



INFLUENCE OF CONTRACT MANAGEMENT PRACTICES ON PERFORMANCE OF KIAMBU COUNTY, KENYA

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ABSTRACT

Procurement is a key economic activity of any government that significantly impacts how taxpayers' money is spent and is a function that remains most vulnerable to corruption. The Kenya government has lost hundreds of millions of tax payer's money through canceled contracts, unfinished projects, poor service or product delivery, corruptions and extended contract periods in the last eight years without major improvement. This study sought to fill the gap by empirically investigating the influence of contract management on performance of Kiambu County, Kenya. The study was guided by the following study objectives; to determine the influence of contract cost management on performance of Kiambu County, Kenya to establish effect of the contract relationship management on performance of Kiambu County, Kenya. The study adopted descriptive survey design and draw on a quantitative inquiry. This study picked a sample of 96 respondents. The study findings indicated that contract relationship management and contract cost management positively and significantly affect performance. As such, Kiambu County should embrace more contract relationship management.

Key words: Procurement Contract Management, Contract Cost Management, Contract Relationship Management and Performance

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INTRODUCTION

Procurement is a core activity that has implications on the operations of an organization together with being an activity which cuts across all the departments in the organization. It is an activity that forms part of the key operations within the organization since it is through procurement that the organization acquires the various resources that ensure its continued existence. Procurement is generally defined as the process of obtaining goods or services in any way including borrowing, leasing or even force or pillage (Lysons & Farrington, 2006). Every day and every moment, organizations world over are constantly involved in the process of procurement for goods, services, assets and/or works.

A procurement contract is an agreement in which a buyer agrees to acquire goods or services from a seller in exchange for consideration Bakari (2015). A contract is a legal document between the contracting entity and the contractor. It represents a binding agreement for all identified parties. The intent of a procurement contract is to outline all agreed upon terms and condition and manage the risk associated with the purchase of goods and services while protecting the integrity of the procurement policy and signing authority policy. According to Chesang (2013) procurement contracting practices include non-competitive contracting, competitive contracting, negotiated contracting and relational contracting. Procurement is a key economic activity of any government that significantly impacts how taxpayers 'money is spent and is a function that remains most vulnerable to corruption.

According to the public procurement and asset disposal act no. 33 of 2015, the tender documents shall be the basis of all procurement contracts and shall, constitute at a minimum: the contract agreement form, tender form, price schedule or bills of quantities submitted by the tenderer schedule of

requirements, technical specifications, general conditions of contract, special conditions of contract and notification of award. For every complex and specialized procurement contract, the accounting officer of a procuring entity shall appoint a contract implementation team which shall be responsible for monitoring the performance of the contractor, to ensure that all delivery or performance obligations are met or appropriate action taken by the procuring entity in the event of obligations not being met.

Decentralization is one of the most reforms of the past generation both in terms of the number of countries affected and the potentially deep implications of the nature and quality of governance. A decade ago, estimates of the number of decentralized experiments ranged from 80% of the world's countries to effectively all of them. Since then, further reforms have been encountered in countries like Bolivia, Ethiopia, Uganda, Cambodia, France, South Africa, South Korea, U.K, Japan, Peru and others. The trend encompass all of the world's regions, and includes nations rich and poor, large and small and with very different colonial histories. In short decentralization is being implemented essentially everywhere. Comparatively few studies investigate decentralization's effects on the quality of governance. Reforms around the world agree. Decentralization programs across the rich and poor countries are centrally motivated by a quest to improve governance (Ndegwa, 2002).

Public procurement is dictated by the government systems: unitary or federal system; central or local government. In unitary, the central government exercises control over local bodies government in various countries, be it provincial or local government. For example, in Uganda the central government regulates local government procurement structure and process. At the other extreme in the federal state system, federal and local government

enjoys a high level of autonomy. Each state and local is free to create their own procurement structure, methods and processes. Thus, public procurement in federal system is very fragmented and there exist a great variation in procurement organizational structure, methods and processes. The U. S and Canada are example of federal system. However, many unitary type countries, too much centralization tend to hinder procurement efficiency and growth (Thai, 2008).

A sound public procurement system needs to have good procurement laws and regulations. In practice and theory, public procurement laws and regulations have been considered as one of the most important pillars of a sound procurement system as evidenced in past research, publications and practices. Procurement laws and regulations lead to procurement efficiency or inefficiency. There was a debate about procurement legal framework that hinders or helps procurement direction. Ideally procurement laws and regulations should be clear, consistent, comprehensive, and flexible. Clarity, which requires the primary sources be carefully drafted to ensure that basic principles are clear but do not prevent the use of more efficient procedures or new technology.

According to de Mariz, M nard and beill (2014) procurement and disposal of public assets in public entities has been characterized by corruption and bureaucracies that render the process inefficient. This has led to the loss of tremendous amounts of finances from the government coffers. It is in an effort to streamline the process of public procurement and disposal that led to the establishment of the public procurement reforms. However, de Mariz et al. (2014) notes that the implementation of these reforms has been marred with a series of challenges thus limiting the original objective of instituting the reforms. According to de Mariz et al. (2014) corruption is a major factor

affecting the implementation of the public procurement reforms. De Mariz et al .(2014) asserts that corruption has been infiltrated into the public entities making the implementation of the public procurement reforms difficult due to set backs imposed by corrupt individuals.

Public procurement in Kenya is guided by the Public Procurement and Disposal Act, 2005 and the Public Procurement and Disposal Regulations, 2006 as published in the Kenya Gazette Supplement No. 92 dated 29th December, 2006, Legislative Supplement No. 53, Legal Notice No. 174. The Act defines procurement as the “acquisition by purchase, lease, hire purchase, license, tenancy, franchise or by any other contractual means of any type of works, asset, services or goods including livestock or any combination.”

The role of supervision of the public procurement process is carried out by the Public Procurement Oversight Authority (PPOA). This body has also prepared and circulated other related guidelines to public procurement that define how the process needs to be carried out within various entities. Like any other developing countries, the procurement professionals in Kenya have faced many challenges. The main obstacles include: lack of support by top management in the government –political was. Inadequate capital, lack of trained personnel in the public sector and attitude of staff in public sector. Other contributory factors include lack of accountability and transparency, poor knowledge and skills amongst bidders/contractors and challenge in the implementation of PPDA act 2005. Public procurement and disposal regulation was operational zed in Jan.2007. A program was set up to tackle the above issues highlighted by the review board. The reforms undertaken so far are the following: capacity building assessment, development and implementation of E-procurement, development of certification of suppliers system, establishment of

public procurement and oversight Authority, establishment of the Advisory Board and Review Board, development and implementation of monitoring and evaluation system, reforming the public health sector system.

County governments in Kenya were established under the County Governments Act (2012). The act was legislated in line with requirements of the current constitution promulgated in the year 2010, after approval through a popular vote by the public. The act defines; county governments, county assemblies, electoral wards, county executive, decentralized units, county public service, citizen participation, public communication and access to information, civic education and county planning, and procedures in suspension of county staff. The act clearly demarcates the composition, functions, and roles of both the county executive and the county assembly which are ideally independent arms of the government with different roles.

Statement of the problem

The contract management is a critical component of procurement process of public bodies. Contract management enhances the procurement process in diverse ways including anticipating future needs of users, reacting to arising challenges, and achievement of product and services quality. Other aspects include lead times in service delivery, budget considerations in procurement aspects, optimization of the efficiency, effectiveness and economy of service in contractual relationship, balancing costs against risks and actively management the relationship between procurement parties.

The mismanagement of procurement contracts continues to occur despite the enactment of the Public Procurement Assets and Disposal Act PPADA (2015) and the Regulations 2006 as well as creation of Public Procurement Regulatory Authority (PPRA) meant to promote effectiveness in public procurement and contract management. County

governments in Kenya have been adversely cited in the mismanagement of procurement contracts.

The Kenya government has lost hundreds of millions of tax payer's money through canceled contracts, unfinished projects, poor service or product delivery, corruptions and extended contract periods in the last eight years without major improvement (Transparency international, 2009). Out of this 5% goes to waste due to lack of proper management of the contracts (Gordon, 2009). (Maria, 2013) study established that, in contract management, the contract supply chain relationship provides high level framework to approach contracting as a business process. Organizations need to invest in developing the functional and interpersonal skills of the staff.

Transformation index –kenya (2014) reveals, Kenya loses a lot of taxpayers' money to improper contract practices specifically because of poor contract management practices. Data shows that the government of Kenya spends between 10 percent -30 percent of Gross Domestic Product on procurement alone (Maria, 2013). out of that 15% goes to waste due to lack of proper management of the contracts (Pyke, 2006).

Taking the case of procurement audit conducted by conducted by PPOA in 2007, it was attested the procurement contracts in 33% of the audited procurement (in 30 public Entities) were not implemented as per the terms of contract, including in Kiambu County. Poor contract management was contributed by inadequate and financial resources, weak contract terms, poor supervision and quality control, inadequate contract management skills and corruption (PPOA, 2007)

(R.o.K, 2010) confirmed the importance of contract administration to the success of the contract and for the relationship between customer and provider should not be underestimated. However, despite all the above findings, little study has been done in

public contracting and more so in County more particularly Kiambu County in confirmation of the facts mentioned above.

The price water coopers (2010) for the financial year 2008/09 revealed that procurement amounting kshs. 145,018,075 were misappropriated as a result of weakness in contracting and contract management which in return hindered the achievement of value for money in such public county government. This study therefore, sought to fill the gap by empirically investigating the influence of contract management on performance of Kiambu County, Kenya.

Study Objectives

The main objective of the study is to investigate the influence of procurement contract management on performance of Kiambu County, Kenya. The guiding specific objectives were;

- To determine the influence of contract cost management on performance of Kiambu County, Kenya.
- To establish the relationship management on performance of Kiambu County, Kenya.

LITERATURE REVIEW

Theoretical framework

Resource Based Theory

Resource Based View Theory was linked to resource mobilization variable. Resource mobilization is the maximizing on the use of the existing funds. Werner and Rume established Resource based view theory in 1984. The resource based view of the firm (RBV) explains that each institution or organization has unique resources and capabilities that make them different hence becomes competitive advantage (Muthuri, 2014). Initiated in the mid-1980s, the resource-based view (RBV) has since become one of the leading modern methods to the analysis of sustained competitive advantage (Tan & Meyer, 2010).

The theory on RBV offers a good explanation on how constituencies can make good use of their financial resources provided by the government in implementing the various projects in the constituency. Resource based view theory is of importance in ensuring NG-CDF is maximizing on use of existing funds. RBV is of importance in ensuring that other sources of funds are available and accounted for.

This theoretical framework helps us to be able to understand the style of management employed in dealing with allocation of contracts and how responsibilities and tasks are divided among each staff member with respect to their capabilities and ability to deliver. Therefore the framework employed by the procurement management can either be efficient or inefficient with regards to the procurement contract management process.

Contract Theory

Ineconomics, contract theory studies how economics actors can and do constructs contractual arrangement, generally in the presence of asymmetric information .because of its connections with both agency and incentives; contract theory is categorized within a field known as law and economics. One prominent application is the design of optimal schemes of managerial compensation (Laffont & Mrtimort, 2012)

This theory has been the object of theoretical research in common law Jurisprudence. It contracts legal formalism to a certain extent and is based on the assumption that all the contracts can fall along a relational range from discrete-mere transaction-to highly relational. Although no relation can be totally separate from relational elements, the isolation of the contract from a relational context and the complete and exact planning of the relationship presentation, although having a great importance for contracts law, cannot explain totally modern contractual relationships. Highly relational contracts

are these, the effect of which is strongly based on a specific social and economic context, on an on-going relation usually of trust between the parties, which influences the scope and content of the contract (Diathesopoulos, 2010).

The main result achieved through this family of models involves: mathematical properties of the utility structure of the principal and the agent relation of assumptions and variations of the time structure of the contract relationship, among others. It is customary to model people as maximizes of some utility functions, as stated by expected utility theory (Lyson, 2010)

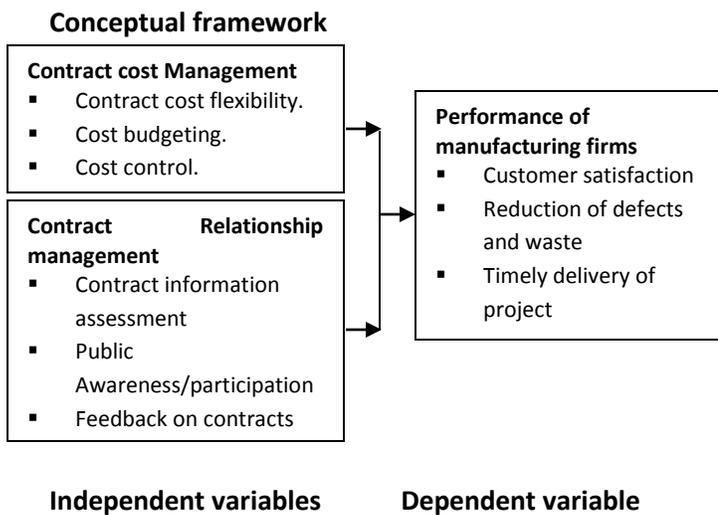


Figure 1: Conceptual Framework

Source: Author (2019)

Contract Cost Management

Cleland and Bidanda (2009) have stated that in a highly connected and competitive world, most projects must function in an environment that interacts with joint ventures, alliances, multinational sourcing, sub-contractors, and intricate vendor relations. Relationships with external organisations are managed through contracts. In general, companies provide services or products based on the results of direct contract negotiations with the client. One of the most important factors in preparing a

proposal and estimating the cost and profit of a project is the type of contract expected

The confidence by which a bid is prepared is usually dependent on how much risk the contractor was incur through the contract. Certain types of contracts provide relief for the contractor since onerous risks exist (Kerzner, 2009). He further states that the size and experience of staff, urgency of completion, availability of qualified contractors, and other factors must be evaluated carefully during contract negotiations. There is a third hybrid type commonly in use called time and materials contract. The fixed-price contract type is recommended, although some projects also prepare team contracts to define ground rules for the project. However, in practice it is not unusual to combine one or more types into a single contract document. Once the contract has been signed, both parties must meet their obligations under the contract.

According to Dmaidi, Dwaikat, & Shweiki (2013), there are two broad objectives of contract management. The first is the definition of the parties' roles with a view of achieving the contractual obligations while the second is the development of a mutually rewarding relationship between parties involved in contract. Aluonzi, Oluka, & Nduhura (2016) noted that contract management involves three diverse aspects; achievement of product quality, delivery on time and within the budget. In this context, Aluonzi et al., (2016) indicated that contract management is divided into the upstream/pre contract award activities and downstream/post contract award activities.

Marco (2013) added that contract management involves the proactive management of the relationship between the parties in a contract with a view of anticipating future needs and managing arising risks with a view of improving the performance over the lifecycle of the contract. In a study on the procurement contract management in

public procurement, Kakwezi (2012) noted that contract management activities can be divided into three broad sections that is service delivery management, relationship management, and contract administration. In this context, the service delivery management involves the full management of all the contractual deliverables, performance levels of the contract as well as the contract quality.

Silvana (2015) in a study on the contract management on private public partnership indicates that the aim of contract management is the optimization of the efficiency, effectiveness and economy of service in contractual relationship, balancing costs against risks and actively manages the relationship between procurement parties. Langat (2013) found that procurement performance involves the manner in which procurement function is able to reach the objectives and goals with minimum costs. The study examined procurement performance in terms of efficiency, competitiveness of services procured, quality of goods procured, and reduction of conflict of interests within the procurement activities.

Masaba (2010) found that procurement performance can be measured using two metrics; effectiveness and efficiency. Effectiveness in procurement performance involves achievement of procurement values such as transparency, accountability and value for money. The efficiency aspects of procurement involve aspects such as adequate consideration of the user needs, efficiency in utilization of public resources and risk management. On the other hand, the study by Kamothe (2014) used metrics such as costs management, inventory levels, time taken to complete procurement process, delivery of best-value contracted goods and service, stronger vendor-buyer relationship, and assured supply to measure the effectiveness of procurement contract management.

Contract relationship management

Contract Relationship Management is an all-inclusive method to managing firm's interactions with its

Contractor. It plays a vital role in saving costs and increasing of procurement performance in organizations. This part gives a broad insight into the SRM strategies that organizations should practice to reduce costs, avoid supply delays and improve overall procurement performance. To manage supplier relations organizations can employ a variety of strategies such as, Contractor segmentation, governance, contractor performance management, and contractor development (Zimmermann, et al 2015; Chopra and Meindl 2013; Lysons and Farrington 2006).

Launching effective supply governance is vital to unraveling contractor relationship value, particularly for partner contractors (Anderson, 2002). To achieve this, the internal governance processes must be aligned to the organizational structure and assigned teams ownership (Shin, Collier & Wilson, 2000). It is essential to encompass the right stakeholders from the business in the process of as well as ownership from procurement department in contractor relationships (Archer, 2003). These stakeholders are part of a recognized contractor governance committee for each category of contractors. A governance committee describes and pushes the strategic roadmap together with the contractor (Choy, Lee & Lo, 2002). These committees are indispensable for a steady and reliable interface with contractors to identify and sustain long-term value, for example, IBM has sourcing committees especially liable for the strategic contractor relationships for each category of spend (Li, Ragu-Nathan, Ragu-Nathan & Rao, 2006). The committees devote time developing, mentoring and working with contractors to increase their business so firms can in return gain some benefit (Shin, Collier & Wilson, 2000). Sourcing committees proactively engage with contractors in discovery of the best value in terms of quality, pricing and overall relationship at all levels within the supply network (Li, Ragu-Nathan, Ragu-Nathan & Rao, 2006).

Organizations practicing SRM culminate in improving their performance (Baily 2008). Constant maintenance of a worthy relationship with contractor s was guard an organization from the hitches of quality, increase efficiency and hence improve performance (Liker and Choi, 2004). The contractor is made part of the organization and was continuously keep that particular organization in mind (Zimmermann, et al 2015). Firms are bound to cultivate and maintain long term relationships with contractor s by sharing information, managing the contractor performance and using information technology in supply chain management (Lysons&Gilligham, 2003). Realization of the process is dependent on procurement function skill to manage expenditure for the organization (Choy, Lee & Lo, 2002). The benchmarks along which these relationships are highlighted are typically expenditure and business criticality (Zimmermann, et al 2015). The supplier segmentation process is a precondition to set up operational governance with strategic contractor s (Wietfeldt, 2003).

Empirical Literature

A study by Abere and Muturi(2015) on the county government of Nyamira revealed that a majority of the staff have not attended any procurement training, conference or workshop and experienced severe difficulties in implementing the provisions of the Public procurement and Disposal Regulations. The same study also revealed further that for the few staff who had received training on PPDR, they were able to administer procurement proceedings without material difficulties.

Waigwa and Njeru (2016) study revealed that adoption of technical skills & knowledge influenced contract management to a greater extent meaning that the employees working on the procurement contracts must possess the required skills and that use of management contract enables promotes transparency, accountability and reliability hence

enhancing contract management. Training was also found to be an important factor but it was not available for all, meaning that those who could not access training were likely to face challenges in contract management, in addition on job training had an influence on contract management to a very greater extent. B.I. Chimwani, M.A. Iravo, and O.I Tirimba(2014) also exhibited the same results where manual system resulted in inefficiency and losses and qualified staff ensured effective management of procurement function.

Munywoki, (2016) found that the more and thorough the staff is trained on public procurement, the more it's likely to comply with Public procurement regulations and lack of training the staff on the requirements of the law results to serious effects such as high levels of corruption, dissemination of procurement data to unintended parties, breach of contracts and false misrepresentation in award of tenders. The adoption of contact management practices was found to have an effect of increasing efficiency enabling departments to have effective service delivery. Further the development of procurement strategies and formulation of timelines by top management affect the procurement legislation compliance while the absence of teamwork within the departmental heads and stakeholders impedes compliance in public procurement Regulations procedures.

According to the Controller of Budget's report 2013/2014, low levels of staff capacity, especially in public procurement and financial management, affected budget implementation, resulting in low absorption of funds. Lack of capacity in terms of knowledge of The Public Procurement and Disposal Act 2005, by some procurement professionals, is also contributing significantly to the inadequate fulfillment of procurement requirements. Unplanned spending was visible and it included the total lack of procurement plans, or the ineffective use of existing

procurement plans in anticipating all the activities to be undertaken. Lack of procurement plans leads to public procurement inefficiencies, including delays in preparation and submission of departmental procurement plans, have led to delays in project implementation.

Wang and Bunn (2004) propose a combination of business-government relationship as a unifying background for understanding the issues of buyer-seller links in government contract performance. Additionally, Enquist, Johnson and Camen (2005) conducted a study on contract management and sustainable service in public transport sector in Sweden. Moreover, Jones and Kaluarachchi (2007) also studied operational factors influencing strategic partnership social housing in the UK. They concluded that poor management of expectations between partners undermine trust and confidence in the process.

Gupta, Karayil and Rajendran (2008) reveal that poor contract management causes substantial loss of saving. They also argue that 30 to 70% of each dollar of saving that is negotiated by a strategic outsourcing is lost. This happens through spend-leakage and subsequent noncompliance. They further argue that poorly managed contracts affect the purchasing firm's credibility through a snowball effect. This implied that the difficulty to internally sell and enforce future contracts. For many years, businesses got the whole concept of contract management wrong, hence the heavy fine of non-compliance.

Holt and Graves (2001) conducted a study on benchmarking UK public government and discovered a positive correlation between benchmarking and supply chain performance in the country. As well, a study by Bassioni, Price and Hassan (2004) dwells on the performance measurement in construction industry. Amin (2012) conducted a study on e-procurement organizational performance in commercial parastatals in Kenya. CMKN (2012)

highlights some of the factors that contribute to inefficiency in public procurement. Corruption, delayed payments, poor planning, statutory amendments, insufficient use ICT, low public participation and improper payment procedures negatively affects public procurement in the country. Mohammed (2008) also sought to establish the effects of performance contracting on banking industry's operational performance. Sanghera (2008) says that an organization can determine if it is engaging in effective contract management if it makes appropriate strategic decision and drafts right contracts.

RESEARCH METHODOLOGY

The study adopted descriptive survey design. According to Mugenda and Mugenda, (2003) descriptive research design is a scientific method that involves observation and description of behavior of a subject without influencing it in any way. The descriptive research design is the most suitable research design for this study because, it accurately describes an association between variables minimizing bias and maximizing the reliability of the data Kothari, (2004). The study populations for this study were 395 procurement professionals and accounting officers of Kiambu county. The study used the Yamane (1967) formula to arrive at the sample size. The selection formula is as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where n= the required sample size

N = is the Target Population (395 employees)

e = accuracy level required. Standard error = 5%

Sample calculation

$$n = \frac{395}{1 + 395(0.05)^2}$$

$$n = \frac{395}{1.9875}$$

$$n = 198$$

n=198 Respondents

Therefore, using Yamane (1967) formula, the sample size was 198 out of 395 targeted staff, which was represent 50% of the target respondents. The study

used stratified random sampling in selection of 198 employees, Random sampling frequently minimizes the sampling error in the population. Questionnaire was used to collect required data for this study; the questioners used for the study composed of open and closed ended questions. Pilot study was conducted by issuing questionnaires to 10% of the target population in Kiambu County. Qualitative data analysis was used because it helped the researcher to gain in-depth understanding of the research findings. The quantitative data to be collected was analyzed using the Statistical Package for social Sciences (SPSS) Version 22. Multiple regression model was used to

show the relationship between dependent and independent variable.

FINDINGS

The study sampled 198 respondents from which 112 filled in and returned the questionnaires making a response rate of 56.6 % as presented in table 1. This response rate was adequate to make conclusions on the effects of contract management practices on performance of Kiambu County in Kenya. According to Mugenda and Mugenda (2008), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response of 70% and above is excellent.

Contract Relationship Management

Table 1: Effect of Relationship management on Kiambu performance

| Statements | Strongly disagree | Disagree | Moderate | Agree | Strongly Agree | Mean | Std. Deviation |
|--|-------------------|----------|----------|-------|----------------|------|----------------|
| The organization use a criterion in categorizing suppliers | 4 | 12 | 15 | 56 | 25 | 3.77 | 0.181 |
| The organization chooses contractors who have capacity to deliver | 11 | 17 | 28 | 47 | 9 | 3.70 | 0.139 |
| The organization ranks contractor relationships by competency | 24 | 9 | 20 | 57 | 2 | 3.58 | 0.189 |
| The organization allocate resources and efforts on strategic suppliers. | 19 | 11 | 23 | 55 | 4 | 3.18 | 0.175 |
| The organization has transactional suppliers for basic supplies and continuing basis | 7 | 11 | 19 | 53 | 22 | 3.64 | 0.162 |

From the findings, majority of the respondents agreed that the organization used a criterion in categorizing suppliers as shown by mean of 3.77. Majority of the respondents agreed that the organization choose contractors who had capacity to deliver as shown by mean of 3.70. Respondents agreed that the organization ranked contractor relationships by competency as shown by mean of 3.58. Concisely, Majority of the respondent were in agreement that the organization allocated resources efforts on strategic suppliers and the organization had transactional suppliers for basic supplies and continuing basis as shown by mean of 3.18 and 3.64 respectively. From the findings it was clear that

mutual processes between suppliers and buyers were important in determining the supplier defect rate which affects the performance. As such, relationship management is strongly affected by mutual processes which in turns affect the performance in terms of achieving their objectives especially on reduction of supplier defect rate. The findings were in tandem with Oyugiet *al* (2015) who concluded that proper relationship with suppliers would significantly improve performance in his study on contract relationship management and performance hence supplier development programs, strategic management of supply base and increased information sharing impact performance.

Contract Cost Management

Table 2: Statement relating to the effect of Contract Cost Management on performance of Kiambu county.

| Statements | Strongly disagree | Disagree | Moderate | Agree | Strongly Agree | Mean | Std. Deviation |
|--|-------------------|----------|----------|-------|----------------|------|----------------|
| Compliance with the contract conditions by the supplier/service provider enhance procurement contract management | 4 | 7 | 18 | 64 | 19 | 3.87 | 0.216 |
| The organization comply with the contract conditions by awarding the contract to the most suitable party | 2 | 10 | 23 | 57 | 20 | 3.81 | 0.188 |
| Compliance with the general contract's conditions | 1 | 3 | 9 | 70 | 29 | 4.10 | 0.257 |
| Compliance with the specific contract's conditions. | 8 | 2 | 22 | 63 | 17 | 3.18 | 0.214 |
| Understanding of contract document is very relevant and important in order to sustain the desired cost, time and quality | 0 | 0 | 4 | 63 | 45 | 4.37 | 0.264 |

The study sought to determine the effect of contract cost management on performance on manufacturing firm in Kenya. Majority of the respondents agreed that contract cost management affect performance in the organization shown by a mean of 3.87. Respondents agreed that Compliance with the contract conditions by the supplier/service provider enhance procurement contract management showed by a mean of 3.87. Majority of the respondents strongly agreed that the organization comply with the contract conditions by awarding the contract to the most suitable party shown by a mean of 3.81. Respondents agreed that Compliance with the general contract's conditions and Understanding of contract document is very relevant and important in order to sustain the desired cost, time and quality shown by a mean of 4.10 and 4.37 respectively. From the findings, it was clear that contract cost management affects performance with more emphasis on contract planning, contract monitoring and contract control. It's clear from the findings that proper contract planning affects performance and is important in reduction of procurement cycle times. The findings concur with Njeru, (2013) who concluded that there existed a strong relationship between contract planning and performance, hence study concludes that the presence of procurement portfolio, efficient logistics

management and adherence to procurement plans affects performance. In addition, the findings agreed with Kabega (2016) who concluded that proper contract cost management improves performance in terms of short-time delivery and customer satisfaction on his study on construction projects and contract management. The purpose of contract cost management therefore is the enable the firm to utilize the available resources fully to achieve the overall procurement objectives.

Performance

The study sought to examine the respondent's percentage measurement of procurement function in relation to contract management practices within the firm over a period of five years with the variable concerning contract management and performance in the firms. It was clear that in the years and contract success rates are fluctuating and improving which shows a positive improvement. The year 2017 had the highest rates 74% of customer satisfaction due to contract management practices while the year 2014 had the least rate 36% of customers were satisfied due to contract management practices. This implies that rate of successful contracts fluctuates depending on the factors affecting the performance of both the suppliers and the buyers, a number of complaints are received in the procurement department annually in

relation to failed contracts and customer satisfaction varies depending on performance of each contract and therefore contract management practices affects customer satisfaction. The findings concurred with Gupta (2008) who revealed that poor contract management causes substantial loss of savings and customer dissatisfaction.

The study found out that 2013 had the most rejects due to poor contract delivery at 27% while 2017 had the lowest at 9%. Contract management practices had led to a reduction in supplier defect rates as shown in the figure above. In 2013, contract management practices contributed to 27% reduction in supplier defects, 2014 was 28%, 2015 was 22%, 2016 was 15% and finally 2017 at 9% reduction in supplier defects rates. From the findings, it is clear that contract management practices had been leading in reduction of supplier defects rate. This findings were tandem with Rotich, (2012) that effective contract management improves supplier

performance, in the aspect of compliance and meeting specifications in state cooperation's in Kenya.

The study findings revealed that contract delivery had been improving. The number of contracts delivered within thirty days after the request had been raised had improved as the years progressed. The respondents indicated that percentage reduction in procurement cycle times had been increasing within the years, in 2017, the reduction in cycle times was the highest with 46%, in 2016 there was a 38% reduction in cycle times, 2015 was 27%, 2014 was 25% and finally 2013 at 12%. This implies that contract management has reduced procurement cycle times as the years progressed. The findings concurs with Kakwezi (2012) that contract management practices in public procurement has significant implications for service delivery, that is proper contract management procurement cycle time is reduced significantly.

Table 3: Model Summary

| Model | R | R square | Adjusted R Square | Standard Error of the Estimate |
|-------|-------------------|----------|-------------------|--------------------------------|
| 1 | .813 ^a | .660 | .648 | .13747 |

a. Predictors: (Constant), Relationship management, Contract cost management,

Adjusted R squared is coefficient of determination which tells us variation in the dependent variable due to changes in the independent variables. The value of adjusted R squared was 0.648 an indication that there was variation of 64.8 percent on performance due to changes in contract relationship management and

Contract cost management. The R Square in this case is 0.660 which clearly suggest that there is a strong relationship between contract relationship management, Contract cost management and performance.

Table 4: ANOVA^a

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|------------|----------------|-----|-------------|--------|-------------------|
| Regression | 47.672 | 2 | 23.836 | 13.678 | .013 ^b |
| Residual | 189.938 | 109 | 1.7426 | | |
| Total | 237.61 | 111 | | | |

a. Dependent variable: performance

b. Predictors: (Constant), Contract Relationship management, contract cost management

Since the tabulated F (critical) (2,109) at $\alpha = 0.05$ was 3.08 which was less than F computed (13.678) hence there is a significant effect of the independent variables and thus the overall model is significant.

Table 5: Coefficients

| Model | | Unstandardized | Unstandardized | | | |
|----------------------------------|--|-------------------|---------------------------|------|-------|------|
| | | coefficients B | coefficients Std Error | Beta | T | Sig. |
| Constant | | .159 | .046 | | 3.475 | .001 |
| Contract Relationship management | | .297 | .040 | .463 | 7.415 | .000 |
| Contract Cost management | | .295 | .064 | .429 | 4.609 | .000 |

A simple regression model was used in determining the level of effect the independent variable have on dependent variable as shown below

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

$$Y = 0.159 + 0.297X_1 + 0.295X_2 + e$$

Contract Relationship management was found to have a positive significant effect on performance of Kiambu county ($X_1 = 0.297$, $P = 0.000 < 0.05$). This shows that one-unit change in relationship management results in 0.297 unit increase in performance of manufacturing firm other factors held constant.

Contract cost management was found to have a positive significant effect on performance of Kiambu county ($X_2 = 0.295$, $P = 0.000 < 0.05$). This shows that one-unit change in Contract cost management results in 0.295 unit increase in performance of manufacturing's firm other factors held constant.

CONCLUSIONS

From the findings it was clear that contract relationship management affects performance, more specifically mutual processes between suppliers and buyers. Relationship management is strongly affected by mutual processes which in turns affect performance in terms of achieving their objectives especially on reduction of supplier defect rate.

Contract cost management affects performance with more emphasis on contract planning and contract monitoring. It's clear from the findings that proper contract planning affects performance and is important is reduction of procurement cycle times

The study concluded that both variables significantly and positively affects performance. Contract Relationship management is the most important in performance followed by contract administration then post contract appraisal and the least is contract closure.

The study further concluded that proper contract management is essential in ensuring that all parties to the contract fully meet their respective obligations as efficiently and effectively as possible, delivering the business and operational outputs required from the contract and providing value for money, customer satisfaction and reducing cycle time.

RECOMMENDATIONS

The study recommended that Kiambu County should maintain the spirit of good relationship. Good attitude between the suppliers and buyers is essential in enhancing performance of a firm. Mutual process should also be created between the parties in the organization to enhance smoothness of the operational activities and entire performance of a procurement function.

Kiambu County needed proper outline procedures for contract administration. The study found out that most of these institutions did not bother following up with the contractors to ensure that the contract was fulfilling its mandate. To them, once a contractor was awarded then it was left as the contractor's obligation to ensure the contract is fulfilled. This practice needed urgent attention to save most contracts that were failing to mature within these firms.

Areas for Further Research

Further research should include other sectors to ascertain the effects of contract management practices on performance. Additionally, contract

management practices should be compared in different sectors such as public, non-profit and profit-making organizations.

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