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EFFECT OF CONTRACTUAL GOVERNANCE PRACTICES ON SUPPLIER PERFORMANCE: A SURVEY OF STATE CORPORATIONS IN NAKURU COUNTY, KENYA

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Abstract

The public sector procurement consumes a significant portion of the Gross Domestic Product (GDP) in both developing and developed countries estimated to vary to about 20% in developed countries and up to 36% in developing countries. In Kenya, it is estimated to constitute about 10% of the GDP making it the single largest spender on procurement. There is evidence to suggest that there are challenges in supplier performances in relation to lead times, product quality, and contract management aspects. Therefore, the main objective of the study is to establish the effect of contractual governance practices on supplier performance in state corporations in Kenya focusing on Nakuru County. It was established that contract specifications do not significantly affect supplier performance in state corporations in Nakuru County since the t-value (2.842) was significant with a p-value <0.05. Therefore, contract specifications significantly affect supplier performance in state corporations in Nakuru County. Governance Structure influence on Supplier Performance was statistically significant at 0.05 significance level with a t-value of 2.732. Similarly, contract management teams had statistically significant influence on supplier performance at t-value (7.115) and p value less than 0.05. The study recommends a further study on the effect of contractor-supplier relationship on quality of goods and services supplied.

Keywords: Contract Specifications, Supplier Performance, Contract Management Teams, Governance Structure

I.Introduction

Organizations require outsourcing of services and goods from other institutions on the items that they can't produce internally or those that it would not be economically viable for them to produce internally. Procurement is the process of acquiring these goods and services from external service providers (Zagarnauskas, 2012). Public service organizations provide certain public services such as health, education, and security amongst others and similar to private organizations also need to procure goods and services from external service providers (Lukhoba & Muturi, 2015). The public procurement is therefore the use of taxpayers' money by the public organizations in order to procure goods and services for their organizational use (Nzambu, 2015). The public procurement consumes massive monetary resources and is estimated to be about 7% of the world's Gross Domestic Product (GDP) and in most countries account for about 16% of the country's GDP (Trehan, 2012).

In Kenya, public procurement deals are estimated to be worth about Kshs.1.6 trillion involving supply of goods, services and works to government offices, projects and in all counties (Musyoka, 2015). Therefore, it is evident that the Government is the single largest buyer in any economy. However, questions still abound concerning the ability of the public procurement system to deliver value for money goods and services (Kalatya & Moronge, 2017). On average, public procuring entities in Kenya purchase goods and services at 60% above the prevailing market price indicating that they do not go through competitive procurement. Kenya has had challenges with the public procurement challenges resulting in loss of money in diverse public procurement activities including noted procurement irregularities in water ministry valued at Ksh 13 billion in 2011 and Ksh 15 billion in 2012. Other noted irregularities included the National Youth Service and the Ministry of Health procurement irregularities (Kalatya & Moronge, 2017). There is thus need for measures to be placed for use in public procurement to avoid loss of money and irregular use of taxpayers' money given that public procurement in Kenya accounts for about 11% of the country's GDP. This study seeks to examine the manner in which the contractual governance practices influence supplier performance in state corporations in Nakuru.

II.Research Objectives

(i) To determine how contract specifications affects supplier performance in state corporations in Nakuru County
(ii) To examine the effects of governance structure on supplier performance in state corporations in Nakuru County
(iii) To determine how contract management teams affect supplier performance in state corporations in Nakuru County

III.Literature Review

Contract Specifications and Supplier Performance

The fundamental purpose of Contract and Supplier Management is to ensure that suppliers meet their contractual obligations, and that the contract requirements are successfully delivered (Nzambu, 2015). This included meeting any special contract performance conditions, indicated in the competition documentation and related to the contract subject-matter, which may cover economic, innovation-related, environmental, social or employment-related conditions (Wan, 2014). It is, therefore, essential that anyone engaged in managing suppliers reads and fully understands the contract terms and conditions, otherwise they was at a permanent disadvantage should any issues arise (Langat, 2012). It is essential that the Organization's Contract Manager/Contract Management Officer is engaged from the Develop Strategy stage early in the process and participates in the development of the terms & conditions.

Supplier performance analysis in many cases shows that often suppliers, for over 25% of purchase orders, fail to ship or deliver on time (Naftal, 2014). The effect of such service failures ripple through the business with customer service problems, too many money tied up in inventory, serious aging of inventory, poor turns and poor return on the capital investment required for the inventory, larger than needed warehouse space in terms of capital tied up and/or reduced warehouse productivity from having to travel extra distance around the excess inventory (Korir, 2015). Sometimes, for orders shipped on time, there may be quality problems. Poor quality brings its own set of customer service, inventory and other costs and problems. However, in many instances contracting firms opt to change suppliers than take the legal route simply because it is likely to be expansive and more importantly, the terms of the contract may not be very clear, hence, can be successfully contested against in court. At the extreme, contracts may be viewed as a necessary evil. If a sales unit of a firm holds this view of contracts, they may be viewed as a burden, and perhaps even a hindrance, to the smooth conclusion of business.

A study by Masaba, Moses, and Eya (2015) on contracting and procurement performance of state owned enterprises in Uganda established that there existed a strong positive relationship between contracting and procurement performance (r =.653). The study also found that contracting predicted procurement performance of SOEs up-to nearly 60% variance for every unit percentage positive change (Beta = 0.595). In addition, Procurement performance was also positively related to contract objectives, ability to contract, and procedures. These results suggest that SOEs that exercise good contracting processes have higher procurement performance levels and vices versa. This implies that state owned enterprises (SOEs) with a good procurement performance are associated with good contracting systems. It is therefore evident from the findings that if SOEs are to improve on their procurement performance attention should be devoted towards strengthening the contracting process and avoiding activities that would undermine the successful working of the contracting process. This study was based on Uganda and was therefore contextually different from the current study.

Governance Structure and Supplier Performance

Basheka, Tumutegyereize, & Sabiiti (2013) analyzed the implications of public procurement governance within the context of structures, mechanisms, values and processes on administrative efficiency in Uganda's public sector; but with a rejoinder that our findings may be applicable in other polities. The results confirmed that improvements in public procurement governance is likely to contribute to 45% in improvements on administrative efficiency; an indeed significant percentage especially when comparison is directed to the number of functions performed by public organizations. While all the procurement governance dimensions post a statistically significant positive association with administrative efficiency, governance values and processes emerge as the most central procurement governance issues. Basheka et al focused on Uganda's public sector while the current study seeks to examine the contractual governance influence on supplier performance in Kenya.

A study by Muema (2016) on supplier relationship management strategies and procurement performance of Sports Kenya revealed that Sports Kenya has a structure of internal governance and assigned ownerships of supplier relationships and that the organization supplier governance committee are actively involved with supplier. The study also established that the organization had internal control processes on supplier relationships, supplier governance committees are engaged with suppliers. Further, the organization has supplier governance committee/councils, supplier governance committee/councils spend time developing, and mentoring and working with suppliers, and that the organization supplier governance committees weigh such elements as cost and supply to determine where the best value lies. This indicates that Sports Kenya has supplier control processes and clearly assigned rights of supplier relationships and that the organizations supplier governance committees are engaged with the suppliers. Muema (2016) study is on supplier relationship management and is thus conceptually different from the current study.

Kemunto & Ngugi (2014) studied the influence of strategic buyer supplier alliance on procurement performance in private manufacturing organizations using Glaxo Smithkline as a case study. The specific objectives of the study were: to assess the effects of governance structure on the procurement performance of the firm; to find out how technology impacts on the procurement performance of Glaxo Smithkline; to establish how top management support affects the procurement performance of the pharmaceutical giant and to establish the effect of awareness of procurement policy and legal framework on the procurement performance of the organization. The study findings revealed that governance structure was the main factor in the relationship between procurement performance and strategic buyer supplier alliance. Governance Structure coefficient of 0.799 was found to be positive at significant level of 0.004 and this indicates that Governance Structure has a positive influence on procurement performance. This study presented conceptual gaps as its focus was on strategic buyer supplier alliance while current study focuses on contractual performance.

Naomi & Karanja (2017) examined the effect of governance structure on e-procurement implementation by state corporations in Kenya. The study established that governance structure had an effect on implementation of e-procurement in state corporations in Kenya. This was also supported by the inferential statistics later on in the study that statistically predicted existence of a positive relationship between governance structure and implementation of e-procurement. In this case, a unit increase in governance structure was observed to likely result to a 0.338 increase in e-procurement implementation.

Kingoo (2013) also studied supply chain governance and organizational performance among parastatals in Kenya. The study objectives were; to determine the effect of supply chain planning on organization performance, to establish the effect of supply chain and disposal procedure on organization performance, to evaluate the effect supply chain record management on organization performance, to analyze effect of supply chain code of ethics on organization performance and, to determine the effect of market price index on organization performance. The study used an exploratory research design targeting 96 parastatals. The study findings showed that there was significant correlation between supply chain governance and organization performance.

Contract Management Teams and Supplier Performance

The contract management teams is an important component of supplier management. A study by Shiwa (2014) on the effectiveness of contract management on contractors' performance focusing on Oil and Gas Companies in Tanzania established that CM teams had direct relationship with HSE performance; in average an increase unit of CM team had 0.5-unit increase of HSE performance. The study findings also confirmed those of Basheka et al., (2013) who observed that among the major determinant to effective CM are accurate definition of roles and diverse CM knowledge of the CM team. Kingoo (2013) indicated that the need of having a staffed and competent CM team to monitor contractor's performance. Shiwa (2014) further established that some of the SOW is weak and other robust depends on the experience, skill and knowledge of the demand manager. Notwithstanding the above Basheka et al., (2013) observe CM as being qualified workforce, quality of people and management system of the company in monitoring contractor's performance outcome. Kemunto & Ngugi (2014), however, differed on the need of adequate skills when recruiting and retaining more experienced and qualified key CM staff in managing contractor's performance. Basheka, Tumutegyereize, & Sabiiti (2013) study in Ugandan SOEs revealed that teams entrusted with negotiating do not abide with the contract objectives and sometimes do not have the ability to contract. The study also found that the absence of clear procedures tempts the contracting team to set their own procedures.

Wanyonyi and Muturi (2015) in their study found that the main areas that were observed to be the key contributors to staff competence included the training of new employees in the procurement departments, enhancing team work of procurement staff, acquaintance of the procurement Act by the procurement team and employing qualified and competent personnel in the procurement departments among others. Ogwel, Iravo and Lagat (2016), however, failed to find any association between planning on team work and procurement performance in Trans-Nzoia County, Kenya.

Wanyonyi & Muturi (2015) also sought to establish whether the members of the procurement team were well acquitted with the Procurement Act of 2009 in public technical training institutions in Kisumu County, Kenya. Most of the respondents were in agreement. This implied that the procurement teams in both institutions are well acquitted with the procurement Act 2009. Since procurement tasks demand professionals with high-level strategic, tactical as well as operational skills which are needed to improve performance of the procurement function. Mwanjumwa & Simba (2015) sought to find out factors influencing procurement performance in humanitarian relief organization using the International Committee of the Red Cross in Kenya as a case study. The study, however, failed to find a significant association between teamwork and procurement performance. Ramadhani & Kibet (2008) studied factors affecting implementation of public procurement procedures and practices in Elgeyo-Marakwet County. The study found that the personal integrity of the team leader is the most significant factor in the context of the leadership skills critical for implementation of the PPP. The personal integrity of the leader sets the tone for the team member on how they should behave and as such is the most integral component in relations to leadership skills influence on PPP.

IV.Research Methodology

The study used a mixed research methodology that consists of both the qualitative and quantitative research methods. The use of mixed methodology is ideal for this study because the qualitative data was utilized to supplement the quantitative data hence getting deeper insights into the study. The target population of the study included the overall management, the procurement management and the departmental managers composed of 325 members. This population is chosen because it is deemed that they can give reliable information for the study and they are highly accessible within the area as most of them have their premises within Nakuru town and its outskirts. Since the target population is comprised of 325 members in Nakuru County, Israel (2009) recommends the use of published tables to determine the sample size. Also Mugenda (2003) suggest that for a population with no known variability, a 50% variability was a good estimate, hence, fitting this to the sample size table in Appendix V by Israel (2009) the ideal sample size for this population at $\pm$7% margin of error and 50% variability was 125 respondents. This study employed purposive sampling to select the respondents for the study. Purposive sampling is used to target a group believed to be realiable for the study (Kombo & Tromp, 2009). The study used self-administered structured questionnaires as data collecting instruments.

V.Research Findings and Discussions

Influence of Contract Specifications on Supplier Performance

The study sought to determine how contract specifications affect supplier performance in state corporations in Nakuru County. The study established that the respondents were on average in agreement that their contracts are based on their organization's objectives (mean=3.95, SD=0.97), contract goals are to achieve the highest standard of goods and services and communicate that to their suppliers (mean=3.67, SD=1.01) and ensure that they exercise due diligence when drafting their procurement contracts so as to be consistent with their goals (mean=3.96, SD=0.90). This study also established that the respondents were on average in agreement that they only draw contracts for certain levels of contracts exceeding a specified amount of money, their contract specifications enabled them to trace the contract process (mean=4.27, SD=0.94), they ensure that they agree on the contract specifications with the supplier before they finally draft the contract (mean=3.95, SD=0.84), and that through agreeing on contract specification with their suppliers, they have been able to avoid legal problems (mean=4.00, SD=0.96). It was further established that through agreeing on contract specification with their suppliers, the respondents have been able to avoid legal problems as indicated by a mean of 3.71 and standard deviation of 0.94.

Influence of Governance Structure on Supplier Performance

The study sought to examine the effects of governance structure on supplier performance in state corporations in Nakuru County. The study found that the respondents were on average in agreement that their contract governance structure is designed around the organization's values (mean=4.07, SD=0.83), contract governance system comprises of all stakeholders in their procurement system (mean=4.25, SD=0.85) and contract governance system enables them to enforce the terms of their contracts with their suppliers effectively (mean=3.92, SD=0.86). The study also established that the respondents were on average in agreement that they that through their contract governance structure, they can easily report on developments affecting them and their suppliers (mean=4.07, SD=0.83), they have an ICT based governance system that aids them in reporting (mean=4.18, SD=0.91) and that their reporting system is easily verifiable due to their governance structures (mean=3.92, SD=0.81).

Influence of Contract Management Teams on Supplier Performance

The study sought to determine how contract management teams affect supplier performance in state corporations in Nakuru County. It was established that the respondents were therefore in agreement that their contract management team members are well conversant with the PPOA (mean=3.98, SD=0.99), contract management team members often attend in house training in procurement (mean=3.80, SD=0.92) and contract management team members are well experienced in the area (mean=4.00, SD=0.86). The study also established that the respondents were in agreement that their CM team members are allowed to make their decisions independently (mean=4.20, SD=0.90), the contract management team as a whole makes its decisions independently (mean=3.88, SD=0.81) and that their contract management team as a whole makes its decisions independently (mean=3.96, SD=0.86).

Multiple Linear Regression Model

This study did a multiple regression analysis in order to establish how contract specification, contract governance structure and contract management teams predicts the supplier performance of state corporations Nakuru county. Table 1 shows the multiple linear regression model summary and overall fit statistics.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.897[a]	.805	.800	.21069

a. Predictors: (Constant), Contract Specification, Contract Governance Structure, Contract Management

The findings in Table 1 gives R Square value of 0.805 which implies that 80.5% of the variation in supplier performance can be explained by contract specification, contract governance structure and contract management teams collectively. The different level of influence of the independent variables is as shown in Table 2.

Table 2: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.242	.185		1.306	.194
Contract Specification	.185	.065	.189	2.842	.005
Contract Governance Structure	.182	.067	.191	2.732	.007
Contract Management Teams	.578	.081	.585	7.115	.000

a. Dependent Variable: Supplier Performance

Therefore, for every one unit increase in Contract Specification, Supplier Performance increases by 0.185 units. Similarly, for every one unit increase in Contract Governance Structure, the Supplier Performance increases by .182 units. It also implies that for every one unit increase in Contract Management Teams, the Supplier Performance increases by 0.578 units. Therefore the following regression model; $Y = 0.242 + 0.185\ X1 + 0.182\ X2 + 0.578\ X3 + 0.21069$ was used to show the relationship between these independent variables of the study and the supplier performance whereby Y= Supplier Performance in State Corporations, X1 = Contract Specifications, X2 = Governance Structures and X3 = Contract Management Teams.

VI.Conclusion of the Study

The study concluded that contract specifications significantly affect supplier performance in state corporations in Nakuru County. State corporations that specified their contracts well, their suppliers performed better. It was also concluded that governance structure significantly affect supplier performance in state corporations in Nakuru County. State corporations with good contract governance system, their suppliers performed better. This study concluded that contract management teams significantly affect supplier performance in state corporations in Nakuru County. Skillful and knowledgeable contract management teams produced better suppliers to the state corporation.

VII.Recommendations of the Study

The study recommends contract goals to be set in line with the highest standard of goods and services the state corporation desires and should communicate that to their suppliers in advance. This will help their suppliers meet the contract goals and therefore improving their performance. This study also recommends state corporations to use contract governance system to enforce the terms of contracts with their suppliers. This contract governance system should also be verifiable. This will help in keeping the suppliers on tract and avoid violation of contract terms. This will play a big role in improving supplier performance. The study recommends that contract management team members to attend in training in procurement process. The enhanced contract management skills will improve supplier performance in state corporations. Lastly, the study recommends an improvement of supplier-contractor relationship in state corporations. This will prevent the suppliers from diverting supplies meant for state corporations to elsewhere and also improve suppliers’ willingness to supply goods and services to the state corporations. This will in the long run improve the supplier performance.

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