

**PROCUREMENT PRACTICES IN KENYA'S PUBLIC
CORPORATIONS**

BY

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SUPERVISOR

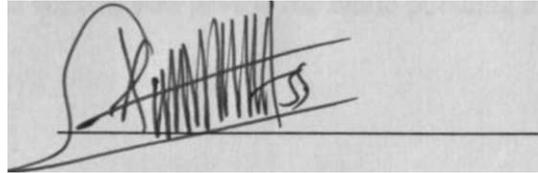
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**A Research Project Submitted to the School of business in Partial
Fulfillment of the Requirement for Masters in Business Administration,
University of Nairobi**

August, 2012

DECLARATION

I declare that this research project is my original work and has never been submitted to any other University for assessment or award of a Masters degree.

A handwritten signature in black ink on a light-colored background. The signature is stylized and appears to be 'Abdi Abdullahi Hassan'.

Abdi Abdullahi Hassan

This project has been submitted with my authority as the university supervisor.

A handwritten signature in black ink on a light-colored background. The signature is stylized and appears to be 'Dr. X.N. Iraki'.

Dr. X.N. Iraki

DEDICATION

I dedicate this project to my dear lovely mother Asli Mohamed and Elder Brother. Without your sincere prayers I would not have come this far. May the Almighty God bless you for the great support you gave to me while pursuing my MBA at the University of Nairobi.

ACKNOWLEDGEMENT

I sincerely acknowledge the God Almighty for all knowledge and wisdom belongs to Him. He listened to my prayers during the time I pursued my MBA. Were it not for His grace, nothing would have happened.

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LIST OF ABBREVIATIONS

COTU	Central Organization of Trade Unions
CRM	Customer Relationship Management
CTB	Central Tender Board
DPP	Directorate of Public Procurement
DTC	District Tender Committee
FKE	Federation of Kenya Employers
IMF	International Monetary Fund
IT	Information Technology
MTC	Ministerial Tender Committee
NSSF	National Social Security Fund
PPDA	Public Procurement and Disposal act
PSRCU	Public Sector Reforms Coordinating Unit
SRM	Supplier Relationship Management
WTO	World Trade Organization

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ABSTRACT

This study was carried out to establish with an aim of establish the procurement practices among state corporations in Kenya. The study singled out National Social Security Fund as a case study. The respondents were selected through stratified random sampling from among the NSSF employees. A total of 29 respondents participated in the study. Data was collected through a questionnaire which was administered by drop and pick method. The data collected was analyzed using SPSS and the findings were presented in tables, graphs and pie charts. The study concluded that there are a number of procurement practices prevalent at NSSF. They include: segregation of duties among the employees of procurement department; maintaining all documentation relating to the tendering process; maintains continuous improvement programs with strategic suppliers; measures costs involved in producing and delivering product and services; encouraging a range of suppliers to bid for the supply of various products and provision of services and approval of long term projects by the governing board. There are some practices that were found not to be common such as proper risk management and the board not involved in auditing of procured materials for defects. The researcher recommends that NSSF needs to come up with better risk management mechanisms.

CHAPTER ONE: INTRODUCTION

1.1 Background to the study

In today's highly competitive environment, supply chain performance is very vital for the survival of firms because customers judge the performance of firms basing on their supply chain performance. Competition is no longer between firms but between entire supply chains (Veludo et al., 2004). Worldwide, national economies are faced with the challenge of improving their supply chains. The adoption of good practices in procurement is one of the ways organizations can be able to make their supply chains more competitive.

Until recently, Senior Procurement Managers focused their initiatives primarily on three dimensions: price, quality, and time. That is not to say that the decisions taken in the procurement department at that time were easy to implement. Supply chains are becoming increasingly complex; there are numerous elements in the supply chain that may stop companies from achieving their business objectives unless they embrace good procurement practices. In addition to operational, logistics and customer service risks, reputational risk also needs to be taken seriously. For many organizations, significant new opportunities are emerging, particularly as markets are created for lower carbon, more sustainable goods and services (PWC and EcoVadis, 2010).

In the recent past, there has been growing focus on the procurement practices adopted by public sector institutions all over the world. Within the overall pattern of public

expenditure, that portion of public expenditure attributable to purchases of goods and services has been the subject of significant recent attention (Trionfetti, 2000). It is estimated that public procurement accounts for between 8%-25% of the GDP of most countries (Afonso et al., 2005). Furthermore, public procurement is also a significant activity in the developing world with a study of 106 developing countries finding that the purchases of their governments accounted for 'approximately 5.1 percent of their combined national outputs' (Evenett and Hoekman, 2005).

1.1.1 Procurement practices

Procurement practice entail the exercise of acquiring goods and services for an organization as per the set policies that govern the choice of suppliers, products and methods that aim to utilize sound business practices which maximize value of the organization (Sollish and Semanik, 2012). The acquisition of goods and services (i.e. purchasing) entail the hiring of contractors and consultants to carry out works and services. Procurement includes rental, lease, hire purchase, license, tenancy, franchise or any other contractual acquisition of works, services and supplies. Procurement also embraces clearing out unnecessary acquisitions. In essence, the subject of procurement runs at all times alongside that of disposal of public assets which once acquired may need to be discarded in accordance with the principles of their purchase. Therefore, sale by competitive bidding, transfer by way of donation, abandonment or destruction of stores whether excess, surplus or obsolete all fall within the same functional scope as procurement (Westring, 1985).

In procurement, there are a number of practices that need to be adopted in order to ensure an efficient and effective procurement process regardless of whether it is in the private or public sector. The need for open and fair competition is very important. All prospective suppliers/vendors must be treated (and be seen to be treated) fairly in an open and transparent manner with the same access to information about the proposed procurement to enable them to submit quotations/tenders on the same basis (State of Victoria, 2008).

Procurement as a process should be able to meet value for the money spent by the procuring entity. There is need to obtain the best quality and value for the price and that the quality of the goods/services/works that meet the entity's criteria and cost constraints. The other important practice relates to accountability. There is need to have clear procurement policies, clear lines of responsibility and all transactions must be adequately documented to enable and facilitate audit (State of Victoria, 2008).

All procurement activities carry with them some element of risk. It is important for the procuring entity to ensure that they put in place ways of identifying and mitigating possible procurement risks. In all commercial dealings, the highest standards of honesty must be observed. Organizations need to conduct their business in a fair, honest, and open manner, demonstrating the highest levels of integrity consistent with the interest of all the Stakeholders (State of Victoria, 2008).

1.1.2 Public procurement in Kenya

In Kenya, Public procurement is broadly defined as the purchasing, hiring or obtaining by other contractual means of goods, construction works and services by the public sector. Public procurement is alternatively defined as the purchase of commodities and contracting of construction works and services if such acquisition is effected with the resources from state budgets, local authority budgets, state foundation funds, domestic loans or foreign loans guaranteed by the state, foreign aid as well as revenue received from the economic activity of state. Public procurement thus means procurement by a procuring entity using public funds (World Bank, 1995). The financial scope of public procurement gives some insight into the kind of money involved and why there is a growing realization in Kenya and beyond that the system is so susceptible to corruption. State corporations which are also known as public corporations or parastatals undertake much of public procurement activities almost the Half of the Kenya Budget goes to Procurements in term of Money the government use billions in tendering ,In Kenya it takes up about 10% of GDP, a figure in the range of Kshs.85 - 90 Billion (World Bank, 1995).

In the past decades, the public procurement system in Kenya has undergone significant developments. From being a system with no regulations in the 1960s, and a system regulated by Treasury Circulars in the 1970s, 1980s and 1990s, the introduction of the Public Procurement and Disposal Act (PPDA) of 2005 and the Procurement Regulations of 2006 has introduced new standards for public procurement in Kenya. The public procurement reform in Kenya was jointly initiated in 1997 by the Kenya Government and

the World Bank (Government of Kenya, 2001d). The procurement audits carried out on Kenya's public procurement system disclosed serious shortcomings ranging from inefficiency to lack of sound and transparent legal framework. The government decided to review and reform the existing procurement system with a view to enhancing efficiency, accountability and transparency in public procurement (Government of Kenya, 2001d).

A major policy activity in Kenya's public procurement was started in 1997 when Government commenced public procurement reforms with support from World Bank and in 2000 the Treasury issued a Circular Ref. No. 8/2000 established the Public Procurement Appeals Board (PPAB) which was implemented later in 2001 the Ministry of Finance issues The Exchequer & Audit (Public Procurement) Regulations placing all public entities under one procurement system; public entities establish tender committees and began procuring independently (Government of Kenya, 2001d).

Public Procurement Appeals Board (PPAB) was dissolved and replaced by PPCRAB; suppliers and contractors participating in public procurement given the right of appeal in 2002 and Newly-established PPD mounts public procurement system awareness campaigns and commences training of more than 700 procurement officers country-wide and in 2003 Government dismisses about 2,000 procurement officers in ministries and state corporations and suspends procurement activities unless specially approved by the Treasury (Kipchilat, 2006). Later in the same year, government employs 'some qualified procurement officers' and lifts the suspension of procurement activities and in 2004 The

first National Procurement Consultative Meeting is held PPD undertakes a training needs assessment and develops training programmes, government employed new procurement staff and deployed them to ministries an induction workshop for new staff is held, and finally the Public Procurement and Disposal Act 2005 was enacted, but not operational, pending the adoption of subsidiary legislation(Kipchilat, 2006).

1.1.3 State corporations in Kenya

A State Corporation is a body established by an Act of Parliament or under the Companies Act Cap. 486 that is wholly owned by the Government or by a Government agent whose majority shares are controlled by the government or its agent called the Executive Agency a Semi-Autonomous Government Agency (SAGA), established under the law to perform specific functions of a Ministry or Government department in a more focused and efficient manner while operating within the ambit of the Ministry/Department but at arm's length, the role of State Corporations in our socio-economic development, drawing examples from success cases in Africa and South East Asia where State Corporations have made significant contribution to growth and development. This was linked up with the need for change so as to enable Kenya's State Corporations play a similar role. To anchor the discourse on the need for change, the current performance of the Sector was highlighted.

Procurement in state corporations in Kenya must be guided by the provisions of the Public Procurement and Disposal Act. There is in place a public procurement oversight authority (PPOA) whose work is to oversee the procurement processes among public

institutions in Kenya. The work of PPOA is to ensure that due diligence is undertaken when carrying out state procurement activities. Through abiding by the laid down policies and procedures, state corporations in Kenya can be able to achieve good practices in procurement (GoK, 2005).

1.1.4 The National Social Security Fund

The National Social Security Fund (NSSF) was established in 1965 by an Act of parliament (CAP 258 of the laws of Kenya) in order to administer a provident fund scheme for all workers in Kenya. Initially the fund operated as a government department under the ministry of Labour but as its membership grew and its operations became complex, the NSSF Act was amended in 1987 to transform it into an autonomous state corporation. Since 1988, the fund scheme has been operating under a board of Trustees, which is constituted by representatives of 3 key stakeholders: the government, workers and employees (Chitembwe, 2007).

In recent years NSSF has embarked on an ambitious reform programme intended to convert it from a national provident fund scheme to a social insurance pension scheme. As a converted scheme, the new NSSF will operate as a mandatory national social insurance pension scheme, serving as workers 1st pillar of social protection. Everyone with an income (except those excluded by national and international law) should be registered as a contributing member (Mars Group, 2012).

Although NSSF's history has been marred by scandals and ill-conceived investment policies. Indeed, some regrettable investment decisions were made by the fund in the

early and mid 1990's; aggressive reform policies have been implemented to prevent the errors of the past from recurring. NSSF's operations are now conducted in an atmosphere of transparency, accountability and with a renewed commitment to efficient delivery of social security services in Kenya (Brown, 2006).

NSSF engages in various investment activities as one way of growing the funds contributed by employees. The Fund has developed several estates in Nairobi and Eldoret. The purchasers pay 100/0 deposit and are allowed to reside in the residential houses while paying the balance in monthly installments for a period of 15 years. NSSF has several commercial buildings and plots around the country. The rents charged are fair and this stabilizes the costs of office space in the country. The above investment activities cannot be achieved without good procurement practices (Chitembwe, 2007).

1.2 Research problem

Developing and achieving procurement practices is never easy. It consumes a lot of time, entails breaking down barriers between internal groups, demands a new approach to suppliers, and requires significant investment in at least a couple of the following areas: people, training, analysis, measurement, technology, suppliers. Leading companies in both manufacturing and service industries have used superior supply management strategies and procurement practices to gain a competitive edge in their markets. Good procurement practices can enable an organization to achieve efficiency in the supply chain (Kevin, 2002).

In Kenya, procurement practices of State Corporations have been characterized by high level inefficiency, Corruption and incompetence in Procurement and this problem makes them vulnerable to the critical procurement problems. For instance NSSF experiences supplier management problems and this leads to selection of poor suppliers who fail to perform as per the terms and conditions of the awarded contracts (Ogutu, 2001).

A number of studies have been carried out on procurement. Brammer and Walker (2007) carried out a study on the Sustainable procurement practice in the public sector. The findings indicate that a wide range of sustainable procurement practices are embedded to some degree in public sector procurement practice around the world and that the extent and nature of sustainable procurement practices varies significantly across countries. Eyaa and Ntayi (2010) also did a study on procurement practices and supply chain performance of SMEs in Kampala. The study concluded that purchasing risk taking was a significant predictor of supply chain performance while purchasing knowledge and skills and strategic purchasing were not. Kipchilat (2006) evaluated the impact of the public procurement regulations on procurement in Kenyan Public Universities. The findings indicate that public universities need to comply with public procurement regulations in their procurement activities.

The studies have not conclusively focused on the procurement practices in the public sector. Most of the studies have given more emphasis on sustainable procurement practices and not supply chain practices in general. This study therefore focused on the procurement practices among state corporations in Kenya.

1.3 Research Question

What are the procurement practices used by state corporations in Kenya?

1.4 Research Objective

The objective of the study was to establish the procurement practices used by state corporations in Kenya.

1.5 Value of the study

The findings of the study will be of great significance to the various corporations since it will be able to show the various procurement practices that need to be adopted by public institutions. They will be able to understand the need for good procurement practices in the public sector.

The National Social Security Fund will also be able to get a better understanding of the challenges of adopting various procurement practices. This will enable the organization to devise methods of overcoming the challenges. The fund will also be able to learn more about best practices in procurement as applied elsewhere in other countries around the globe.

The government of Kenya will also benefit from the findings of the study since it will highlight the challenges that state corporations encounter when adopting various procurement practices. The government will be able to come up with policies and regulations that can assist state corporations to overcome such challenges.

The findings will also contribute some literature to the existing knowledge on procurement practices. Future researchers will be able to use the findings of this study as a source of reference in their work.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature in the area of procurement. Among the issues discussed include: overview of procurement, practices of procurement and public procurement.

2.2 Overview of procurement

According to Weele (2010), procurement is the acquisition of goods or services. It entails the steps that are used in the acquisition of goods and services and it is the most significant aspect characterizing an organization's supply chain as well as the aspect of supply management which provides some of the most value-added benefits to the organization. It is favorable that the goods/services are appropriate and that they are procured at the best possible cost to meet the needs of the purchaser in terms of quality and quantity, time, and location. Weele (2010) further assert that corporations and public bodies often define procurement processes intended to promote fair and open competition for their business while minimizing exposure to fraud and collusion.

Almost all procurement decisions include factors such as delivery and handling, marginal benefit, and price fluctuations. Procurement generally involves making buying decisions under conditions of scarcity. According to Pearson (2007), the procurement process encompasses the point at which an agency identifies the need to purchase a product, service or asset; seeking and evaluating bids; awarding a contract; managing and monitoring the delivery of, and payment for, the thing being procured; and reviewing the

procurement post-delivery. Pearson (2007) further asserts that the procurement process can be broken down into the following phases: planning the procurement, implementing the procurement approach, monitoring and evaluating contractor performance and evaluating and improving the procurement processes.

While all procurement should follow these four basic phases, the way each phase is conducted can vary for any particular procurement exercise, depending on a number of factors. The procurement approach adopted is usually guided by the value or the scale of the procurement. Some of the factors that affect the procurement approach include: the nature of the item being procured, e.g. capital projects requiring a design response may include a protracted period during which potential suppliers are required to move through a staged procurement process; the complexity of the procurement, the need for the item being procured; the time constraints on the delivery of a product or service which mean the procurement needs to take place quickly; the level of risk associated with the procurement, e.g. a project that presents a high-risk to the public requires more detailed documentation than procurement of general stationery items; the cost of subsequent purchases that may rely on the successful outcome of the current procurement exercise among others (Thai, 2006).

Worldwide, economic forces and technological advances have combined over the past years to increase the impact of procurement/supply management on company profitability and long-term business success. Procurement is now in a position to affect an organizations' profitability faster and more dramatically than any other corporate

function (Edquist et al., 2000). Lysons and Gullingham (2003) assert that the starting point in the process of procurement is the recognition that there is a need or wants for a particular good or service. Before there is a chance for the acquisition of goods, there has to be the desire to actually gain possession of something in particular. Without recognizing the want or need there will be no procurement. Once the need or want has been recognized, it is important to qualify the specifics of what will lead to satisfaction.

With a solid vision of what is desired, the next step in the process of procurement involves the evaluation of potential suppliers. According to Leeders (1993), evaluation of potential suppliers entail getting to know more about vendors who can supply goods or services that will meet all the specifications, including the price range. This may also involve taking bids on a project, negotiating prices, or accepting proposals. Over time, one or two suppliers are likely to stand out from all other vendors. Once the final decision is made between the suppliers, the last step in procurement involves taking possession of the desired good or service, ensuring that the item is in compliance with all the claims made by the supplier, and rendering payment according to the terms worked out with the supplier. As observed by Leeders (1993), in the end of procurement, it is important to think in terms of the total cost of ownership. This includes not only the purchase price, but also time and resources that are expended in the pursuit of the ownership.

2.3 Practices of procurement

According to Sollish and Semanik (2012), effective procurement requires the utilization of sound business practices that maximize value of the organization through the

acquisition of goods and services. Thus, the role of procurement is to deliver the right materials or service in the right amount to the right place at the right time and at the right price. Historically, the procurement function was viewed as a low-level, back-office operation that existed solely to beat up suppliers for lower prices. The traditional approach to suppliers was price-based, confrontational, surface-level, short-term, and extremely short-sighted.

Today, one of the most important procurement practices is selecting the right suppliers and ensuring a mutual cooperation with them which can pay big dividends for both customer and supplier. While all companies want to pay the lowest possible purchase price for goods and services, leading companies have realized that purchase price is only one element of total cost, and that it's critically important to establish continuous improvement programs with strategic suppliers. Thus, supplier selection and supplier relations are a major practice in procurement that can lead to long-term success of corporations (Fitzgerald, 2010/

According to Pearson (2007), all procurement involves a degree of risk. Therefore, procurement process entails risk management. The management of risk is relevant to all phases in the procurement cycle, and relates to both the procurement process, and to the nature of what is being procured. Effective risk management involves the identification of risks, their assessment (i.e. assessing the likelihood of occurrence and magnitude of risks), and mitigation. It also includes the allocation of responsibility for managing the risks, and for their ongoing monitoring and control.

Another practice in procurement involves cost management. According to Nelson et al. (2001), managing and reducing the entire spectrum of costs associated with running a business is another important practice in procurement. According to the authors, through cost management, companies can be able to measure and see clearly all costs involved with producing and delivering a product or service, they also help their suppliers do the same. They realize that suppliers will not make the long-term effort to seek out waste and reduce costs if they have little or nothing to gain they therefore work closely with suppliers to closely examine all processes involved at both companies, and then attempt to reduce those costs. Some companies share savings with suppliers, thereby creating a very strong incentive to reduce costs during in the procurement process at all levels.

Transparency in the procurement process of any organization is another practice embraced by most organizations. According to Pearson (2007), appropriate record keeping is an important element in achieving transparency. Supporting documentation should be created, and maintained, to enable scrutiny of decisions taken and to demonstrate the application of the guiding procurement principles and compliance with established requirements. Pearson (2007) further asserts that open and fair competition in procurement is also another practice in procurement which ensures that an organization selects right suppliers. To ensure competition is open and fair, a range of suppliers should be encouraged to bid to provide goods and services to public sector agencies, or to deliver public construction projects. Potential bidders and tenders must be treated in a fair, consistent and even-handed way. The same information should be provided to all potential bidders, and security and confidentiality of competitive information and

documentation must be respected. The market forces exerted where competition is open and fair are instrumental in achieving value-for-money.

Probity is another very crucial practice in procurement. Compton (1985) points out that probity in procurement relates to the 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. Probity is also critical in achieving value-for-money. Potential suppliers may choose not to participate in tenders if they doubt the fairness or impartiality of the process. This diminishes the range of solutions available and the competitiveness of the bids. Self-evidently, probity issues should be considered throughout all phases of the procurement cycle. As newer, more innovative approaches to procurement are adopted, public sector agencies need to ensure that the probity of their procurement processes is maintained.

All personnel involved in procurement need to have a clear understanding of accountability as a procurement practice. According to Kipchilat (2006), accountability mostly in the public sector requires those entrusted with public resources to work to clear objectives in a transparent manner, accept responsibility for their decisions and actions, seek to achieve the best use of resources and submit themselves to appropriate scrutiny. Thus, all personnel involved in procurement need to have a clear understanding of these aspects. Equally ethical behavior is another procurement practice. As pointed out by Thai (2001), all public sector employees need to model their behaviors based on the public sector values and at all times to act in an ethical manner. Ethical behavior encompasses

the concepts of honesty, integrity, probity, diligence, fairness, trust, respect and consistency. Ethical behavior also includes avoiding conflicts of interest and avoiding improper use of an individual's position, and is an important principle for public sector procurement.

2.4 Public Procurement

Procurement is a key activity within the public sector. According to European Commission (2005), public procurement entails the acquisition, whether under formal contract or not, of works, supplies and services as well as utilities by public bodies at whatever level i.e. ministries, departments of central government, organs of local government and state corporations. According to Thai (2001), public procurement is an important function of government. It has to satisfy requirements for goods, works, systems and services in a timely manner. Furthermore, as pointed out by Wittig, 2003; Callender and Schapper, 2003, public procurement has to meet the basic principles of good governance: transparency, accountability, and integrity in order to achieve value for money in procurement.

Today governments all over the world have received a great deal of attention as providers of essential services, such as health, education, defence and infrastructure. To be able to meet the demand for these services, governments purchase goods and services from the marketplace. In other words, governments are purchasers of works, supplies and services from the open market, placing their demands alongside those of the private sector. The business operations of governments in the marketplace or public procurement have thus

both economic and political implications since the purchase of goods and services is open to public scrutiny to ensure that public money is spent appropriately. To ensure this occurs, various governments globally have put in place rules to guide public procurement process (Wittig, 1998).

As pointed out by Thai (2001), public procurement is an instrument for the attainment of broader national socio-economic objectives such as supporting employment of citizens and income creation through preference for local suppliers, and enhancement of regional integration through improvement of cross-border trade. Accordingly, public procurement is checked by various regulations including laws, statutes and ministerial decrees specifically enacted to protect public interest. It is also subject to scrutiny by the auditing arm of government, which in itself assumes ultimate responsibility for obligations incurred in relation to third parties. As a result of these, public procurement process is much more complicated and slower, and is not always as efficient as private sector purchasing.

Public procurement is generally conducted through competitive tendering, which occurs when suppliers make written quotations or bid to supply goods, services and works. Unlike single tendering, competitive tendering helps to avoid favoritism and to discourage the emergence of monopolies and cartels. Competitive tendering underpins contemporary procurement markets and differs substantially from pure competition found in conventional demand-supply exchange situations. The latter aims to achieve the lowest bid price while the former aims to achieve the lowest total cost of ownership. This is

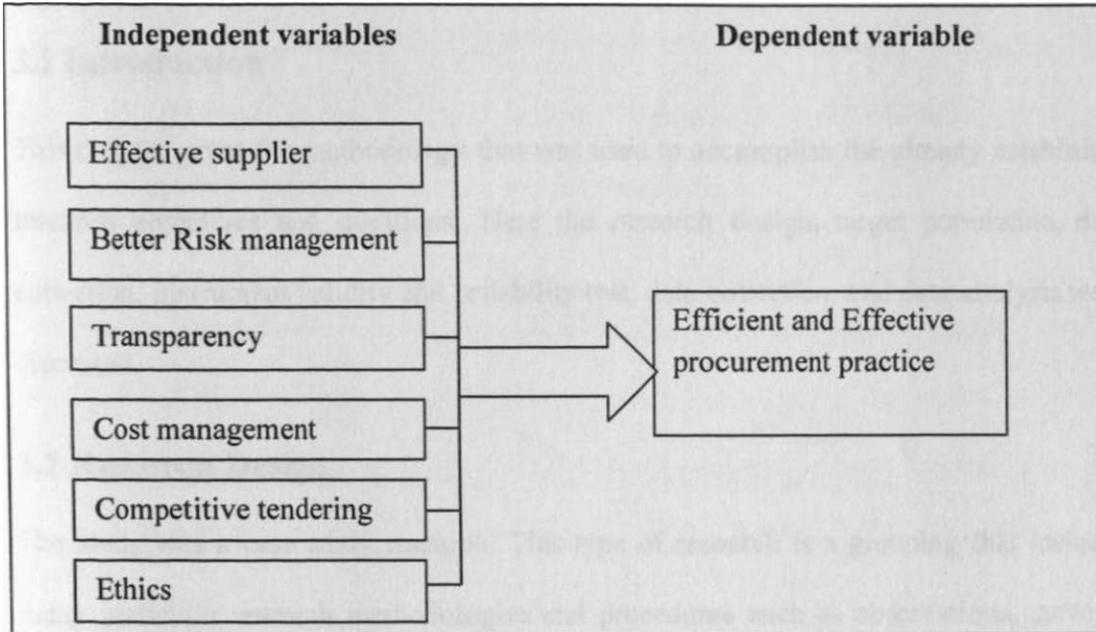
accomplished through Life Cycle Costing (LCC), a key procurement-contract award technique that balances price and quality considerations against all other costs to be incurred during an item's lifetime. Thus, Life Cycle Costing has become the basis of sustainable public procurement and helps in realizing value for money (Kipchilat, 2006).

According to Wittig (1998), the items involved in public procurement range from simple goods or services such as clips or cleaning services to large commercial projects, such as the development of infrastructure, including road, power stations and airports. In public procurement, the economic results must be measured against more complex and long term criteria. Furthermore, public procurement must be transacted with other considerations in mind, besides the economy. These considerations include accountability, on-discrimination among potential suppliers and respect for international obligations. For these reasons, public procurement is subjected in all countries to enacted regulations, in order to protect the public interests. Wittig (1998) further asserts that since public procurement is a business process within a political system, it therefore has significant consideration of integrity, accountability, national interest and effectiveness.

2.5 Conceptual framework

The figure below is a conceptual framework showing the relationship between independent variables and dependent variable. Various procurement practices are the independent variables and they collectively lead to efficient and effective procurement practice.

Figure 2.1 : Conceptual framework



Source: Researcher (2012)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives the methodology that was used to accomplish the already established research objectives and questions. Here the research design, target population, data collection, instrument validity and reliability test, data collection, and data analysis were discussed.

3.2 Research Design

The study was a case study research. This type of research is a grouping that includes many particular research methodologies and procedures such as observations, surveys, self-reports and tests excels at bringing an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research.the case study research method investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin, 1984). NSSF was chosen because it has made several reforms hence the need to find out the current procurement practices.

3.3 Sampling Technique and Sample Size

The target population for this study consisted of all 265 employees of NSSF. The researcher applied stratified random sampling technique and this involved dividing the target population into sub groups in order to give equal representation of all the staff in the organization such as the top managers, middle level managers, head of departments

and the subordinates. This method was deemed suitable since the population was divided into sub groups depending on the organization structure and staff ranks. The nature of the issue to be investigated means that it was important to give respondents from all organization divisions an equal chance of representation.

From the above population, a sample of 15% was taken using stratified random sampling technique which gave each element in the population an equal probability of being selected. This led to sample total of 40 respondents. According to Mugenda and Mugenda (2003), a representative sample is one which is at least 10% of the population thus the choice of 15% is considered as representative.

3.5 Data analysis

This study was designed to collect primary quantitative data. The data was analyzed using SPSS. Percentages and frequencies were used to establish procurement practices used by state corporations in Kenya. The findings of the study were presented in tables, graphs and pie charts.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the data analysis, findings and interpretations of the study. The data was collected from the employees of National Social Security Fund, analyzed and presented in the form of tables and charts in line with the research objective.

4.2 Response Rate

The study's respondents were drawn from National Social Security Fund. Out of the 40 questionnaires that were distributed to the sampled study participants, only 29 were successfully filled and collected. This gives a response rate of 72.5% which was considered adequate for this study as indicated by Monkey (2005) who reveals that response rates above 70% can be termed as acceptable for a given study hence can be used for generalization.

4.3 Procurement Practices

There are a number of procurement practices that determine on how goods and services for an organization are acquired with the aim of utilizing sound business practices which maximize value of the organization. The respondents were asked to indicate the extent to which they agreed with various procurement practices utilized by the National Social Security Fund (NSSF) using a five likert scale of 1= Strongly agree; 2 = Agree; 3 = Not sure; 4= Disagree and 5= Strongly disagree. The study findings are presented and explained in the subsections that follow.

4.3.1 Adequate segregation of duties

Adequate segregation of duties ensures that different employees in the procurement unit are responsible for purchasing and voucher approval. The respondents were required to indicate the extent to which they agreed that there was adequate segregation of duties among the employees responsible for procurement in the NSSF and the results are as in table 4.1 below.

Table 4.1 Adequate segregation of duties

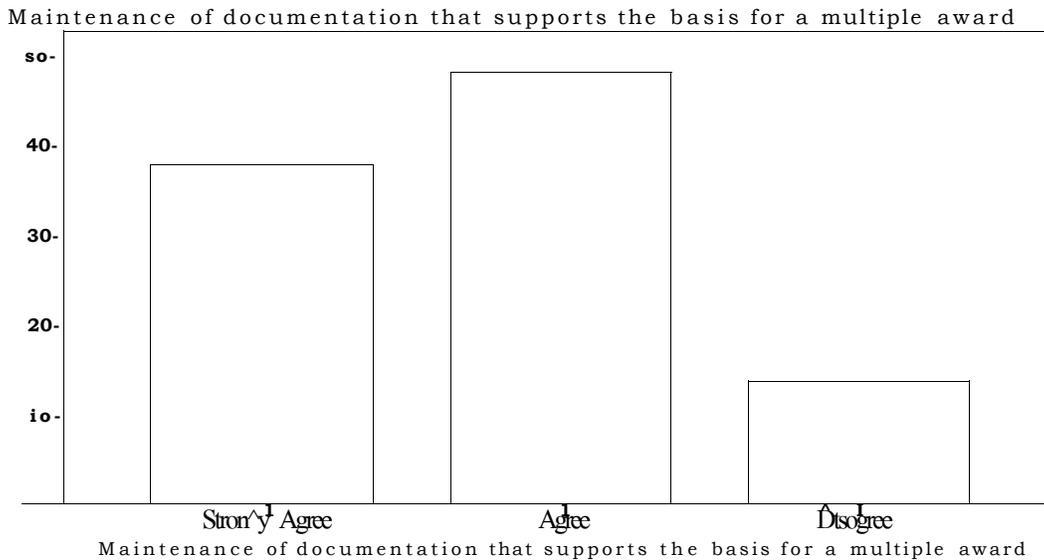
Extent of agreement	Frequency	Percent
Strongly Agree	13	44.8
Agree	11	37.9
Not sure	3	10.3
Disagree	2	6.9
Total	29	100.0

As shown in table 4.1 above, majority of the respondents (44.8%) agreed that there was adequate segregation of duties. This is an indication that the procurement process in NSSF is transparent and efficient. This was also confirmed by Compton (1985) who points out that segregation of duties can lead to probity in procurement, fairness, impartiality and integrity of the process.

4.3.2 Maintenance of Documentation for a multiple award

Maintenance of documents that supports the basis for tenders that involve multiple awards is crucial as contractual evidence in addressing any grievances thereafter. The respondents were required to state the extent they agreed that the NSSF procurement unit maintained documentation for tenders that entail multiple awards. The study results are presented in figure 4.1

Figure 4.1: Maintenance of documentation for multiple award tenders



As shown in figure 4.1 above, majority of the study participants agreed that NSSF procurement unit maintains documentation that supports the basis for a multiple award. This implies that the process of procuring goods in NSSF is supported by the established public procurement regulations that ensure utilization of sound business practices thus maximizing the value of the organization. The Public Procurement practices have been highlighted in the Public Procurement and Disposal Act of 2003 which requires that all procurement and disposal shall be conducted in a manner which promotes transparency, accountability and fairness. This transparency can therefore be achieved through maintaining records that support the basis of multiple award tenders.

4.33 Preparation of Reports for all Goods and Services Received

The preparation of reports of for all goods and services received as well as documentation of the receipt of all purchased items enables the procurement unit to ensure that all goods are procured have been received as per the set agreements and

account for budget spending. The researcher wanted to determine from the respondents whether the procuring unit in NSSF prepared reports for all the goods and service procured. The study results are tabulated in table 4.2.

Table 4.2: Preparation of reports for all goods and services received

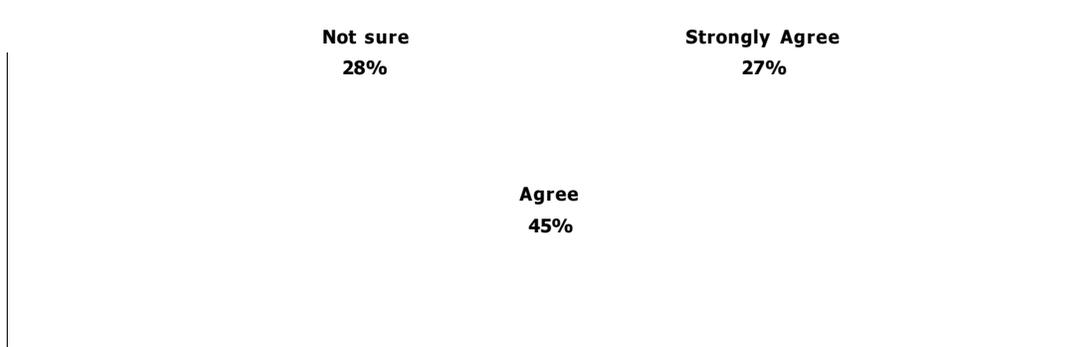
Extent of agreement	Frequency	Percent
Strongly Agree	8	27.6
Agree	16	55.2
Not sure	5	17.2
Total	29	100.0

Table 4.2 above indicates that majority of the respondents (55.2%) agreed that the procurement unit of the NSSF prepares reports for all goods and services received as well as documentation of the receipt of all purchased items.

4.3.4 Continuous improvement programs with strategic suppliers

Establishment of continuous improvement programs with strategic suppliers is a major practice in creating supplier relations that can lead to long-term success. The research sought to ascertain from the respondents the extent they agreed that NSSF management has established continuous improvement programs with strategic suppliers and the findings are as in figure 4.2 below.

Figure 4.2 Establishment of continues improvement programs with strategic suppliers



The study findings in figure 4.2 above indicate that majority of the respondents (45%) agreed that NSSF management have established continuous improvement programs with strategic suppliers. For instance the fund requires its suppliers to provide products that can easily be reused or recycled. The suppliers are also required to collaborate with other players in the supply chain in order to provide cheaper and good quality products. This is an indication that NSSF procurement unit ensures good cooperation with its suppliers thus easing the supplier searching and selection processes which in turn leads to cost reductions. This agrees with Nelson et al. (2001) who indicate that managing and reducing the entire spectrum of costs associated with running a business is another important practice in procurement. According to the authors, through cost management, companies can be able to measure and see clearly all costs involved with producing and delivering a product or service, they also help their suppliers do the same.

4.3.5: Risk management in the procurement process

Risk management in the procurement process is of greater significance since all procurement entails a certain degree of risk. The respondents were required to state the extent they agree NSSF procurement process include the management of risk. The study findings are presented in table 4.3 below.

Table 4.3: Procurement process entails risk management

Extent of agreement	Frequency	Percent
Strongly Agree	3	10.3
Disagree	12	41.4
Strongly disagree	14	48.3
Total	29	100.0

As shown in the table 4.3 above, majority of the respondents disagreed that the procurement process in NSSF entails risk management. They represent 48.3% of the total study participants. This means that the process does not include a well structured risk management plan that can enable the fund to properly manage risks. The findings therefore contradict Pearson (2007) who asserts that all procurement involves a degree of risk hence the procurement process entails risk management.

4.3.6 Risk management to all phases in the procurement cycle

Effective risk management involves the assessment and identification of risks to all phases in the procurement cycle and relates to both the procurement process and to the nature of what is being procured. The respondents were required to state the extent to which they agreed that management of procurement risk in the NSSF was relevant to all

phases in the procurement cycle. The findings of the study are presented in figure 4.3 below.

Table 4.4: Risk management to all phases in the procurement cycle

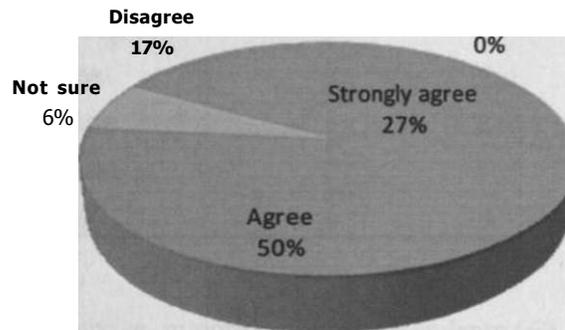
Extent of agreement	Frequency	Percent
Strongly Agree	3	10.3
Disagree	7	21.4
Strongly disagree	14	68.3
Total	29	100.0

Figure 4.3 above shows that majority of the respondents who participated in the study disagreed that the management of risk in NSSF is relevant to all phases in the procurement cycle, and relates to both the procurement process and to the nature of what is being procured. This therefore explains the reason why the fund has had problems in the past with some contractors hence ending up paying out of court settlements to the contractors.

4.3.7 Measure of costs involved in producing and delivering product and services

Measuring clearly all costs involved with producing and delivering a product or service enables organizations to examine all processes involved in procuring products and services and attempt to reduce those costs that don't add value. The respondents were asked to state the extent they agreed that the procurement process in NSSF includes the measurement of all costs involved with producing and delivering a product or service. The results of the study are presented in the figure 4.4 below.

Figure 4.3: Measure of costs involved in producing and delivering product and services



From figure 4.4 above, 50% of the respondents agreed that NSSF procurement process involves the measurement of all costs involved with producing and delivering a product or service.

4.3.8 Creation and maintenance of documentation to enable scrutiny of decisions

Creation and maintenance of procurement supporting documentation enables scrutiny of procurement decisions taken and demonstrates the application of the guiding procurement principles and compliance with established requirements (PPDA, 2003). The respondents were required to state the extent they agreed that the process of procurement in NSSF involved the creation and maintenance of procurement supporting documentation to enable scrutiny of decisions. The study findings are shown in table 4.4.

Table 4.5: Creation and maintenance of documentation to enable scrutiny of decisions

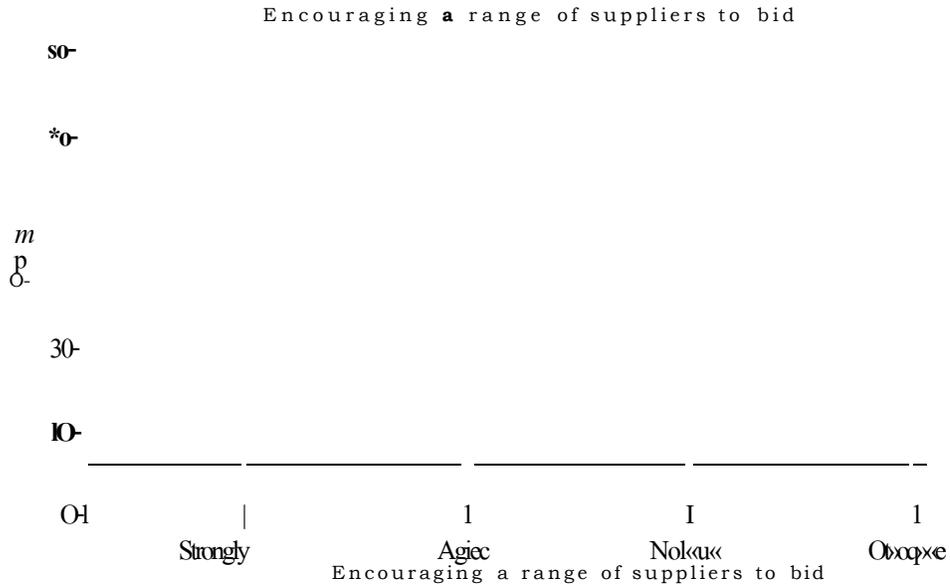
Extent of agreement	Frequency	Percent
Strongly Agree	7	24.1
Agree	18	62.1
Not sure	2	6.9
Disagree	2	6.9
Total	29	100.0

As shown in table 4.4 above, majority of the respondents (62.1%) agreed that the process of procurement in NSSF involved the creation and maintenance of documentation to enable scrutiny of decisions. This is an indication that all procurement decisions made in NSSF are well documented so that scrutiny can be done when necessity demands.

4.3.9 Encouraging a range of suppliers to bid

Encouraging a range of suppliers are to bid to provide goods and services to public sector agencies ensures that the reliable suppliers who meet the required criteria are selected. The researcher sought to determine from the respondents whether NSSF has in place policies that encourage a range of suppliers to bid to provide goods and services. The results of the study are as shown figure 4.5 below.

Figure 4.4: Encouraging a range of suppliers to bid

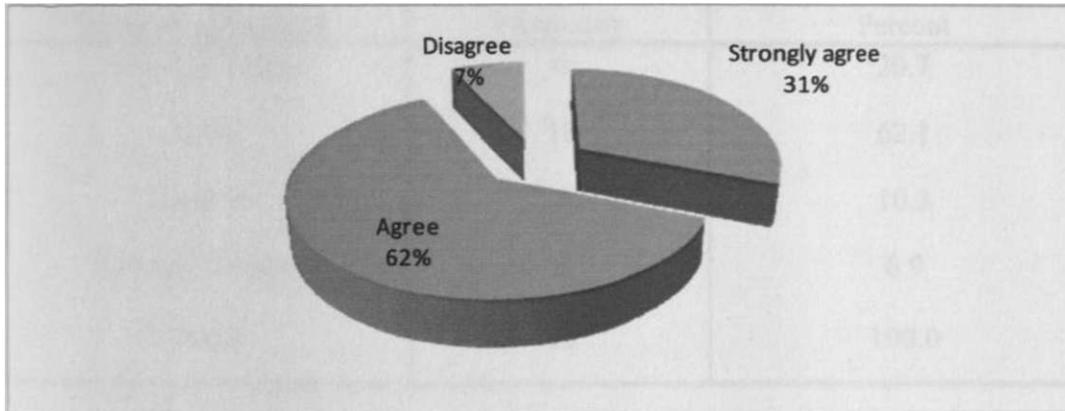


From figure 4.5 above, it is clear that majority of the study participants agreed that NSSF has in place policies that encourage a range of suppliers to bid to provide goods and services for the public agency. This same view is also held by Pearson (2007) who asserts that open and fair competition in procurement is also another practice which ensures that an organization selects right suppliers.

4.3.10 Provision of Same Information to all potential bidders

Provision of same information to all potential bidders ensures transparency and fairness in handling potential suppliers thus enabling the firm to achieve value for money. The respondents were required to state the extent they agreed that the procurement unit in NSSF provides same information to all potential suppliers. The study results are as presented in figure 4.6.

Figure 4.5: Provision of same information to all potential bidders



As shown in figure 4.6 above, majority of the respondents representing 62% of the study participants agreed that NSSF provides the same information to all potential bidders. This is done by advertising all the tenders in the local dailies where all the potential suppliers are able to view the adverts. The study revealed that there is no classified information that is withheld from some suppliers.

43.11 Maintenance of security and confidentiality of competitive information

Security and confidentiality of competitive information and documentation should be respected. The study sought to establish from the respondents the extent to which they agreed that the procurement unit of NSSF maintains security and confidentiality of competitive information and documentation. The findings of the study are tabulated below.

Table 4.6: Maintenance of security and confidentiality of competitive information

Extent of agreement	Frequency	Percent
Strongly Agree	6	20.7
Agree	18	62.1
Disagree	3	10.3
Strongly Disagree	2	6.9
Total	29	100.0

As shown in table 4.6, majority (62.1%) of the respondents agreed that the procurement unit of NSSF maintains security and confidentiality of competitive information and documentation. The study revealed that all information related to the procurement process is held confidentially so that all the potential suppliers are given equal opportunity. This position is also maintained by Pearson (2007) who asserts that open and fair competition in procurement is very important.

4.3.12 Consistency in treating and interacting with potential suppliers

Effective procurement practices require maintenance of consistency in the treatment and interaction with potential suppliers. The research sought to establish from the study respondents the extent they agreed that NSSF procurement unit maintained consistency in the treatment and interaction with potential suppliers. The results of the study are presented in figure 4.7 below.

Figure 4.6: Consistency in treating and interacting with potential suppliers

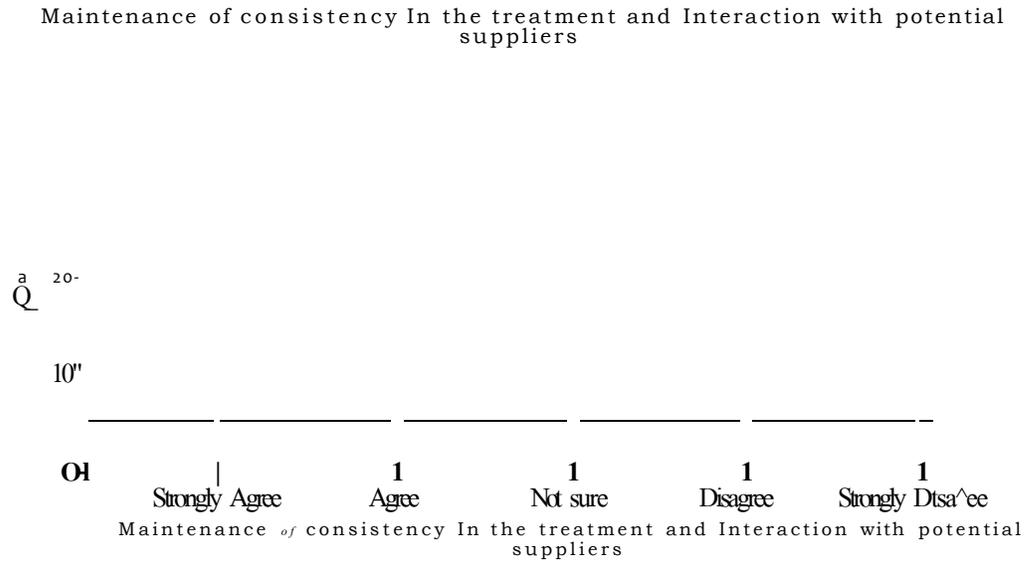
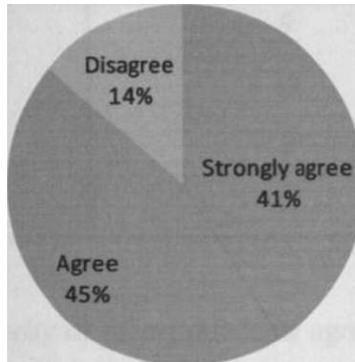


Figure 4.7 above shows that majority of the study participants strongly agreed that NSSF procurement unit maintained consistency in the treatment and interaction with potential suppliers. The fund maintains a list of suppliers who are always given the chance to give quotations for various jobs that the fund wants to accomplish. The fund is also in constant communication with the suppliers to Find out what they can offer.

4.3.13 Establishment of procurement guidelines

In order to achieve the value of money in public spending, public corporations must establish procurement guidelines. The respondents were required to indicate the extent to which they agreed that NSSF procurement unit has established guidelines that encompass the concepts of honesty, integrity, probity, diligence, fairness, trust, respect and consistency. The study results are presented in the figure 4.8 below.

Figure 4.7: Establishment of procurement guidelines



The study findings in figure 4.8 above indicate that majority (45%) of the respondents agreed that NSSF procurement unit has established guidelines that encompass the concepts of honesty, integrity, probity, diligence, fairness, trust, respect and consistency. The PPDA, 2003 does not give any exceptions for public procurement activities. These policies must be applied in all procurement activities that are carried out by the fund. The procurement guidelines of NSSF therefore draw heavily from the Act.

4,3.14 Approval of all Long-Term Procurement Contracts by the Governing Board

Approval of all long-term procurement contracts by the governing board ensures probity and accountability in tendering. The respondents were required to state the extent they agreed that NSSF governing board approves all long-term procurement contracts before they are executed. The study results are presented in table 4.6.

Table 4.7: Approval of all long-term procurement contracts by the governing board

Extent of agreement	Frequency	Percent
Strongly Agree	9	31.0
Agree	18	62.1
Not sure	2	6.9
Total	29	100.0

Table 4.6 indicates that majority of the respondents agreed that NSSF governing board approves all long-term procurement contracts before they are executed. They represent 62.1% of the total study participants. This situation is expected since long term procurement contracts are resource intensive and the ultimate decision making organ of the NSSF (The governing board) must be involved in making decisions concerning the projects.

4.3.15 Awarding of procurement contracts

Procurement contracts should be awarded to the lowest responsible and responsive bidder whose bid conforms, in all material respects, to the requirements and evaluation criteria set forth in the invitation for bids. The respondents were required to state the extent they agreed that procurements contracts in NSSF are awarded to the lowest responsible and responsive bidder. They study results are presented in figure 4.9.

Table 4.8 : Awarding of contracts to lowest responsible and responsive bidder

Extent of agreement	Frequency	Percent
Not sure	9	31.0
Disagree	18	62.1
Strongly disagree	2	6.9
Total	29	100.0

As shown in figure 4.9 above, majority of the study participants disagreed that procurements contracts in NSSF are awarded to the lowest responsible and responsive bidder. The respondents indicated that there are other factors considered alongside the lowest bid. The lowest bid is not proof that the bidder is capable of carrying out the contract. The fund also considers other things such as past experience of the bidder and the capabilities the bidder has to deliver the expected results.

4.3.16 Centralization of Procurement Function

Fully centralization of procurement functions among state corporations provides the greatest control over public spending and improves relations with the business community by providing a single source of information for businesses. The respondents were required to state the extent they agreed that procurement functions in NSSF are fully centralized and the results are as in figure 4.10 below.

Table 4.8 : Awarding of contracts to lowest responsible and responsive bidder

Extent of agreement	Frequency	Percent
Not sure	9	31.0
Disagree	18	62.1
Strongly disagree	2	6.9
Total	29	100.0

As shown in figure 4.9 above, majority of the study participants disagreed that procurements contracts in NSSF are awarded to the lowest responsible and responsive bidder. The respondents indicated that there are other factors considered alongside the lowest bid. The lowest bid is not proof that the bidder is capable of carrying out the contract. The fund also considers other things such as past experience of the bidder and the capabilities the bidder has to deliver the expected results.

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Figure 4.8: Centralization of procurement functions

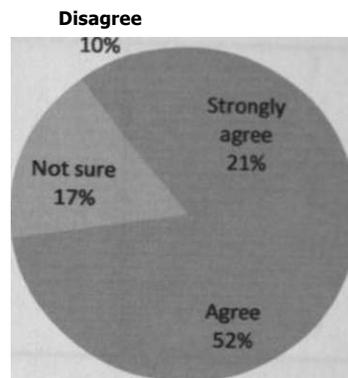


Figure 4.10 above shows that majority (52%) of the respondents agreed that procurement functions in NSSF are fully centralized. Centralization of procurement functions places the procurement responsibility on one department. This provides an avenue for more accountability and transparency since all the procurement for the organization is carried out in one department. Centralization also enables the organization to have proper documentation for all procurement activities.

4.3.17 Inspection of all procured materials

Inspection of all procured materials is necessary in order to check for defects as well as conformation to the set standards. The respondents were required to state the extent they agree that NSSF governing board always orders inspections to check for defects on all procured materials and the results are as in table 4.7.

Table 4.9: Governing board always orders inspections on all procured materials

Extent of agreement	Frequency	Percent
Strongly Agree	3	10.3
Agree	8	27.6
Not sure	8	27.6
Disagree	10	34.5
Total	29	100.0

As shown in table 4.7 above, majority of the respondents representing 34.5% of the total study participants disagreed that NSSF governing board always orders inspections to check for defects on all procured materials. They argued that this remained the work of the procurement department and that all the activities were subject to both the internal audit and external auditors. The board needs to play the role of an overseer in procurement activities. The board as the ultimate decision making organ should ensure there is proper control of the procurement process to avoid any malpractices.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings on procurement practices in Kenya's public corporations. The chapter also presents the conclusions made by the researcher upon carefully reviewing the findings. In this chapter also, the recommendations made by the researcher based on the findings as well as the suggestions for further research are given.

5.2 Summary of Findings

There are several procurement practices that can be found in various organizations both in the private and public sector. This study was more interested in establishing the procurement practices in state corporations in Kenya with a specific reference to the National Social Security Fund (NSSF). The study came up with a number of practices which were summarized below.

The study established that there is clear segregation of duties among the employees of procurement department at NSSF. Each and every employee understands what he/she is supposed to do hence there are no incidences of collision while handling their duties. It was also clear from the findings that the organization maintains proper records of all the products and services received as one way of ensuring that there is transparency and accountability in the procurement process. The respondents also indicated that NSSF

maintains all documentation relating to the tendering process. This was found commonly especially where multi tender awards are involved.

It was evident from the findings that the fund maintains continuous improvement programs with **strategic** suppliers. This is meant to ensure that the National Social Security Fund gets value for the money paid out to the suppliers. The continuous improvement programs also assist NSSF to get quality products from suppliers. However, the findings indicated that the procurement process at NSSF did not involve risk management. This probably explains the reason why the fund has to pay out of court settlements to various companies. The procurement risk management process is wanting and needs further improvement. It was also clear that the management of procurement risk at all phases of the procurement life cycle was not being done. This therefore leaves loopholes for losses due to procurement risks.

The respondents in this study agreed that NSSF measures costs involved in producing and delivering product and services. This enables the fund to monitor its procurement costs. The other practice that was found to be common at NSSF was creation and maintenance of documentation to enable scrutiny of decisions. The respondents indicated that NSSF maintains up to date documentation that support all procurement decisions in the organization.

The study confirmed that NSSF encourages a range of suppliers to bid for the supply of various products and provision of services to the fund. The respondents indicated that this is achieved by providing equal opportunity to all suppliers through provision of the same information to all the potential suppliers. It was also evident that the organization keeps confidential all information related to the bidding process. This is done to ensure there is fair and equal treatment of all the potential suppliers. The respondents also confirmed that the fund remains consistent in the way it treats and interacts with potential suppliers. This is an indication that the company maintains good supplier relations. It emerged too from the findings that NSSF has in place procurement guidelines that encompass the concepts of honesty, integrity, probity, diligence, fairness, trust, respect and consistency.

The researcher confirmed from the respondents that approval of all long-term procurement contracts in NSSF is done by the Governing Board. These are huge projects that require authorization from the governing board hence full board involvement is required. It was also found out that awarding of contracts to lowest responsible and responsive bidder is another not common practice at NSSF. The fund indicates that the lowest bid is not the only benchmark for awarding a tender to a bidder. The respondents argued that there are other factors to consider when awarding a tender and that the lowest bid is just one of them. It was also established that the procurement functions are centralized. All the procurement functions for the fund are carried out by one department. However, it was established that the Governing Board does not order for inspection of procured materials for defects since it was the work of the procurement department.

These findings may not be unique to NSSF alone but may be prevalent in other state corporations in Kenya.

5.3 Conclusion

The study established that there are a number of procurement practices prevalent at NSSF. They include: segregation of duties among the employees of procurement department; maintaining all documentation relating to the tendering process; maintains continuous improvement programs with strategic suppliers; measures costs involved in producing and delivering product and services; encouraging a range of suppliers to bid for the supply of various products and provision of services and approval of long term projects by the governing board. There are some practices that were found not to be common such as proper risk management and the board not involved in auditing of procured materials for defects. State corporations in Kenya have almost similar patterns in terms of procurement activities. It is therefore possible to conclude that the findings for NSSF may to a large extent reflect what is happening in other state corporations.

5.4 Recommendations

There is evidence that the procurement risk management process was not very good. This left a number of loopholes through which the fund loses finances. NSSF should come up with proper procurement risk mechanisms so as to protect the organization from losses related to irregular procurement.

It was clear that the board does not order audits for the procured materials for defects. It will be prudent for the governing board to establish a subcommittee that will oversee all the activities of the procurement department.

The government needs to come up with clear policies that will ensure that all the state corporations are able to address the issue of risk management in the procurement process. This will drastically reduce the procurement related losses incurred by the state corporations.

Other state corporations should ensure that their procurement process incorporates a well defined risk management plan which can easily assist them to deal with the various risks that are prevalent in their procurement processes.

5.5 Suggestions for Further Research

This study focused on NSSF which is one of the very many state corporations in Kenya. There is need to conduct a study on the procurement practices among other state corporations so as to establish the similarities and differences that may exist.

It will also be significant to carry out a study on the procurement practices in the private sector and compare with the public sector. Some of the best practices in the private sector can be taken as benchmarks in the public sector in Kenya.

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APPENDICES

Appendix I: Research Questionnaire

Introduction

This questionnaire is designed to collect data on public procurement practices from National Social Security Fund. The information collected will be treated with the highest degree of confidentiality.

Kindly state the extent to which you agree with the following statements concerning procurement practices in your organization.

Use the scale of:

1. Strongly agree
2. Agree
3. Not sure
4. Disagree
5. Strongly disagree

NO.	PROCUREMENT PRACTICES	1	2	3	4	5
1	There is adequate segregation of duties in that different employees are responsible for purchasing and voucher approval					
2	We maintain documentation that supports the basis for a multiple award					
3	Reports are prepared for all goods and services received as well as documentation of the receipt of all purchased items					
4	Management has established continuous improvement programs with strategic suppliers					
5	Procurement process entails risk management					
6	The management of risk is relevant to all phases in the procurement cycle, and relates to both the procurement process					

	and to the nature of what is being procured.					
7	We measure and see clearly all costs involved with producing and delivering a product or service					
8	We create and maintain procurement supporting documentation to enable scrutiny of decisions taken and to demonstrate the application of the guiding procurement principles and compliance with established requirements					
9	A range of suppliers are encouraged to bid to provide goods and services to public sector agencies					
10	We provide the same information to all potential bidders					
12	Our firm maintains security and confidentiality of competitive information and documentation					
13	We maintain consistency in the treatment of, and interaction with, potential suppliers					
14	We have established guidelines that encompass the concepts of honesty, integrity, probity, diligence, fairness, trust, respect and consistency.					
15	The Governing Board approves all long-term procurement contracts before the contracts are executed					
16	Procurement contracts are awarded to the lowest responsible and responsive bidder whose bid conforms, in all material respects, to the requirements and evaluation criteria set forth in the invitation for bids					
17	Our procurement function is fully centralized					
18	The Governing Board always orders inspections to check for defects on all procured materials					