

Influence of Contract Relationship Management on Procurement Performance of State Corporations in Energy Sector, Kenya

Wycliffe Nyariki

*Department of Entrepreneurship, Technology, leadership and Management, College of Human Resource Development, Jomo Kenyatta University of Agriculture and Technology
Email: nyarikiwycliffe@yahoo.com*

Dr. Margaret Waruguru

*Department of Business Administration, College of Human Resource Development, Jomo Kenyatta University of Agriculture and Technology
Email: mwaruguru@jkuat.ac.ke*

Abstract: Contract relationship management plays an important role in promoting the sustainability of organizations in both public and private sectors. Contract management practices have been deployed in an effort to improve the performance of energy sector corporations in Kenya. However, despite the importance of contract relationship management amongst the procurement authorities, state corporations in energy sector in Kenya still face diverse challenges which are major deterrents to procurement performance. The current study examined the influence of contract relationship management on procurement performance of energy sector state corporations in Kenya. Contract relationship management involves development of effective working relationships suppliers to achieve better service delivery, value maximization and acquisition of quality products. Effective contract relationship management incorporates appropriate information sharing, collaborations and contract compliance elements. The study adopted descriptive research survey design. The target population was the state corporations in energy sector including Kenya Power, Geothermal Development Corporation (GDC) and Kenya Electricity Transmission Company Limited (KETRACO). Regression analysis findings showed that coefficient of determination was 0.547 implying that 54.7% of variation of procurement performance was explained by contract relationship management. According to the regression coefficients, the beta coefficients for contract relationship management was significant at 95% confidence level ($\beta=0.513$; $p=0.000<0.05$). The results implied that contract relationship management affected the procurement performance of state corporations in the energy sector of Kenya. Therefore, improvement in information sharing, collaborations and contract compliance as elements of contract relationship management contributes to better procurement performance. The study recommends energy state corporations to incorporate contract relationship management into their overall operational strategy. This will lead to effective running of procurement contracts for improved procurement performance.

Key words: Contract Relationship Management, Procurement Performance, Energy Sector State Corporations

1. Introduction

Contract relationship management enhance the key aspects of strategies and business relations thus plays an important role in promoting procurement performance (Sayed, Hendry, & Zorzini, 2021). Sound contract relationship management is therefore crucial to the sustainability of organizations in both public and private sectors. However, inappropriate contract management inevitably erode the organizations efforts to achieve sustainable performance in the context of procurement management (Mutangili, 2021). This happens when public sector organizations become complacent and fail to execute their obligations according to the terms of the contract. Moreover, contract relationship management is vital since procurement of commodities and services cannot be undertake successfully in complete isolation from effective engagements between the organization and the suppliers. The engagements between the public sector organizations and the suppliers are informed by the effectiveness of the contract relationship management (Kamoni, 2020).

Contract relationship management is indicated by information sharing, collaboration, compromise and compliance (Samuels, 2021). Information sharing is a major element of coordination amongst parties in a contract. It promotes efficiency by contributing to minimization of time waste and cost reduction. According to Wong, Tan, Chuah, Tseng, Wong, and Ahmad, (2020) contract relationship management via collaborative procurement helps to counter pressure on public sector budgets in the energy organizations. Collaborative procurement involves the practice of multiple state sector energy corporations coming together to order the common goods and services they share. This centralizes and improves procurement for these energy corporations. Procurement performance depend on the communication with the suppliers and knowing what they can offer thus a solid relationship is highly crucial. A collaborative effort gives procurement officers and managers the opportunity to be a trustworthy clients to their suppliers (Nduati, Karanja, & Namusonge, 2017). The resultant effect is that the contract relationship management for energy sector corporations and suppliers is strengthened.

Procurement performance of state corporations in the energy sector is further determined by compliance and compromise aspects of contract relationship (Lifard, 2020). The parties in a contract ought to comprise on some terms in order to fasten the contract process and meet the performance goals. The element of compliance provide guidance and insight into procurement processes and helps to achieve savings among energy sector corporations through effective negotiations with suppliers. Hirmer, George-Williams, Rhys, McNicholl, & McCulloch (2021) asserted that procurement performance is indicated by cost efficiency, inventory accountability and procurement cycle time management. Procurement cycle time describes the time between placement of requisition and receipt of products by state corporations in energy sector (Ngetich, 2017). The contract relationship management decrease the cycle times regarding procurement of materials and services so as to cut procurement costs and achieve better procurement performance.

Procurement departments in energy sector corporations plays an increasingly important role in the overall organizational performance (Lifard, 2020). For instance, cost reductions in the acquisition of products indicates procurement performance and determine continuous and sustainable operations of energy sector corporations. Contract relationship management partly ensures that procurement costs are within the budgets thus the efficiency of purchasing products meets and exceeds the expectations of the state energy corporations. Yegon (2018) opined that state energy corporations are expected to execute contract management in a manner that is transparent, accountable and achieve value for money. Kenyan government embrace contract management as a great instrument in provision of important services including energy infrastructural development (Shija, 2019).

Contract management practices have been deployed in an effort to improve the performance energy sector corporations in Kenya (Yegon (2018). However, despite the importance of contract management amongst the procurement authorities, state corporations in energy sector in Kenya still face diverse challenges associated with contract management (Mutangili, 2021). This has led to poor procurement performance in public procurement among state corporations in the energy sectors. The past research works in Kenya are yet to adequately address the relationship between contract relationship management corporations. For instance, Ngetich (2017) assessed factors affecting contract management and the efficiency of contract managing in state corporations in Kenya. Similarly, Yegon (2018) studied on the determinants of procurement contract management of state corporations in Nakuru County. The research gaps necessitated the researcher to examine the influence of contract relationship management on procurement performance of energy sector state corporations in Kenya.

2. Objective of the Study

The objective of the study was to examine the influence of contract relationship management on procurement performance of energy sector state corporations in Kenya.

3. Literature Review

Contract relationship management involves development of effective working relationships suppliers to achieve better service delivery, value maximization and acquisition of quality products (Muhammad, Saoula, Issa, & Ahmed, 2019). Effective contract relationship management incorporates appropriate information sharing, collaborations and contract compliance elements. It is also anchored on the foundations of organization-supplier communication based on mutual understanding, trust and accountability. Song, Zhu, Klakegg, and Wang (2018) noted that information sharing in contract relationship management and in procurement management at large is often essential to get the best services and sustainable procurement performance. State corporations in energy sector share the necessary information with the appropriate suppliers to enhance procurement performance. It is paramount for government owned organizations in the energy sector to deliver more efficient public services that are coordinated around the needs of the citizens (Verweij & Van-Meerkerk, 2021). The procurement function, through the contract relationship management contributes immensely

towards the service delivery. Therefore, information sharing as component of contract relationship management influence the procurement performance at a large extent. Sharing information in contract relationship management is also essential in enabling interventions and negotiations between the energy sector organizations and the suppliers and hence lead to attainment of positive outcomes (Mwendwa & Ochiri, 2019).

Collaboration element determines the effectiveness of the contract relationship management and procurement management (Verweij & van-Meerkerk, 2021). Collaborations between the organizations and the different procurement and contract management experts and suppliers usually maximize the potential for aggregation of products or services through category management. State corporations in energy sector explore opportunities for collaboration with procurement and contract management experts to expand knowledge on a range of supplies and services. This allows them to effectively benchmark prices across different suppliers and enable them get quality products at better pricing terms which enhances procurement performance. Hirmer *et al* (2021) asserted that collaborative procurement helps energy sector corporations to save across their overall budgets. Furthermore, collaborations with multiple organizations to purchase similar products makes enables organizations to capitalize on volume discounts that would otherwise be unavailable, thereby securing better pricing which leads to sustainable procurement performance (Verweij & van Meerkerk, 2021).

Contract compliance as a component of contract relationship management focuses on conformance with regulations and performance of obligations within the agreements between the energy sector organizations and suppliers (Song *et al.*, 2018). Compliance typically ensures that ensures all contract parties meet their obligations in a legally acceptable manner. Effective contract compliance clearly addresses contract terms and conditions for that contribute to clear understanding of what parties in a contract need to do to remain compliant. Furthermore, contract compliance among the state corporations in energy sector provide the framework for meeting contract obligations, standardized processes and role clarity which determines the procurement performance. It ensures adherence to the quality standards of products supplied, inventory accountability by procurement officers and reduction of operational costs in the energy sector state corporations (Verweij & van Meerkerk, 2021). Contract relationship also includes the aspect of comprise which entails concessions between procurement officers in public sector energy organizations and suppliers which occurs when they agree to contract terms that neither the organizations nor the suppliers meet them satisfactorily (Mutangili, 2021). Therefore, they compromise on such terms for the best interest of the contract and procurement performance.

Past empirical studies were undertaken to examine the contract management and procurement performance as well as overall performance of organizations. However, there existed little specific research information regarding the relationship between contract relationship management and procurement performance of state corporations in the energy sector. Mwendwa and Ochiri (2019) researched on the influence of contract management practices on performance of state corporations in Kenya. The study found that administration strategy, monitoring and evaluation, stakeholder management and conflict management have a positive relationship with performance of state corporations in Kenya. The current study applied different study variables that include the contract relationship management aspects of information sharing, collaborations and contract compliance. Moreover, the current study specifically addressed the procurement performance of state corporations in energy sector of Kenya. Kamoni (2020) undertook a study on the emerging supply chain management practices and procurement performance of public mega projects in the energy sector in Kenya. The study found that Public Private Partnership, E-procurement, Procurement Risk Management, and Global Sourcing have a positive significance influence on procurement performance of mega projects in the energy sector in Kenya. The study did not link contract relationship management to procurement performance. Furthermore, the research found that regulatory framework does not have a significant moderating effect on procurement performance. The current study established the relationship between contract compliance and procurement performance. Aluonzi, Oluka and Nduhura, (2016) researched on the relationship between contract management and performance of road maintenance projects in Arua Municipality. The results revealed a significant relationship between contract relationship management and performance of the maintenance projects. The study revealed that improved payment mechanism, controlled contract variations, improved communication channels and dispute management improve project performance. The study failed to link contract management to procurement performance energy sector state corporations. Kimundu and Moronge (2019) assessed the influence of contract relationship management on procurement performance in manufacturing firms in Kenya. The study established that contract relationship management accounted for 62% of the procurement performance of Kenya's manufacturing firms. This study was undertake from manufacturing firms and not the state corporations in the energy sector. Furthermore, the research was a case study of Bidco Oil Refinery Ltd and the findings may not have applied to all other manufacturing firms in the Country. The current study was a survey of multiple energy sector

corporations. It examined the influence of contract relationship management elements of information sharing, collaboration and compliance on procurement performance of state corporations in the Kenya’s energy sector.

4. Methodology

The current study adopted descriptive research survey design since it enables to generalize the findings to the larger population. According to Turnbull, Chugh, and Luck (2021) the descriptive research design helps in collection of quantitative data to test research hypotheses. It helped to determine the relationship between contract relationship management and procurement performance of Energy State corporations in Kenya. The target population was the 157 managers, procurement officers, ICT officers and finance officers of four state corporations in energy sector including Kenya Power, Geothermal Development Corporation (GDC) and Kenya Electricity Transmission Company Limited (KETRACO) while the sample size was 113 respondents. Data was collected through questionnaires and analyzed using descriptive and inferential statistics. Descriptive analysis was in the form of frequencies, percentages, means and standard deviation. Inferential analysis incorporated Pearson’s correlation and regression analysis and established the relationship between contract management and procurement performance in energy state corporations in Kenya. Findings were presented through tables.

5. Results

The researcher conducted the descriptive and inferential analysis to determine the influence of contract relationship management on procurement performance of state corporations in the Kenyan energy sector. This section includes the results and discussions.

5.1 Influence of Contract Relationship Management on Procurement Performance of state corporations in the Kenyan energy sector

The study sought to determine the influence of contract relationship management on procurement performance of state corporations in the Kenya’s energy sector. Descriptive findings are shown on Table 1.

Table 1: Influence of Contract Relationship Management on Procurement Performance

Elements of contract relationship management	Mean	Std. Dev
Compromise exist to accommodate different ideas and priorities of parties involved in the contract which culminates to good relationship i.e. willing to give and take	2.9118	1.1527
Compliance agreements in the contract ensures parties involved in contract remain on friendly terms	3.5000	1.0601
There is enhancing the collaboration between parties involved in contract	3.5294	1.0873
There is enhanced information sharing between parties involved in contract	3.6760	0.9028

According to the findings of the study in Table 1, most elements of contract relationship management had their mean score of approximately 4 (agree) except on the statement that the Compromise exist to accommodate different ideas and priorities of parties involved in the contract which culminates to good relationship where the participants in the study were neutral indicated by a mean score of approximately 3 (Neutral). Based on the findings, contract relationship management influences the procurement performance of state corporations in the Kenya’s energy sector.

Table 2: Procurement Performance

Elements procurement performance	Mean	Std. Dev
There is improvement in quality standards	3.6765	.94567
There is proper verification document in receiving and issuing of inventory	3.7157	.90518
Cost efficiency factored in during procurement process	3.7255	.92444
Timely bidding process initiation and closure is practiced in our institution	3.7745	.87774
There is reduced lead time in procurement	3.8235	.88342
There is timely purchase requisition approval	3.8627	.86790
There is timely response to client references to ensure stock availability	3.8824	.83600
Declaration of inventory is done effectively	3.9608	.79505

Based on the results of the study in Table 2, participants in the study agreed (mean score of approximately 4) that there is improvement in quality standards, there is proper verification of document in receiving and issuing of inventory, cost efficiency factored in during procurement process, timely bidding process initiation and closure is practiced in their institution, there is reduced lead time in procurement, there is timely purchase requisition approval, there is timely response to client references to ensure stock availability and declaration of inventory is done effectively.

5.2 Regression Analysis

Regression analysis was carried out to establish the relationship between the contract relationship management and procurement performance of state corporations in the Kenyan energy sector. The results are illustrated through the model summary, Analysis of Variance and regression coefficients.

Table 3: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.739a	.547	.542	.31553

- a. Predictors: (Constant), Contract relationship management
- b. Dependent Variable: Procurement Performance

The regression model summary shows that the correlation coefficient depicting the relationship between between contract relationship management and procurement performance in energy state corporations was 0.739. The coefficient of determination was 0.547 implying that 54.7% of variation of procurement performance was explained by contract relationship Management.

Table 4: Analysis of Variance (ANOVA)

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.011	1	12.011	120.646	.000
	Residual	9.956	100	.100		
	Total	21.967	101			

- a. Dependent Variable: Procurement Performance
- b. Predictors: (Constant), Contract relationship management

Analysis of Variance (ANOVA) was undertaken to test the model fitness and the overall significance. The results shows that the F-value was 120.646 with $p=0.000<0.05$. As such, the relationship between contract relationship management and procurement performance was significant.

Table 5: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	1.897	.180		10.545	.000
Contract Relationship Management	.513	.047	.739	10.984	.000

- a. Dependent Variable: Procurement Performance

The regression model was as; $Y = \beta_0 + \beta_1 X_1 + \epsilon$

Where;

Y = Procurement Performance

β_0 = Constant

β_1 = Beta Coefficient

X_1 = Contract Relationship Management

ϵ = Error of Margin

The model was interpreted as follows; $Y = 1.897 + 0.513X_1 + 0.180$

According to the regression coefficients, the beta coefficients for contract relationship management was significant at 95% confidence level ($\beta=0.513$; $p=0.000<0.05$). The results implied that contract relationship management influenced the procurement performance of state corporations in the energy sector of Kenya.

6. Conclusion

The study concludes that the procurement performance of energy state corporations depend on the effectiveness of contract relationship management. The study established that contract relationship management is a significant predictor of procurement performance. Therefore, improvement in information sharing, collaborations and contract compliance as elements of contract relationship management contributes to better procurement performance.

7. Recommendation

The study recommends Energy State Corporations to incorporate contract relationship management into their overall operational strategy. This will lead to effective running of procurement contracts for improved procurement performance.

References

- [1.] Aluonzi, G., Oluka, P.N. & Nduhura, (2016). Contract Management and Performance of Road Maintenance Projects: The Case of Arua Municipality, *Universal Journal of Management*, 4(10): 550-558
- [2.] Hirmer, S. A., George-Williams, H., Rhys, J., McNicholl, D., & McCulloch, M. (2021). Stakeholder decision-making: Understanding Sierra Leone's energy sector. *Renewable and Sustainable Energy Reviews*, 145, 111093.
- [3.] Kamoni, P. (2020). *Emerging Supply Chain Management Practices and Procurement Performance of Public Mega Projects in the Energy Sector in Kenya* (Doctoral dissertation, JKUAT-COHRED).
- [4.] Kimundu, G. N., & Moronge, M. (2019). Influence of contract management on procurement performance in manufacturing firms of Kenya; A case Bidco Oil Refineries Ltd. *The Strategic Journal of Business and Change Management*, 6(1), 106-120.
- [5.] Lifard, A. (2020). *Assessment of the Influence of Procurement Contract Management for Goods in Achieving Value for Money in Public Sector in Tanzania, A Case of President's Office Regional Administration and Local Government (PO-RALG)* (Doctoral dissertation, Mzumbe University).
- [6.] Muhammad, K., Saoula, O., Issa, M., & Ahmed, U. (2019). Contract management and performance characteristics: An empirical and managerial implication for Indonesia. *Management Science Letters*, 9(8), 1289-1298.
- [7.] Mutangili, S. K. (2021). The Impact of Public Procurement Law on the Performance of Energy Sector in Kenya. *Journal of Procurement & Supply Chain*, 5(1), 35-45.
- [8.] Mwendwa, M. M., & Ochiri, G. (2019). Influence of contract management practices on performance of state corporations in Kenya. *International Journal of Supply Chain and Logistics*, 3(1), 50-75.
- [9.] Nduati, P. M., Karanja, K., & Namusonge, G. S. (2017). Relationship between contract management and compliance with Access to Government Procurement Opportunities (AGPO) regulations for special groups by public universities in Kenya. *African Journal of Co-operative Development*
- [10.] Ngetich, S. K. (2018). *Determinants of Effective Procurement Contract Administration in Selected Public Universities in Kenya* (Doctoral dissertation, JKUAT-COHRED).
- [11.] Samuels, D. (2021). Government procurement and changes in firm transparency. *The Accounting Review*, 96(1), 401-430.
- [12.] Sayed, M., Hendry, L. C., & Zorzini Bell, M. (2021). Sustainable procurement: comparing in house and outsourcing implementation modes. *Production Planning & Control*, 32(2), 145-168.
- [13.] Shija, L. (2019). *Challenges Facing Implementation of Public Procurement Contract Management in Tanzania* (Doctoral dissertation, College of Business Education).
- [14.] Song, H., Zhu, F., Klakegg, O. J., & Wang, P. (2018). Relationship between contractual flexibility and contractor's cooperative behavior. *International Journal of Managing Projects in Business*.
- [15.] Turnbull, D., Chugh, R., & Luck, J. (2021). Learning management systems: a review of the research methodology literature in Australia and China. *International Journal of Research & Method in Education*, 44(2), 164-178.
- [16.] Verweij, S., & Van-Meerkerk, I. (2021). Do public-private partnerships achieve better time and cost performance than regular contracts?. *Public Money & Management*, 41(4), 286-295.
- [17.] Wong, W. P., Tan, K. H., Chuah, S. H. W., Tseng, M. L., Wong, K. Y., & Ahmad, S. (2020). Information sharing and the bane of information leakage: a multi-group analysis of contract versus noncontract. *Journal of Enterprise Information Management*.
- [18.] Yegon, B. K. (2018). *Determinants of procurement contract management of selected state corporations in Nakuru County, Kenya* (Doctoral dissertation, JKUAT).