% had secondary education, 18.2% were diploma holders, and 9.1% had postgraduate diploma. The findings imply that most of the targeted respondents were considerably trained in order to perform their duties diligently. Basically, trainings have been remarked to instil professional and ethical behaviour among employees which in turn enables them to act diligently, identify and fight unethical practice in public procurement processes. However, the likelihood of moral hazard is also very high.

Table 2: Distribution of Respondents by Education level (n = 44)

Level of Education	Frequency	Percent (%)
Secondary	5	11.4
Diploma	8	18.2
Bachelor Degree	26	59.1
Post Graduate	4	9.1
PhD	1	2.2

Experience provides professionals with exposure to challenges and risks of misconducts which in turn become learning points to improve future performance. Therefore, respondents were also asked to detail their working experience so as to measure their understanding on ethical procurement practices and how they affect organisation’s performance. findings presented in

Table 3 showed that 13 (29.5%) of the respondents had experience of less than 5 years while 11(25%) had experience of 5 to 10 years, 5 (11.4%) had experience of 15 to 20 years and the rest (4.6%) had an experience of more than 20 years. The findings imply that a substantial number of respondents had the necessary knowledge, experience and understanding on ethical practices in public procurement and organisation performances. More years of working duration implies a wider experience on ethical practices in procurement proceedings as well as organisation performance perspectives.

Table 3: Distribution of the Respondents by Working Experience (n = 44)

Working experience	Frequency	Percent(%)
Less than 5 years	13	29.5
5 to 10 years	11	25
10 to 15 years	13	29.5
15 to 20 years	5	11.4
More than 20 years	2	4.6

3.2 Relationship between Ethical Practices and Performance

A number of literatures have pointed out the linkage between ethical practices and effective delivery of the required services. Thus, the study went further to test the relationship whereby Spearman correlation was used and showed that there are positive and statistical significant relationship between transparency practices and performance ($r = 0.683$; $p = 0.013$). The finding implies that, when public procurements are conducted in a manner that promotes transparent practices, there is a great chance of achieving quality, cost and quality benefits in the procurement process. Similar findings were observed by Oloo *et al.*, (2017) and Sengbeh (2015) who also found that enhanced transparency practices in public procurement functions results into cost benefits and improved quality of procured goods, works and services. Also, findings indicated that there was a positive and statistical significant relationship between professional practises and performance ($r = 0.490$; $p = 0.023$). The findings therefore revealed that professionalism in public procurement significantly and positively improves its performances which correspond to the findings of Sengbeh (2015) on the role of professionalism in public procurement, who found that enhanced professionalism practices in public procurement improve organisation's performance.

Table 4: Relationship between Transparency and Professionalism with Performance

Attribute		Performance
Transparency practices	Spearman Correlation	0.683
	Sig. (2-tailed)	0.013
	n	44
Professional practices	Spearman Correlation	0.490
	Sig. (2-tailed)	0.023
	n	44

Furthermore, a chi-square test was used to analyse the strength of association between accountability and fairness practices with performance. findings presented in Table 5 show there is a significant association ($X^2 = 2.045$; $p = 0.036$) between accountability practices and organisation performance. The findings imply that accountability practices in public procurement significantly influence organisation performance since the responsible organs such as tender board, procurement management unit, evaluation committee will be autonomous and accountable for their decisions without interferences as emphasised by section 41 of the PPA

2011. Also, the suppliers, service providers and contractors will be accountable for their contractual responsibilities to deliver the goods, services and works respectively as required in the procurement contracts. This increases the potentials of the procuring entities to improve performance towards providing services to the community.

The PPA Act 2011 and Amendments (2016) requires the parties involved in public procurement to comply with ethical standards and professional behaviour they can deal with each other on a basis of mutual trust, respect and fairness in order to achieve value for money. Regulation 9(1) of GN 446 emphasises that there should be fairness to all parties through un-biased evaluation criteria, system for dealing with complaints, ensuring publication of invitations to tender widely and paying bidder timely. The chi-square analysis revealed that there is a strong association ($X^2 = 3.015$; $p = 0.048$) between fairness practices and performance which was also observed by Ndolo and Njagi (2014) as well as Yatich and Musebe (2017) who posited that fairness practices once enhanced in procurement process, significantly results into improved performance of procurement activities to deliver value for money.

Table 5: Association between Accountability and Fairness Practices with Performance

Variable	Value	Df	Asymp. Sig. (2-sided)
Accountability Practices	2.045(a)	2	0.036
Fairness Practices	3.015(a)	2	0.048

3.3 Contribution of Ethical Practices on Performance

An ordinal logistic regression was used to analyse the existing relationship between the independent variables (transparency, accountability, professional and fairness practices) and dependent variable (organisational performance). In order to establish the fitness of model used, a chi-square statistics established the difference between the explanatory variables in the -2log-likelihood against the model used. This was done to determine whether the model improves the study ability to predict the outcome at a selected probability level. The model was compared against the explanatory to see whether it significantly improves the fit to the data. Independent variable is said to be a significant predictor of the dependent variable provided that the p – value in the chi-square statistics is less than absolute critical value.

Preliminary model fitting results (Table 6) indicated that the significant p-value in the chi-square statistics at 95% is 0.001 ($p = 0.001 < 0.05$). This shows that the model used in this study was significant and the independent variables: transparency, accountability, procurement professional and fairness practices do explain the variation in organisational Performance. Furthermore, goodness – of – fit was conducted to test whether the observed data are consistent with the fitted model. The assumption is that, when the significant p – value is larger than the critical value, then the conclusion is that data and model predictions are similar and therefore there is a good model. Conventionally, if $p < .05$, then the model does not fit the data well. Findings in Table 6 contain Pearson's chi-square statistic for the model and chi-square statistic based on the deviance which revealed that the model fit very well ($p = 0.191 > 0.05$).

Table 6: Goodness of fit

Model	Chi-Square	Df	Sig.
Pearson	28.683	23	0.191
Deviance	26.617	23	0.273

Model fitting: log likelihood (final = 47.942, intercept only = 67.534); chi square = 19.591; df = 4; sig. = 0.001

A test for parallel line was also conducted to test for proportional odds. The assumption is that, since the ordered logit model estimates one equation over all response variables, therefore the slope of coefficient (odds ratio) is equal across the response variable in the model. If the ordinal model (proportional odds) gives a significantly better fit to the data than the general model (if $p > 0.05$) then we accept the assumption of proportional odds. The model results presented in Table 7 show that the proportional odds assumption appears to be $p = 0.282$ ($p > 0.05$) thus, we fail to accept the null hypothesis.

Table 7: Test of parallel line

Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Null Hypothesis	49.679			
General	44.632	5.047	4	0.282

Since it is not possible to compute the R^2 statistic in ordinal regression as in linear regression, the three approximations Pseudo R – square for ordinal regression model (Cox and Snell, Nagelkerke and McFadden) were computed instead. In this case, the pseudo R^2 values (Nagelkerke) explains how dependent variable (organisation performance) varied with variation in independent variables (ethical procurement practices: transparency, accountability, professional and fairness practices). Nagelkerke was found to be 56.2% meaning that the four predictors variables enhances organisation performance by almost 56% at 95% confidence level, leaving only 48% for other unaccounted variables. Therefore, it is sufficient to argue that, ethical procurement practices are essential tools for enhancing organisation performance.

Parameters in Table 8 show the estimates (β) and contribution of each independent variable towards organisation performance at 95% confidence level. The results further reveals that transparency practices positively and significantly contribute to organisation performance ($\beta = 0.216$, $p = 0.002$), accountability practices positively and significantly influences organisation performance ($\beta = 0.475$, $p = 0.004$), procurement professionalism positively and significantly enhances organisation performance ($\beta = 1.661$, $p = 0.015$) and fairness practices found also to have positive and significant influence on organisation performance, specifically at ($\beta = 0.844$, $p = 0.017$).

Table 8: Parameter estimates on the contribution of Ethical Practices on Performance

Variables	Estimate (β)	Std. error	Wald	Df	Sig.
Transparency practices	0.216	0.693	0.097	1	0.002
Accountability practices	0.475	0.642	0.549	1	0.004
Professional practices	1.661	0.686	5.863	1	0.015
Fairness Practices	0.844	0.627	1.812	1	0.017

Cox and Snell = 0.579; Nagelkerke = 0.562; McFadden = 0.484

The parameters estimate also suggests that holding other independent variables to zero, addition of one unit in transparency practices, results to 0.216 improved organisation performance. One additional unit in accountability practices will lead to 0.475 increases in organisation performance. One more additional unit increase in procurement professionalism improves organisation's performance by 1.661 while one unit increases in fairness practices will lead to a 0.884 increment in organisation performance. The analysis revealed that ethical procurement practices contribute significantly in improved quality, timely delivery and cost best of the procured goods, works and services. The findings are in agreement with Ndolo and Njagi (2014) and Sengbeh (2015) who also established that procurement best practice seek to improve the quality, reduction in cost and timely procurement process which in turn improves the

performance of the procuring entities through delivering the expected goods and service to the general public.

4.0 CONCLUSION AND RECOMMENDATIONS

The study sought to analyse the effects of adopting ethical procurement practice toward organisation performance basing on the assumptions of principal agent theory. Findings indicated that to a greater extent the procuring entity adopted and enhanced transparency, accountability, fairness and professional practices while executing public procurement improved performance in term of timely delivery, cost effective and quality standard of procured goods, works and services. Therefore, it was concluded that joint adoption and consideration of ethical practices in public procurement improves organisations performance in the procurement parameters of timely and quality delivery at cost efficiency in procuring goods, works and services for public interest. However, it is recommended to the procuring entities to develop their own internal ethical control mechanism other than depending on the broad legal framework which may not cater for the interest and context of the specific procuring entity. These may include strengthened internal procurement manual, ethical committee or department, enhanced independence of internal pre – audit and audit committee, as well as an effective reward and punishment system. Also, in order to continue improving the professional practises, there is a need for the procuring entity to maintain hiring of qualified and professional procurement staffs.

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