

EFFECTS OF INSPECTION OF PURCHASES ON PROCUREMENT PERFORMANCE IN LEVEL FOUR PUBLIC HOSPITALS IN NYERI COUNTY

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ABSTRACT

Purpose: The purpose of the study was to establish the effects of inspection of purchases on procurement performance in level four public hospitals in Nyeri County.

Methodology: The study adopted descriptive research design. The target population of this study were the employees of the 4 level 4's public hospitals in Nyeri County. Since the target population embraced a number of distinct categories, census approach was suitable. The accessible population of 47 employees was used to obtain the data required Data was collected using questionnaires and analyzed using statistical package of social sciences (SPSS) version 21 as a tool of analysis. An analysis was done involving each independent variable separately to test their individual influence on the dependent variable. The ANOVA F-statistic was used to test the research questions that the regression coefficients of all the independent variables are jointly equal to zero.

Results: The study findings revealed that the quantity inspection of purchases, verification of terms of contract, verification of purchase order and quality inspection of purchases affected procurement performance. Further, most of the hospitals did not have risk analysis and evaluation management strategies in place. The study also concluded that effective inspection had a significant impact on quality products and entire hospital processes. The study concluded that there were quite a huge number of customer complaints in public hospitals which could be attributed to low performance in the procurement department.

Policy recommendation: The study recommended that for public hospitals to realize full benefits of inspection of purchases, there must be control systems put in place to validate the procurement process. The study also recommended that public hospitals should come up with proper monitoring of procurement personnel. This would ensure that the procurement personnel deliver the procurement duties entrusted to them.

Keywords: *quantity inspection of purchases, verification of terms of contract, verification of purchase order, quality inspection, public hospitals.*

1.0 INTRODUCTION

According to Lysons (2012), the goods receipt process always starts with an organization possessing an acquisition. In the purchase order, there will be a request for a goods receipt. So when any goods are delivered to a business the person who receives the goods will look for any signs of damage. If the packing looks fine then the recipients will forward the goods to the section or department which ordered the goods in the first place. Once the section or department which placed the order received the materials, and if they are contented that the goods are indeed what was ordered and that they are in good condition, then by use of e-procurement they will raise a goods receipt against the purchase order. The commercial department can then pay an invoice because they will have a record that the goods have indeed been received.

While the purchases receipt process is simply a means of corresponding the goods that a institution obtains with the purchase order and checking that the goods are right for purpose meant for and appropriate in the sense that they are in good conditions, the process can be a bit intimidating as it's one of the key processes of any enterprise and monitors the flow of items (and in some part cost) into an institution. It can often be one of the root causes of problems within organizations and can cause inaccuracies of calculating supplier delivery schedule adherence so for a small process it's important to get it right (Ahire, 2016).

According to Odieki & Oteki (2015) the quality inspection of purchases occurs so that a organization can confirm that the goods are within certain prescribed quality standards in order for the product to be useful. The quality inspection of purchases can also take place at the vendor's facility. Globally some companies prefer to perform the inspection of purchases before the items are transported to their manufacturing plant. However, the inspection of purchases can incorporate more than inspection of purchases of the product, but also inspection of purchases of the production facility, equipment, documentation, production processes, and storage facilities.

According to Mwale & Nyamwange (2014), finished goods can be distributed directly to the customer or kept in the warehouse before they are sold. If you store some products for a period they can change the product's features. Inspection of purchases in the warehouse can ensure that the finished goods are still able to be shipped to customers. According to Onsongo (2015), an organization that deploys effective supplier performance management techniques ensures that a supplier meets the expectations as defined in the purchase order and do not go against market norms. It includes the management of actual supplier performance, identification of performance gaps and agreement of actions to achieve desired performance levels. Supplier performance management not only ensures that benefits identified in the contracting stage are delivered, but also that value delivery continues for the life of the contract.

1.1 Statement of the Problem

The day to day business operating environment is getting more challenging and therefore companies must to strive improve their operations to stay competitive and retain their customers (Kabaj, 2013). Managers need to embrace all those business practices that will improve their competitive advantage and enhance their performance (Moharity, 2011). According to Gituro & Bolo (2013), most Organizations at about 75% in the world have not yet adopted effective inventory inspection of purchases in purchasing and supply hence they are facing the challenge of stock out cost and poor output. The inspection of purchases of quality-relevant features during the delivery process considerably reduces this risk (Trepte, 2013). If the delivered product does

not meet the required specifications, this immediately activates a supplier complaint. Also, in order to ensure that your customers receive the required quality, the same methods and techniques used in the incoming goods inspection of purchases can be applied for the outgoing inspection of purchases (Hakansson, 2012). By performing these inspections of purchases only products that match the required customer specifications will be received. The inspection of purchases and measurement process helps an institution to have required materials at the right time.

Report prepared by PPOA indicates that procurement inefficiencies in the public sector in Kenya are attributed to supplier's performance issues up to 30%. Public procurement is still marred by poor goods and services, shoddy work regardless that the developing countries governments, like Kenya and development partners like World Bank to put their effort improve the performance of the procurement function, (Ahmad, 2011). Lack of implementing or delaying of implementation of recommended performance standards has resulted in uncoordinated business activities unnecessarily high operation costs, failure to attract and retain experienced and skilled personnel in the procurement positions, thus affecting the function's performance (Kumar, 2012).

Several studies have been undertaken on inspection of purchases and procurement performance. Among the studies, Njuki (2013) studied how important the inspection of purchases is in the management of purchasing and established that purchasing management has a significant bearing on the profitability and performance of organizations and their overall competitiveness. The general public has raised concerns about procurement processes of the public institutions more so public hospitals have a lot of grim areas in the procurement operations ranging from delivery of inferior materials, suppliers failure to meet delivery dates and even at times failing to furnish the orders completely decreasing efficiency to as low as 5% (OECD, 2007). In ideal situations, goods inspection of purchases is expected to positively influence procurement performance in public sectors which is not the case. However, it perplexing to note that the relation of inspection of purchases and procurement performance has brought mixed reactions on whether it has a significant relationship or not. According to Schiele (2013), today goods inspection of purchases inefficiencies is at its highest point at 93% leading to poor organization performance.

However, despite there being numerous studies done in the developed countries, limited research has been done on the effects of inspection of purchases on procurement performance in level four public hospitals. Public hospitals in Kenya have several incoming goods such as medical supplies, medical equipment, food stuff, beddings and furniture among others. If these incoming goods are not inspected, the services offered by these hospitals will be substandard and unsatisfactory and may lead to idle time and some deaths. At these public hospitals the inspection of purchases of incoming goods is hampered by lack of quality inspection of purchases, quantity inspection of purchases, verification of purchase order and verification of terms of contract. Therefore, this research sought to establish the effects of inspection of purchases on procurement performance in level four public hospitals in Nyeri County.

1.2 Research Objectives

- i) To establish the effects of quality inspection of purchases on procurement performance in level four public hospitals in Nyeri County.
- ii) To find out the effects of quantity inspection of purchases on procurement performance in level four public hospitals in Nyeri County.

iii) To establish the effects of verification of purchase order on procurement performance in level four public hospitals in Nyeri County.

To find out the effects of verification of terms of contract on procurement performance in level four public hospitals in Nyeri County.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 System Theory

System theory is as a result of mingling other disciplines about every system in nature, in society and in many scientific fields as well as a structure with which to investigate phenomena from a holistic approach (Capra, 1997). System thinking arises from the shift in attention from the part to the whole (Jackson, 2003), considering the observed reality as an incorporated and interacting unicum of phenomena where the individual properties of the single parts become indistinct. In contrast, the interactions between the component parts themselves and the output they produce through their collaboration become much more significant, with the result that system elements are logically connected (Luhmann, 1990) towards a common objective (Golinelli, 2009).

This approach argues that it is not possible to totally understand a occurrence simply by breaking it up into uncomplicated portions and then restructuring it. Instead, what is required is application of a global vision to underline its functioning. Although a study can start from the analysis of the components of a phenomenon, in order to fully understand the phenomenon in its wholeness one has to observe it also from the higher level of a holistic perspective (Bertalanffy, 2013). System theory encompasses a wide field of research with different conceptualizations and areas of focus (Senge, 2010). Specifically, within this study, the theory has been adopted in observing SCM as part of the broader organization with a common goal of enhanced performance derived from synergies across functional areas. This view involves collaboration across the organization for quality management, enforcement of procurement management rules, enforcement of SCM policies and adoption of SCM strategies that are aligned to the organization strategies. Further is to determine how the head of SCM's placement in top management impacts on the adoption of SCM strategies, policies and practices that are beneficial to the organization as a whole through the wider spectrum a boardroom seat provides. System theory also analyses the relationship between organizations and their environment (Aldrich, 2009).

Quality planning is what organizations should do up-front as one of the initial stages of production; it is ordinary for firms to invest in quality control procedures. In this aspect of the Quality Cycle, activities include examination to establish degree of defectiveness and deviations from quality principles. Actions can then focus on another part of the sequence, quality improvement, and make it part and parcel of daily task for the work groups (Juran and Frank, 2011). Quality plans must be incorporated into every aspect of the organization's work, such as strategic plans; delivery to the customer and product, service and process designs; operations. In this study the theory is used to place the organization as part of a larger supply chain with shared objectives of quality management as well as lower costs of goods and services through procurement management, relevant SCM strategies as well as policies with regard to supplier collaboration. This theory explicitly explains the relationship between quality control planning and procurement performance in state corporations.

2.1.2 Resource Based View Theory

The Resource Based View (RBV) normally uses firms' internal features to explain firms' heterogeneity in strategic plans and performance. A institution is an organized, distinctive set of factors known as capitals and competencies, and RBV theory mentions two related sources of advantages: resources and competences (Luo & Tung, 2007; Rui & Yip, 2008). Resources are normally firm's accrued belongings, including anything the organization can use to create, produce, and/or offer its products to a marketplace. All organization resources are eligible for state protection; can operate independently of firm members (Camiso'n, 2005); and intercede as factors of production to convert raw materials into finished products. Resources can be tangible assets (e.g. physical and financial resources) and intangible resources (e.g. patents, copyrights, designs, licenses, registered trademarks, corporate names and logos). The accelerated internationalization approach emphasizes organizational learning and the entrepreneurship of top management/founders as important drivers of firms' international behavior (Andersson, 2000).

In addition to learning, Mathews (2006) also argued that late movers from emerging economies establish themselves through the strategy of linkage and leverage. The role of networks in firms' procurement performance underlies Mathews's (2002) linkage, leverage, and learning framework, which argues that it is easier for emerging firms to create new capabilities through learning within established networks rather than building them via the sequential process. This perspective argues that state corporations can overcome their late-mover disadvantage by using quality control system as a springboard to actively participate in procurement and acquire strategic assets from mature state corporations (Luo & Tung, 2007; Rui & Yip, 2008).

Cyert & March, (2003); March & Simon, (2008) postulated that the theory of Upper-echelons has its roots in the behavioral theory of the firm. The decisions made by the managers contain a behavioral component which in some way reflects their own ideologies. The model of upper echelons puts into perspective the effect of these idiosyncrasies and was treated in a much similar way by Whittington (2008) who further noted that the effects of "built-in preferences and information processing system". In that way upper-echelons theory encompasses a theory of action determinism. The RBV theory depicts a direct and solid relationship between QC system and procurement performance to efficiency of operations in any field and procurement not an exemption whereby it appreciates components such as commitment, level of involvement in information requirements analysis; and the level of involvement in decision making. The RBV theory is important in guiding organizations to initiate change and adopt quality control system in procurement in the shift towards world class procurement. This theory explicitly explains the influence of quality control policies on procurement performance in public hospitals in Kenya.

2.1.3 Institutional Theory

Luhmann (2010) stated that institutional theory is the traditional approach that is used to examine elements of public procurement. Eyaa *et. al.*, (2011) further noted that there is no single universally agreed definition of institution or institutional theory. Scott (2004) categorically identifies three pillars of institutions as regulatory, normative and cultural cognitive. The regulatory pillar emphasizes use of rules, laws and sanctions as enforcement mechanism, with expedience as a basis for compliance. In Kenya, public procurement is heavily regulated unlike any other profession and in the recent past has fascinated a lot of concern from the general public

who are the major stakeholders of the state economy. PPDA (2005), Public Procurement Disposal and Regulation of 2006 and guidelines which are being issued by Public Procurement and Oversight Authority (PPOA) and Treasury, these are some of the guidelines that forms the framework of procurement system in Kenya. Institutional theory dictates that there should be compliance with Public procurement regulations and policies to ensure there is value for money and efficiency procurement process (Andrew, 2008).

Jones & George (2009) reiterated that procurement is control by a comprehensive system of formal rules and standard operating procedures (SOPs) that shapes and regulates the behavior of divisions, functions and individuals. SOPs and rules allow employees to perform activities efficiently and effectively. Accordingly, quality means best in purchasing as well as best for the customers and the selling price. The word control in quality represents a management tool with 4 steps namely: planning quality principles, assessing conformance to the set standards, acting when standards are not met and planning for improvements in the standards in future. Quality control entails the following steps: clear definition of quality, knowledge of the expected performance or targets, evaluation of the actual operating performance, comparison of the performance to goals and action of the difference (Scott, 2004).

This is achieved by a break through improvement in performance; when a new innovation or a completely fresh idea is brought to improve the current performance is achieved, and then quality control measures are put in place to ensure there is sustainability in efficiency. The need about having the necessary institutional frameworks and procedures to engage quality control system in procurement process should influence intent to purchase as well as directly influence purchasing behavior itself as outlined in the institutional theory. This theory therefore explains the relationship between quality control policies and procurement performance of state corporations.

2.1.4 Transaction Cost Economics (TCE) Theory

The theory tries to explain the existence of firms and how boundaries of their operations are define within the business environment. Williamson (2006) applied the theory to address public utility services and the importance of transaction costs in the public sector when analyzing bidding process. Transaction cost theory is a useful tool in unearthing sources of hindrances to firms intending to participate in public procurement. He further noted such costs include among other things are cost incurred in obtaining and ascertaining information about the quantity and quality of goods and services. Patrick, (2010) further highlighted public utility services using TCE to help determine the efficiency of governance structures in the private sphere.

Mumo *et. al.*, (2013) noted that ten years after the e-government directorate was set to manage ICT in the government, most ordinary Kenya citizens are still using the manual system to access government services making it difficult for the private sector to engage profitably with the government. This particular platform has made the government entities prone to exploitation resulting to poor service delivery and dismal performance in procurement system. Government officials and elected leaders have constantly insisted that public entities should automate their procurement processes and must utilize ICT in order to enhance the procurement processes in the public sector. The key elements in implementing an organization's wide strategic quality planning includes identifying target customers and also their expectations, identifying ideal

quality objectives, developing dimensions of quality and planning on how to achieve those goals (Patrick, 2010).

These public entities are faced with close-fitting tactics and a retiring staff, today's government related organizations are operating with a philosophy 'do more with less'. Community establishments are expected to provide superior service to their citizens effectively, all the while working under constant resource restraints by approving ICT (Hagén & Zeed, 2005). Integration of procurement functions with the organizational aspects in the public sector is costly due to organizational reorganization and such costs can be optimized with the integration of effective quality control system for effective reporting. Kishor *et. al.*, (2006) contend that while benefits and external pressure motivate adoption, motivated organizations must have capabilities like financial resources of IT sophistication before the technology can be effectively adopted. From the pillars of transaction cost economics, reporting of transaction costs, organizational incentives and enforcement under the quality control system are identified as antecedents of compliance to procurement rules. This theory thus explains the effect of quality control reporting on procurement performance in public hospitals in Kenya.

3.0 METHODOLOGY

The study adopted a descriptive research design. The target population of this study were the employees of the 4 level 4's public hospitals in Nyeri County. Since the target population embraced a number of distinct categories, census approach was suitable. The accessible population of 47 employees was used to obtain the data required. Data was collected using questionnaires and analyzed using statistical package of social sciences (SPSS) version 21 as a tool of analysis. An analysis was done involving each independent variable separately to test their individual influence on the dependent variable. The ANOVA F-statistic was used to test the research questions that the regressor coefficients of all the independent variables are jointly equal to zero.

4.0 RESULTS FINDINGS

4.1 Regression analysis

A multivariate regression model was applied to determine the relative importance of each of the four variables affecting performance.

Model Summary

The results as shown in the table 4.9 indicates that the coefficient of regression, $R = 0.803$ shows a good strength of the relationships between independent variables and the dependent variable. The coefficient of determination $R^2 = 0.644$ shows the predictive power of the model and in this case 64.4% of variations in the procurement management processes is explained by the independent variables. The adjusted coefficient of determination R^2 shows the predictive power when adjusted for degrees of freedom and sample size. In this case, after the adjustments 61.8% of the variations in the procurement performance is explained by the independent variables.

Table 4.1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.803(a)	.644	.618	.78381

Predictors: (Constant), quantity inspection of purchases, contract administration, verification of purchase order, quality inspection of purchases.

Dependent Variable: Procurement performance

ANOVA

ANOVA findings as explained by the P-Value of 0.000 which is less than 0.05 (significance level of 5%) confirms the existence of correlation between the independent and dependent variables. The model shows the model fitness i.e. how well the variables fit the regression model. From the results, the F ratio of 24.815 and the significance of 0.000 shows that there was not much difference in means between dependent and independent variables. The sum of squares gives the model fit and hence the variables fit the regression model.

Table 4.2 Anova

Model	Sum of Squares	D.F	Mean Square	F	Sig.
Regression	61.144	3	15.286	24.882	.000(a)
Residual	33.789	41	.614		
Total	94.933	44			

Predictors: (Constant), quantity inspection of purchases, contract administration, verification of purchase order, quality inspection of purchases.

Regression Coefficients

The regression model was as follows: $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + e$

Using the values of the coefficients (β) from the regression coefficient table 4.8 the established multiple linear regression model takes the form of;

$$Y = 5.056 + 0.161X_1 + 0.222X_2 + 0.178X_3 + 0.207X_4$$

Where;

Constant = 5.056; when value of the independent variables are zero, the procurement performance would take the value 5.056.

$X_1 = 0.161$; one unit increase in quality inspection of purchases results in 0.161 units in the procurement performance

$X_2 = 0.222$; one unit increase in quantity inspection of purchases results in 0.422 units increase in the procurement performance

$X_3 = 0.178$; one unit increase in verification of purchase order results in 0.178 units increase in the procurement performance

$X_4 = 0.207$; one unit increase in contract administration in 0.207 units increase in the procurement management process.

Ranking the predictors variables in terms of their individual influence on the procurement management processes, the table 4.20 shows the relative importance of each the predictions i.e.

quantity inspection of purchases (0.222), contract administration (0.207), verification of purchase order (0.178) and finally quality inspection of purchases (0.161) respectively.

Table 4.3: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.056	3.061		1.652	.104
	Inspection of purchases quantity inspection of purchases verification of purchase order	.161	.073	-.204	-2.221	.030
		.222	.079	.623	5.344	.000
		.178	.058	.375	3.063	.003
	Contract administration	.207	.039	.472	5.328	.000

Dependent Variable: Procurement Performance

4.4 Discussion of Findings

The findings from the study indicated inspection of purchases affected procurement performance since it also covered all matters that individually or collectively influenced the performance of the level four public hospitals. Quality inspection was missing yet this would ensure that all the products were of the highest quality required for their intended use which forms an integral part of all key activities in procurement. The study concurred with Colley (2005) who amplified that approach of quality inspection should be within management control and its positive achievement is an extremely effective way of enhancing high results within the procurement performance. An indication that to achieve high performance, the process of procurement and management of material resources must be carried out having quality inspection in mind thereby providing the products that are required, with the required quality.

The findings indicated that quantity inspection of purchases also affected procurement performance since through quantity inspection of purchases in the hospitals they would be in a position to check products conform to the purchase order requirements and other relevant documents (which: correct model number, description, size, type, color, ratings, etc.), the quantity ordered against the quantity delivered, there is no damage or breakage, the unit of measurement count is correct (e.g. if the unit of measurement on the purchase order is correct and this affects procurement performance. The study concurred with findings by Jones and George (2009) due to the strong impact of the quantity inspection of material resources on compliance with the product requirements, controlling and establishing appropriate monitoring and measurement methods would have an important contribution to further improve the efficiency and performance of the hospitals in this case.

5.1 Summary of Findings

5.1.1 Effects of quality inspection of purchases on procurement performance in level four public hospitals in Nyeri County

The study sought to establish effects of quality inspection of purchases on procurement performance in level four public hospitals in Nyeri County. Generally, quality inspection of purchases was an important method the procurement function could use for planning records of materials required for production. However, this was not the case in these health facilities. The procurement personnel failed to keep a balance between quantities of inventory purchased and stored with production requirement so that overstocking and understocking would not occur. The cost of ordering and carrying inventories could be minimized and maintained within reasonable limits so that the facilities could minimize production cost and maximise profit as echoed by Rozemeijer, 2007.

5.2.2 Effects of quantity inspection of purchases on procurement performance in level four public hospitals in Nyeri County.

The study sought to establish the effects of quantity inspection of purchases on procurement performance in level four public hospitals in Nyeri County. The findings from the study indicated that the hospitals had not put in place compliance measures to ensure that quantity inspection was done. The management failed to set high standards of integrity and organizational procedures to prevent fraud and corruption like data security. The study found that lack of proper quantity inspection negatively affected procurement performance thus hindering openness and accountability and thereby increasing the cost of managing risks.

Effects of verification of purchase order on procurement performance in level four public hospitals in Nyeri County.

The study found that the facilities did not inspect color of purchase when the purchases were being delivered. The study also found that the procurement department did not inspect purchases in the store/warehouse, purchases that were in use, purchases before delivery. The measures proposed for use in inspection included meters, centimeters and millimeters for verification against the purchase order.

Effects of verification of terms of contract on procurement performance in level four public hospitals

The study sought to establish the influence of contract on procurement performance. The study found that internal control mechanisms were not formed before payments of contracts and delays in payments to suppliers led to delayed service delivery. The study also found that organization lacked proper controls in management of contracts and progress reports were not filed with management.

5.3 Conclusion

The study concluded that effective inspection had a significant impact on quality products and entire hospital processes. Quality inspection could promote or destroy a company in terms of providing products and services that satisfied regulatory requirements and exceeded customers' expectations. Also, poor or wrong materials could fail miserably to meet the set targets. A poor or wrong quality product could shut down hospital operations. In today's hospital operations, hospitals placed more attention in meeting their numerous clients expectations and therefore the buying of quality goods, parts, components and services they consumed which were mostly outsourced was not done well. This further increased the relevance of why quality inspection in the hospitals should be done well.

The study concluded that in public hospitals there was low monitoring of procurement officers by their managers and also there was low commitment to their jobs. This affected the procurement function of the hospitals hence relatively poor procurement performance. This could also be attributed to lack of procurement planning by the procurement department.

The study concluded that there were quite a huge number of customer complaints in public hospitals which could be attributed to low performance in the procurement department.

5.4 Recommendations

The study recommended that for public hospitals to realize full benefits of inspection of purchases, there must be control systems put in place to validate the procurement process. Thus, management at the highest level of the organization must ensure the design and implementation of effective processes of procurement and management of material resources in order to ensure compliance of materials supplied with specified purchase requirements. It was paramount for them to identify, evaluate and select sources of supply and develop mutually beneficial relationships with suppliers and assess their capability to deliver products that comply with the requirements of the organization.

The study also recommended that the public hospitals should come up with proper monitoring of procurement personnel. This would ensure that the procurement personnel deliver the procurement duties entrusted to them.

5.5 Recommendations for Further Studies

The study recommends that further studies should be carried out on inspection of purchases in other sectors of the economy. Further research can be undertaken on inspection of purchases in private owned firms in Kenya.

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