

GOVERNMENT PROCUREMENT AND INNOVATION: THE CREATION OF AN ENVIRONMENT FOR COMPETITIVENESS IN SMALL DEVELOPING COUNTRIES

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ABSTRACT. The Competitive Advantage of small developing countries is dependent on the ability of local firms and their industrial sectors to create opportunities for the development of export competitive advantage. In order to do so firms have to engage in activities that enhance their ability to compete. These activities of necessity must include investment in research and development, appropriate training of staff, upgrading of skills within the relevant industrial sector and the building of systems and confidence in those systems by the local population. However, many firms in small developing countries and their sectors are typically risk averse and accordingly the responsibility for stimulating such activity will fall to the government. This paper examines from a theoretical perspective the best policy approach for achieving these goals. The view of this paper is that such an approach is that of a comprehensive procurement policy that presents a structured approach for achieving all necessary goals required for making firms and their sectors in small developing countries competitive.

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INTRODUCTION

Development as a concept relates to the continuous improvement in the quality and standard of life of people, whether on a national or community level. Competitive advantage is an extension of that concept; it is the improvement in the quality and standard of life of people through industrial and commercial activity that results in increased trade and the accumulation of wealth (Porter 1990).

In order to do so economic activity in the form of industrial activity whether in the form of services or manufacturing must constantly evolve in complexity to be able to meet the constant need to improve the quality and standard of living of people.

Since the time of Adam Smith increasing economic and industrial activity has been characterised by disaggregation of labour and hence the increasing specialisation of that labour (Manyika et al. June 2011, p. 47). Specialisation is both a requirement for increasing efficiency and a necessity for creating innovation. Innovation is important as a mechanism for the commercialisation of invention; which is the process of making the creative by product of human activity marketable and tradable.

Firms and companies in small developing countries typically do not have the resources to undertake any original research and development. The industrial sectors to which they belong also do not have highly developed local clusters. In fact they tend instead to have supply chains that are external to their countries of origin (Ishmael 2008, p. 463). Firms in these small developing countries tend also to be very risk averse and the state is usually the main driver of economic activity.

What is important is to understand what is meant by the term small developing country. A small state/small country is defined by the existence of small economies; these small economies are seen as having the following characteristics:

- a high degree of openness,

- a limited diversity in economic activity
- an export-concentration on one to three products
- a significant dependency on trade taxes and
- the small size of firms (Bernal 2004, page 2).

Other approaches to defining 'smallness' is to look at population. Typically countries with populations of 1.5 million people or less are typically viewed as being small developing countries. Some countries with populations of more than 1.5 million people have been listed as small developing countries because they share many of the structural impediments of these smaller states (World Bank, Defining a Small Economy). In this work the World Bank has also stated that some writers have set an upper threshold of 10 million people for defining what constitutes a small developing country. This has more to do with the fact that these countries have many of the characteristics of their small counterparts in the international system, as discussed above.

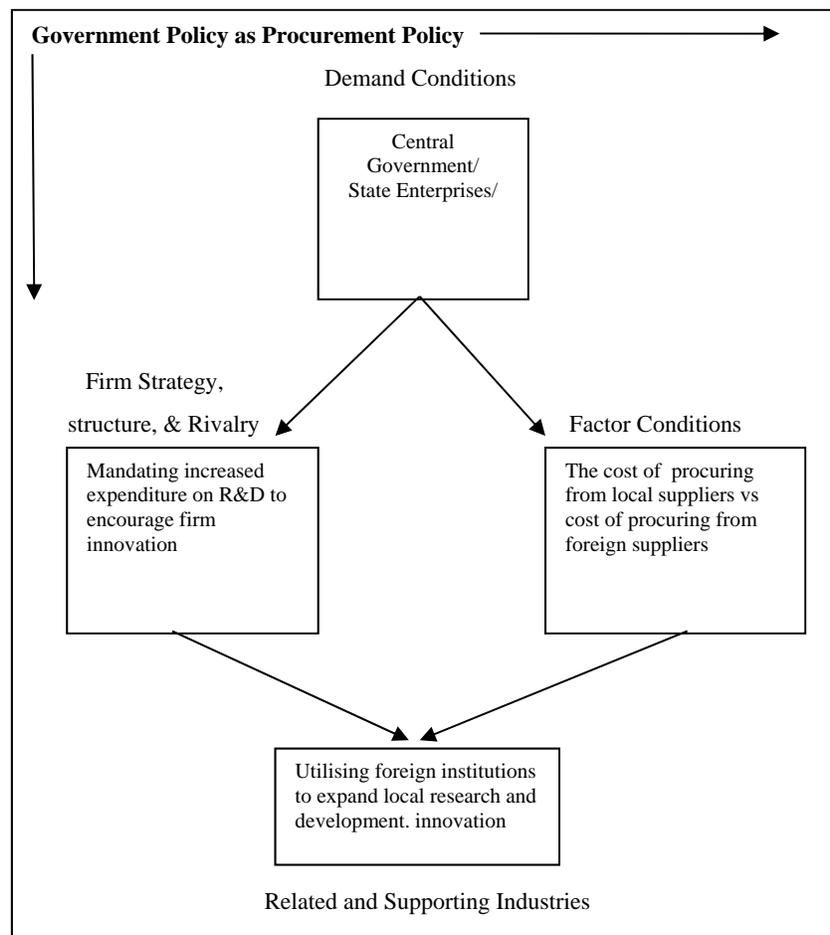
For our purposes the best approach is that of Bernal (above), where the structure of the economy gives an indication of the vulnerability of a country and defines for our purposes what a small developing country is.

From a policy standpoint it could be argued that as the state is the largest economic player within its economy it is in a position to drive innovation and the development of competitiveness. The best way to do this is through a focused procurement policy that seeks to encourage innovation, increase productivity, increase wages and stimulate the undertaking of original research and development.

Procurement policy as perceived in this paper is more than simply the acquisition or purchase of goods and services; more importantly it is a mechanism for achieving a socio-economic concept of human development through increased economic activity. Where it is done properly, procurement policy can be as important to the development of an economy as any form of industrial policy.

Procurement policy as it relates to National Competitive Advantage can be summarised through the Procurement Diamond as follows:

The Procurement Diamond of Competitive Advantage



What this diagram illustrates is a fundamental premise of this paper that Government policy as a component of Competitive Advantage development is best exercised as Procurement policy. The diagram is

a modification of Porter's National Diamond (Porter, 1990 p. 133). It illustrates that Government Policy as Procurement Policy provides the impetus through which national competitive advantage can be developed through the simple act of government being a demanding customer.

Strategic Sourcing

Strategic sourcing is a comprehensive process of purchasing/procurement of raw materials needed to be transformed into desired product/services keeping certain parameters into account such as least cost, minimum lead time, good quality etc. Strategic sourcing assumes a pivotal position in achieving value chain excellence through proper selection of vendors and entering through long term contractsWith strategic sourcing, major manufacturers, retailers, governments and financial institutions, are achieving double-digit cost savings while strengthening ties with suppliers offering the best quality products and customer service. (Dubey , Singh [Online]).

Strategic sourcing is also good for innovative and competitive suppliers, including small and medium-sized businesses that might not have imagined they could compete against larger companies for major contracts. Strategic sourcing can even be used by suppliers themselves to achieve similar savings and benefits.

The main objective is minimizing costs, but strategic sourcing takes an enlightened view of the supplier-customer relationship. Strategic sourcing recognizes that people, including innovative suppliers, are a valuable part of an organization and focuses on reducing waste or non-value-added costs. It is a disciplined, systematic process for reducing the total costs of externally purchased materials, products and services; and does so while maintaining or improving levels of quality, service and technology. At the level of the nation state, especially a small developing country, all procurement is of necessity 'Strategic'.

What makes an approach genuinely strategic lies in the ability of a procurement strategy to deliver short term political benefits, medium to long term social benefits and long term developmental and economic benefits. Procurement policy should also operate to lock in existing benefits, create an opportunity for exploiting future benefits and give both contracting parties an opportunity for greater future earnings.

Strategic sourcing allows for an alignment between sourcing options and business objectives and it leads to more significant and sustainable benefits for participants.

In terms of the initial scope of a competitiveness oriented procurement policy, it is necessary that such a policy be applied to significant procurement projects. These projects have to be identified yearly and should either have been approved by the legislature in the instance of central government or by the Cabinet in the case of a state agency. Also of necessity is the necessary risk assessment that should be undertaken before any determination is made to proceed with any project or programme. It is obvious that these procedures are not applicable to recurring expenditure items.

PART I

Procurement Policy formulation for Competitive Advantage

Creating Innovation

The current literature views the cluster as consisting of factors that are external to the firm and that extend to the market place through the internal innovative components of the firm via infrastructural and institutional support structures. A cluster must facilitate the transfer of the innovative and productive culture present within the society, to the innovators in the individual firm and then to the market place. This is done through strategy as well as the creativity that comes with innovation.

The key defining nature of the competitive advantage of small developing countries is therefore found within the innovative internal environment of the firm. Innovation is derived from creativity and is dependent on the type of socialization individuals undergo in society and as well the way they assimilate those values from society. Where industrial activity results from knowledge unique to a society, the activity so defined by that knowledge might result in an indigenous competitive industry. Such activity, when 'owned' by the wider populace, can create a competitive pre-disposition in the psyche of the society.

The importance of innovation is that it increases productivity and therefore the overall standard of living of nations (Mankiw, 2007, p. 15). Productivity is in itself determined by the relative value of a firm and a nation's economic output, and the value added input into the production of that selected output, as compared with the advanced factors of production that help to produce that output. The basis of this innovation in all productive activities within societies arguably lies in the interrelationship between a cultural orientation to want to create and the institutional support structures that focus, foster, extend and facilitate the resulting process of innovation.

The key concern for small developing countries is conceptualizing policies that facilitate the creation of new industrial activity that allows for the achievement of a sustained competitive advantage in varying spheres of industrial activity. In doing so, policy makers must ask themselves not only what policies to undertake to facilitate the creation of an innovative economy; but most importantly what should be the cultural orientation of that innovative economy. It is the position of this author that small developing countries cannot, with regard to light manufacturing activities and even services, successfully pursue policies that are aimed at dominating key global industry segments.

The pursuit of 'head to head' (Thurow, 1992) competition as a means of establishing a small economy's competitive advantage is a non-

starter for small developing countries. The main reason for this is that with limited resources, small developing countries are not usually in a position to pursue research into cutting edge technologies such as research into nano-technology, as is currently being done in many developed countries. The principal reason is the cost of undertaking such research is usually beyond the financial resources, human knowledge capacity and technical infrastructure of most small developing countries. The focus for innovation and its associated research may lie in the realm of niche technologies and industrial activities.

Innovation is that component of human scientific endeavour that is created by social necessity and which leads to economically exploitable activity by an individual, firm, industrial sector and a nation as a whole.

Innovation strategy in small developing countries should aim to achieve the following prescriptive goals in the short term:

- 1) Expansion of access by the population to higher education, either by the building of new institutions in the first instance and/or the facilitation of skills transfer, via the provision of financial support to distance education programmes from recognized and approved international institutions. This support should be provided for undergraduate and postgraduate students who meet the required academic requirements. In as far as possible students should be required to pursue courses in 'industrial innovation,' 'entrepreneurship' or business management;
- 2) Provision of incentives to private firms to re-train and upgrade their worker skills with a view to transitioning away from labour intensive non-specialized economic activity towards a capital intensive or highly specialized and skill intensive economic activity;

3) The conversion of seniority-based to merit-based systems within the civil service, to encourage training on a continuous basis and application of skills acquired into the work environments of civil servants; and

4) Formulation of a realistic programme that would seek to encourage the citizenry to develop new process innovative techniques to increase the competitiveness of local industry. Such a programme may be in the form of a national competition, which will aim at providing a substantial financial reward to the person/persons or institutions that innovate solutions that enhance the competitiveness of products produced by companies, or which develop new innovative products that have the potential to be competitive in a global niche market. (Ishmael, 2008, p 471).

The long-term strategies of an innovative economy in small developing countries should incorporate the following prescriptive goals:

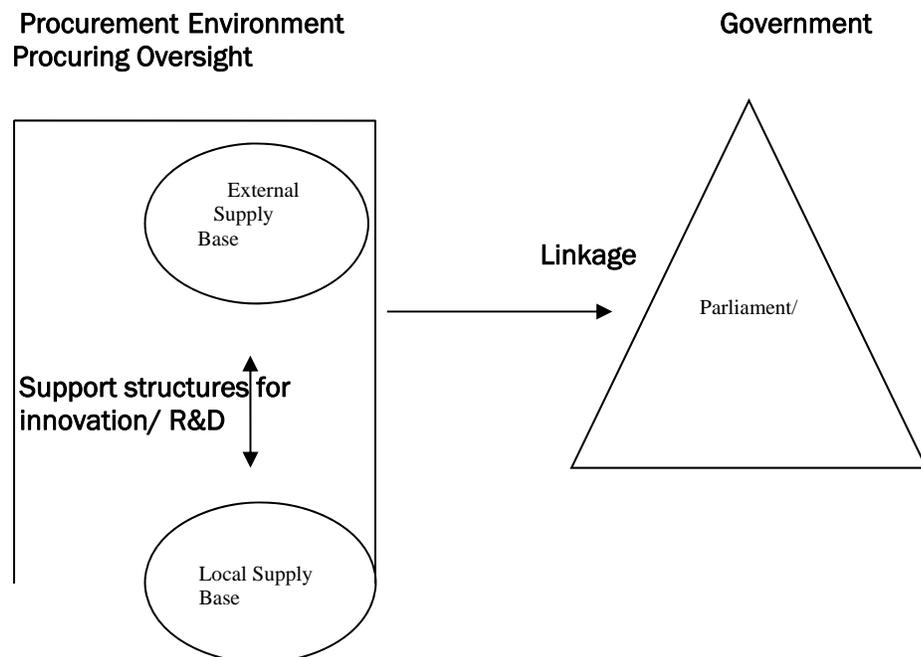
1) the development of strategic linkages with research institutions in other countries.

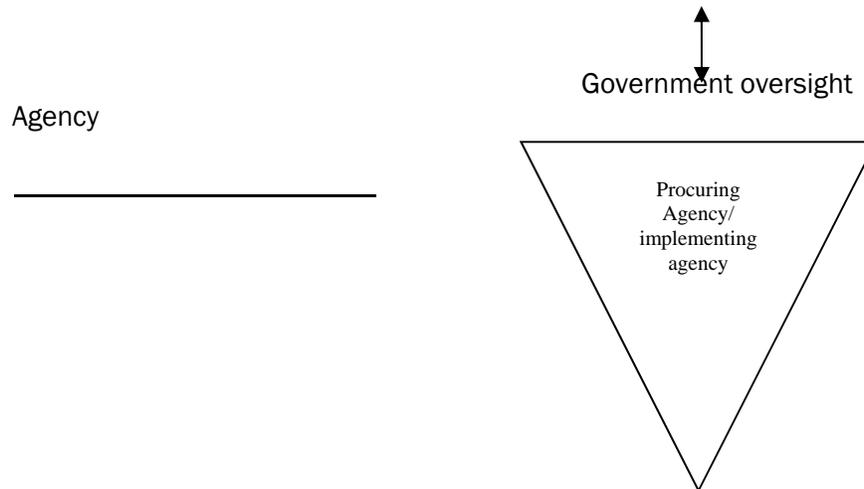
2) the adoption of an outward investment strategy by the governments of small developing countries. There is a dual purpose to this strategy. The first goal is to allow for the creation of a sustainable competitive advantage in key sectors where a competitive advantage may already exist. The second goal of such an outward investment strategy would be to facilitate access to proprietary technology as an investor/owner of that technology; and

3) an important exercise to be undertaken would be a comprehensive and detailed fore-sighting exercise as a means of determining the likely dominant technologies and sectors that would dominate the economy of a small developing country in 10, 20, 30 or 50 years. The purpose of such an exercise would be to give a small developing country a policy focus in terms of not only its present knowledge capacity but in developing such future capacity that would be intrinsic to the growth of a globally competitive economy (Ishmael, 2008, p 471).

An innovation strategy that seeks to facilitate strong and sustainable societal and industrial growth will be more effective if made part of a comprehensive procurement policy. These goals will be discussed in more detail below as part of a procurement policy which is the envisioned mechanism for the implementation of a comprehensive innovation strategy for the creation of competitive advantage in a small developing country.

A governmental procurement regime that supports innovation and research and development can be illustrated below:





Formulating a Small Country Procurement Policy

Where the state is the largest customer within the economy of a nation (Ishmael [Online] 2010, p 20.), it can facilitate an environment for innovation by stipulating criteria by which it will engage in commercial relations with its providers.

To formulate such a policy one must first identify several prescriptive elements upon which a policy can be built. These elements are:

1. Indigenous knowledge – local knowledge in certain sectors of activity may provide an impetus for facilitating product development or for supporting new original research and development initiatives.
2. Skill sets - that are present among the working population that would be adaptable to the creation of a competitive industrial sector.

3. Legal framework - that permits the government to set conditionalities as a requirement for doing business with it and which are easy to comply with.
4. Performance criteria - for contractors.
5. Incentives system - for suppliers/contractors to encourage the development of an innovative culture.
6. Institutional support system - inclusive of foreign research facilities.
7. Implied contractual terms - that include various mechanisms of Alternative Dispute Resolution (ADR) for the settlement of disputes.
8. Coordination of policy - foreign policy must reflect the domestic policy interests of the state. Therefore, procurement policy must be a key component of a nation's foreign policy.
9. Monitoring and Evaluation - this is linked to performance criteria and is intended to ensure the maintenance of standards.
10. Technology diffusion strategies - the mandating of technology diffusion to other firms in a domestic sector where these developments are as a result of state sector funding.

Indigenous Knowledge

The main driving force behind national competitive advantage is knowledge, specifically indigenous knowledge. Whether that knowledge originates in the context of geographical isolation (Porter 1990, p. 679) or in a historical context of societal openness (Ishmael 2010, p. 80) it is the effective utilisation of that knowledge or its further expansion by a focused procurement policy that will give small developing countries the best opportunity for creating competitive industries. This indigenous knowledge is traditionally viewed as being part of the socio-economic culture of a society and can be used to focus research and development on to key areas in which the indigenous knowledge can help develop competitive industries.

Procurement policy can be used to either extend the applicability of indigenous knowledge to competitive industrial activity or provide the means by which research and development initiatives can be

prioritised according to increased possibilities of success. This is based on a societal experience in a particular sphere of economic activity.

In applying or for that matter extending the applicability of indigenous knowledge to competitive industrial activity, it is important for the state to do an inventory of the unique strengths that define the economic/productive culture of the society. The question that needs to be asked is what type of economic activity is done well within the local economy and what characterises this activity? The answers to these questions can lead to a list of socio-economic characteristics that can be used to indicate what types of economic activity can be targeted by a procurement policy for competitiveness development (Ishmael [Online] 2010, p. 4).

Although government procurement refers to the acquisition of needed goods and services typically required by the state or state entities, this approach envisions that within a small developing country, certain types of economic activity carried on by sectors of the population will in some way as well be important to the operations of the state. This is whether such activity represents a minor or a major area of economic activity within a small developing country.

By ascertaining what makes the best performing local firms within a country competitive, policy formulators would be in a position to identify what aspects of local indigenous knowledge have been successfully adapted to industrial activity by local firms. This information can then be used to formulate a set of compliance criteria to facilitate firms becoming competitive.

As it pertains to clusters, it should be noted that where, as a result of limited resources for research and development, and where as a result of historical reality, firms in small developing countries are seen to be virtually self contained systems with greater linkages to external supply chains than to domestic ones, the nature of the cluster to which a firm or sector may be long, may be of a trans-

border characteristic rather than one of a local, domestic characteristic. (Ishmael 2010, p. 88).

Therefore, domestic cluster formulation to the same extent as that previously precipitated within the domestic markets of developed countries may not necessarily be a practical necessity in the context of developing countries, which are open systems. The entire context of small developing countries being open systems is one that is contextually consistent with the contemporary nature of globalisation (Porter 1996, p. 322). Accordingly, small developing countries are arguably in such a context, already in a position of strength. Openness is the key to any future prospect of competitive advantage.

It is in this regard that where 'indigenous knowledge' is capable of facilitating an environment supportive to innovation, what exists is the possibility for other competitive firms to be created. This is only a first step to such an initiative, other areas of necessary action must include an expansion of local knowledge as a whole through interaction with external partners. Procurement policy must therefore seek to encourage technical knowledge transfer as it pertains to items of 'spend' being acquired by small developing countries' procurement systems.

This therefore is an external dimension to the concept of indigenous knowledge creation. Apart from a historical context small developing country procurement policies must seek to create an environment where new knowledge is acquired, adapted and finally transferred into the local productive system. What will facilitate such a strategy is where government through its procurement policy encourages the acquisition of and 'indigenisation' of new knowledge.

To facilitate this indigenisation, state procurement contracts should also have terms which specify that all firms that do business with the state are required to undertake research and development to ensure the availability of cutting edge technologies and services to fulfil these contracts. In terms of the product of any original research and development undertaken outside of a small developing country and paid for by a local firm or through a government programme, that

research and development would belong to the local party that funded it. It would then be absorbed into the local bank of indigenous knowledge, in the case of a local entity, by being utilised within the local productive sector to which that firm belongs. In the case of government, it would become part of the national patrimony and therefore available to all nationals capable of utilising this knowledge.

State procurement policy must as a necessity facilitate the acquisition and development of competitive knowledge. Any firm that wishes to provide goods or services to the state must be willing to undertake the necessary actions to increase the overall national competitiveness of the economy.

Skill Sets

Skill sets in the context of procurement policy and the development of competitive advantage can be seen in two contexts. The first is in the context of institutional support structures; which will be discussed below. The second is that of a resource that can be acquired, exchanged and/or traded like any other commodity.

In small developing countries where the availability of highly skilled and trained professionals in the S.T.E.M. (Science, Technology, Engineering and Mathematics) related fields are in short supply, there is also the additional difficulty of keeping persons with these skill sets productively employed.

As part of the formulation of procurement policy, a small developing country can identify high skilled job requirements in areas critical to the development of national competitive advantage and in which the state undertakes high valued procurement. In such circumstances the state can create or require the creation of an institution, the responsibility of which is to be a focal point for the recruitment of specialised skills required by local industry but which are in short supply within the national skills inventory. Such an agency can be made up of highly skilled professionals in the S.T.E.M. related fields.

As a requirement of being an approved provider to the state, firms that supply goods and services to the state can have access to these agency professionals, who shall be available to those firms that require their services on a project basis. In that way firms can have the required skill sets they need to facilitate; invention, innovation, implementation and management of projects or programmes required for improving and or extending a firm's competitive advantage.

The professionals themselves, who are employees of the agency would be subject to confidentiality non disclosure agreements with regards to each project or programme that they are part of. From the continuous interactions across various firms and sectors, these professionals would be in a position to hone and refine their skills, making them more valuable to the firms that they service.

As it pertains to skill sets, the individuals whose expertise are being harnessed for the development of competitiveness do not have to be nationals of the country. The approach here is to view the acquisition, development and utilisation of skills as not being limited by geography, citizenship or residency. Therefore, the agency and the nation as a whole can acquire any specialised skills it requires from anywhere. This approach of bringing skills, even imported skills into a specialised institution allows for the concentration of these skills. This facilitates not only greater opportunities for innovation it also creates opportunities for knowledge and skills diffusion. This will ultimately lead to the development of competitiveness skill sets required for facilitating firm and even sector specific competitive advantage that are in effect local, through the eventual transfer of knowledge.

The implementation of this strategy will only be effective if it is utilised in tandem with a wider national strategy of skills development. This is to be achieved through institutional capacity building through supporting educational and research institutions. It is a key requirement for facilitating an innovative climate within a firm and even a sector.

Legal Framework

The overall context of a legal framework for state Procurement Policy as a mechanism for encouraging the development of competitive advantage is based primarily on a systemic approach. This is to say that what a legal framework provides is transparency in the first instance and a uniformity of approach that is predictable and reliable. A legal framework in effect enhances the 'operational system' that is the impetus of a transparent process for implementing a competitive strategy. This is also necessary for the creation of an innovative climate within any nation.

A legal framework can include any requirements permitted by law. However, what is required in a legal framework for the facilitation of competitiveness through procurement are the following:

- A mechanism for the pre-qualification of contractors who will provide goods and services to the Government or one of its agencies.
- The formulation of standard terms and conditions in procurement contracts as it pertains to the prevention of anti-competitive practices.
- The establishment of different categories of contractors based on their size and the contract values, to allow for greater opportunities for competitiveness.
- Establishment of a framework that provides for government grants to be provided for research and development to pre-qualified providers, this is inclusive of funding for research and development to be conducted at institutions and facilities outside of the country.
- The framework must provide for a comprehensive system for dealing with conflicts that result out of procurement contracts, including an Appeals process.

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- The provision for punitive sanctions for violators of the anti-competitive and anti-bribery sanctions.

The legal framework must also include legislative protection for intellectual property, electronic data protection, the recognition of electronically transmitted contracts and the facilitation of electronic payments to government and from government. What is also important for this process is the elimination of unnecessary bureaucratic procedures for the registration of a new business.

The corporate tax system in most instances would need to be simplified in order to allow for easier compliance. The kind of tax regime that would be required would typically depend on what the local conditions are and what would need to be done in terms of legislative reform to facilitate increased profitability and competitiveness of firms.

As it relates to the overall economy an appropriate legal framework is needed to create an environment to allow for the development of competitiveness. In doing so however, care must be taken that an over regulated environment that stifles creativity and innovation is not created.

A key import of the legal framework is to ensure transparency. The Organisation of Economic Co-operation and Development (OECD) in “Integrity in Public Procurement Good Practice from A to Z” (OECD 2007, p. 12.) states:

In “**grey areas**” in the public procurement process, countries may use various approaches and solutions to ensure integrity, ranging from minimum transparency requirements to additional control mechanisms. Exceptions to competitive procedures represent a “grey area”, that is, vulnerable to mismanagement and potentially corruption because of limited competition. However, it is important to highlight that limited competition does not necessarily require less transparency. For example, countries may use specific measures (e.g. reporting requirements, advance contract award notice, risk

management techniques, etc.) to enhance transparency and integrity while counterbalancing the lack of competitiveness in the procedures. Similarly, some countries indicated that the phases before and after the bidding are regarded rather as internal management procedures and therefore not subject to the same transparency requirements as the bidding process. This makes it all the more important to have effective accountability and control mechanisms in daily management to keep public officials accountable (OECD 2007, p. 12).

What this viewpoint advocates in our opinion is that a legal framework that supports competitiveness through procurement must as a necessity speak to the requirement of fair competition within the local environment. Therefore the question of interlocking boards of directors within and among companies in the local economy and in a particular sector is a reality that potentially provides for conflicts of interest as it pertains to the competitive environment. Although this paper advocates in the management of a procurement project the efficiencies that may be obtained by having persons with multiple skill sets manage a project; there is the potential of conflicts of interests arising where company board members fulfil roles that by way of practice can come into conflict with each other.

A practical example that can arise is where the Corporate Secretary of a company serves simultaneously as the Legal Counsel to the Chairman of the company. Another example occurs where local practice within the legal fraternity permits attorneys to represent mortgagor and mortgagee within the same mortgage transaction, in spite of any prohibition at common law. These occurrences take place largely because of a lack of required skill sets to meet the specialised demands of the local economy; however they also provide an environment where the perception of corruption can be enhanced by a lack of transparency. These issues are seen in the financial contagion that swept the Caribbean Community (CARICOM) region in 2009 with the collapse of the C.L. Financial Group and the Stanford

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Financial Group (Economic Commission for Latin America and the Caribbean, ECLAC, 2009, p. 22).

The issue of transparency which will be discussed further below is therefore key in the process of fostering a procurement policy that can be a conduit for developing competitive advantage.

Performance Criteria

The setting of performance criteria is an important mechanism for the creation of an innovative environment. Performance criteria sets standards with which firms are required to comply to ensure the quality of the service and or product that they will provide to the government as part of a procurement regime or under a procurement contract.

Performance criteria set standards and can allow for monitoring and evaluation as a requirement to be included as part of such criteria. This has the advantage of allowing the main contracting party to ensure value for money as part of its auditing process. Performance criteria can include as well a requirement that firms and contractors undertake to be innovative and create new systems and techniques in order to deliver the highest quality product or service under a procurement contract.

In conjunction with indigenous knowledge, skill set acquisition and an appropriate legal framework, proper performance criteria is in effect the component of procurement policy that deals with issues of facilitating development. Effective implementation in and of itself allows for an environment that can focus creativity and facilitate adaptive skill sets to bring innovation into effect to solve problems related to competitiveness development. This is both in the context of the specific procurement contract to be fulfilled and in respect of other similar categories of problems that may arise in other instances. It is a criterion that leads to growth through learning and has implications for monitoring, evaluation and equally important, feedback.

Incentives System

In a small developing country incentives are a critical policy tool for assisting government in encouraging firms to engage in activities that result in the creation of national competitive advantage. In small developing countries, traditional incentives have been tax based, i.e. tax exemptions or deductions. In other instances rebates have also been utilised whereby firms get refunded either all or a portion of monies expended on approved activities, such as research and development.

As it relates to procurement policy incentives, for them to be effective, they must work to encourage firms that do business with the government to undertake activities which are not only beneficial to them but perhaps to their industrial sector and the nation as a whole. Incentive programmes can be sector specific, in these instances such incentives are typically in the form of tax breaks, rebates and waivers. These can be applied to production regimes where firms can receive any of these incentives if they follow certain stipulated pre-requisites for supplying goods and services to the state. These types of incentive programmes can stipulate that where a firm utilises a particular type of production regime, that firm can receive a percentage rebate on the monies it spent in following that process. This can include as well tax breaks for monies used to train staff in new techniques or skill sets critical to expanding a firm's competitive advantage. Other incentives may include as well government grants or low interest loans for firms that have not only complied with approved standards but are following corporate practices and proficiencies that advance the competitiveness of the firm and its sector globally.

Incentives in and of themselves are not a cure all. Without necessarily establishing monitoring and evaluation criteria as well as implementation regimes that monitor the effectiveness of these programmes, firms may become risk averse and may not undertake either new and risky (though potentially very profitable projects) research and development may not wish to undertake further

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activities that may potentially result in lower profit margins for their enterprises.

Incentives systems must seek to prevent dependency while encouraging moderate risk taking which may lead to the building of entrepreneurial confidence and hence the potential for much higher levels of innovation.

Institutional Support Systems

In creating and or expanding national competitive advantage the state especially, the small developing country, according to conventional theory, should avoid choosing winners (Porter 1990, p. 681). However, in practice some small developing countries have actually attempted to choose winners with some success (Trinidad and Tobago's LNG exports and generally its energy sector). In many instances where there have been limited success this has been as a result of the unique circumstances of the type of sector in question; i.e. energy.

What conventional competitive advantage theory supports is the facilitation approach through the provision of an institutional support system that has the ability to provide an impetus to support both cluster development and innovation.

Realistically small developing countries do not have typically highly developed competitive clusters of industries and they also tend to be open systems. The rationale approach in circumstances where there are no such clusters but instead there are competitive companies is to provide the institutional support mechanisms through educational institutions that specialise in the S.T.E.M. related fields and telecommunications infrastructure capable of supporting modern electronic communications; this is essential to allow for the creation of a collaborative network external to the traditional borders of the small developing country. Procurement policy that enhances national competitiveness beyond the limitations of geographical boundaries and at the same time expands the ability for local firms and universities to collaborate and extend their ability to undertake

problem based research and development may have the added benefit of providing the impetus for innovation across several industrial sectors.

This approach includes that of skills development discussed above but includes where possible, the acquisition of research facilities, original research and development from overseas as well as the outright purchase, franchising or merging of a local company with that of a foreign corporation. Any such institutional integration is a strategic approach which serves the need of small developing countries by providing the ability for original research into new methodologies and technologies that are capable of implementation in the local environment or will lead to some sustainable source of income from intellectual property rights which can be commercialised, to be acquired.

As it pertains to procurement policy, this particular criterion does not specifically have to be integrated into the procurement policy of a small developing country. What happens in terms of this approach is that it operates best as part of an overall part of a national competitive advantage policy to enhance and provide an opportunity to develop clusters in support of local competitive industry.

This approach engenders the realisation that modern cluster linkages in a global economy are open trans-border systems (Porter 1998, p. 322) that are synonymous with the historical colonial reality of many small developing countries (Ishmael 2010, pp.72-73). Along with procurement policy this mechanism can be used to enhance and extend the ability of a state to achieve its developmental objectives.

This approach is part of an overall coordinated policy approach which will be discussed below.

Implied Contractual terms

A major necessity in providing for increased competitive advantage is the need to have in place transparent systems for not only awarding and monitoring the implementation of contracts but also to provide for a cheap, fair and timely settlement of disputes. It is in this regard that it is recommended that legislation be implemented which implies terms in contracts of major spend, i.e. construction etc. and which are to be executed within the local jurisdiction.

These implied terms should primarily touch on issues related to Alternative Dispute Resolution (ADR) procedures for the solving of disputes. This is required especially in high spend contracts in which disputes that arise can be costly and litigation that could arise from such disputes would like wise be both time consuming and costly. The advantage of utilising an ADR mechanism for the settlement of disputes is that it is generally faster than litigation, potentially cheaper and regardless of the type of ADR that is utilised, it gives the parties to a dispute a greater degree of control than would a court proceeding in litigation.

The benefit of utilising an implied term is that where the state and one of its contractors has a dispute, regardless of the value of that contract, there would be the option for either party to utilise an ADR process to achieve a resolution to said dispute. These processes can begin with negotiation/mediation and run the gamut to adjudication/arbitration.

The implied terms, through legislation, can include just a requirement to mediate before litigation or it can go as far as describing an institutional framework for the conduct of various ADR processes suitable to the dispute that is subject to the implied term.

The use of implied terms provides a degree of consistency and transparency that contributes towards competitiveness by providing an environment where participants can be confident in the system when dealing with a state entity in a procurement contract. The extent to which legislation seeks to extend the scope of the implied term is strictly determined by the local environment and the local conditions in each case.

Coordination of Policy

In a small developing country where the state is the major single facilitator of economic activity either as a customer or provider, it is critical that its procurement policy sets standards for the conduct of economic activity. Competitiveness in small developing countries is widely dependent on the role the state plays in the economic life of the nation. In many respects because of the lack of competitive local sectors and the openness of these economies the creation of competitive advantage for a nation's firms has to focus on the external environment to a greater degree than that of more developed and larger nations.

Foreign Policy is the mechanism by which states pursue their interests in international fora. In order to ensure a uniform approach between national domestic policy interests and foreign policy, all small states should ensure that their foreign policy is an extension of their domestic policy interests. In that regard, the pursuit of development for one's people must include the development of the economy and increasing the standard and quality of life of a nation's citizenry (Porter 1990, p.6).

In a small developing country that is an open system, formulators of foreign policy must be cognisant of this historical openness and as part of that foreign policy the procurement of technology or the knowledge capable of developing that technology should be key in fulfilling the national desire of enhancing societal development through increased competitive advantage. The pursuit of the requirements that are needed by the national economy in this approach goes beyond the acquisition of institutionally derived skill sets or the improvement of or creation of new institutional support structures. It touches instead upon the other sources that are available to the small developing country and which can be utilised for the improvement of industrial activity. It relates to those issues that lie within the realm of diplomacy. It relates to the acquisition of

Aid, especially technical aid from donor countries (Ishmael, 1996), in many instances from the European Union or from the United States through the United States Agency for International Development (USAID), by way of example.

The pursuit of foreign policy initiatives such as trade policies are not necessarily the best means of developing competitive economies. Generally, small developing countries do not benefit significantly when they enter into regional trade agreements with either developed or developing countries (Fox 2004, p. 8). Many of these regional trade agreements are a means by which small developing countries are permitted to export on a preferential basis commodities and products that do not have a great deal of value added.

For developed countries these agreements are a means of facilitating greater market penetration into selected markets. For developing countries these agreements are only a means by which the major commodities, usually primary products and other traditional non value added products are exported to the major and traditional markets of developing countries. Typically, they do not lead to any significant increase in trade (Pant, 2010).

In order to truly pursue a policy of development through increased competitiveness that is facilitated by procurement policy, small developing countries should forego trade agreements and especially regional trade agreements; instead they should actively pursue technology transfer and technical training agreements.

This approach is a critical focus for making procurement policy an effective tool and an extension of developmental policy, the focus of which is competitive advantage policy and innovation. A source for pursuing such agreements may lie in some part in the pursuit of arrangements with more developed developing nations, or emerging nations such as China or India.

Typically it is not in the best interest of small developing countries to allow any foreign commercial entity to bid on non specialised contracts within the local economy. In small developing countries

permitting foreign firms to bid on generic contracts will only facilitate the transfer overseas of very valuable foreign exchange. These contracts should therefore only be reserved for local firms.

Monitoring and Evaluation

Monitoring and Evaluation are critical project management tools for evaluating the success of a project and/or programme. In the context of policy formulation 'monitoring and evaluation' allow for 'value for money' audits that are important for evaluating the utilisation of funds by government departments. This is critical in assessing from a procurement perspective whether the policy objectives outlined by that procurement policy are achieved.

As it pertains to innovation, monitoring and evaluation would provide feedback not only on what works but will allow for an overall understanding of how successfully the particular procurement regime was implemented. This will provide the impetus for new knowledge acquisition and allow for refinement of existing policies leading to modification of the system, thus leading to policy innovation. This would eventually translate into more effective competitiveness policy and increased competitive advantage.

Technology diffusion strategies

Technology diffusion is critical to the acquisition of skill sets that would either lead to new scientific developments or more critically to new innovations and new product developments. However, diffusion mandates are easy to direct when the state or a firm is the owner of the technology, skill sets or information to be disseminated. It becomes far more difficult to direct the diffusion of proprietary knowledge and intellectual property where that knowledge is connected to a procured product or service, for which the state or a local company does not assert rights of ownership over such proprietary technology or knowledge.

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In such circumstances, where it may be desirable for a small developing country or one of its firms to have proprietary knowledge related to a procured service or product, it may be necessary to enter into a franchising agreement with the owner of that proprietary knowledge.

Apart from this method an approach may be for the department, state agency or firm to purchase rights to that intellectual property. In effect giving them rights to exploit that intellectual property and enhance local competitive advantage to create competitive firms/industries and enhance the development of a country. Where such an approach provides access to that knowledge, the technology itself will not belong to the party or parties that obtained access through such a process. What will be important is that what will be transferred is an inherent knowledge of how that technology works. This may provide opportunities for invention and innovation in other areas of research and development.

PART II

Productivity and Procurement Policy

Introduction

Productivity is a critical component of a nation's competitiveness and needs to be a key facet of a small developing country's procurement policy. Productivity is culturally contextual; in small developing countries it is the relationship between time invested into an activity and the value-added output generated from that activity (Ishmael, 2008, p 469). For small developing countries the value of the productive output of a worker is not necessarily defined from the point of view of the number of hours spent on the job. It may be more appropriate to define that productivity in the context of the output as it relates to the number of hours spent by a worker in productive, creative and value-added activity.

Where individuals are more innovative as a result of their culturally based creative orientation; the level of creative output of those

individuals, when compared with the number of hours they have spent in productive activity, is increased. Therefore, there is a higher level of productivity. This benefits the society by way of a higher level of work day productive output and more efficient economies of scale in production.

The context of work day productive activity is dependent on the nature of the industry, the degree of specialisation to produce that output and on the type of output or the aggregate value of that output per worker to the company. In a small developing country for a company to be competitive and its workers to be adequately compensated, the compensation paid to a worker by a company must be in excess of a 1:1 ratio in terms of the productive output of that worker. A determination of exactly what is a suitable ratio for an industry will be determined by: the nature of the industry, the nature of the output, the specialisation required for producing that output and the value of the contribution of that output to the company's bottom line.

Productive Policy—A Framework

The concept of productivity and growth lies in the field of economics as it pertains to the socio-economic welfare of a society. Firm and industry levels of economic productivity are arguably tied to the level of technology utilized in a firm, industry and economy. Apart from technology, however, education, social competencies, social and economic networks, social capital and trust are also factors in determining levels of productivity.

Productivity in small developing countries is characterized by 'economies of scale,' whereby, reducing unit cost usually implies increased competitiveness based on price. This does not necessarily mean that worker productive output will rise in volume. This type of productivity measure would be based on a measure of the market value of a sector's productive output, divided by the number of

workers in the sector. The output per worker that is derived would provide a simplistic measure of a sector's productivity.

The key purpose of ensuring increased competitive advantage through a procurement policy with a focus on productivity is to allow for the control of challenges that arise in the work environment relevant to the fulfilment of a contract. When one is able to solve these problems the resulting benefits increase not only profitability but the competitiveness of firms, industrial sectors and eventually the nation as a whole.

The data obtained from such an analysis would however, be skewed by the nature of the output of the sector. By way of example, a company in the oil sector would have a higher degree of worker productivity as compared with that of a farming enterprise. In developed countries productivity is now measured in the context of productive output as it is facilitated through the adaptation of cutting-edge technologies. In the case of small developing countries it is largely a question of what strategies should be implemented to facilitate increased productivity and how are these strategies to be implemented. This is particularly the case where developing countries do not typically have the resources to develop cutting-edge technologies or even apply these technologies in a way that would allow for sustained competitive advantage based on them. The path to competitiveness for small developing countries lies not in the realm of 'head to head' competition but rather in the sphere of niche-based competitive advantage. It is therefore, the premise here that competitive advantage policy for small developing countries would necessitate the development of new specialized products in combination with improving the economies of scale as they pertain to the quality and reduction of the unit cost of manufacture of those products for which there is already a competitive potential. The key therefore is successful policy formulation.

Productive Strategy—A Framework

The formulation of productive strategies in small developing countries should begin with a study that focuses on:

- 1) conducting sector specific and industry specific research into the relationship between markets; and productive output per worker;
- 2) evaluating individual firms within each sector with the aim of comparing their composite productive output (determined by the analysis in 1 above) as compared with the productivity of the labour force in each firm/sector;
- 3) evaluating the 'comparative mix' and the statistical correlation between the nature of the knowledge utilized in these more productive firms/sectors (advanced knowledge or basic knowledge, i.e. labour or capital intensive); and
- 4) evaluating the cultural basis of productive activity undertaken by the firm sector (Ishmael, 2008, p 472).

The nature of the analysis that is obtained from the data provided by this process will facilitate the creation of sector and even firm-specific competitive and productive strategies. Critical to this overall process, is the level of integration of institutions that cater for the development of sustained competitive advantage.

The limited size of small developing countries means that the establishment of competitive industries may not occur in such a way as to give them global sector dominance. It is not likely that a manufacturing firm in a small developing country will easily attain the global market success of let us say a Nokia. The key for small developing countries is niche-based competitiveness that is to compete for dominance globally in those areas of activity that are not economical for large-scale producers to pursue.

In the case of Trinidad and Tobago the company SM Jaleel is an example of such a successful strategy (World Bank, 2008, p. 31, paragraph 52). Productivity alone and of itself is not the only factor

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that determines the nature of competitiveness in small developing countries. The demand conditions are also significant in this regard.

Improving Productivity through Procurement Policy

There are many ways to measure productivity. In many instances what we refer to when we speak of productivity is 'worker added value activity.' This is effectively either the physical output of a worker where that worker is involved in a manufacturing activity; or it may be the actual income that a worker brings into the firm or enterprise through the utilisation of some skill set that adds monetary and social value to the economy, this is usually a service oriented industrial activity.

In other instances productivity of a worker may be defined in relation to higher value added skill sets which the worker can bring to bear on the operations of the company in order to ensure its competitiveness. These workers function in a management role and their worth to the company is also determined on a basis of their cost to the company as a comparison to what they are able to contribute to the company's profit margin.

It is critical for small developing countries to examine the question of worker productivity in the context of human resource allocation per sector of activity. This is because in some small developing countries with ageing populations (Ayres, 2004 p. 45) the labour force may be fifty percent or more of the total population and trending downwards as populations age. Productivity in the instance of small developing countries also includes a necessity to rationalise the pursuit of increased productive activity in terms of what the policy focus should be to create an improved environment for productivity

Governments in small developing countries cannot afford to expend large amounts of money to support exotic industries where lower profitability is as a result of high operational costs, a specialised and limited market and profitability, as a result of low turnover of income. Small developing countries should not therefore utilise state resources to support starter industries that as a result of global

monopolies provide little opportunity to create sustainable industries with relatively minimal economic returns as it pertains to high cost inputs that effectively do not provide opportunities to compete against those monopolies.

In procurement, productivity is simply effecting operational efficiency within an enterprise in such a way as to ensure that critical internal support systems and external systems are functioning so as not to delay the procurement cycle.

It is out of these considerations that procurement policy within small developing countries must be cognisant of the need to encourage greater worker productivity. Procurement policy must focus on the utilisation of:

- appropriate technology for the enhancement of product/service delivery for fulfilling the contract,
- management criteria that ensures that project implementation will take place in a way that assures cost efficiency,
- worker training to enhance performance, output and delivery, and
- increased wages as a means of increasing productivity.

Technology for the advancement of product service delivery

The use of technology is not only important to the facilitation of innovation it is a key facet for creating a more productive worker. Skilled workers must be encouraged to be innovative in the working environment. They should be tasked with constantly seeking to innovate in a way that helps their organisation to reduce costs,

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enhance profitability and contribute to a culture that is sensitised to that of 'value for money.'

In this instance this is where the worker in the firm may suggest production line innovations in the case of manufacturing enterprises, or implementation regimes in service organisations that enhance the buyer's sense of 'value for money' as being achieved.

Technology in this regard does not only refer to information technologies or production technologies that are as a result of original research and development or to new forms of adaptation. What is being referred to here is the process by which workers are able to modify systems, primarily operational systems and processes in their environment to solve issues relevant to reduced productivity and declining profitability within their organisation.

An educational policy that facilitates nationally a habit or pre-disposition toward the solving of problems through a process of 'critical thinking' is required to facilitate the appreciation of the appropriate adaptation of technology to procurement. This kind of innovation creates an environment that allows for the development of competitive advantage of the firm by allowing for innovation.

Project implementation and cost efficiency

Project implementation in this context extends the discussion that has taken place above. What is the focus here is the setting up of systems designed to ensure that external and internal customers are able to fulfil their roles in the procurement cycle in a timely manner in order to deliver project outcomes within clearly defined time frames without costly delays. To fully benefit from the benefits of this approach, procurement policy will have to call on governments and contractors to constantly re-evaluate 'how things are done' in order to reduce duplications and risk.

This approach involves the use of systems and mechanisms in an integrated approach throughout the procuring agency and the

supplier/ contractor that affords the greatest efficiency in implementation.

Worker training to enhance performance, output and delivery.

To attain increased productivity workers have to be trained to be adaptable, self sufficient and multi-skilled. In the instance of facilitating competitive advantage, procurement policy must seek to encourage all contracting parties to the procurement contract to have on staff persons with specialised training in more than one area of importance to the fulfilment of the contract.

In small developing countries with a lack of resources, such an approach as described here would provide an opportunity for companies and the government/state agency to achieve greater efficiency by hiring such persons. A practical example of this is where persons who are qualified as project managers and also attorneys are able to contribute as it pertains to both spheres of activity to the management and implementation of a project or programme.

In pursuing such an approach there is still a need to maintain a degree of objectivity which may be compromised because these persons in making key decisions may be too close to an issue on which they are required to render a decision. In spite of this however, it is conceivably beneficial for firms and for the government/state as procurer to have multi-skilled specialists who can bring a broad spectrum of experience to the management or conceptualisation of a project or programme that is or will be the subject of a procurement contract.

Increased wages and productivity

A related part of the process of increasing a nation's competitiveness and the quality and standard of living of its people, is the necessity of increasing the wages of workers within a nation. As a mechanism for

encouraging improved competitive advantage it is necessary that procurement policy function as a source of labour standards.

Utilising this method is a novel approach to assisting developing countries to encourage the increase in quality standards required for achieving the goals articulated in this paper. As part of a procurement framework, a procurement contract can require compliance not only with established standards in terms of legal requirements including for example a requirement that provides for observing the right to collective bargaining. A procurement contract to the extent permitted by law can have specific terms that exceed established legal standards and would be binding on all parties as a result of the law of contract.

Government procurement is potentially a form of social engineering (Howe). It permits the state to utilise its position as a client to contract the supply of goods and services under terms and conditions that are the most beneficial to achieving its policy aims for social and economic development. In the modern globalised economy many developed and developing countries are outsourcing services to private companies as a means of achieving cost savings. As a result of this and the increased size of governments, state procurement is more important to the economies of all states and procurement policy is important for directing how that expenditure affects those economies.

Providing increased wages and what can be described as a living wage to workers has a trickle-down effect through expenditure by those workers. Where as part of a comprehensive policy of development, workers who benefit from increased wages are encouraged to save money (through tax breaks and other benefits) in specialised investment accounts that are re-invested in firms that are pre-qualified to do business with governments under a procurement policy; there is provided another benefit to firms and to the state to pay workers more money.

There is as well in this situation a psychological benefit to paying workers a 'living wage,' that is a wage that permits them to live and

fulfil their legitimate social and personal aspirations as opposed to a wage that only permits workers to 'survive,' that is meet the costs of the essentials of a modern life.

A procurement regime that aims to force up wages will drive up operating costs within companies and in theory force up opportunities for cost reducing innovation within firms in small developing countries. In one example it was reported that among some bidders where government policy required hire wages to be paid to workers by its suppliers, bidders per contract actually rose (Greenhouse). This was as a result of the fact that firms competing for government contracts were now on a level playing field.

Analytical mechanisms for enhancing competitiveness through procurement

Apart from the initiatives discussed herein, another critical area through which procurement can be used to enhance competitiveness is with the use of analytical tools such as 'whole life cost analysis' (BSRIA). Whole Life Cost Analysis is basically the total cost of ownership of an item of spend. The principle behind this approach is to evaluate the cost of acquisition and maintenance of that acquisition during its entire life cycle and the cost of subsequent disposal of that item.

This mechanism allows for a comprehensive analysis to be undertaken as it relates to the cost of initial acquisition as compared to ownership and maintenance. One is able to assess cost flows derived from the item of spend as it relates to safety and availability, performance and reliability. This approach is best applied to construction procurement where items that are being purchased are major items of spend.

To create or sustain a competitive advantage through this approach; sector specific analysis methods would have to be developed. When integrated with all of the other approaches as described in this paper

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the totality of the effect is to provide opportunities for the development of a competitive economy through the utilisation of procurement policy as a catalyst. Whole life cost analysis is the 'cherry on the pie' that integrates from a project management view point all the other components of using procurement policy to create competitive advantage.

It does this by providing opportunities for monitoring and evaluation of major big spend projects and allows for proper budgeting and efficient utilisation of resources.

PART III

Economic Transitioning and Procurement Policy

Introduction

When economists speak of economies in transition they are quite often speaking of the transition of an economy from one form of production to another form. This can refer to the movement from an agricultural based economy to an industrial based economy. As part of this transition workers who are not trained or in possession of the required skill sets can be displaced and then find themselves at the periphery of a new economic system. They can therefore be unemployable and redundant in such a new system.

This may lead to a shortage of the requisite labour required to perform those new job functions that comprise those activities that define a new economic and productive relationship within an economy. In small developing countries procurement systems tend to be fraught with a lack of transparency and tremendous bureaucracy.

For small developing countries in the contemporary environment the question of transitioning an economy touches on some of the issues of human resource capacity, infrastructure and productivity. It also calls for the consideration of whether developing economies can develop the requisite 'modes of production' to be able to do business in the modern global economy. The idea in this approach is for the government to address the development of new sectors of industrial

activity and the evolution of the form of production in those sectors where possible.

Fore-sighting and Procurement

The best way of doing this is through a procurement policy after the conduct of a fore-sighting initiative. In this approach government will have to undertake the 'picking' of winners (here this refers to classes of economic activity and not industrial sectors or firms) for a future focus of innovation and research activity. The process of fore-sighting involves:

1. The utilisation of a multidisciplinary approach for examining current economic and social factors within a state in the context of future international trends in science and technology. The process involves the 'picking of winners' as a means of focusing the limited resources on areas that the best information presently available identifies as possible areas of competitive advantage in the future.
2. It allows for small developing countries to evaluate their economic prospects for future economic activity in a way that allows a country to identify its resource requirements and acquire those assets in a timely manner.
3. It provides the opportunity to integrate infrastructural, institutional and educational developments in order to maximise developmental benefits.

What results from this process is a list of activities the state can focus on to develop new industrial sectors. The policy of what sectors to focus on for development can be re-enforced by a procurement policy designed in part to initiate the development of these new economic sectors. This overall approach is designed to strengthen future sustainable development in the local economy.

Applying fore-sighting to procurement policy formulation involves the potential of developing what may be termed a technology road map to

inform the state and its agencies involved in procurement of the future options which allow for new and innovative ways of procuring goods and services. This may as well lend itself to the design of adaptive support systems capable for facilitating the continual innovation involved in the production of goods and services purchased by the government.

Fore-sighting can provide an opportunity for local industries to anticipate not only the future demand of any major client, the government for example; it may as well provide a test environment for new products developed in accordance with the relevant government contracts under a procurement regime.

This approach is important in a small developing country during economic downturns, especially where those downturns expose economic vulnerabilities within the local production system. Typically, in periods of economic downturn populations in nation states tend to become more insular, even xenophobic and as a result they are less likely to support the procurement policies that divert funds to foreign companies for fulfilment of the role of suppliers. In these circumstances the greatest challenge to the pursuit of the policy prescriptions outlined here would be the lack of political will in these circumstances for continuing with an open, one might say even international approach to sourcing supply.

In these circumstances what is required is the need to review the policy goals and re-direct the economic focus not only of government's procurement regime; but more importantly of the transitioning of the economy where required.

What will result from this approach is a perspective not only of the current environment that defines the future prospects for a nation's industrial and economic competitiveness but an indication of where the best opportunities for future socio-economic development will lie. It also provides a perspective of its immediate strengths, weaknesses, opportunities and threats or (SWOT). This allows for appropriate economic planning to allow economic planners to

formulate economic policy to transition the domestic economy towards the required path for the development of a sustainable competitive economy.

Procurement policy formulators must incorporate a full understanding of these issues into their development of policies, implementation strategies and monitoring and evaluation criteria in order to best meet the demands of developing a competitive economy that meets the increasing developmental requirements of a nation's people.

PART IV

Building Confidence in support of Procurement Systems

Introduction

In order to achieve what is set out here in this paper a critical component of our approach is the building of confidence within the local economy in order to facilitate the development of a more competitive economy through procurement policy.

- *Integral to successful business - public or private - is the confidence of the parties in the integrity of the procurement process.....In public procurement, the public must have confidence in the integrity of the process. There is need*

therefore for processes that have public endorsement and which will restore and deepen public confidence (Government of Trinidad and Tobago, (2005) p. 4).

The building of confidence is required not only to facilitate an environment that supports innovation but also to allay in stakeholders any concern over the intent of the state in implementing its procurement policy. Ensuring the integrity of the process therefore becomes key to facilitating an effective procurement policy. Procurement policy is that unique activity of government most susceptible to abuse through inefficient management, thus allowing for waste or inefficiency. In other instances it may prove an avenue for corruption and fraud.

The perception of corruption as much as the reality of corruption is critical to the effectiveness of procurement policy. The highest ranked small developing country on Transparency International's Global Corruption Index at 16 is Barbados (Transparency International) with a score of 7.8 out of 9.5. The lowest ranked small developing country on the corruption Index is Guyana with a score of 2.5 out of 9.5. Guyana is at position 134 out of 182 ranked positions. Trinidad and Tobago is tied with Liberia and Zambia at position 91 with a score of 3.2.

What is observed is that regardless of the circumstances that precipitate the poor rankings of small developing countries they tend to have among their populations a relatively high confidence deficit. In most instances this has to do with the lack of transparent governance systems required for building confidence in the activities of government.

Procurement policy as it pertains to confidence building goes beyond the passing of legislation and the enforcement of that legislation. What is required is the management of public expectations with regard to procurement policy. This is the initial phase of addressing stakeholder concerns. It provides a macro framework within which specific stakeholder evaluations could be undertaken. This involves the creation of processes designed to:

1. Provide information on the procedural requirements to be followed for the pre-qualification, pre-bidding, bidding and award processes. In this regard time frames have to be transparent and any award of extensions will also have to be awarded according to set criteria.
2. Provide accountability not only through procurement legislation but through a requirement of effective and moral governance. The idea here is that procurement policy as a developmental tool requires the procurement process to have not only the necessary legislative framework but that such a framework should only be the minimal position.
3. Policy and legislative coordination with other areas that impact upon procurement policy or its implementation. In this regard a critical approach is that of anti-trust and/or anti-competitive regulations and the effect these have on ensuring that procurement policy is transparent, dependable and reliable in its implementation. This may also involve the publication of contracts above a nominal value.
4. Effective record keeping as it pertains to the number of government procurement contracts that have been executed in a particular sector of activity as well as the number of suppliers in each sector supplying goods and services in that sector. This information should be kept for a minimum period both as confidential in the first instance and subsequently available for public access. What documents should be subject to confidentiality protection and available for subsequent public release is a subject for domestic law, political will and administrative necessity within small developing countries.

These processes are not exclusively implementable via a legal regime, they in fact speak more to the issue of 'Good Governance.' In this regard, when we speak of good governance, we are implying a character of integrity in the persons responsible for managing a particular procurement regime. What is required is the tasking of responsibilities for maintaining the integrity of the system to persons who are of good character and that are trust worthy. What is advocated here is a doctrine of 'trust but verify.'

The trust and verify concept lends itself to the inclusion of stakeholders in the process of awarding contracts. Appropriate professionals with practical experience in areas of service delivery relevant to a particular contract may be hired as project managers for contracts for which they do not have an actual or apparent conflict of interest. Where the public could be made to have confidence in the process of the award of contracts by virtue of stakeholder participation, this could go far to alleviate the concerns that members of the public may have in the award of government procurement contracts.

The key issue is for stakeholders to have assurance that the processes involved in government procurement are above reproach. This is as opposed to necessarily having each stage of the process being reported to stakeholders. Apart from being time consuming such an approach may actually work against 'value for money' procurement where what is involved is the transfer of sensitive proprietary information (not directly relevant to the what is being procured) from the supplier to the procurer; industrial secrets by way of example.

Creating an appropriate stakeholder environment

In order to create such an environment what has to happen is that a stakeholder analysis has to be undertaken (African Development Bank, 2001, p 25). Stakeholder analysis according to the African Development Bank consists of an appraisal of:

- Who are the key stakeholders (primary/secondary) of the proposed project?

- What are the interests of these stakeholders?
- How will they be affected (positively/negatively) by the project?
- Which stakeholders are most important for the success of the project?
- How will various stakeholder groups participate throughout the life of the project?
- Whose capacity needs to be built to enable them to participate?

The methodology advocated by the African Development Bank (ADB) is referred to as “Participatory stakeholder analysis.” This approach draws on secondary data and direct collaboration with key stakeholder groups in the first instance. Another approach as part of this analytical framework allows for the use of workshops and/or field-based research to gather primary data. What would follow from this approach is that each procurement activity will be managed to achieve established principles but according to criteria unique to the particular contract.

The difficulty with this approach is that implementation in small developing countries, whereby stakeholders are also in some respects providers to the government as well, may lead to collusion between those providers and the creation of stakeholder cartels that drive up prices of goods and services purchased by government.

Limiting the Scope of Public Procurement

What is advocated here is the use of public procurement as a means of creating competitive advantage. Critical to this approach is providing support to firms, industries and industrial sectors that have a prospect of becoming export competitiveness. In order to further this policy, it is necessary to limit the utilisation of procurement policy as a mechanism for social welfare.

The utilisation of procurement policy to facilitate the aims of a social welfare programme is not appropriate for achieving the 'capitalist' aim of developing competitive industries. Procurement policy for small developing countries must have a related component of industrial policy. Utilising procurement policy where other mechanisms are available for the promotion of social and economic equality within a society is not an effective use of any procurement policy.

Procurement policy should also not be used as a means of social engineering to change the values and morès of a society or segment of that society. It should also not be used to exclude a social group from wider participation in the socio-economic life of the country. Any bias in procurement policy should be in favour of those attributes that enhance and /or extends a country's ability to compete in an industrial sector and to export internationally. Procurement policy also has no role in the instance of the issuance of government grants or the granting of foreign aid which may be done for either humanitarian or strategic purposes related to securing non competitive foreign policy goals and initiatives.

In the instance of small open societies where there is a need to preserve the independence and integrity of institutions crucial to preserving civil liberties; these organisations may need to be excluded from any procurement regimes that may infringe upon the separation of powers. Procurement policy must not be used as a political tool to 'curry favour' with one's constituents or the electorate. It is only effective in the development of a nation and its people where it is utilised for achieving industrial development and competitiveness. The role of procurement policy should therefore be limited to achieving economic goals.

In order to protect institutions such as the judiciary, it may be prudent to stipulate through the appropriate legislation that a percentage of the annual budget of the country be reserved to the judiciary. Through such legislation it may be necessary to stipulate as well a minimum based on an average of a previous number of years below which the sum reserved to the judiciary would not fall. Any such sums dispersed

to the judiciary should not be subject to a requirement of accountability to the administrative arm of the state but rather to the legislative arm. Any such sums dispersed to the judiciary where not spent should be reserved to the judiciary and not subject to return to the 'consolidated fund' or central treasury.

As it pertains to issues of defence and security, these issues should not be subject to procurement rules as in the case of this type of procurement, disclosure and or publication may result in national security being compromised. It is in such circumstances that oversight by the legislature may be appropriate through the reporting to select committees by the various Cabinet members responsible for defence procurement.

These limitations are critical for achieving the fundamental aim of competitive advantage through procurement policy; that is the development of a society and continual achievement of a higher standard of living for its people.

Ethical approaches in Procurement

Ethical approaches as they pertain to procurement policy are typically conceptualised to refer to ethical sourcing. Sourcing policy is basically a policy whereby purchasers ensure that products they procure are produced in factories and other conditions that do not promote the exploitation of workers or in which their health and lives are not put at risk because of inhumane conditions [approach is that of this author].

However, ethical policies as they pertain to procurement need to go beyond this approach. A needed focus is that of appropriate budgeting whereby in circumstances of reduced central government revenues, government may have to engage in choosing where and how to spend reduced revenues in an environment of increasing costs. What an ethical budgeting approach would mean is that in considering issues of discretionary expenditure a progressive procurement policy may need to not only look for more cost effective

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avenues to procure goods and services; it may mean as well that strategies must be designed in which projects may have to be stopped or curtailed, consolidated or only critical components procured and/or implemented.

Ethical procurement also refers to the conduct of persons responsible for procurement in their official capacities. Typically persons within the state procurement process should not be in a position to have their integrity compromised. These persons should not receive gifts over a pre-determined value from members of the public nor should they give gifts to public servants or employees of supplier companies that do business with the state.

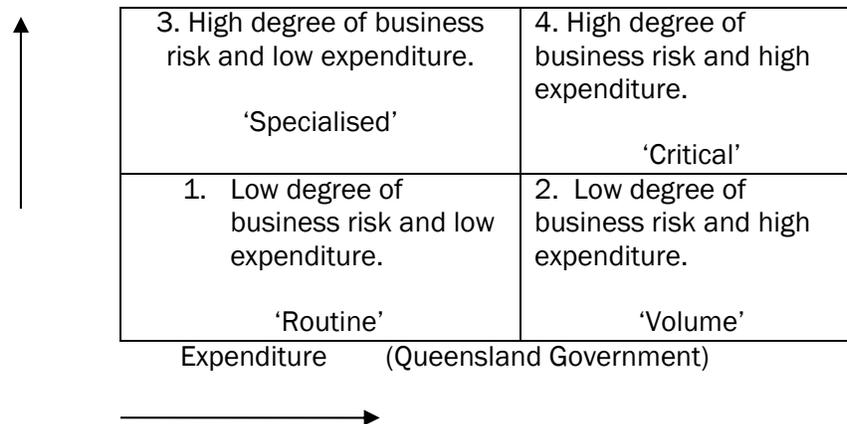
Improving the probability that suppliers/contractors will bid

For procurement to work as a medium for developing competitive advantage in the way outlined in this paper, it is necessary for suppliers/contractors to want to bid for governmental contracts. In order to do so they must be able to analyse their risks and benefits of participating in any government contract. Where the procurement contract is related to any of the following:

- Specialised procurement
- Critical/emergency procurement
- Routine procurement; or
- Volume based procurement,

the government as the procuring entity must ensure that to encourage companies to bid on contracts the inherent risk of doing business with the state is reduced and that the levels of potential profitability are such as to encourage firms to bid on selected contracts.

Business Risk



What this diagram illustrates is that in circumstances where business risk and initial financial outlays are low, businesses will be willing to participate more readily by tendering for a government contract. In other circumstances as expenditure necessary to undertake a contract rises, businesses will only participate if the volumes involved are sufficient to make participation profitable. Where there is a high degree of business risk and high expenditure a willingness to participate will be reduced.

Procurement contracts and implementation and management regimes must be responsive to the dynamic procurement environment in such a way as to minimise both contractor risks but government's liabilities and ultimately overall costs.

Procurement Policy and the building of Competitive Advantage

Where the Procurement Policy as articulated in this paper is implemented the intended effect would be to:

- increase the expenditure within the local economy on research and development;

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- provide opportunities for diffusion of new knowledge derived from research and development by firms to the local economy – this is in particular with reference to where government has funded a particular research and development initiative;
- create new product standards by virtue of the fact that small firms in this scenario, through their research and development activities as well as increasingly stringent requirements for terms and conditions applicable to government contracts will produce higher quality products;
- create a national skills database which will give the government a directory of the skill sets that the country has, the skills it needs and provide opportunities for the state to acquire those skills from international sources;
- increase the institutional support structures available for the creation of trans-border clusters necessary to support a national industrial sector; and
- lead to overall industrial innovation within the local economy and increased competitive advantage

Conclusion

The role of procurement policy is not only to provide a structure and a framework for the purchase by government of goods and services. What it is in the context of small developing countries is a strategy for the purpose of creating export competitive advantage for a nation's industries. In small developing countries the state is a major player in the economy not only in respect of the purchase of goods and services but as importantly in actually taking a role as entrepreneur in industries of a strategic importance.

In many small developing countries the reality of state involvement as investor and entrepreneur was required to assist in the development of new industrial activity. In today's world this approach is and of itself not the only mechanism for creating new industries. It is also not the best approach. What is required is the voluntary participation of firms and industries in the activities required to create new competitive sectors. These processes and the factors that enhance

their effectiveness have been outlined here in this paper with a view to providing an insight into the requirements for formulating a procurement policy that will create a competitive advantage and export competitiveness in a small developing country. Competitive Advantage and governmental procurement cannot nor should not be separately conceptualised. They need to exist in tandem and be implemented in a way that is complementary to a nation's developmental goals.

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APPENDIX

An example of the Trinidad and Tobago experience with e-Auctions

In Trinidad and Tobago the Central Tenders Board Act 1961 is the regime under which procurement for Government ministries and their associated departments is governed.

During the period 2004-2009, several reviews were conducted of the procurement regime in Trinidad and Tobago. This was necessary because of the fact that the Central Tenders Board Act did not cover procurement for some state owned enterprises. It also did not cater for the modern procurement methodologies such as Build Own Lease and Transfer (BOLT) and Build Own Operate and Transfer (BOOT). In today's contemporary world, it was felt that a new mechanism embodying the principles of greater accountability and transparency in respect of a government's management of the public purse was required. (Ishmael, 2010 [Online]).

As the Government of Trinidad and Tobago began a review of the procurement regime it also began to look at how differing forms of procurement can work to reduce government expenditure on various items of spend. It is in this regard that the Government began an analysis of e-procurement mechanisms and the potential savings benefit that would accrue to the government through the use of these mechanisms. One such mechanism is that of e-Auctions.

According to the Ministry of Finance of the Government of Trinidad and Tobago:

eAuction is a part of the strategic sourcing process. It is a procurement tool using web-based software that allows suppliers to bid online for a contract for the supply of goods and services. It is sometimes called a 'reverse auction' because bids are reduced and not increased as in a traditional auction. The objective is typically to arrive at the lowest total cost as distinct from the lowest price. [Government of Trinidad and Tobago, March, 2009].

The pursuit of e-Auctions as a mechanism for government procurement is an initiative that began in 2006 (Government of Trinidad and Tobago, 2006). The aim was to reduce government expenditure, increase transparency and facilitate a reduction in the overall time costs associated with the tendering process.

In 2009 the Government of Trinidad and Tobago facilitated an e-Auction event as a test of the benefits of this new regime. This event was held on the 17th of July, 2009 (Government of Trinidad and Tobago, July 2009. p. 1). The intention of the event was to procure paper for use in printing, for computers and other printing devices. The lots that were up for bid were sized as 8.5 inches x 11 inches, 8.5 inches x 14 inches and 11 inches x 17 inches and computers (laptops and desktops). In each category of paper several thousand reams were to be procured and for all items to be purchased quantities were consistent with previous quantities purchased outside of the e-Auction process.

The results for this event were as follows:

Item	Historical Price US\$	Leading Price US\$	Savings US\$	Savings %
Paper (8.5 x 14)	\$53,086.65	\$38,606.97	\$14,479.68	27.28
Paper (8.5 x 11)	\$13,321.19	\$8,955.32	\$4,365.87	32.77
Paper (8.5 x 17)	\$162,539.92	\$100,225.64	\$62,314.28	38.34
Computers	\$309,524.00	\$172,000.00	\$137,524.00	44.43%

This event was typical of the experience of the Trinidad and Tobago Government with e-Auctions. The use of the e-Auction process provided benefits to both buyers and suppliers:

- substantial cost savings (20-30%) through the auction being online and instantaneous;

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- an accelerated process reducing the sourcing cycle time;
- the ability to open up procurement to a wider market allowing suppliers to make bids without being restricted by geographic location;
- an efficient, open and transparent system and clear audit trail of transactions;
- greater insight of buyers into the dynamics of the marketplace and an indication of the true market price for goods and services;
- anonymous online event creates a “level playing field” i.e. a fair and competitive market;
- suppliers can, of course, use e-Auction to arrive at market prices for their own purchases of raw materials and components;
- All bidding suppliers (bidders) have online remote access to the e-Auction event;
- the identity of each bidder is unknown to other bidders;
- the purchasing company (purchaser/ purchasing agent) knows the identity of the bidders; and
- during the e-Auction event the bidders are not privy to the actual dollar amount of the lowest bid. (Government of Trinidad and Tobago, March 2009).

In the period 2007 to 2008 several leading state agencies in Trinidad and Tobago held in excess of fourteen (14) e-Auction events, purchasing everything from vehicles to steel pipes and accruing savings in excess of \$32 million TT dollars over traditional spend.

The utilisation of the e-Auction process had the additional benefit of allowing for the development of new skill sets in the procurement department of those state enterprises/agencies that most heavily utilised the e-Auction process. One such enterprise, the Water and Sewerage Authority (WASA) actually began a process of facilitating the e-Auction process in other state enterprises. Their expertise in dealing with the e-Auction service providers led to the transfer of technology

from those providers to WASA and facilitated WASA's development of its own internal e-Auction department.

The Ministry of Finance in fact utilised WASA's e-Auction team as advisers in the conduct of a July 2009 e-Auction event; and the use of e-Auctions by the Government of Trinidad and Tobago up to the end of 2009, provided much impetus for initiatives aimed at reforming the state procurement policy.

In 2007-2008 WASA held eleven (11) e-Auction events for the procurement of vehicles, paper, gas tanks and chemicals resulting in total savings of TT\$19.8 million or 18.47%. The Petroleum Company of Trinidad and Tobago (Petrotrin) hosted three (3) e-Auction events to purchase pipes and other steel products. These were held in December 2007 and June and September 2008. Petrotrin realised bottom-line savings of TT\$ 12.4 million or 12.5%. In addition, in August, 2008 a multi e-Auction event was held for State Enterprises.

During the period 2006-2009 WASA saved approximately \$74.6 million TT on procurement. These savings were in relation to the following major items of spend:

Water and Sewerage Authority Savings from e-Auctions -:

Events over the years:		
2006	2007 - 2008	2009 - 2010
<ul style="list-style-type: none"> Pipes and Fittings Chemicals Computers 	<ul style="list-style-type: none"> Pipes and Fittings Chemicals Generators Equipment rental Computers/Hard Note Books Gas Fuse Tanks Paper Heavy Duty Vehicles 	<ul style="list-style-type: none"> Supply & Install Meters Construction of Offices Bottle Mounted Chlorinators Printers Wirewall Fencing & Gate Refurbishment Works High Voltage Switches

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	Flow Meters etc.	
Savings		
TT\$20 M	TT\$33 M	TT\$21.6 M

(WASA [Online].)

The e-Auction regime in Trinidad and Tobago as it was manifested between 2006-2009 was primarily a facility to allow the Central Government to purchase items more cheaply. In order to make it function within the existing regime of the Central Tenders Board Act, some companies such as WASA instituted a 'work around'; whereby bidders in the e-Auction process were advised that the winning bidder in an e-Auction would have to submit that bid through the normal bidding process. This facilitated compliance with the existing legal regime as well allowed for the securing of the benefits of reduced costs that came from the e-Auction process.

The Government of Trinidad and Tobago has since continued to utilise the e-Auction process as a mechanism for reducing the cost of government procurement for lower specification items such as paper and computers. The most recent e-Auction for which public information is available was held on Friday 8th April 2011 for paper and computers. The use of e-Auctions is likely to remain an integral part of the government's procurement regime and is likely to be included in any new legislative framework that reforms the procurement regime, along with a wider use of e-Procurement and electronic payments systems.