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Influence Of Financial Capability On Public Procurement Performance Of Lower Benue River Basin Developmemnt Authority Makurdi Nigeria

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Abstract: *This study examined the influence of financial capability on procurement performance within Lower Benue River Basin Development Authority. Descriptive research design and survey strategy approach were adopted. The study investigated how suppliers' financial resources impact their ability to deliver goods, services and works effectively. The study is grounded in Principal-Agent Theory and Transaction Costs Theory, which provide insights into the alignment of interests between suppliers and the organization, as well as the management of transaction costs in procurement processes. The findings indicates financial capability is positive and statistically significant with procurement performance (p-value of 0.000 < 0.05) and t of 4.935 > 1.96). The study concluded that financial capability has significant positive effect on public procurement performance of Lower Benue River Basin Development Authority. This study recommended that Lower Benue River Basin Development Authority should develop a comprehensive framework for assessing suppliers' financial capabilities. This framework should include standardized criteria such as liquidity ratios, profitability metrics and cash flow analysis. Implementing a rigorous financial assessment process will help mitigate risks associated with supplier insolvency and ensure that only financially stable suppliers are awarded contracts.*

Key Words: Financial Capability, Procurement Performance, Lower Benue River Basin Development Authority

1. INTRODUCTION

Procurement performance is a critical component of public sector operations, as it directly influences the delivery of goods and services to citizens (Al Hamadi & NAWAB, 2016). The procurement system basically comprises five common process elements; project packaging, invitation, pre-qualification, short-listing and bid evaluation. Efficient and sustainable public procurement is a primary goal for government units globally (Gerderman et al., 2015). In the public sector, procurement processes are often complex and require significant financial resources. The Public Procurement Act 2007 in Nigeria emphasizes the importance of financial capability among suppliers, stipulating that they must possess the necessary financial resources to carry out procurements (Public Procurement Act, 2007). Financial capability not only ensures that suppliers can deliver goods and services but also affects their ability to invest in technology and marketing, which are crucial for competitive bidding.

Financial capability is a key factor influencing procurement outcomes, as it determines suppliers' ability to fulfill contractual obligations effectively. Research indicates that a bidder's financial health is paramount in ensuring successful procurement outcomes. The absence of robust financial assessments in procurement processes can result in the selection of suppliers who may not have the necessary financial resources to fulfill their obligations. This can lead to operational disruptions, financial losses, and a negative impact on overall procurement performance (Khaemba & Otinga (2019)). Therefore, understanding the influence of financial capability on procurement performance is essential for improving procurement outcomes and ensuring that public sector projects are executed efficiently.

The study by Njogu Wanjiru et al. (2020) emphasizes that employee skills and organizational financial stability are interconnected. They argue that organizations with strong financial backing can invest in training and development, leading to enhanced employee skills and subsequently better procurement performance. This finding aligns with the resource-based view theory, which posits that firms with superior resources (including financial resources) can achieve competitive advantages. The stability of a supplier's finances is crucial for maintaining consistent performance in public procurement. A study conducted by Khaemba (2019) demonstrated that suppliers' financial stability significantly affects their ability to fulfill contracts. The research revealed that suppliers facing financial difficulties often struggle to meet contractual obligations, resulting in delays and substandard quality. This underscores the importance of thorough supplier evaluation processes that assess not only bids but also the financial health of potential suppliers. In addition, research by Thomas (2015) suggests that effective internal controls within procurement processes can mitigate risks associated with supplier financial instability. By implementing stringent evaluation criteria focused on financial capability, organizations can reduce the likelihood of engaging suppliers who may jeopardize project success due to inadequate funding or cash flow issues. The selection of suppliers based on financial capability is a critical aspect of procurement strategy.

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A study by Khaemba & Otinga (2019) indicated that procurement performance improves when organizations prioritize suppliers' financial health during the tendering process. They recommend comprehensive assessments of suppliers' financial backgrounds before awarding contracts to ensure that only capable entities are selected. This practice not only enhances procurement outcomes but also fosters a more competitive bidding environment. Furthermore, research by Dai *et al*. (2021) highlights the certification effect of public procurement contracts on suppliers' access to financing. Winning a public tender can serve as a signal to other stakeholders about a supplier's reliability and capability, potentially easing their access to additional funding sources for future projects. This relationship emphasizes the cyclical nature of public procurement success and financial capability. Despite the positive implications of financial capability on procurement performance, challenges persist. Findings also indicate a need for complementary support mechanisms, such as grants or training programs aimed at enhancing SMEs' capabilities in navigating public procurement processes (Khaemba and Otinga 2021). These measures can help alleviate some of the financial burdens faced by smaller suppliers, thereby improving overall procurement performance.

Lower Benue River Basin Development Authority (LBRBDA) was established in 1976 along with 11 other River Basin Development Authorities (RBDAs) vide Decree No. 5 of 1976. The establishment is tasked with the management of water resources potential of the country for agricultural, domestic and industrial uses. Furthermore, they were to be involved in maintenance of the various watersheds they cover in Nigeria and the construction of dams, dykes, polders, the drilling of boreholes, development of irrigation infrastructure, erosion and flood control among others. Lower Benue River Basin stretches across Benue, Nasarawa and Plateau states including Kogi East Senatorial district in Nigeria, and is home to a significant population relying primarily on agriculture and allied activities for their livelihood. By implementing various development projects and collaborating with other stakeholders, the Authority aims to create a conducive environment for sustainable rural development and alleviate poverty in Lower Benue River Basin region (Edyta, 2009). Thus, its procurement practices directly impact local communities' livelihoods and economic opportunities. This study aims to explore the influence of financial capability on procurement performance within Lower Benue River Basin Development Authority, a context where efficient procurement is essential for project success.

1.1 Statement of the Problem

In public procurement, financial capability is crucial for suppliers to meet contractual obligations, invest in necessary technologies, and maintain competitive pricing (Khaemba & Otinga, 2019). However, challenges such as inadequate financial resources among suppliers can lead to procurement failures, including delayed deliveries and poor quality products. Additionally, issues like corruption and unethical practices can overshadow the importance of financial capability, further complicating procurement processes (Amemba et al., 2015).

The absence of robust financial assessments in procurement processes can result in the selection of suppliers who may not have the necessary financial resources to fulfill their obligations. This can lead to operational disruptions, financial losses, and a negative impact on overall procurement performance (Khaemba & Otinga (2019)). Therefore, understanding the influence of financial capability on procurement performance is essential for improving procurement outcomes and ensuring that public sector projects are executed efficiently. By examining the relationship between financial capability and procurement performance, this study aims to provide insights that can inform procurement strategies and enhance the efficiency of public sector procurement processes.

1.3 Research Objective:

To examine the influence of financial capability on public procurement performance in Lower Benue River Basin Development Authority.

1.4 Hypotheses of the study:

H_{01}: Financial capability has no significant influence on public procurement performance in Lower Benue River Basin Development Authority.

2. LITERATURE REVIEW

This section covers theoretical review, conceptual framework, and empirical review.

2.1 Theoretical review of literature

2.1.1 Principal-Agent Theory

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The principal-agent (PAT) theory, also known as agency theory, was first proposed by the economist Michael Jensen in the 1970s. This theory's explanation is based on the concept that a principal delegates tasks to an agent who acts on their behalf (Jensen & Meckling, 1976, Eisehardt, 1989). The theory highlights potential conflicts of interest between principals and agents, as agents may prioritize their own interests over those of the principal (Ross, 1973). This divergence can lead to inefficiencies in procurement processes if not properly managed.

The principal-agent theory can be applied by recognizing the potential conflicts between the government agency (the principal), which hires a contractor (the agent), and the contractor, which performs the necessary services or provides the necessary products. The relationship between the principal (buying entity) and the agent (contractor) is characterized by information asymmetry. Prequalification requirements can help mitigate these problems by ensuring that only agents with the necessary skills and resources are considered for the contract. This can reduce agency costs by minimizing the risk of contract failure.

This theory is relevant in this study because it helps explain how financial capability can influence procurement performance. Suppliers with strong financial capabilities are more likely to align their interests with those of the principal, ensuring effective delivery of goods and services. Conversely, suppliers with limited financial resources may prioritize their own survival over meeting contractual obligations, leading to procurement failures.

2.1.2 Transaction Costs Theory

Transaction cost theory (TCT), as developed by Ronald Coase and further refined by Oliver E. Williamson, focuses on the costs associated with transactions, including those related to procurement processes (Williamson, 1979). These costs include search and information costs, contracting costs, monitoring and enforcement costs and the costs of planning, deciding, changing plans and resolving disputes (Young, 2013; Wikipedia-Transaction cost; New Institutional Economies). In the context of public procurement, transaction costs can be significant due to the complexity of the procurement process. Transaction cost theory (TCT), suggests that organizations should minimize transaction costs while ensuring that suppliers have the necessary capabilities to fulfill contractual obligations.

Pre-qualification processes, for instance, can reduce some of these costs by streamlining the selection of potential bidders and ensuring that only qualified firms participate in the tendering process. By implementing a robust pre-qualification process, public procurement agencies can reduce the transaction costs associated with the procurement process. This can include costs related to searching for qualified bidders, negotiating contracts, and monitoring performance (Young, 2013; New Institutional Economies).

This study applies TCT by examining how financial capability affects transaction costs in procurement. Suppliers with adequate financial resources are better positioned to manage transaction costs effectively, ensuring timely and cost-efficient delivery of goods and services. Conversely, suppliers with limited financial capabilities may struggle with these costs, leading to inefficiencies in procurement processes.

2.2 Conceptual Framework

The conceptual framework for this study is shown diagrammatically in Figure 1 below.

Figure 1: Conceptual Framework (Source, Author, 2025)

2.3 Empirical Review of Literature

Numerous empirical studies have demonstrated that financial capability significantly affects procurement performance. Chukwuma & Ugochukwu (2021) investigated financial capability as a predictor of successful public procurement bids: insights from southeast Nigeria. A survey research design was employed targeting contractors who participated in government tenders over a five-year period.

Logistic regression analysis was used to evaluate the relationship between contractors' financial capabilities and their success rates in bids. Results indicated that higher levels of financial capability significantly increased the likelihood of winning bids for public contracts due to better resource allocation during project execution. It was suggested that government agencies provide resources or workshops aimed at helping contractors improve their financial management skills prior to bidding processes.

In the county government of Bungoma, Kenya, a study found that supplier financial capability and evaluation both significantly influence procurement performance. The study concluded that suppliers with adequate financial resources are more likely to deliver goods and services effectively, minimizing failures. This aligns with findings from other contexts where financial capability is seen as a critical factor in ensuring suppliers can meet contractual obligations and invest in necessary technologies (Khaemba & Otinga, 2019).

In Kenya, another study examined the impact of supplier financing on procurement performance in public universities. The results showed that supplier financing positively correlates with procurement performance, explaining about 35% of the variance in procurement outcomes (Mwesigwa & Nondi, 2018). This suggests that financial support to suppliers can enhance their ability to deliver goods and services effectively, thereby improving procurement performance.

Public sector procurement often involves complex processes that require significant financial resources. Empirical studies in this context highlight the importance of financial capability in ensuring that procurement processes are efficient and effective. For instance, a study in the County Government of Homa Bay, Kenya, evaluated the extent to which financial capability influences procurement performance. The findings emphasized the need for adequate financial resources to support procurement activities, as this directly impacts the quality of goods and services acquired (Okumu, 2018.).

In public universities in Kenya, empirical evidence suggests that low levels of supplier financial assistance lead to poor procurement performance. Conversely, high levels of financial support to suppliers result in improved procurement outcomes (Kathambi & Senelwa, 2019). This underscores the importance of providing financial assistance to suppliers as a strategy to enhance procurement performance.

Small and Medium-sized Enterprises (SMEs) often face challenges in participating in public procurement due to limited financial resources. Empirical studies have shown that financial capability plays a moderating role in enhancing SMEs' technological and marketing capabilities, thereby facilitating their participation in public procurement (Xiao et al., 2023). For instance, a study found that SMEs with strong financial capabilities are better positioned to leverage technological innovations and marketing activities necessary for successful participation in public procurement processes (Çera *et al*., 2021).

3. RESEARCH METHODOLOGY

This section covered research design, data collection, validation of the instrument, and data analysis techniques.

3.1 Research design

This study used a descriptive research design and adopted a survey strategy. Descriptive research describes a phenomenon and its characteristics; this type of research is more interested in what happened than how and why something happened (Pennik & Jonker, 2010). The descriptive design facilitated the progress of the investigation into the effect of prequalification parameters on procurement performance in public sector (Saunders et al., 2012). The choice of design for a particular study reflects the researcher's decisions about the priority to be given to issues such as the nature of the data and the analytical approach to the research process. Data generation was through administration of questionnaires. Survey research involves the collection of information from a sample of respondents through their responses to questions (Saunders et al., 2012). This type of research allows for a variety of methods to recruit participants, collect data and utilize various methods of instrumentation.

3.2 Data Collection

Data was collected using questionnaires which were distributed across the selected respondents by the researcher and his research assistants. The instruments were retrieved from the respondents at completion of the questionnaires. Questionnaires were used because they are cheap, easy to distribute and easy to analyze.

3.3 Validation of the Instruments

Pilot test was conducted to improve the accuracy, relevance, consistency, completeness and uniformity of the data collected. Pilot study involved sampling the respondents of the target group in the selected and related organizations Universal Basic Education (UBEC) on the basis that this organization will not participate in the main survey. Reliability analysis with Cronbach's alpha was used to measure the internal consistency of the collected data. A study conducted by Cortina (2008) on Cronbach's alpha found that an alpha cut-off value of 0.7 or higher was considered adequate and reliable. Table 1 shows Cronbach Alpha for the pilot test. The components of the instruments were all found to be reliable with an Alpha value above 0.7.

Table 1: Pilot Test Result for UBEC

Scale	Cronbach's Alpha (UBEC)	Number of items
Financial Capability	0.858	3
Procurement Performance	0.964	3

Source: Author Computation (2025).

3.4 Data Analysis Techniques

Descriptive and inferential statistics were adopted. Regression analysis and inferential statistics were employed in the analysis of data for determining influence of financial capability on public procurement performance in lower Benue River Basin Development Authority.

T-test computed from the regression analysis was used in the testing of hypothesis generated for this research.

Decision rule for this study adopted 5% level of significance. In the decision rule, the null hypothesis is accepted if the critical /t-value (± 1.96) is greater than the computed t-value while the null hypothesis is rejected if critical / t-test (± 1.96) is less than the computed t-value. Thus, adopting the standard t-test implies that a valuable is significant if the t-calculated is greater than the tabulated value of (± 1.96) reference to 95% (0.05) level of confidence. Conversely, the result would be insignificant if the computed value of t is less than the tabulated value of (± 1.96) under (95%) or (0.05) level of confidence.

Symbolically,

$H_{0:}\beta_0 = 0$ (null hypothesis)

H_1: $\beta_1 \neq 0$ (Alternative hypothesis)

4. RESEARCH FINDINGS

This section deals with presentation of the results of the field research conducted. These results were reached after some follow-up actions.

4.1 Years of Experience of Respondent LBRBDA Staff.

Figure 2, presents years of experience of LBRBDA staff that constituted the population of the study. The result indicates that the largest proportion of respondents had worked for between 16 – 30 years 104(50.40%). The second ranked is those who worked for 31 – above years 59(28.90%). The rest of the respondent had worked for between 1 – 15 years 43(20.70 %). The result indicates that experienced staff constituted the major respondents.

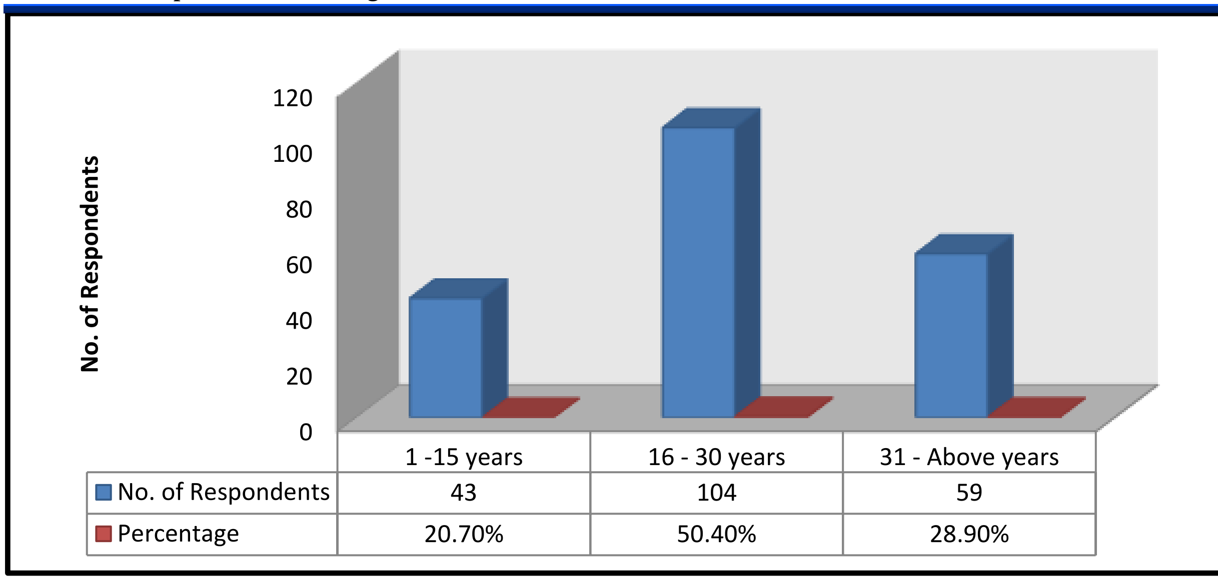

Figure 2: Years of Experience of Respondent LBRBDA Staff.

Source: Field Survey (2025).

4.2 Financial Capability

The respondents were asked to indicate their level of agreement on various statements. A Likert scale with values ranging from 5 to 1; where; 5=Strongly 4=Agree, 3=Uncertain, 2=Disagree and 1=Strongly Disagree was used. Table 5 presents the result on bidder's financial capability on public procurement performance perceptions.

Table 2: Financial Capability

Statement	Frequency And Percentages (%)								Decision
	N	**5**	**4**	**3**	**2**	**1**	**MEAN**	**SD**	
Most bids have annual turnover appropriate to the procurement bid	206	162(78.6)	40(19.4)	4(1.9)	0.00	0.00	4.77	0.468	High perception
Most bids come with genuine tax clearance certificate	206	166(80.6)	37(18.0)	3(1.5)	0.00	0.00	4.79	0.442	High perception
Bids always come with bank reference certificate	206	164(79.6)	39(18.9)	1.5(1.5)	0.00	0.00	4.78	0.448	High perception
Cluster Mean							**4.78**		

Source: Field Data (2025)

Table 2 above shows that 40(19.4 %) respondents agreed and 162(78.6 %) strongly agreed that most bids have annual turnover appropriate to the procurement bid. This implies that the financial capability of the bidders aligns with the requirement of the contract. Secondly, 37(18.0 %) respondents agreed and 166(80.6 %) strongly agreed (29.9 %) that most bids come with genuine tax clearance certificate (TCC). This means that the bidders have fulfilled their tax obligation and are in good standing with the tax authorities. Thirdly, 39(18.9 %) respondents agreed and 164(79.6 %) strongly agreed that bids always come with bank reference certificate; implying that they provide documentation that verifies their financial status, past performance and reliability in fulfilling contracts. The cluster mean for financial capability score was found to be 4.78. This suggests that respondents generally strongly agree that financial stability is crucial for procurement performance. This aligns with previous studies, such (Wangithi and Ndolo 2022;

Chukwuma and Ugochukwu 2021; Mukabi, 2021; Khaemba and Otinga 2019), which found that suppliers with robust financial backgrounds are better positioned to fulfill contract obligations effectively. Indicating a generally favorable financial standing among suppliers but also highlighting variability in their financial health. This variability is crucial as it suggests that while many suppliers are financially capable, some may still face constraints that could impact their performance in public procurement.

4.3 Procurement performance

The respondents were asked to indicate their level of agreement on various statements. A Likert scale with values ranging from 5 to 1; where 5=Strongly Agree, 4=Agree, 3=Uncertain, 2=Disagree and 1=Strongly Disagree was used. Table 3 presents the result on bidder's public procurement performance perceptions.

Table 3: Procurement Performance

Statement		Frequency And Percentages (%)							Decision
	N	**5**	**4**	**3**	**2**	**1**	**MEAN**	**SD**	
Procurement should be completed within the contract validity period	206	165(80.1)	38(18.4)	3(1.5)	0.00	0.00	4.79	0.446	High perception
Procurement should be executed within the agreed contract sum	206	162(78.6)	41(19.9)	3(1.5)	0.00	0.00	4.77	0.454	High perception
Procurement should be completed progressively according to the timelines to avoid red flags	206	168(81.6)	35(17.0)	2(1.0)	1(0.50)	0.00)	4.80	0.460	High perception
Cluster Mean							**4.79**		

Table 3 above presents the result of responses from LBRBDA Staff on the effect of procurement performance perceptions. This accessed influence of procurement performance perceptions. Table 9 indicates that 38(18.4 %) respondents agreed and 165(80.1 %) strongly agreed that procurement should be completed within the contract validity period. Secondly, 41(19.9 %) most respondents agreed and 162(78.6 %) strongly agreed that procurement should be executed within the agreed contract sum. While, 35(17.0 %) and 168(81.6 %) strongly agreed that procurement should be completed progressively according to project specifications.

4.4 Inferential statistics

This section presents the results of the correlation and regression analysis.

4.4.1 Correlation Analysis

Pearson correlation analysis was carried out to indicate the strength and direction between financial capability and procurement performance in LBRBDA. The result is presented in Table 4.

Table 4: Correlations Analysis Results

		Public Procurement	Financial Capability
Public Procurement	Pearson Correlation	1	
	Sig. (2-tailed)		

	N	206	
	Pearson Correlation	.988**	1
Financial Capability	Sig. (2-tailed)	.000	
	N	206	206

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

The study findings in Table 4 indicate a strong positive and statistically significant correlation between financial capability and procurement performance (r=.988; p<0.001).

4.4.2 Regression coefficients

Table 5: Coefficients of the Study Variable

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	**Std. Error**	**Beta**		
(Constant)	.351	.089		3.955	.000
Financial Capability (Fc)	.211	.043	.211	4.935	.000

Source: SPSS Version 21 Output (2025)

Table 5 above shows that financial capability is positive (0.211) and is statistically significant with procurement performance (p-value of 0.000 < 0.05) and t of 4.935 > 1.96). Thus the null hypothesis is rejected and the alternate hypothesis accepted. We therefore conclude that financial capability has significant positive effect on public procurement performance in Lower Benue River Basin Development Authority.

Thus, the regression equation can be expressed as:

$$\boldsymbol{PPP = 0.351 + 0.211F_c}$$

This finding aligns with previous studies that emphasize the importance of financial stability in enhancing procurement outcomes (Baum *et al*., 2021). This result also alings with (Wangithi & Ndolo 2022; Chukwuma & Ugochukwu 2021; Mukabi, 2021; Khaemba & Otinga 2019) who posisted that financial stability of suppliers, technical competency of suppliers, ethics of suppliers and information technology of suppliers should be considered during prequalification evaluation process. These results are also consistent with those of Martin and Milas (2010), who found that the financial stability of bidders' has a significant effect on the procurement performance The review of the literature analyzed in the study shows that the analysis of the financial stability of the bidders allows to determine the level of risk that would be presented if a large contract was awarded to a particular bidder. A bidder that has been evaluated and found to be financially sound will not stop them even if the payments are late. Thus, the performance of the purchase function will not be affected in terms of delivery time. Ramadhan & Gomera (2022) also confirmed that financial capability is a predictor of procurement performance. Hence, the p-value obtained from the regression analysis served as a critical component in hypothesis testing. A p-value less than 0.05 indicate strong evidence against the null hypothesis, supporting the conclusion that financial capability is indeed a significant predictor of procurement performance. Financially capable suppliers are often better equipped to manage cash flow, invest in necessary resources, and absorb potential risks associated with project execution. Consequently, LBRBDA and other public agencies should prioritize financial assessments during the prequalification process to mitigate risks and enhance procurement outcomes.

4.5 Hypotheses Testing

The hypothesis used in this study stated in the null form was tested. H_{01}: Financial capability has no significant influence on public procurement performance in Lower Benue River Basin Development Authority. The regression result in Table 6 shows that there is significant relationship between financial capability and procurement performance with beta-coefficient of 0.211 and significance of (p=0.000). The study rejected the null hypothesis and concluded that financial capability affects positively on procurement performance in LBRBDA. These results concur with by Khaemba & Otinga (2019) who found out that procurement performance improves when organizations prioritize suppliers' financial health during the tendering process.

Table 6: Regression Coefficients

Variables	Standardized Coefficients	t	Sig.
Financial capability (Fc)	0.211	4.935	.000

a. Dependent Variable: Public Procurement Performance (PPP)

Source: Authors' Computation 2025.

5. SUMMARY CONCLUSION AND RECOMMENDATIONS

This section presents the summary of major findings, draws conclusions, highlights key recommendations and suggests areas of further research.

Summary of Findings

Financial Capability has significant positive influence on Procurement Performance in Lower Benue River Basin Development Authority (LBRBDA) Nigeria ($p0.000<0.05$) is in line with a priori expectation.

5.1 Conclusion

In conclusion, the study confirmed that financial capability is a critical factor influencing public procurement performance; hence bid prequalification has significant positive effect on public procurement performance of the Lower Benue River Basin Development Authority.

Recommendations

This study therefore recommended that Lower Benue River Basin Development Authority should develop a comprehensive framework for assessing suppliers' financial capabilities. This framework should include standardized criteria such as liquidity ratios, profitability metrics and cash flow analysis. Implementing a rigorous financial assessment process will help mitigate risks associated with supplier insolvency and ensure that only financially stable suppliers are awarded contracts.

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