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RELATIONSHIP GOVERNANCE STRUCTURE AND PERFORMANCE OF COUNTY GOVERNMENTS IN KENYA

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ABSTRACT

The purpose of the study was to determine the influence of relationship governance structure on performance of county governments in Kenya. To achieve this, the researcher reviewed both theoretical and empirical literature and the research methodology that addressed the gaps identified in literature. The study employed a descriptive research design. The study targeted 136 respondents including the Chief Finance Officers in charge of Finance and Economic Planning, Heads of the Supply Chain Management Unit and Procurement staff at the departmental level in the metropolitan counties. The researcher preferred this method because it allows an in-depth study of the subject. Data was collected using self-administered questionnaires. The target population was the procurement staff at each metropolitan county government. Pilot study was carried out to establish the validity and reliability of the research instruments. The data collected was analyzed by use of descriptive and inferential statistics. The study used regression and correlation analysis to show the relationship between the dependent variable and the independent variables. The data generated was keyed in and analyzed by use of Statistical Package of Social Sciences (SPSS) to generate information that were presented using charts, frequencies and percentages. The study found that relationship governance structure had impact on the performance of the firm, it contributed to the ability to approve the available supplier based on their ability to perform the duties assigned. The study recommended that county government should adopt relationship governance structure. These should be done by having an effective ERP systems, Electronic payments systems, electronic document management systems, and electronic tendering in the organization. It was recommended that a similar research should be conducted with an aim at investigating the influence of supply chain optimization on performance with other variables or of other firms in other sectors, including the service industry in the Kenyan market.

Key words: *Relationship Governance Structure and Performance*

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INTRODUCTION

Organizations whether for profit or non-profit, private or public have found it necessary in recent years to engage in Supply Chain optimization in order to achieve their corporate goals. The environments in which they operate have become not only increasingly uncertain but also more tightly interconnected. This requires a threefold response from these organizations. They are required to think strategically as never before, need to translate their insight into effective strategies to cope with their changed circumstances and lastly, develop rationales necessary to lay the groundwork for adopting and implementing strategies in this ever-changing environment (Andersen, 2010).

Supply Chain optimization is a unifying theme that gives coherence and direction to the actions and decisions of an organization. It guides an organization to superior performance by helping establish competitive advantage. It acts as a vehicle for communication and coordination within the organization. The goal of strategic management therefore is to build and maintain sustainable competitive advantage and create stakeholders' wealth. Supply Chain optimization process includes formulation, implementation, evaluation and control (Chandler, 2012).

Chandler (2012) defines Supply Chain optimization as the determination of basic long term goals of an organization and the determination of courses of actions and the allocation of resources necessary to carry out these goals. Supply Chain optimization thus helps an organization in utilization of its resources so as to give value to customers and in so doing achieve its objectives. According to Fred (2009), Supply Chain optimization is the process and approach of specifying an organization's objectives, developing policies and plans to achieve and attain these objectives, and allocating resources so as to implement the policies and plans. The strategy must also be consistent with the firm's vision, mission and objectives. In Supply Chain optimization, the firm must analyze the advantages, disadvantages, trade-offs, costs and benefits of each alternative strategy. The ultimate success of the identified strategy depends on its implementation. According to Pearce and Robinson (2009), Supply Chain optimization provides long term direction for the firm and helps the firm cope with change and enables it to focus resources and efforts in the market.

Organizations are operating in an environment characterized by countless economic and political disruptions to their sources of supplies and services. In order to survive in this turbulent marketplace, these organizations must continually monitor their competitive position as well as their internally controllable processes, especially the procurement process (Gillinghan, 2013). As a result, modernization of procurement practices and processes presents government with a clear opportunity to leverage significantly improved value for money from its total spend on goods and services.

According to Mentzer (2010), government purchases of goods and services account for about 5%-8% of the GDP in OECD countries. In order to combat the mounting fiscal deficits, governments across the world have come under immense pressure to reduce their spending. One of the challenges of procurement is inefficient cost cutting, lack of transparency even during negotiations, and hence competitive pricing will only have a limited impact on savings (Mullins, 2015). As a result, public sector buyers will be forced to revisit procurement practices and built an efficient and agile supply chain.

Worldwide, public procurement has become an issue of public attention and debate, and has been subjected to reforms, restructuring, rules and regulations (Thomson & Jackson, 2011). Globally, in many developed nations, government organizations across the world tend to spend between 8 per cent and 25 per cent of GDP on goods and services; in the UK, public sourcing expenditure is approximately £150 billion (Mullins, 2015).

Many of the developing nations were colonized and when they became independent they inherited governance structures from their colonial masters. The post-colonial public sector of these nations therefore, delivered services to their people based on the skills derived from their masters and more importantly; this will be done under mono-party political dictatorship. The challenges of such a set up are obvious: skewed distribution of government resources, bloated civil service and inherent misappropriation of money (Taiwo & Idumo, 2010).

Consequently, many of these nations disintegrated because conflicts were the order of the day and coups were rampant resulting into military dictatorships. The citizens lived in despair and the only hope that will be left in them will be the wish to have a change in leadership and most preferably democratic change that could see countries engage in equal and meaningful distribution of government development (Kalakota & Robinson, 2011).

It is against the above backdrop that service delivery to citizens by many developing nations globally and mainly Africa has been marred by poor leadership and procurement practices. The service delivery by the public sector aimed at achieving development goals, can only be realized through change to strategic procurement management (Gadde & Hakansson, 2014).

Procurement in Kenya has evolved from a crude system with no regulations to an orderly legally regulated procurement system (Rotich, 2011). The Government's procurement system will be originally contained in the Supplies Manual of 1978, which will be supplemented by circulars that were issued from time to time by the Treasury. The director of government supply services will be responsible for ensuring the proper observance of the provisions of the Manual (PPOA, 2007).

The systems had other institutional weaknesses that not only undermined its capacity for carrying out their mandates effectively but also led to a public perception that the public sector will be not getting maximum value for money spent on procurement (Oyuke & Shale, 2014). In view of the above shortcomings, it will be found necessary to have a law to govern the procurement system in the public sector and to establish the necessary institutions to ensure that all procurement entities observe the provisions of the law for attaining the objectives of an open tender system in the sector (World Bank, 2013).

According to Wangari (2007), for most of organizations, procurement process, is still seen as add on rather than core to business operations. This therefore affects the level of investment and resource allocation towards procurement process function in the private sector. In today's complex global economy, the procurement process function in private sector in Kenya must respond to a number of difficult issues, in no small part compounded by the recent economic turmoil and the changing dynamics of the global supply chain (Odundo, 2012).

With so much at stake it obviously makes sense to fill key procurement process roles with seasoned employees that have a keen understanding of how the commoditization process works in today's environment of increasing complexity across the supply chain (Nzuve & Musyoka, 2012). Overall, inhibiting factors to procurement process performance in Kenya must be looked into holistically. Procurement performance is the backbone of an organization success since it contributes to competitive purchase and acquisition of quality goods that puts the organization products or services in the competitive edge in the market (Mwenda, 2012).

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However, on several occasions, poor procurement process performance has caused private sector financial loss due to delivery of poor quality work materials, loss of value for money and inflated prices. Poor procurement process performance also contributed to decrease of profitability of private sector (Juma, 2010).

County governments in Kenya were established under the County Governments Act (2012). The act was legislated in line with requirements of the current Kenyan constitution promulgated in the year 2010, after approval through a popular vote by the Kenyan 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.

The act segregates the counties into wards which are represented by a member of the county assembly elected by the public. The act further specifies units in the public service that are decentralized to the county governments such as health and some sections of infrastructural development with the rest remaining under the national government. The act further requires that the public must be involved in allocation of county funds into the various projects established with consultation with the public. This in essence makes the county governments have the responsibility to procure and dispose public assets thus making the counties be subject to the public procurement and disposal act. This study was undertaken in metropolitan counties including Nairobi, Muranga, Kajiado, Kiambu and Machakos.

Statement of the Problem

Supply Chain optimization is a very important component in the success of operations in any organization. The logic of this trend is that an organization increasingly focuses on those activities in the value chain where it has a distinctive advantage and outsources everything else (Oyuke & Shale, 2014). Supply Chain optimization is a well-established and proven method for managing large-scale, medium to long term procurement activities. It has been adopted as standard practice by numerous public and private organizations in developed countries (Arrowsmith & Trybus, 2010).

County government continues to experience major challenges in procurement performance. Kenyan central government spends about Kshs. 234 billion per year on procurement; however, the government loses close to 17% of the national budget due to inflated price quotations and other irregularities (Ngugi & Mugo, 2012). In the year 2015, the county government of Kakamega lost Ksh. 200 million and in the year 2016, a total of Ksh. 93 million is said to have been embezzled from the infrastructure proposals (Otieno, 2016). The inefficiency and ineptness of overall implementation of procurement practices in County government contributes to loss of over Ksh.10 billion annually (PPOA, 2015).

According to Thomson and Jackson (2017), procurement expenditure could be minimized through proper implementation of Supply Chain optimization. According to Arnott (2017) 70% of an organization's sales revenues are spent on purchasing inputs hence if procurement costs can be reduced, this can improve returns on investment by increasing both profit margins and asset turnover rate. It applies to county government proposals where procurement consumes 60% of the proposals cost according to Wanyama (2013).

It is clear that despite the significant role of procurement function in the public sector, there is inadequate literature from previous empirical studies related to factors affecting efficiency of procurement function particularly among the county government in Kenya. A study by Ndiiri (2016) on performance of procurement in County government in Kenya mainly focused on E-procurement implementation. Another study by Nzambu (2015) on determinants of procurement performance in County government did not sufficiently address the drivers of Supply Chain optimization in Metropolitan County governments in Kenya.

While numerous researches have unraveled factors affecting Supply Chain optimization (Korir, 2009; Kinoti, 2013) most of them have not exhaustively investigated Supply Chain optimization within county governments. It is against this backdrop that this study sought to examine the influence of Supply Chain optimization on performance of Metropolitan County governments in Kenya.

Objective of the Study

The objective of the study was to examine the influence of relationship governance structure on performance of Metropolitan County governments in Kenya.

LITERATURE REVIEW

Reinforcement Theory

This theory is based on operant conditioning developed initially by a psychologist by the name of B.F. Skinner (1988). The theory argues that the behavior of people is largely determined by its consequences. Those actions that tend to have positive consequences tend to be repeated in future while those with negative consequences are unlikely to be repeated again (Otube, 2010). As such, decision makers in organizations should endeavor to ensure that consequences of good performance are pleasant while those of poor performance are unpleasant.

With regard to vendor management, it should be made quite clear that meeting or surpassing the appraisal criteria would result in winning the confidence of the appraiser. This would ultimately result in the appraise benefiting by having contracts awarded to them which according to this theory, can be referred to as the 'pleasant consequence' (Brown, 2011). The basic idea underlying reinforcement theory is the concept of reinforcement itself. An event is said to be reinforcing if the event following some behavior makes the behavior more likely to occur again in future.

According to Christensen (2010), positive reinforcement entails use of positive consequences that stimulates the desired behavior and strengthens the probability of repeat in such behavior in future. Suppliers can get positive reinforcement by being assured of continued business partnership should they continue meeting the client's expectations. They can also be issued with recommendation letters or certificates of exemplary performance to motivate them to continue performing well negative reinforcement this is also referred to as "avoidance learning".

It involves use of unpleasant consequences to condition individuals from behaving in undesirable manner (Davis, 2015). By making unpleasant consequences contingent on undesirable performance, suppliers will systematically change their ways and endeavor to meet the requirements of their clients. By so doing, the resultant win-win situation will ensure that the performance of the procurement function is positively affected. In vendor management, consequences of not meeting the scoring criteria should be made known in the tender or request for quotation documents to serve as an alert against negative consequences (Lysons & Gullingham, 2013).

Mahmood (2010), Extinction involves withdrawal of all kinds of reinforcement to extinguish undesirable behavior. There are individuals who like the attention that is brought about by undesirable behavior. A practical example is one where a supplier deliberately delays delivery of items just to have the client make several follow-ups. The supplier may come up with all sorts of excuses for the delay, most of which are fictitious as he is only seeking attention (Christine, 2016). By ignoring such a supplier, the attention they are seeking is withheld and they will not repeat the same in future. Punishment works perfectly when an undesirable behavior needs to be reduced or eliminated.

According to Martin (2014), to continue enjoying the good results, the suppliers are likely to do all they can to ensure they keep scoring well and maintain good performance in future. The poor performance they may record in some areas or instances is unlikely to be repeated in future events. A procuring entity that applies prudent supplier evaluation stand to greatly benefit from good or improved performance of its procurement function now and in the future. Good vendor management using the key parameters which are financial stability, quality aspects, reliability and past performance is a tool that can be used to put the reinforcement theory into practice in the area of strategic procurement management (Carter, 2010).

Public Value Theory

Public value theory will be formulated by Prof. Mark Moore (1995) to provide public sector managers with a greater understanding of the constraints and opportunities within which they work, and the challenge to create publically valuable outcomes. Benington and Moore (2010) argue that public value theory envisages a manager's purpose as going beyond implementation of policy and adherence to institutional norms. It includes seeking out opportunities to make significant improvements to the lives of the public. Moore (1995) also notes that public value theory articulates a more proactive and strategic role for public sector managers who seek to discover, define and produce public value, instead of just devising means for achieving mandated purposes. So, rather than procuring proposals using traditional procurement methods, a public sector client might decide to pursue a proposal as long as they can account for cost and saving throughout the proposal lifetime (Amekudzi, 2008).

According to Constable, Passmore and Coats (2008) unlike private enterprise, organizations providing public services are directly accountable to citizens and their democratic representatives. This theory will be important in explaining VFM when applied to a county, which means that a county is supposed to bring larger value for the money that the public sector spends, compared to when services are provided 'in-house' (by public agencies) or when services are contracted out to a private company. The underlying logic is that using a county will make sense, in the opinion of many, only if it can deliver public sector services cheaper and better, meaning with smaller costs as opposed to other options, and with improved quality (and other enhanced output features) as opposed to other options. If value for money is not achieved, for example, when government costs of the proposal are higher than costs involved in the direct public service provision, a county should not be employed to achieve public procurement when the private sector pays a comparatively economic price for the highest possible specification capable of meeting the expected goals. This theory supports the value for money variable.

Relationship Governance structure

- Vendor assessment agreement
- Issues escalation path for supplier
- Joint contract management team

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Performance

- Cost Reduction
- Lead Time Reduction
- Service Delivery

Independent Variables **Dependent Variable**

Figure 1: Conceptual framework

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Empirical Review

Wangeci, (2013) conducted a study on supplier relationship m Supplier Relationship Management (SRM) plays a pivotal role in reduction of costs and increased efficiency in the supply chain function. Supplier relationship management is the business process that provides the structure for how relationships with suppliers are developed and maintained. Supplier relationship management has become a critical business process as a result of: competitive pressures; the need to consider sustainability and risk; the need to achieve cost efficiency in order to be cost competitive; and the need to develop closer relationships with key suppliers who can provide the expertise necessary to develop innovative new products and successfully bring them to market. Significant benefits are possible from better managing relationships with key suppliers. It has been shown that integration of operations with suppliers can improve firm performance (Swink et al., 2007; Singh and Power, 2009; Flynn et al., 2010).

An additional benefit of cross functional, collaborative relationships with key suppliers is the ability to co-create value (Enz and Lambert, 2012). The study applied a multistage sampling technique to select the sample size 38 respondents from 38 supply chain professionals in the alcoholic beverage companies. Questionnaires were used as the main data collection instruments. Descriptive statistics was used aided by Statistical Package for Social Scientists (SPSS) to analyze the quantitative data. The study utilized descriptive and multiple regression analysis to determine the relationship between Supplier Relationship Management and Supply Chain Performance. The objectives of the study was to establish the extent of SRM in alcoholic beverage industry, its impact on supply chain performance and challenges faced in implementation of SRM.

This research indicates that by adopting collaborative relationships with their suppliers contribute to competitive advantage and value creation in Supply Chain Performance. management and supply chain performance in the alcoholic beverage industry in Kenya. The specific objectives of the study were to establish the extent of SRM in alcoholic beverage industry; to determine the impact of SRM on supply chain performance in alcoholic beverage industry in Kenya and to determine the challenges faced in implementing SRM in alcoholic beverage industry in Kenya. The study adopted descriptive design to describe the impact of SRM on organizational performance. The target population and sample was from Procurement staff from alcoholic beverage industries. Regression analysis was used to determine the relationships between the variables. The study concluded that firms in the alcohol beverage industry are moving towards collaborative relationships with their suppliers to improve on their supply chain performance. That SRM largely depends upon four major aspects.

METHODOLOGY

This study adopted a descriptive research design. This is a scientific method of investigation in which data is collected, processed, analyzed and presented in order to describe the current conditions, terms or relationships concerning a certain field (Mugenda, 2003). The target population consisted of 136 Chief Finance Officers in charge of Finance and Economic Planning, Heads of the Supply Chain Management Unit and Procurement staff at the departmental level in five metropolitan counties of Kenya (Nairobi, Machakos, Kiambu and Kajiando).

This study adopted a census approach since the target population is small. Since a census approach was used, the sample size for the study will be 136 respondents. The study used questionnaires as the main collection instrument that contains both open ended and close ended questions.

Closed- ended questions were analyzed using nominal scales into mutually exclusive categories and frequencies by employing descriptive analysis using the Statistical Package for Social Sciences (SPSS). Open-ended questions were analyzed using conceptual content analysis. Analyses involved the production and interpretation of frequencies counts and tables that described and summarize the data. The collected data was analyzed using regression to determine the relationship between the dependent and independent variables. The data presentation was done by use of pie chart and tables.

FINDINGS

Descriptive Analysis

The research sought to determine from the respondents the extent to which they agree the firms implemented the relationship governance structure in an effort to improve performance in the county governments. From the research findings, majority of the respondents indicated that they neither agreed nor disagreed that the Vendor assessment agreement plays a significant influence in cost reduction based on the average mean of 2.85.

Majority of the respondents neither agree nor disagree that the Issues escalation path for supplier plays a significant influence in cost reduction as shown by a mean of 2.95; the respondents also had moderate stand that Joint contract management team plays a significant influence in service delivery as shown by a mean of 2.55. Majority of the respondents were in agreement that the resource efficiency plays a significant influence in lead time reduction as shown by mean of 3.99. This implies that majority of the firms had started recognizing the role of relationship governance structure on enhancing performance with other firms in the county government. The findings of this study are in tandem with literature review by singer, (2017) who observed that relationship governance structure enhance issues such as using effective purchasing strategies, waste reduction, and budget review and planning of the materials.

Table 1: Descriptive analysis of relationship governance structure

Statements	Mean	Std. Deviation
Vendor assessment agreement plays a significant influence in cost reduction	2.85	1.54
Issues escalation path for supplier plays a significant influence in cost reduction	2.95	1.43
Joint contract management team plays a significant influence in service delivery	2.55	1.32
Resource efficiency plays a significant influence in lead time reduction	3.99	1.23
Average	**3.08**	**1.382**

Inferential Analysis

Correlation Analysis

After the descriptive analysis, inferential analysis was conducted using correlation and regressions to determine the extent and direction of relationship of relationship governance structure and performance.

Table 2: Correlation Matrix

		Relationship governance structure
Relationship governance structure	Pearson correlation	1
	Sig	.493**
	Pearson correlation	0.000

A Pearson correlation was used since the data was discrete. The findings indicate that the correlation between relationship governance structure and performance at county governments was 0.493 with a corresponding p value of 0.000. The correlation coefficient was therefore significant and positive implying that if relationship government structure increases, the performance at county government also increases.

Regression Analysis

The study question was driven from the study first specific objective: "To establish the effect of relationship governance structure on performance of county government. The regression analysis ($y = B_0 + B1\ X_1 + e$) was run with performance of county government as the dependent factor and relationship governance structure as the tested predictor factor.

The value of $R^2 = 0.582$, showed that 58.2% of performance of county government is explained by relationship governance structure (regression line). The values of F (1, 95) = 11.368, p< 0.05 shows that relationship government structure is statistically significant predictor of performance of county government (the regression model is a good fit of the data). Therefore, the research objective, "To establish the effect of relationship governance structure on performance of county government" was addressed affirmatively. The value of relationship governance structure is statistically significant (t= 3.64, P<0.05), it affects performance positively and significantly.

AGPO =1.541+ 0.651 x relationship governance structure

The model showed that relationship governance structure positively affects performance of county government (an increase in mean index of relationship governance structure positively increases performance of county government by a positive unit of mean index of value of 0.651).

Table 3: Regression analysis Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.763[a]	.582	.553	.4333

a. Predictors: (Constant), relationship governance structure

Table 4: ANOVA Analysis

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.871	1	12.871	11.368	.013b
	Residual	107.559	95	1.1322		
	Total	120.43	96			

Coefficients

Y_i=1.541+ 0.651 $X_1 + \varepsilon$

From the regression equation above it was found that holding relationship governance structure to a constant zero, performance of county government would be at 1.541. A unit increase in relationship governances structure, would lead to increase in performance of county government by 0.651 units. At 5% level of significance and 95% level of confidence, relationship governance structure was significant (p<0.05).

Table 5: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.541	0.407		3.79	0.013
Relationship governances structure	0.651	0.179	0.636	3.64	0.012

CONCLUSIONS AND RECOMMENDATIONS

The study found that relationship governance structure had impact on the performance of the firm, it contributes to the ability to approve the available supplier based on their ability to perform the duties assigned. Joint contract management team also contributes to performance improvement of the firm's performance

The study recommended that County government should adopt relationship governance structure. These should be done by having an effective ERP systems, Electronic payments systems, electronic document management systems, and electronic tendering in the organization. This will aid in improving performance of the organization.

Areas for Further Research

It was recommended that a similar research should be conducted with an aim at investigating the influence of supply chain optimization on performance with other variables or of other firms in other sectors, including the service industry in the Kenyan market.

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