

Behavioural Practices and Procurement Performance in Uganda

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Abstract

Despite the above reforms in procurement processes in Uganda's State owned Enterprises, public procurement performance has not improved. This has consequently led to poor performance of State owned Enterprises. There have been allegations of a presence of opportunistic behaviour of procurement officers, absence of trust and mal practices like corruption and bribery by the contracting parties in the State owned Enterprises. This paper presents a study on the relationship between Behavioural practices and Procurement Performance in Uganda's State owned Enterprises.

This was a quantitative study confined to the area of behavioural practices and procurement performance of 20 State Owned Enterprises where each contributed 8 respondents making a total of 160. Data were collected, analyzed and presented using quantitative techniques.

Correlation results show that there is a significant positive relationship between behavioural practices and procurement performance ($r = .533^{**}$, $p < .01$). These results further highlight the fact that if elements of behavioural practices especially if Trust is well addressed, the institutions will realize an improvement in the procurement performance. This is because trust was found to be a very strong factor in determining behavioural practices.

Further the regression model shows that Behavioural practices can significantly predict procurement performance in SOEs (Beta= .399, Sig. =.000).

We recommend that, the behaviour of those involved in the contracting process must be checked. This can be through reference checks and selecting people with a proven record of integrity. Trust should be emphasized by both the State owned Enterprises and their respective providers in order to build a positive long-term relationship. Acts like deceit, cynicism and flattery must also be avoided at all costs.

Keywords: Public procurement, Behavioural practices, Corruption, Procurement, Procurement practices

INTRODUCTION

In Uganda, State Owned Enterprises (SOEs) are considered public entities - so they must follow the Public Procurement and Disposal Authority (PPDA) Act as far as procurement and disposal of assets is concerned. The PPDA Act was enacted in 2003 by the Government of Uganda to decentralise and streamline all public procurement and disposal activities that were formerly performed by the tender boards. These new reforms sought to improve procurement performance in terms of efficiency, effectiveness, reduce corruption and above all achieve value for money (PPDA, 2003).

Despite the above reforms, public procurement performance has not improved and this has consequently led to poor performance of SOEs (Bwino, 2008). For example it takes four (4) working days to advertise and a bidding period of thirty three (33) working days, if the open international bidding method was used. This coupled with time taken to evaluate bids, contract and communicate award decisions approximately takes not less than four months as opposed to the private entities that take an average of ten (10) days. The time spent if well compounded and quantified transcends into high transaction costs (Gratton and Ghoshal, 2005), which puts S SOEs in a vulnerable position as opposed to private entities. It must be noted that SOEs are the private arm of government that must compete with the private sector, so given such bureaucratic procurement procedures, SOEs cannot be at exhibit the same level of performance as other commercial entities.

In line with the above, the presence of opportunistic behaviour, absence of trust and mal practices like corruption and bribery by the contracting parties has greatly affected procurement performance in SOEs. It is estimated that 7% to 9% of the total contract values are paid to corrupt officials (PPDA, IGG & USAID, 2006) while 45.5% companies expect to give gifts in order to secure contracts (World Bank Enterprise Survey, 2006). The Global Integrity Survey reports that 300 Million US dollars are lost in Uganda each year due to opportunism and other procurement mal practices. Furthermore, the Uganda Auditor General's Report (2005) estimates that 20% of the value of public procurement is lost through corruption, prompted by weak public procurement regulations. There is therefore need to effectively manage the behaviour of those concerned with managing the procurement process because this plays a great role in determining the success

of the contracting process (Martin et al., 1997; Cecchini, 1992). Thus, the paper presents a study on the relationship between Behavioural practices and Procurement Performance in Uganda's SOEs.

State Owned Enterprises

There is no standard definition of a State-Owned Enterprise (SOE) or Government-Owned Corporation (GOC), although the two terms can be used interchangeably. The defining characteristics are that they have a distinct legal form and are established to operate in commercial affairs. While they may also have public policy objectives, SOEs should be differentiated from other forms of government agencies or state entities established to pursue purely non-financial objectives that have no need or goal of satisfying the shareholders with return on their investment through price increase or dividends.

Many reasons can be invoked to explain the existence of SOEs (Bozec and Breton, 2003). These include facilitating regional development and developing strategic sectors. In most cases, SOEs are created with the unique and clearly stated goal of generating profits (Ramanadham, 1991; Gray, 1984; Gordon, 1981). Actually, the nature and functions of SOEs are not very different from those of the privately-owned enterprises (POEs). As public sector organizations, SOEs are expected to manage social issues (Ouellet, 1992). Their activities are mainly directed towards citizens as the first beneficiaries, and the whole society is considered as whole.

The period before the divestiture and characteristics of the Ugandan SOEs

Like many other countries, Uganda created and owned SOEs after the colonial rule and one of the most important reasons for this was;

- The need to promote development of indigenous entrepreneurs;
- Need to maintain and control strategic sectors;
- Inability of the private sector to undertake certain complex projects among others.

In 1986, the NRM government inherited at least 146 state-owned enterprises excluding banks (Ddumba & Mugume, 2001). The Government had majority holding in 138 and minority interest in 8 enterprises. The performance of the SOEs had been poor due to the country's violent political history and depressed economic situation. Most enterprises were characterised by low capacity utilization, large operating losses, low productivity and increasing illiquidity and indebtedness. Because of this, the entire sector was glutted with a non-productive and unmotivated labour force riddled with poor management (Ddumba & Mugume, 2001).

This was because most of the SOEs which had started with optimism of success were embroiled in the changes to ensure coverage of expenditure, losses and depreciation of assets this occurred due to inflation, embezzlement and non-payment (Kibikyo, 2011).

Consequently, in 1987, the government undertook a comprehensive economic recovery programme (ERP) to improve performance of the economy. Among the interventions was the PERD which aimed at divesting and liquidating most of the SOEs in order to streamline their processes. It should be noted that some of the Public entities had ownership issues.

After the enactment of the PERD Act of 1993, and the advice from the World Bank and International Monetary Finance (IMF), Uganda decided to privatize her 156 state owned enterprises. The country made a plan to sale her state enterprises (SOEs) within a decade. One objective of the policy was to reduce the budget deficits through divestiture and also generate some revenue for the Treasury.

Behavioural practices

These are acts that are manifested in any transaction or dealing and these broadly relate to ethical issues. In this study attention is given to opportunistic behaviour and trust. "Opportunism refers to the incomplete or distorted disclosure of information, or calculated efforts to mislead, distort, disguise, obfuscate or otherwise confuse" (Williamson, 1985). Such behaviour greatly affects agreements between parties and as such, there is need to avoid opportunism (Bergen et al, 1992; Brown et al 2000). Findings by Grzeskowiach et al, (2008) reveal that opportunism is a general behavioural problem in contracting. Hunter et al, (1982) and Grzeskowiach et al, (2008) view opportunism in three distinct moral standards i.e. flattery (strategic behaviour designed to influence the other party in contract), Cynicism (violation of set laws and standards) and deceit (deliberate act or omission of facts by one party intended to create support for false belief or taking advantage of the situation).

According to Morgan and Hunt (1994), trust is existent when one party has confidence in an exchange partner's reliability and integrity. To Anderson and Narus, (1990), trust is viewed as the firms' belief that the other company will perform actions that will result in positive outcomes and not in negative outcomes for the firm. Scholars like (Morgan and Hunt, 1994; Ganesan, 1994; Kumar, 1995; Ertel, 2004; Greenberg et al, 2008) present accountability, integrity, honesty, ability, benevolence, credibility, reliability and confidentiality as key issues in trust.

According to Adobor (2005) management theorists identify trust as one critical element for performance in inter-firm alliances or strategic partnerships. Trust appears important in inter-firm alliances because alliances entail substantial risk (Das, 2005) and it aids in lowering transaction cost associated with economic exchange (Zaheer and Venkatraman, 1999), and reduces opportunism (Wathne and Heidi, 2000). Trust allows for a free exchange of useful information (Larson, 1992; Adobor, 2005).

Procurement Performance

In order for an organization to achieve its goals of satisfying its customers, it must measure its performance. Among key areas to be measured is procurement performance. But there is no best way to measure procurement performance for example Lyson (1995) states that “one of the problems that arises in respect of the procurement function, is that there is no common opinion on what should be measured”. However it is broadly accepted by scholars like (Kotter, 1978; Neely, 1999; Knudsen, 1999; Cavinato and Kauffman, 1999; Van Weele, 2000) who assert that procurement performance can be measured by using two dimensions i.e. Efficiency and effectiveness. Efficiency measures how successfully the inputs have been transformed into outputs while Effectiveness measures how successfully the system achieves its desired output (Kumar, 2005). Effective procurement practices offer high level of transparency, accountability and value for money while efficient procurement practices are those that meet the needs of customers, achieve optimum conditions and value in regard to allocation of scarce taxpayers resources, efficient use of public resources, manage risk and pose a less liability to the public (Ministry of defence handout, 2004; Mbabazi et al, 2008)

Research design

This was a quantitative study confined to the area of behavioural practices and procurement performance of State Owned Enterprises. Data were collected, analyzed and presented using quantitative techniques.

Study population and sampling

The study focused on selected Ugandan State Owned Enterprises in Kampala and Entebbe. This is because most of the key State Owned Enterprises in the country are located in Kampala and Entebbe.

The study population of this study was 20 SOEs. Each SOE was divided into 4 strata including User department, Procurement & disposal unit, Contracts committee, Contract management committee. A total of 2 respondents were purposively selected from each stratum to participate in the study. Thus each SOE contributes 8 respondents. This gave a total sample of 160.

Research Instruments and data collection

Data was collected using structured questionnaires that were administered to the respondents who were requested to fill in the various parts of questionnaires.

The researchers got an introduction letter to the SOEs. Appointments were made with the respondents to determine the appropriate times that questionnaires can be administered. Permission was also sought from the company administrators before the questionnaires are administered.

Data analysis

Editing and coding of data was done when questionnaires were collected and there after data was analysed using the Statistical Package for Social Scientists (SPSS), different tests were performed to analyse the data collected. The relationship between contracting, transaction costs, behavioural practices and procurement performance of SOEs was determined by using correlation statistics. Multiple regression analysis (which determines the predictive strength of the independent variable on the dependent variables), was used to answer objective three (to investigate the relationship between contracting, transaction Costs, behavioural practices and procurement performance of State Owned Enterprises).An Exploratory Factor Analysis method was used to extract the salient factors in the model as well as data reduction for further analysis.

FINDINGS

Age of respondent

Data were gathered to analyze the age of respondents. Table 1 shows respondents' ages.

Table 1: Age of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 25 years	18	15.0	15.8	15.8
	25-35 years	48	40.0	42.1	57.9
	36-45 years	31	25.8	27.2	85.1
	46-55 years	17	14.2	14.9	100.0
	Total	114	95.0	100.0	
Missing	System	6	5.0		
Total		120	100.0		

The results in table 1 show that majority of the respondents were between 25-35 years of age (42%) and 36-45 years (27%) while the distribution of respondents with ages below 25 years and / or between 46-55 years was about 15% and 16% respectively.

The Relationship between study variables

Pearson (r) correlation coefficients were used to examine the relationship between behavioural practices and procurement performance as seen in table 2.

Table 2: The relationship among variables

Variables	Behavioural Practices	Procurement Performance of SOEs
Behavioural Practices	1.00	.533**
Procurement Performance of SOEs	.533**	1.00

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

Results in table 2 show that there is a significant positive relationship between behavioural practices and procurement performance ($r = .533^{**}$, $p < .01$). These results further highlight the fact that if elements of behavioural practices especially if Trust is well addressed, the institutions will realize an improvement in the procurement performance. This is because trust was found to be a very strong factor in determining behavioural practices.

Regression results

Regression analysis was conducted to determine the predicting power of the independent variable (behavioural practices) on the dependent variable (procurement performance). Table 3 presents the results.

Table 3: Regression Analysis

Model		Unstandardized Coefficients	Standardized Coefficients		T	Sig.
		B	Std. Error	Beta		
	(Constant)	.872	.241		2.213	.000
	Behavioural practices	.516	.087	.399	1.221	.000

Dependent Variable: procurement performance

Results in table 3 above show that Behavioural practices can significantly predict procurement performance in SOEs (Beta= .399, Sig. =.000).

It was also established that good behavioural practices contributed positively to procurement performance of SOEs with a prediction power of about 40% change in procurement performance for every unit percentage change in behavioural practices (holding other factors constant). This implies that SOEs that emphasized good behavioural practices in their procurement systems are more likely to attain high procurement performance.

DISCUSSION OF FINDINGS

Findings revealed that behavioral practices had a positive effect on procurement performance of the SOEs. The above findings are in line with (Williamson, 1996; Das and Teng, 2001) who found that it was hard for SOEs to register good procurement performance if behavioral practices inappropriate and lacking.

From the above it can be said that if behavioral practices are not well managed, procurement performance of SOEs is likely to improve. The contracting objectives, procedures and the capabilities of those who contract on behalf of the SOEs must be critically assessed so as to avoid future negative consequences. For example, if there are no clear objectives or procedures that must be followed, it means that the procurement contract made may be costly or at worst not even take place. If an SOE does not contract with good providers due to behavioral practices within, the costs of enforcing a contract will arise. Suppliers may have a tendency of not respecting the terms and conditions especially if they believe that they are in a better bargaining position than the SOE which may later lead to litigation.

Findings from this study again show that good behavioural practices contributed positively to procurement performance of SOEs with a prediction power of about 40% change in procurement performance for every unit percentage change in behavioural practices (holding other factors constant).

Procurement in the SOEs is affected by bad procurement practices. For example, the Global Integrity Survey reported that 300 million dollars are lost in Uganda each year due to opportunism and other procurement mal practices. Trust and opportunistic behaviour according to this study were critical in determining the effectiveness and efficiency of procurement contracts. Scholars like Adobor (2005) identify trust as a critical element for performance in strategic partnerships and that trust aids in lowering transaction costs associated

with economic exchange (Zaheer and Venkatraman, 1999), it also reduces opportunism (Wathne and Heidi, 2000).

CONCLUSION AND RECOMMENDATIONS

Behavioural practices affect procurement performance. When the behaviour of those involved in the procurement activities is unethical then procurement will be affected. Unethical behaviour affects effective execution of the procurement contracts. Trust is critical in procurement. When there is no trust either party in the contract either party will not release relevant information to aid in effective execution of contracts. Also the parties will be suspicious of each other if there is no trust between them. Opportunistic behaviour affects procurement performance, acts such as flattery, cynicism and deceit will manifest if there is opportunism among the parties. It can be concluded that absence of trust and evidence of opportunism will increase transaction costs and negatively affect procurement performance.

The behaviour of those involved in the contracting process must be “checked”. This can be through reference checks and selecting people with a proven record of integrity. Trust should be emphasized by both the SOEs and their respective providers in order to build a positive long-term relationship and opportunistic behaviour by both the SOE and the providers should be avoided. Acts like deceit, cynicism and flattery must also be avoided at all costs.

Procurement performance measures should be developed by the SOEs. Performance measures help SOEs to align their procurement activities to set measures. The set performance measures should aim at achieving efficiency and effectiveness in terms of reduced costs, acquisition of better products and value for money among others.

Therefore, for better procurement performance to be achieved in terms of effectiveness and efficiency, there is a need to firstly come up with a well-formulated and thought contract (determine the objectives, have procedures to follow and guide those involved in the process and those contract on behalf of the SOE should have the ability to contract), secondly managing transaction costs and avoiding unethical behaviour in all procurement-related activities. Procurement performance measures should also be established to work as a guide.

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