

EFFECTS OF PUBLIC PROCUREMENT POLICIES ON ORGANIZATIONAL PERFORMANCE: A CASE OF WATER SERVICES REGULATORY BOARD**Nyaboke Joyce Moturi**

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ABSTRACT

Water governance has been identified as a key issue in water resources management and in the processes of water supply service delivery. This is in recognition of the fact that, several trends and factors are currently increasing the likelihood of a serious crisis in Kenya over the medium and long-term; one of which is the lack of accountability and transparency which exists at some levels within the water sector, leading to corruption. This study sought to investigate the effects of public procurement policies on organizational performance by focusing on WASREB. The objectives of this study were to establish the effects of public procurement policies on transparency and efficiency in service delivery of WASREB. This study used a case study design. The study population was 41 staff of WASREB. Since the study population was small, a survey design was used and the whole population was used in the study. Out of the study population of 41 respondents, 40 responses were obtained which represent a 97.57% response rate. In collecting data, the study used semi structured questionnaires. The questionnaire was administered using a drop and pick later method to the sampled respondents. The quantitative data in this research was analyzed by use of descriptive and inferential statistics using statistical package for social sciences (SPSS). Descriptive statistics such as mean, frequency, standard deviation and percentages were used to profile sample characteristics and major patterns

emerging from the data. Data was then presented in tables and charts. The study also used correlation analysis to establish the relationship between the dependent variable and independent variables. This study established that public procurement policy influences integrity most followed by fairness, accountability and professionalism in WASREB to a great extent. The study further established that public procurement policy maximizes level of service provision to a great extent. The study therefore recommends that the existing policies should be reviewed or strengthened so as to effectively govern the water sector procurement activities and processes.

Key Words: *Public Procurement Policy, Transparency, Efficiency*

Introduction

A procurement policy is simply the rules and regulations that are set in place to govern the process of acquiring goods and services needed by an organization to function efficiently. The exact process seeks to minimize expenses associated with the purchase of those goods and services by using such strategies as volume purchasing; the establishment of a set roster of vendors, and establishing reorder protocols that help to keep inventories low without jeopardizing the function of the operation (Rogers et al., 2007).

In the mid-1980s, the need to reform public procurement in the East African countries became urgent, as there was growing scrutiny and pressure from within and outside to reform the procurement process. The domestic push for reform came mainly from domestic procurement stakeholders. The government's business operations or public procurement affect different elements of society: the procurement entities, the business community, professional associations and the general public. In the east countries, these stakeholders generally expressed dissatisfaction with the public procurement system. The stakeholders complained of misallocation of resources, inadequate infrastructure, inefficient services, high taxes, growing indebtedness and high risks. These concerns were clearly related to the manner and effectiveness of the public procurement process. In reacting to these concerns, the governments recognized the need for reviewing the public procurement process and for being more accountable to the various stakeholders (Anderson & William, 2009).

Study Rationale

In the past decades, the public procurement system in Kenya has undergone significant developments. The introduction of the Public Procurement and Disposal Act (PPDA) of 2005 and the Procurement Regulations of 2006 introduced new standards and procedures for efficient public procurement and disposal of unserviceable, obsolete or surplus stores and assets. The PP&D Act, 2005 dictates that while the evaluation process is ongoing, tender documents and information should not be given to bidders before the evaluation is concluded and communicated both to the winners and the losers at the same time. The Public Procurement Oversight Authority (PPOA) was created to initiate procurement policy in Kenya, ensure compliance with the Public Procurement and Disposal Act and enhance the capacity of stakeholders in the public procurement process (PPOA, 2013).

According to WASREB Impact Report (2008), water regulation is a fairly new concept in the water sector and hence there is a tendency of water sector players to resist or evade it. Many of the institutions established by water sector reforms are still young. The weak financial situation of Water Service Providers threatens the growth of the sector. The land tenure system as it exists in Kenya has not been favorable to development of water supply infrastructure. This tends to pose unique challenges in nurturing the growth of water services provision, service delivery and the performance of WASREB.

There is limited research in the area of procurement policies and in particular with respect to its implications on performance. Rwoti (2005) conducted a study on procurement performance measurement systems a survey of large manufacturing companies in Nairobi, Obiero (2008) did a study on the challenges in the implementation of the Public Procurement & Disposal Act 2005 in the Ministry of Higher Education, Science and Technology in Kenya, while Kiburi (2008) conducted a study on the factors influencing the implementation of e-procurement among firms listed on the Nairobi Stock Exchange. This study therefore sought to establish the effects of public procurement policies on organizational performance with specific interest in WASREB.

Objectives of the study

The general objective of this study was to investigate the effects of public procurement policies on the performance of Water Services Regulatory Board of Kenya. The specific objectives of this study were; to determine the effects of public procurement policies on transparency at WASREB; and to ascertain the effects of public procurement policies on the efficiency in service delivery at WASREB.

Theoretical Review

This study focused on three theories: utilitarian theory, supply theories and ethic-based theories. Utilitarianism is a normative ethical theory that places the locus of right and wrong solely on the outcomes (consequences) of choosing one action/policy over other actions/policies (Davis, 2002). As such, it moves beyond the scope of one's own interests and takes into account the interests of others. In normative ethics, a tradition stemming from the late 18th- and 19th-century English philosophers and economists Jeremy Bentham and John Stuart Mill that an action is right if it tends to promote happiness and wrong if it tends to produce the reverse of happiness—not.

On the other hand, supply-side theorists put the onus of combating corruption on supplier firms. As per Moody (2001), firms pay bribes by their own volition and primarily for three reasons: to counterbalance poor quality or high pricing, to create a market for redundant goods, or to stay in competition. Contrary to utilitarian theories, ethics-based theories advocate self regulation by the agencies involved in procurement processes. Ackermann (2002) argues that multinational businesses have two types of obligations to refrain from corrupt practices.

Empirical Review

Arrowsmith (2003), Knight et al., (2003) and Bolton (2006) portray public procurement as a tool, mechanism, instrument, or lever for promoting what they label as “policies” such as industrial and economic development and assistance to historically disadvantaged groups. From the systems model’s perspective, however, such policies could more precisely be labeled desired results (either outputs or impacts), which governments attempt to achieve through specific procurement policies. Knight et al., (2003) provide useful case descriptions and make brief

mention of supply policy, but again, their attention is on supply policy as a lever for government reform. That is, they emphasize the desired result (reform) rather than the specifics of supply policy. Others (e.g., Schooner & Whiteman, 2000) use “policies” when referring to principles such as transparency, probity, competition, and value for money. Again, the systems perspective would classify these principles as desired results (outputs or impacts) to be achieved through procurement policies. Such treatment of public procurement deflects attention from its policy aspect that determines the extent to which it contributes to desired outcomes. Consequently, we find that very little attention has been devoted to the study of public procurement policy.

To the extent that the public procurement literature does address policy, it seems to center either on structural policies or on allocative policies, but not both. The lack of attention to both types is notable, since achievement of the principles and other outcomes mentioned above are clearly functions both of structural and of allocative policies.

Examples of discussions that focus on structural policies include those in the areas of domestic sourcing (Arrowsmith, 2003), use of purchase cards (Schooner & Whiteman, 2000), dual-sourcing, green procurement, e-procurement, and several others (Knight et al., 2003). Perhaps, however, like last century’s policy scientists, some public procurement scholars and practitioners prefer to take an instrumentalist view of the field in order to insulate it from any association with potentially undesirable connotations of “politics.” Regarding allocative policies, several works detail the circumstances of specific procurement programs and decisions (Stevenson, 2001). Many of these have the character of “exposés” of problem procurements rather than of scholarly policy studies. The emphasis in these works is often on how less-than-rational political factors influenced major allocative policy-making. To a large extent, these authors neglect the vast array of structural policies that serve to control and guide to successful conclusions of the great majority of procurement actions. By focusing on the few “bad apples,” they fail to consider the positive effects of structural policies on the rest of the bunch.

The contracts awarded in support of Hurricanes Katrina and Rita relief efforts have been criticized by both the media and government oversight organizations (Knight et al., 2003). Although some of the contracts in response to these natural disasters were awarded in minimal time, these contracts resulted in less than desirable outcomes.

Globally, Erik & Vennström (2008) conducted a study on the effects of Procurement on Project Performance: A Survey of Swedish Construction Clients and Francis et al., (2012) did a study on impacts of facility service procurement methods on perceived performance of hospital engineering services. Locally, Kariuki (2012) did a study on public procurement policy and its impact on teaching and learning in secondary schools in Thika West District; Kipyego (2012) conducted a study on the factors affecting implementation of electronic procurement system in the public sector: a case of National Aids Control Council; Rwoti (2005) conducted a study on procurement performance measurement systems a survey of large manufacturing companies in Nairobi; Kiburi (2008) conducted a study on the factors influencing the implementation of e-procurement among firms listed on the Nairobi Stock Exchange and Obiero (2008) did a study on the challenges in the implementation of the Public Procurement & Disposal Act 2005 in the Ministry of Higher Education, Science and Technology. However none of these studies focused on the effects of public procurement policies on organizational performance, a research gap that this study is motivated to fill.

Public procurement policies and Transparency

Transparency could be considered a public good that bears an immediate cost for both government and bidders (Davis, 2002). A balance must be found between transparency and its contribution to corruption control with other considerations such as efficiency. In practice countries have adapted the level of transparency and openness of the procurement procedure according to a number of factors, including the sensitivity of the information and the specificity and value of the public procurement (Wittig, 2002; Dunoff, 2009). There are some restrictions on the information governments make available to protect commercially-sensitive information for bidders (e.g. content of competitive bids such as commercial secrets, individual prices, etc.); and security-sensitive information for the State (e.g. defence, national security) that could harm interests of the bidders or of the State (Anderson & William, 2009; Dunoff, 2009).

In the pre-bidding, in a third of countries potential bidders and other stakeholders, in particular end-users have an opportunity to be associated in the drafting of specifications for the object to be procured (Stevenson, 2001). Governments consult stakeholders on the specifications of

procurement items prior to the bid notice in order to engage in a dialogue with the private sector and encourage innovation, especially for complex contracts (e.g. technical issues, difficulty in estimating prices, etc.). This may take the form of an invitation to companies to submit suggestions on line, surveys among bidders or a market study. A concern is to ensure that the process for integrating their views is not biased to avoid specifications being targeted at one company (Schooner & Whiteman, 2000). Countries indicated the necessity to have a sufficiently large number of participants to represent the views of the industry, as well as clear criteria to select them to avoid potential conflict-of-interest situations (Eisenhardt, 2003). For instance, in Belgium, a pre-information notice may be used to invite all interested bidders to participate in the preparation of the market study and then the results of this consultation are reviewed in light of the initial market overview prepared by the procuring authority (Schapper, 2000). In Germany, precautionary measures include a formal commitment by stakeholders not to commit misconduct and corruption, its exclusion from follow-up contracts and its potential liability for prosecution in case of breach (Francis et al., 2012).

Public procurement policies and efficiency in service delivery

Effective service delivery is touted as one of the key strategies for the reduction of poverty and associated problems (Jain, 2007). In Kenya, the delivery of public services has not been entirely successful or effective. This is manifested by the poor road network, incessant water unavailability, inadequate health facilities and personnel as well as falling education standards (Lambsdorff, 2007; Mauro, 2003). The introduction of the rapid results initiative (RRI) in the Kenya public service in 2003 was expected to contribute to improved performance in service delivery (Krueger, 2001). The vehicle and strategies for meeting the objectives of the RRI included the development of frameworks for rapid results approach, performance contracting, citizen service delivery charters, transformative leadership, values and ethics as well as institutional capacity building (Mauro, 2003).

Good public management and administration, with emphasis on accountability and responsiveness to customer needs; against the backdrop of serious accountability scandals, has been seen as an aspect of good governance by donor agencies supporting reforms in developing

countries (McCrudden, 2007; Artley & Stroh, (2001). Accountability in the conduct of public affairs has been a major problem in a number of African countries and highly centralized forms of governance have been blamed for the generation of administrative pathologies. But these administrative pathologies can as well be within decentralized systems (Moody, 2001). That is why; mechanisms of ensuring accountability are necessary within decentralized governance systems (Moody, 2001). An important element of the promise of decentralization is the ability to tailor local public sector policy and service delivery to the needs of local populations, while at the same time providing incentives for an effective, efficient and locally accountable public sector (Anderson, Robert & Kovacic, 2009).

Nichols (2002) argues that procurement policy is one of the primary functions of procurement with a potential to contribute to the success of government operations and improved service delivery. It is a function that sets in motion the entire acquisition/procurement process of acquiring services in governments (Lambsdorff, 2007).

Schooner & Whiteman, (2000) assert that the contribution of procurement policy in facilitating an efficient and effective service delivery in public sector organizations is generally undisputed in both developed and developing countries. Its contribution can be at both central and local government levels of public sector management (Rogers et al., 2007). His findings revealed a significant positive relationship between procurement planning and service delivery in local government procurement systems in Uganda. These results are compared to international research findings, and suggestions are offered for management, policy making, and future research (Batenburg & Versendaal, 2006).

Research Methodology

The study adopted a case study research design. Case study research excels at bringing an understanding of a complex issue or object. The study population was 41 staff of WASREB. Since the study population was small, a survey design was used and the whole population was used in the study. Out of the study population of 41 respondents, 40 responses were obtained which represent a 97.57% response rate. According to Babbie (2002) any response of 50% and above is adequate for analysis and hence this response rate is acceptable. The study used both

secondary and primary data. Sources of secondary data included procurement documents in WASREB, the Public Procurement & Disposal Regulations, 2006 and the Public Procurement & Disposal Act, 2005. On the primary data, the study used semi structured questionnaires. According to Cooper & Schindler (2003) questionnaires are very economical in terms of time, energy and finances. Similarly, it yields, quantitative data which is easy to collect and analyze.

In order to test the reliability of the instruments, internal consistency was applied using Cronbach's Alpha. The alpha value ranges between 0 and 1 with reliability increasing with the increase in value. Coefficient of 0.6-0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability. Four constructs were studied. In order to ascertain the extent to which the data collection instrument was reliable in measuring the study constructs (or factors), reliability tests were carried out on measures of transparency, efficiency in service delivery, cost reduction and profitability. The findings of the pilot test showed that 'transparency' scale had a Cronbach's reliability alpha of 0.713, 'efficiency in service delivery' scale had an Alpha value of 0.732, 'cost reduction' had an Alpha value of 0.674 and 'profitability' had a reliability value of 0.722. This implies that the scales measuring the objectives met the reliability criteria ($\alpha > 0.6$). This therefore indicated that the research tool was sufficiently reliable and valid and needed no amendment.

Statistical Package for Social Sciences (SPSS), data analysis software was used to analyze the quantitative data. Descriptive statistics such as mean, frequencies, standard deviation and percentages were used to profile sample characteristics and major patterns emerging from the data. The study also used correlation analysis to establish the relationship between the dependent variable and independent variables. On the other hand, content analysis was used to analyze qualitative data. Quantitative data was presented in tables and figures.

Research Findings and Discussion

Public procurement policy and transparency

This study established that public procurement policy influences integrity most followed by fairness, accountability and professionalism in WASREB to a great extent. The study further established that end-users have an opportunity to be associated in the drafting of specifications.

Further, the study findings reveal that ICT is used to release information on procurement opportunities in an open and competitive manner. In addition, the study established that public procurement policy contributes to the government's legitimacy and credibility.

Public procurement policy and efficiency in service delivery

The study also established that efficiency of service delivery in WASREB was moderate. In addition, sources of supply and procurement planning in WASREB were found to be good while records management and records retrieval in their WASREB were found to be poor. The study further established that public procurement policy maximizes level of service provision to a great extent. In addition, public procurement policy influences computerized records management, ISO procurement procedure and responsiveness to customers needs to a great extent.

Correlation Analysis

The analysis of correlation results between the public procurement policy and transparency show a positive coefficient 0.58, with p-value of 0.025. It indicates that the result is significant at $\alpha = 5\%$ and that if the scores of public procurement policy increase it will have a positive impact on the transparency. The correlation results between efficiency in service delivery and public procurement policy also indicates the same type of result where the correlation coefficient is 0.64 and a p-value of 0.027 which significant at $\alpha = 5\%$. These findings show that efficiency in service delivery was the most significant factor, followed by transparency in influencing public procurement policy. Table 1 presents the correlation statistics.

Table1: Correlation coefficients

| | | Public procurement policy | Transparency | Efficiency in service delivery |
|--------------------------------|---------------------|---------------------------|--------------|--------------------------------|
| Public procurement policy | Pearson Correlation | 1 | | |
| | Sig. (2-tailed) | . | | |
| Transparency | Pearson Correlation | .58 | 1 | |
| | Sig. (2-tailed) | .025 | . | |
| Efficiency in service delivery | Pearson Correlation | .64 | .223 | 1 |
| | Sig. (2-tailed) | .027 | .006 | . |

Conclusions

The study concludes that public procurement policy influences integrity most followed by fairness, accountability and professionalism in WASREB to a great extent. Sources of supply and procurement planning in WASREB were found to be good while records management and records retrieval in their WASREB were found to be poor. It was also revealed that public procurement policy influences quality assurance, detailed specifications and detailed terms of reference to a great extent.

Recommendations

There study found that there is a positive relationship between public procurement policy and transparency in WASREB. The study also established that public procurement policy was influencing integrity, fairness, accountability and professionalism in WASREB. This study therefore recommends that WASREB should ensure that public procurement policy is followed to the letter so as to improve its performance.

This study also established that records management and records retrieval in WASREB were poor. The study therefore recommends that WASREB and other government organizations should ensure that their procurement records are safe, easily retrievable and easy to share. This can be ensured by used of computerized records management. In addition, more policies should be formed so as to fully govern procurement activities and processes in government institutions. Further, WASREB should fully implement the public procurement policy so as to realize profits in its business.

This study sought to investigate on the effects of public procurement policies on organizational performance by focusing on Water Services Regulatory Board. Since this was a case study and the results cannot be used in other organizations, this study therefore suggests further studies on the effects of public procurement policies on organizational performance in all public institutions in Kenya. The study also recommends further studies in the area of factors affecting procurement processes in government institutions in Kenya.

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