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EFFECT OF PROCUREMENT SERVICE AGREEMENT ON ORGANISATIONAL PERFORMANCE OF AGRICULTURAL MANUFACTURING FIRMS IN NAIROBI COUNTY, KENYA

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ABSTRACT

The 40 Agricultural Manufacturing Firms within the Agriculture sector have critical role towards promoting various agricultural activities in the county. The mandate of state-owned organizations involves the control of imports and exports, provision of essential goods and services, research into pest infestation, promotion of adequate agricultural studies, and establishing policies that cushion the country against famine and hunger. Performance of the agricultural sector relies on effective contract administration and regulation practices which streamline operations; hence accomplishing needs of the stakeholders. The main shortcoming with the Kenyan agricultural sector is that service agreements are not managed effectively leading to financial losses and poor service quality. Therefore, the overall objective of this proposal is to investigate on the role of service agreement practices on the performance of agricultural manufacturing firms in Nairobi County, Kenya. Specifically, this proposal aimed at: examining the influence of service agreement planning and contract administration on the performance of agricultural manufacturing firms in Nairobi County, Kenya. The scope of the study was limited to 40 Agricultural Manufacturing Firms situated in different parts of the country. Primary data was collected by use of a structured questionnaires through drop and pick method. The research instrument generated quantitative data, which was analyzed by the use of descriptive and inferential statistics. The study found procurement service agreement and contract administration had a significant influence on the performance of manufacturers in Kenya. The study recommends that all agricultural firms should align Contract Administration agendas with the overall objectives of the company to gain competitiveness. All manufacturing firms should adopt operation as a Performance Agricultural Manufacturing Firms strategy in enhancing performance.

Keywords: Service Agreement Planning, Contract Administration, Performance

INTRODUCTION

A service agreement practice denotes a contract between individuals or enterprises where one consents to the provision of a particular amenity to the other party. Additionally, it is a legal arrangement between an employer and an employee that entails the information of the exclusive details of service. Focusing on the management of contracts, Edwards and Griffins (2016) claims that service agreement requires that providers meet the expectations of end-users, and demands the establishment of a strict line of interaction that maintains communication between the parties. As a commitment, it includes specific characteristics of services such as accountabilities, convenience, and value as stipulated in the signed contract between two entities (Nyangau, Mburu & Ogola, 2014). A service agreement legally binds both parties to ensure they fulfill the terms and conditions under the agreed obligation. Service agreement practices impact the operations of an organization, and so, affects the performance levels of entities such as corporations, businesses, firms and so on.

The performance of a business entails the analysis of the actual level of productivity against the corporate goals and objectives. A study by Edwards and Griffins (2016) defined performance as the comparison of the physical effects against the desired results of a service. It incorporates different aspects and outcomes that include industrial, monetary, and stockholder worth performance. Upadhaya, Munir, and Blount (2014) acknowledge the relationship between the performance of an organization and the implementation of service agreement. For a well-performing entity, Chun-Mii (2018) explained that this relation result in high levels of user satisfaction due to increased productivity and low costs of operation. As a result, commercial analysts emphasize the importance of service commitment on the structural performance of enterprises both in the local and global markets. Consequently, this study will investigate the role of service agreement practices on the performance of agricultural manufacturing firms in Nairobi County, Kenya.

The achievements of ExxonMobil in the United States depend on the corporation's organizational strategies that maximize a service agreement to improve performance. Through service agreement planning, ExxonMobil identifies its commercial needs, creates plans for interdepartmental participation and signs contracts with service providers. As a consequence, the company hires professionals from different sectors who provide their experience and expertise to sustain the corporate goals. Well performing entities benefit from proper planning (Oshri, Kotlarsky & Gerbasi, 2015), and execution of service commitment as it cultivates full transparency (Basu & Bhola, 2016). Through this strategy, the company manages to establish a feedback system that enables it to regularly communicate with its service providers, especially, work teams. Planning allows the top management to identify the necessities and aims of the primary corporate targets and hire the services of suitable professionals. As a consequence, service agreement consents to the corporations achieving their desired output through enhanced productivity levels.

In China, CIMC enhances performance through the complementing its operations with the implementation of service agreements. The utilization of business commitment allows the business to maximize on contract administration. According to Basu and Bhola (2016), the management of corporate binding pacts spurs the efficiency as they identify the most appropriate strategies of risk management, internal control as well as monitoring and evaluation. Upadhaya (2014) concluded that ignoring the relevance of contract administration results in poor organizational performance. Avoiding this corporate mistake, CIMC improves its global efficiency since through management of its business pacts the company identifies and manages

potential risks. Besides, through this process, the top management observes and assesses the performance levels to guarantee the attainment of the organizational objectives. It is clear that service agreement let firms improve production as they complement the day to day operational duties and activities.

In Rwanda, RwandAir uses the features of amenities pacts such as service agreement regulation to enhance the standards of industrial performance. Business commitments represent an essential part of company success as they entail factors such as procurement manuals and organizational policies that influence the achievement of long-term objectives of a firm. Through these approaches, the firm enhances its production process as it improves procurement activities due to the cultivation of transparency with its service providers (Nyangau et al., 2014). Service agreement parameters allow RwandAir to protect its organizational relations since the top management easily monitors the progress of organizational pacts. The conclusion that agreement guidelines are relevant concurs to the findings of Mohammed, Mohammed and Abdullah (2016) who emphasize the use of standard procedures help companies to assess the contract-awarding progress. Following such terms and conditions permits a business to avoid various errors that hinder productivity such as the failure to notify another part about the rejection of service.

In Kenya, Manufacturing Firms use service agreement, making it a significant part of business operations as it entails the quality, availability, and responsibilities of service acquired. The parties involved in a commitment, determine the success of a service provided through conducting an assessment via quantitative metrics. The process of analyzing the effectiveness of an amenity enables entities to guarantee a consistent uptime (Upadhaya et al., 2014). The different types of service offered by work teams entail sections that relate to the parties involved in the agreement. A research conducted by Edwards and Griffins (2016) agrees with this assertion and concludes that service agreement includes the official commitment between two parties that agree to provide or buy a reliable service. Government corporations rely on the relevance of business pacts to improve efficiency and attain high production levels. Service agreements are essential, and the knowledge in them is beneficial, and so, organizations depend on them to meet administrative goals.

Statement of the Problem

Service agreement in government corporations should ensure high productivity translating to users' satisfaction (Nyangau, Mburu, and Ogollah, 2014). Performance of the agricultural sector relies on effective contract administration and regulation practices which streamline operations; hence accomplishing needs of the stakeholders (Mwega, 2016). Gibbens et al. (2016) acknowledge that service agreement planning and delivery depend on capacity building accorded to contract administrators in an organization. Additionally, a study by Nyangau et al. (2014) and (Mwega, 2016) conclude that agricultural service agreements should be well-aligned with the corporate agenda to guarantee high output.

The main shortcoming with the Kenyan agricultural sector is that service agreements are not managed effectively leading to financial losses and poor service quality. Therefore, to mitigate these inefficiencies, a study on the impact of service agreement on the performance of this sector is warranted. In his article, Mwega (2016) articulates that farming corporations incur loss amounting to 2.4 billion annually due to poor agreement implementation. Furthermore, 56% of contracts are implemented poorly due to incompetence and non-compliance (Nyangau et al. (2014). AMREF International records the other notable area of wastefulness in Manufacturing

Firms as the lack of compliance with service administration and regulations leading to increased legal fees amounting to as much as 200 million in every financial period (Mwega, 2016).

In Kenya, the outcomes of non-conformity with service agreement halt the government agendas such as reducing service cost burden on the citizens. In all companies they studied, Milner and Olsen (2018) found out that, the issue was not low funding but lack of understanding of service agreement dynamics as well as inappropriate strategic intent. However, studies by Mwega (2016); Nyangau et al. (2014), and Kendrick (2016) did not delve deeper on service agreement in agricultural sectors. Due to this knowledge gap, this study seeks to elaborate on the effect of procurement service agreement on organisational performance of agricultural manufacturing firms in Nairobi County, Kenya.

Research Objective

To investigate the effect of procurement service agreement on organisational performance of agricultural manufacturing firms in Nairobi County, Kenya

Specific Objectives

- To examine the influence of service agreement planning on the performance of Agricultural manufacturing firms in Nairobi County, Kenya.
- To find out the effects of contract administration on the performance of Agricultural manufacturing firms in Nairobi County, Kenya.

Theoretical Review

Planning Theory

Planning theory is an essential idea that advocates for improving the performance of an organization through the notion of service agreement planning. The theoretical framework provides aspects that emphasize the relevance of planning procedure. It describes elements of planning in normative and descriptive ways to explain the usefulness for understanding the importance of planning in solving the issues that hinder Manufacturing Firms performance (Duke, 2015). The theory dictates that companies should implement a systematic way of doing things to avoid challenges and difficulties that curtail output and productivity rates. Methodical approaches of handling issues at a firm improve performance as they enhance efficiency and offer the right direction.

In the contemporary world, the majority of Manufacturing Firms do not have a clear order of carrying out essential contractual activities, leading to poor performance. The failure to implement an organized approach limits the identification of organizational needs, implementation of interdepartmental participation, or signing of contracts. To improve the productivity of Manufacturing Firms, Duke (2015) explains that the top management must identify and implement policies that utilize all the company resources. The lack of planning deprives the organization income at the lowest costs. It is clear that poor corporate performance results from the failure of top executives to create strategies that provide an orderly manner of doing things.

Planning theory provides insights into the basics of carrying out company activities in an arranged method to enhance the performance levels. In the article, *Planning Theory and Natural Law*, Duke (2015) postulates that organizations should use this theoretical framework since it helps in defining future direction and establishes the resources to attain specific objectives. It suggests that to improve performance levels, Manufacturing Firms managers must identify methodical organizational techniques that will minimize regulatory and structural challenges,

which limit productivity. The theoretical framework emphasizes that the lack of planning has dire consequences on the organization since it affects the flow of management processes.

Contract Theory

Contract theory relates to the service agreement regulations as it entails more than just the examination of legally binding contracts. It tells the law and guidelines that ensure that the parties involved in an agreement abide by the agreed rules and objectives. The framework demands that the entities in the sanction of a bond should identify the responsibilities and requirement of both parties to avoid misunderstandings (Koszegi, 2014). Confusions and errors regarding a contract ensure that the obligations remain unfulfilled, affecting the performance of the entities in the agreement. Consequently, the output of an organization relies on the fulfillment of the contractual demands of the contracted individuals.

In the corporate arena, organizations use the following aspects; PPADA 2015, procurement manuals, and organizational policies to improve the performance levels. Through regulations, the contracted parties abide by the terms and conditions of a bond to ease the process of enforceability. Majority of the contracts are done in writing by the interested parties to enhance success; however, some of the parties ignore the stipulations of regulations that govern business agreements (Koszegi, 2014). The elements of service agreement regulations pressurize all the involved entities to fulfill their obligations to avoid misunderstandings. The codes of practices enhance Manufacturing Firms performance by routinely checking the contract to determine the progress of the bond.

The failure to implement contract theory compromises the effectiveness of contractual obligations, which affects the performance levels. Manufacturing Firms without the provisions of this theoretical approach fail to identify the causes of dispute. According to Koszegi (2014), a contract is vulnerable if one of the parties in the transaction has a hidden agenda. As a result, the lack of regulations exposes an agreement to the growing threat of one entity providing the other with misleading information. This theoretical assumption suggests that organizations should adopt means that prevent other parties from violating contractual agreements.

Conceptual Framework

The independent variables entail; service agreement planning and contract administration

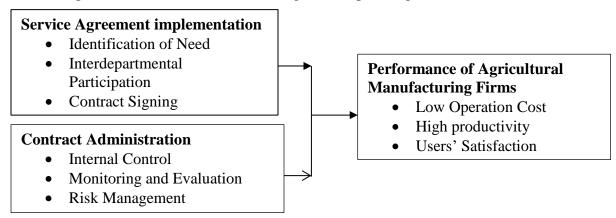


Figure 1: Conceptual framework

Empirical Review

A survey by Elbanna et al. (2015) concludes for an organization to enhance its efficiency levels; it is essential that it adopts the service agreement practices to manage its contractual obligations. The research dictates that top managers have to recognize the importance of capacity building, service agreement regulations, service agreement planning, and contract administration. According to Duke (2015), all of these provisions allow corporations to minimize the violations of contract, which creates misunderstandings, affecting the performance levels of organizations. It is the responsibility of the executive to ensure that they incorporate policies and strategies that will ensure contracted entities focus on the attainment of the desired objectives.

Majority of state-owned enterprises heighten efficiency levels through the application of the service agreement practices that guarantee the achievement of anticipated aims and objectives. The lack of these strategies exposes contracted entities to deal violations since some of the parties feel less obligated to fulfill the promised demands. Duke (2015) identifies the approach of service agreement entails regulations, planning, capacity building, and contract administration, which allow entities to meet the demands of business treaties. The appreciation of these elements permits government-led enterprises to understand the complexities of business contracts that limit the output of an organization.

According to Gibbons (2010), contract administrations practices, notably, risk management, internal control, as well as monitoring and evaluation, stimulate the efficiency of a government-owned entity. Contracts are intricate and complex; as a consequence, they demand that contracted parties emphasize the importance of achieving the expected goals. In their study, Mutonyi et al. (2016) concurs with these conclusions and postulates that this situation requires that companies use contract administration practices to supervision the business settlements made by a firm with other entities. The researchers suggest that corporations should modify their approach as well as the management of contracts through adopting the principles of contract administration.

Investigating the role of contracts, Norman-Major (2012) concludes that evaluation, management of risks, and internal control influence the cost, productivity, and user contentment levels. The evolution of contractual requirements and conduct has changed the dimensions and specifications of commercial agreements. Ochieng, Veettil, and Qaim (2017) support this argument, and postulate that to enhance efficiency; organizations have to acknowledge the changes in the ratification of contracts. For that reason, top managers have to update their conduct with the modern-day contract administration practices to minimize misinterpretations, but also enhance efficiency and productivity. Consequently, organizations should strive to improve output levels through the implementation of treaty management practices.

METHODOLOGY

The study used a descriptive research design, where data was collected from the population in a particular time period to examine the relation between the variable of interest. The target population of this study was 40 Agricultural Manufacturing Firms within the agricultural sectors in Kenya. A census strategy enabled the presentation of unbiased information for all research participants and facilitate towards solving the research problem. A questionnaire was used to collect the primary data. A pilot test entailing 5 State Corporations was used to evaluate the validity and reliability of the questionnaire, making up 12.5% of companies presented in the pilot test. Qualitative data was analyzed using content analysis. Quantitative data was analyzed using descriptive statistics such as Inferential Analysis, Standard Deviation (STD), and ANOVA.

Multiple regression analysis was used to determine the level of statistical significance, the effect or level of influence of the independent variables on the dependent variable.

FINDINGS

Contract Administration on the Performance Agricultural Manufacturing Firms

The study recorded that about 17% strongly agreed that Contract Administration had a critical influence on performance. Additionally, about 41% of the respondents agreed that Contract Administration contributed significantly towards efficiency and effectiveness of their companies. Nonetheless, 37% disagreed with statements that Contract Administration had a critical implication of the performance of agricultural manufacturing companies. Out of all the respondents in this study, only 2.92% were not sure about their position regarding the questions raised by the researcher.

Table 1: Contract Administration Influence on the Performance Agricultural Manufacturing Firms

Contract Administration influence on the performance Agricultural	Users are engaged during the need identification		evaluation and development is conducted	Mean Frequency	Percentage Frequency
Manufacturing Firms	process.		regularly		
Strong Agree	15	7	20	14	17.50%
Agree	37	35	27	33	41.25%
Not sure	3	1	3	2	2.92%
Disagree	19	30	24	24	30.42%
Strongly Disagree	6	7	6	7	7.11%
Total	80	80	80	80	100%

Table 1 presents the study's finding on the central role of Contract Administration in enhancing better performance for agricultural manufacturing companies. As performance has a strong relationship with the approaches of Contract Administration through the Performance Agricultural Manufacturing Firms process. These findings were in line with a study conducted by Kulzy and Fricker (2015) which indicated that Contract Administration is the most rigorous primary activity in Performance Agricultural Manufacturing Firms. For example, whenever manufacturers bought low-quality commodities, the outcome affected organizational operations. Besides, if firms acquired materials at a high price due to ineffective Contract Administration skill, companies were most likely to suffer high cost of operation.

Additionally, Lambert (2016) conducted a study on "Performance Agricultural Manufacturing Firms: Processes, Partnerships, Performance" and discovered that user involvement was the blueprint towards promoting a company's performance. As such, when customers are engaged in a Contract Administration process, high level of cooperation could be recorded. A study by Mungai (2014) also aligned with the outcome of this study by citing that the competitive selection of suppliers formed the basis for effective performance in a company. Mungai (2014) further believed that evaluating supplier during the Contract Administration phase of Performance Agricultural Manufacturing Firms was a critical parameter towards competitiveness.

Service Agreement Implementation Influence on Performance Agricultural Manufacturing Firms

With the aim of establishing the relationship of Service Agreement Implementation and level of performance in agricultural manufacturing companies, respondents were asked to provide their perception on distribution, as a Performance Agricultural Manufacturing Firms activity, and its influence on performance. Majority of them, about 81%, agreed that for better performance, a manufacturer should maintain an effective Service Agreement Implementation system. Out of 81%, 15 of them strongly agreed while 50 showed a high level of concession. Despite the high level of agreement, a total of about 17% indicated that Service Agreement Implementation had nothing to do with firm performance in their companies.

Table 2: Service Agreement Implementation influence on Performance Agricultural Manufacturing Firms

Service Agreement Implementation influence performance of firms	Floor management is sufficient to support the proper Service Agreement Implementation of materials	on is aligned with	Logistic management is enhanced using modern logistics management information systems		Percentage Frequency
Strong Agree	12	27	6	15	18.75%
Agree	56	39	54	50	62.10%
Not sure	0	1	2	1	1.25%
Disagree	7	10	10	9	11.25%
Strongly Disagree	2.5	3	8	5	6.67
Total	80	80	80	80	100%

Table 2 shows that a vast majority in this study believed that Service Agreement Implementation had a critical influence on the effectiveness of agricultural manufacturing companies. These findings concurred with Darian-Smith and McCarty (2017) who indicated that Service Agreement Implementation was the backbone of Performance Agricultural Manufacturing Firms activities because it played a critical part in a company's competitive advantage. Therefore, the role of Service Agreement Implementation is considered essential by fast-moving manufacturers. Furthermore, Haddad et al. (2012) argued that floor management was a productive part of the Service Agreement Implementation that enabled the supply chain to instill the current flow of material in and out of the organization. This argument can be related to the findings of this study since most of the respondents cited floor management was an essential attribute whose proper application gained their companies better performance.

Kemunto (2014) further collaborated with the outcomes of this research by indicating that Service Agreement Implementation which is aligned with customers demand most likely led to better performance. To add on this, the study revealed that firms that based their Service Agreement Implementation management on demand were in a better chance to reduce the cost of production; consequently leading to competitiveness. Furthermore, according to Kirande (2014), Service Agreement Implementation was an essential competitive tool that was better achieved through proper incorporation with information technology. The study found out that

technological advancement enhanced the performance of agricultural manufacturing firms due to saving of cost during Service Agreement Implementation and operation management.

Correlational Analysis

Pearson's product-moment correlation coefficient (or Pearson's correlation coefficient in short) is a measure of the strength of a linear association between two variables and is denoted by r.

Table 3: Correlational Analysis

	· ·	Performance Agricultural Manufacturing Firms	Contract Administration	Service Agr Implementa	
Performance Agricultural	Pearson correlation	1.00	.7	768	.759 *
	Sig. (2 tailed)	.000.	0.	000	.002
Contract Administration	Pearson correlation	.768		.00	.467
	Sig. (2 tailed)	.000.	0.)59	.058
Service Agreement Implementation	Pearson correlation	. 759 ⁵	* .4	125	1.00
	Sig. (2 tailed)	.002	2 .0	003	

The first variable, Contract Administration concerned the dependent variable, performance of agricultural manufacturing firms, had a coefficient of correlation of 0.768* which showed a strong positive relationship between the two variables. This implied that effective Contract Administration process had a critical role in the overall performance of a company. Agreement Implementation showed a strong positive correlation with the dependent variable, performance of agricultural manufacturing companies. The strength of relation was discovered to be 0.759. This indicated that if a manufacturer had an effective Service Agreement Implementation mechanism, its performance had a high chance of improving.

Regression Analysis

The study used multiple regression analysis to examine the weight of the relationship between the independent variables and the dependent variable.

Table 4: Regression Analysis

Unstandardized Coefficients			Standardized Coefficients	t	Sig.
	В	Std. Error	Beta		
(Constant)	.581	.115		5.042	.000
Contract Administration	.521	.078	.222	2.825	.000
Service Agreement Implementation	.345	.050	.395	6.865	.001

Contract Administration had a positive influence on the performance of Agricultural manufacturing firms in Nairobi county, Kenya (β_1 =0.521, p-value=0.000). This implied that an increase in the utilization of Contract Administration techniques led to a 0.521 increase in performance of Agricultural Manufacturing Firms. Service Agreement Implementation had a positive influence on the performance of Agricultural manufacturing firms in Nairobi county, Kenya (β_2 =0.345, p-value=0.001). This inferred that a unit increase in Service Agreement Implementation efficiency resulted in a 0.345 improvement in the supply chain performance of Agricultural manufacturing firms in Nairobi County, Kenya.

Table 5: Model Summary

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R	R Square	Adjusted R Square	Std. Error of the Estimate	
0.876	.767	.712	.09638	

The R-squared shows the variation in the dependent variable that can be explained by the independent variables being studied. The R-squared in this study was 0.767, which implied that the independent variables explained up to 76.7% of the dependent variable. Therefore, the selected variables were suitable in expressing the features of the dependent variable.

Table 6: Analysis of Variance (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	15.65	2	7.825	308.071	.000 ^b
Residual	1.7018	67	.0254		
Total	17.3518	79			

The numerator for α =5% whose degree of freedom (df) =10, denominator (df) = 69 and critical F-critical is (2.606). The findings below showed that the calculated F value as (308.071) which was greater than the F-critical (2.606), which depicted that the model was used in predicting the influence of the independent variables on the dependent variable. Besides, the P-value (0.000) was less than the significance level (0.05), which confirmed that the model was fit.

Conclusion

The study concludes that agricultural manufacturing companies in Kenya were using supply chains management practices such as purchasing, Service Agreement Implementation, Service Agreement Regulation, and Capacity Building. The study also concluded that procurement service agreement had a significant influence on the performance of manufacturers in Kenya. The study found that fast-moving manufacturers do not exchange information that helps establish business planning and do not share proprietary information with suppliers through an effective Capacity Building system. In addition, agricultural firms do not achieve effective Contract Administration practices due to lack of evaluating their suppliers frequently and have no compatible communication and information system with their supplier.

Recommendation

The study recommends that all agricultural firms should align Contract Administration agendas with the overall objectives of the company to gain competitiveness.

All manufacturing firms should adopt operation as a Performance Agricultural Manufacturing Firms strategy in enhancing performance.

Manufacturers should focus on floor, Service Agreement Implementation, and logistics management in a bid to enhance their performance

Further studies should be done to identify other factors affecting the performance of Agricultural Manufacturing Firms such as warehouse management, information technology, strategic supplier partnership, lean inventory systems, and legal policies of the procurement function in the manufacturing industry.

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