INFLUENCE OF SUPPLIER RELATIONSHIP GOVERNANCE STRUCTURE (SRGS) ON PROCUREMENT PERFORMANCE OF STATE CORPORATIONS IN NAIROBI COUNTY, KENYA

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ABSTRACT- This study examines the influence of Supplier Relationship Governance Structure on the Performance of Procurement in State Corporations in Nairobi County, Kenya. Specifically, the study sought to establish the effect of contract management team, problem escalation path for suppliers, Supplier appraisal agreement and risk management system on the performance of procurement in Nairobi County. A descriptive cross sectional survey research design was emplyed and stratify random sampling approach was used to ensure representitiveness of the population of the the study. Descriptive statistics as well as regression analysis were used to facilitate examination of the relationship between the variables of interest. The study findings indicate that risk management system have greatest influence on the procurement performance , followed by supplier appraisal agreement, escalation path for suppliers and contract management teams respectively. The study recommends that state corporations should jointly work with vendors in developing a unify risk management system in order to improve their procurement performance.

 Keywords: supplier relationship governance structure, procurement performance, Nairobi County, of contract management team, escalation path for suppliers, Supplier appraisal agreement and risk management system

1. Introduction
1.1 Background of the Study
The bottleneck competition for goods and services from external suppliers has increased pressure on procurement personnel to develop strategies capable of differentiating and giving their firms' preferential treatment by the suppliers with a view of improving their performance (Mollahoseseini & Barkhorda, 2010). Improving the acquisition and leveraging the supply chain base through supplier relationship governance structure has become more critical than ever before in achieving procurement performance (Felix, Chan, Kumar, Tiwari, Lau and Choy, 2008).

Suppliers play strategic role in creating competitive advantage and their actions are likely to contribute to procurement performance (Jabbour & Jabbour, 2009). All successful firms build strong relationships with their vendors; firms are not remote units that simply procure goods and services from individuals (Kotzab, Teller, Grant & Sparks, 2011). Successful firms appreciate the need to build bridges between their firms and the vendors which they work

with by establishing relationship framework capable of creating inter-dependency between them (Baier, Hartmannn and Moser, 2008). Supplier Relationship Governance Structure provides the basis for long term commitment to the supplier and promotes closer tie with (Kotzab, et al., 2011). According to Singh, and Power, (2009) the term "Supplier Relationship Governance Structure (SRGS)" refers to the business process that provides the structure for how relationships with suppliers are developed and maintained.

In practice, SRGS entails creating solution blocks, more stractured relationships with key suppliers in order to uncover and realize new value and reduce risk (Caeldreis & Dierdonck, 2008). Consequenlty, a number of organizations from both public and private sector in Nairobi County, Kenya, are embracing the concept within their procurement function to share the percieved benefits of SRGS (Githui, 2012). For example: the Kenya Ports Authority factored key elements of SRGS such as contract management team, escalation path for suppliers, Supplier appraisal agreement and risk management system in their procurement echo system (KPA, 2014). Safaricom Kenya Ltd has embraced contract management team and joint risk management system with their strategic equipment and software vendors (Safaricom, 2015). Kenya Power, (KP) have formed problem escalation path and Supplier appraisal framework agreement with independent power producers and Rural Electrification Authority have a joint risk management system with Kenya power, (REA-KPLC, 2010).

1.2 Statement of the problem

State Corporations in Kenya are established so that the Government can fast-track realization of vision 2030 key pillar projects, ROK (2007). Public Procurement contributes immensely to Kenya's socio-economic development and forms the cornerstone of attaining Vision 2030, (ROK, 2007) which emphasizes the need for appropriate public procurement practice capable of delivering value, efficient and sustainable services to the public (ROK, 2007). However, public procurement in most State Corporations have demonstrated poor service delivery characterized by poor quality, late or none delivery of key projects and over priced products or services among other inefficiencies (Armit, 2013; Omarch, 2014).

According to Armit, (2013) and Omarch, (2014), on average, over sixty five percent (65%) of products or services procured by State Corporations in Nairobi County are either of poor quality or delivered late or are overpriced compared to Botswana or Singapore which according to Amaratunga and Baldry, (2015); DCD/DAC, (2014) recorded under thirty five (35%) on average, raising question on the public procurement ability to drive socio-economic development of the country as expected under Vision 2030 (RoK, 2007). According to Brujin, (2014), public entities should aspire to achieve economy and efficiency in their procurement functions of above fifty percent (50%) in order to have significant impact on socio-economic development of a country. Brujin (2014). This then calls for a new approach with potential of improving performance of the public sector in order to realize Vision 2030 milestones (GoK, 2007). Supplier Relationship Governance Structure (SRGS)" have been hypothesized to have significant effect procurement performance in public entities (Armit, 2013; Omarch, 2014; Bruijn, 2014) through improved quality, timely problem solving, timely delivery, good pricing and credit period. Consequently, a number of public entities have preferred Supplier Relationship Governance Structure as a way of improving procurement performance even though its influence on procurement perfornace has not been conclusively established empirically (Wafula, 2015). It is therefore against this background that this study aims to evaluate the influence of Supplier Relationship Governance Structure on the Performance of Procurement in State Corporations in Nairobi County.

1.3 Objectives
1.3.1 General objective

The general objective of the study was to establish the influence of supplier relationship governance structure on the procurement performance of State Corporations in Nairobi County, Kenya.

1.3.2 Specific objectives

The study was guided by the following specific objectives:
   i.   Determine the influence of contract management teams on the procurement performance of the State Corporations in Nairobi County.
  ii.   Assess the influence of problem escalation path for suppliers on the procurement performance of State Corporations in Nairobi County.
 iii.   Establish the influence of Supplier appraisal framework agreement on the procurement performance of State Corporations in Nairobi County.
  iv.   Establish the influence of risk management system on the procurement performance of the State Corporations in Nairobi County.

1.4 Research questions
   i.   What is the effect of contract management teams on the procurement performance of State Corporations in Nairobi County?
  ii.   Does problem escalation path influence procurement performance of State Corporations in Nairobi County?
 iii.   What is the influence of Supplier appraisal framework agreement on the procurement performance of State Corporations in Nairobi County?
  iv.   Does risk management system influence procurement performance of State Corporations Nairobi County?

2. Literature review

2.1 Theoritical Review

Resource dependency theory: This theory takes the view that a business relationship is a social exchange of critical resources with mutual dependency among the exchange partners (Casciaro, & Piskorski, 2005). The survival and growth of the organization largely depend on how well the organization relate with her suppliers in order to secure critical resources from them (Casciaro, & Piskorski, 2005). Lawther and Martin (2005) stated that supplier relationship governance structure is a powerful framework for cordial and harmonious relationship with vendors. They added that the framework provides opportunities for maximization of the suppliers' potential thereby enabling firms to leverage on their capabilities such as market information, modern technology, risk management and financial and technical resources. In addition, Barney (2000) concurs with the relationship framework approach. He posits that suppliers contribute better when the expectation is clear and relationship management is well structured.

Resource dependency theory confirms the fact that since businesses operate within a network of exchange relationship, such relationship require well-structured approach in order to produce value thereby creating dependency between the network members. The main focus of RDT is on how some businesses become dependent on performance of other businesses for survival (Tiziana & Mikolaj, 2011). Tiziana and Mikolaj, (2011) therefore assert that the

performance depecy can only be successful when the network partners jointly develop supplier relationship governance stracture to act as network performance assurance. Ghosh and John, (2005) defined supplier relationship governance structure to include: contract management team, problem escalation path for suppliers, Supplier appraisal agreement and risk management system. Barney, (2000) applied resource dependency theory to hypothesize a relationship between various element of supplier relationship governance structure and procurement performance. He conjured that contract management team, problem escalation path for suppliers, Supplier appraisal agreement and risk management system create confidence and empowerment to suppliers hence increase their effectiveness in serving their customers. Every business whether in private or public sector is dependent on materials or services supplied by other businesses (Barney, 2000). While creating maximum values from the market, Ghosh and John, (2005) argue that firms should safeguard their share of joint value created against opportunism through supplier relationship governance structure. Lawther and Martin (2005) went further to explain that firms with clear framework for governing their relationship with their vendors are more like to record higher procurement effectiveness compared to their counterpart. Casciaro and Piskorski, (2005) made it clear by using resource dependency theory that out of dependency on suppliers, firms develop relationship gevernance structure to ensure harmony and proactiveness of parties in the relationship thereby impacting positively on procurement performance. Thus we hypothise the relanship as in fig. 2.1.

2.2 Hypothetical Model

The theoretical review provided the basis for the development of the hypothetical relationship model of the study factors, fig. 2.1. According to Ghosh and John, (2005), supplier relationship governance structure constitute contract management team, problem escalation path for suppliers, supplier appraisal framework agreement and risk management system. Thus the study hypothetical relationship is presented in fig. 2.1:
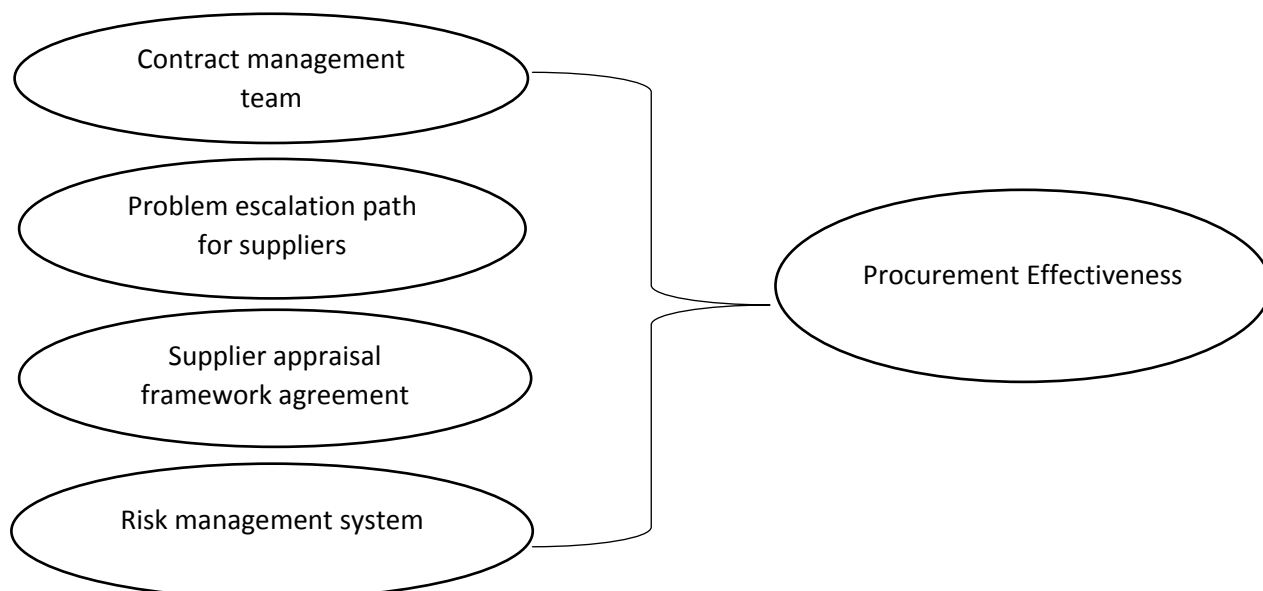

Fig. 2.1 Hypothesized relationship between SRGS and Procurement Effectiveness

2.3 Empirical review

2.3.1 Contract management team and Procurement Performance

Kemunto and Ngugi, (2014); Nagurney, (2010) in their study on the influence of strategic buyer supplier alliance on procurement performance in private manufacturing organisations: a case of Glaxo smithkline, established that contract management team significantly and positively impact on the performance of procurement. The research used a case study design and targeted 100 management staff of Glaxo Smithkline. A sample size of 25 respondents participated in the survey. The above study focussed on private manufacturing firm. The current study focused on public procurement entities with a sample size of 147 State Corporations.

2.3.2 Problem escalation path for suppliers and Procurement Performance

Mark, Wilson, MacDonald and Monnane (2015) conducted a study on the influence of supplier relationship governance structure in the wine industry. The empirical results were derived from mail survey responses of 111 South African and 116 New Zealand wineries. The study concluded that problem escalation path for vendors positively influence procurement performance in wine industry.

2.3.3 Supplier appraisal framework agreement and Procurement Performance

Mandiyambira (2012) conducted a study on managing supplier relationships to improve public procurement performance. The study sought to determine the strategies of managing supplier relationships that engender value for money in public procurement. An extensive literature study was conducted to examine the key strategies and trends in public procurement. The study revealed that supplier appraisal framework agreement is the best to manage supplier relationships as it offers more motivation driven by repeat orders expectations to vendors thus improving procurement performance. The study was limited to published literatures on state universities in Zimbabwe.

2.3.4 Risk management system and Procurement Performance

Pilar, Elsebeth and Luitzen, (2012) studied how suppliers' development programs affect performance of suppliers and procurement function. The study was an insight for suppliers, buyers and governments and was based on an empirical study in Mexico. Data was collected through a survey of strategic suppliers for original equipment manufacturer of the automotive industry located in Mexico. The findings suggested that shared risk management system increases suppliers confidence thus positively affecting their ability to efficiently and effectively deliver on their mandate, consequently improved procurement performance (Yeoh, 2009).

3. Research Methodology

3.1 Research Design

A descriptive cross sectional survey research design was used in this study. The design was preferred because of its ability to determine and report the way things are and also helps a researcher to describe a phenomenon in terms of attitude, values and characteristics at a point in time (Mugenda, 2003).

3.2 Study Population

Population is an accessible group of people who meets a well-defined set of eligibility criteria (Borg & Crall, 2009). The target population for the study was all the 232 State Corporations in Nairobi County. The state corporations were chosen in this study due to their major roles in socioeconomic development of countries in the developing regions through provision of

public services that foster wider developmental goals. The number of State Corporations in Nairobi County stands at 232 as at June 2016 and are classified as shown in table 3.1.

Table 3.1: Target population

	Economic sector served	Population
1	Agriculture	27
2	Service	120
3	Industry	32
4	Banking and Finance	8
5	Education	45
	TOTAL	232

Source: State Corporation Advisory Committee (2016)

3.3 Sample and Sampling technique

The study used stratified random sampling procedure to select respondents. Head of procurement or equivalent were targeted as respondents. Stratified random sampling procedure is a probability sampling procedure in which the target population is separated into mutually exclusive homogenous segments (strata) (Levy & Lemeshow, 2008). Stratified random sampling ensures a high level of precision compared to simple random sampling; this is because the variability within the subgroups is lower compared to the variation when dealing with the entire population (Levy & Lemeshow, 2008). Respondents for each stratum were computed based on their weight according Neyman (1934) allocation formula as follows:

$$n_h = (\frac{N_h}{N})n$$

Where:

n_h - The sample size for stratum h,

n - Total sample size,

N_h -The population size for stratum h,

N- The total population

Equation 3.1: Stratified Random Sampling and sample size formula (Neyman, 1934)

In Neyman (1934) allocation formulae, the number of units in the sample from a stratum is made proportional to the product of the stratum size and the stratum standard. Raj, (1972) proved that Neyman's allocation is the best when a sample of specified size is to be allocated the strata. This study therefore applied Neyman (1934) allocation formulae to compute sample size of 147 and the strata as presented in Table 3.2.

Table 3.2: Stratification of Sample Size

Economic Sector Served	Target Population	Percentage (%)	Sample size

(Stratum)			$n_h = (\dfrac{N_h}{N})n$	
Agriculture	27	63	17	
Service	120	63	76	
Industry	32	63	20	
Banking &Finance	8	63	5	
Education	45	63	29	
TOTAL	**232**		**63**	**147**

3.4 Data collection Instruments

A questionnaires was used to collect primary data. The questionnaire had structured closed questions to guide the respondents. The questionnaire was divided into: section A, which gathered general information about the respondents and their institutions; Section B gathered data on supplier relationship governance structure; and section C gathered data on procurement performance. The primary data was captured using a five point Likert type scale. In applied management studies, the Likert type scale is one of the acceptable techniques for measurement of attitudes in a "scientific" way, which allows the use of statistical tools to analyze data (Gall, Gall, & Borg, 2007).

3.5 Data collection procedures

The questionnaires were self-administered through email. Email method was chosen in this study due to its efficacy, specific to time and money (Gall, Gall, & Borg, 2007). All the email adresses were obtained from the parent ministries of all the State Corporations under the study and personalised email sent to all the respondents requesting them to respond within seven working days. Thereafter reminders were sent to all those who failed to respond within the stipulated time. This was repeated until an acceptable rate of responses were received.

3.6 Reliability and Validity tests of constructs

The Cronbach's Alpha Test of Reliability was used to test the reliability of the constructs in the study and the results were as follows: Contract management teams had an alpha score of 0.7254, problem escalation path for suppliers, supplier appraisal framework agreement and risk management system had alpha scores of 0.7713, 0.7101, 0.7274 and 0.8015 respectively. Alpha values measure the level of internal consistency of the constructs. A closer higher alpha values to one indicates a higher consistency. According to Nunnally and Bernstein (1994) a-score exceeding 0.7 indicates high internal consistency and thus high internal reliability of the scaled items. The study attained alpha scores imply acceptable level of reliability of the measures. The table 3.3 shows the reliability test results based on the piloted data.

Table 3.3 Reliability Test Results

Variables	Cronbach Alpha (α-score)	No. of Items	Interpretation (Nunnally & Bernstein, 2004; Sekaran, 2006)
Contract management teams	0.7254	4	Acceptable

Escalation path for suppliers	0.7713	4	Acceptable
Supplier appraisal agreement	0.7274	4	Acceptable
Risk management system	0.8015	4	Acceptable

Content validity of the research instrument was ensured in this study by inspecting test questions to see whether they correspond to what the stdy intented to cover by the test. Expert opinion was also sort to validate the questions.

3.7 Data Processing and Analysis

The study data was quontitatively collected. The collected data was keyed in and processed by SPSS version 18. SPSS version 18 was prefered due to its Automated Data Preparation feature (ADPF) which can provide multiple comparisons of data and allows tables customization. Multiple Regression analysis model was used to establish the level and derection of the relationship between the variables under the study (Levy & Lemeshow, 2008).The findings are presented on tables and charts to give clear pictures of the research findings at a glance.

4.0 Research Findings And Discussions

4.1 Research Findings

4.1.1 Response Rate

The study focused on the influence of supplier relationship governance structure on the procurement performance of state corporations in Nairobi County, Kenya. A total of 147 respondents were issued with questionnaires, out of which, 139 questionnaires were filled and returned. This gave the questionnaire response rate of 94.5%. According to Kothari, (2004) and Babbie, (2004), a response rate of above 50% is acceptable to analyze and publish in a survey study.   Based on the above assertions, the studies' 94.5% response rate was considered adequate for the study (Kothari; 2004; Babbie, 2004). Table 4.2 shows the response rate.

Table 4.1 Response Rate

	Response	Frequency	Percent
1	Returned	139	94.5%
2	Unreturned	8	5.5%
	TOTAL	**147**	**100%**

4.1.2 Regression Analysis (SRGS and Procurement Performance)

The study sought to establish the influence of supplier relationship governance structure on the procurement performance of State Corporations in Nairobi County, Kenya. A regression equation in the form of: $Y = \beta_{0\ (1)} + a_1X_1 + a_2X_2 + a_3X_3 + a_4X_4 + \varepsilon$ was used to establish the association between the dependent variable and the independent variables of the study. The study dependent factor was procurement performance and contract management team,

problem escalation path for suppliers, supplier appraisal framework agreement and risk management system were the tested predictor factors. Coefficient of determination value, R^2 was found to be 0.3145 indicating that 31.45% of procurement performance was explained by independent factors under study. The results from table 4.2 shows that the predictor equation for procurement performance (Y) versus independent factors (X_i) takes the form;

Procurement Performance = 0.4425+ 0.3812 (Contract management team) + 0.0414 (Problem escalation path for suppliers) + 0.0673 (Supplier appraisal framework agreement) + 0.5651 (Risk management system) +0.5365.

This implied that Procurement performance increase by 0.3812 when contract management team went up by 1, increase by 0.0414 when problem escalation path for suppliers increase by 1, increase by 0.0673 when Supplier appraisal framework agreement increase by 1, and increase by 0.5651when risk management system increase by 1. The study findings further indicate that risk management system has the greatest influence on SRGS at 56.51 percent followed by contract management team at 38.12 percent, supplier appraisal framework at 6.73 percent and problem escalation path for suppliers at 4.14 respectively.

Table 4.2 supplier relationship governance structure and procurement performance

Procurement Performance	Coefficient	Standard Error	T	Sig
Contract management team	0.3812	0.143	2.357	0.021
Problem escalation path for suppliers	0.0414	-	0.214	0.037
Supplier appraisal framework agreement	0.0673	-	0.283	0.043
Risk management system	0.5651	0.1575	3.968	0.000
Constant	0.4425	0.5365	0.772	0.347

F (4,139) =94.5, P-value <0.025, R-squared=0.3145, Adj R-squared=0.3065

4.2 Research Discussion

The study sought to establish the influence of supplier relationship governance structure on procurement performance of State Corporations in Nairobi County, Kenya. A number of studies (Pilar, Elsebeth and Luitzen, 2012; Yeoh, 2009; Mandiyambira, 2012; Mark, Wilson, MacDonald and Monnane, 2015; Kemunto and Ngugi, 2014; Nagurney, 2010) have argued that SRGS practices lead to improvement of the performance of procurement. This study postulation was grounded on such studies in examining the effect of SRGS on the performance of procurement in state corporations in Nairobi County.

The study findings indicate that organizations that have embraced SRGS practices within their operations experience improvement in procurement performance. The multiple regression analysis results indicate that SRGS has a positive statistically significant effect on procurement performance of state corporations; $p < 0.05$ (P=0.025) with an explanatory power of 31.45 percent. Therefore, the study question "Does supplier relationship governance structure affect procurement performance of State Corporations in Nairobi County" was answered in the affirmative.

The findings of this study strongly agrees with previous studies carried out by Lambert, Knemeyer, and Gardner, (2010) which indicated that clear governance structure for managing vendors results in procurement effectiveness in terms of cost reduction, innovation

of new product and create value for both parties based on mutual commitment to long term collaboration and shared success (Lambert, *et al*, 2010).

Further the study is in agreement with Lingreen *et al* (2012) which argue that firms that have embraced contract management teams concept, implement clear escalation path of suppliers issues, regularly appraise vendors and have a system of procurment risk management experience improved procurment performance. Finally, the study findings confirm Yeoh, (2009) weighting postulation which weighted procurement risk management system higher than other factors of SRGS in relationship with influence to procurement performance.

5.0 Summary, Conclusions and Recommendations
5.1 Summary
The study established a positive relationship between SRGS and procurement performance based on the following factors: contract management team, problem escalation path for suppliers, supplier appraisal framework agreement, and risk management system. However, risk management system was found to be the one offering greatest influence on procurement performance followed by contract management team, supplier appraisal framework agreement and problem escalation path for suppliers respectively.

5.2 Conclusion
On the performance of procurement, the study concludes that it is most affected by risk management system followed by contract management team and it is least affected by problem escalation path for suppliers. The study further concludes that all the four factors of SRGS positively affect the performance of procurement.

5.3 Recommendations
The study established that risk management system and contract management team respectively offer the greatest influence on procurement performance. Consequently, the study recommends that: state corporations should jointly with their vendors develop and implement procurement risk management system and further institutionalise formation of joint teams to management their contracts. These will ensure effectiveness of public procurement as a result of shared vision.

6.0 Suggestions for Further Studies

Future studies are suggested on supplier relationship governance structure and procurement performance in the private sector of the economy. Specific factors' effect on effectiveness of public procurement should also be undertaken for an insight analysis.

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