

INFLUENCE OF GOVERNANCE STRUCTURES ON COUNTY FUNDS MANAGEMENT IN KENYA: A CASE STUDY OF KWALE COUNTY

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Abstract: Devolution is the strongest form of governance decentralization .Devolution involves rescaling of responsibilities or powers from the national to the regional political organization. Specifically, the study had the aim of determine the influence of governance structures on county funds management in Kenya. The conceptual scope of this study was limited to four governance structures variables namely financial decentralization, administrative decentralization, political decentralization and citizen participation. This study targeted all staff of Kwale County across the 4sub-counties and county head quarter composed of senior managers, middle level managers and operational staff. The study employed descriptive survey design. The researcher used questionnaires as research instruments to collect data to the study. The study concluded that administration decentralization has a significant and a positive effect on county funds management in Kenya. The study further concluded that political decentralization has a significant and a positive effect on county funds management in Kenya. The study also concluded that financial decentralization had significant and a positive effect on county funds management in Kenya. The study finally concluded that Citizen Participation had a significant and positive effect on the county funds management in Kenya. The study recommended that the government should increase county government autonomy to promote administrative decentralization. The study also recommended that national and county governments should put in place measures to safeguard the independence of political decentralization. The study further recommended that national and county governments should put in place a set of deliberate and proactive processes, policies and structures that support financial decentralization. Finally, the study recommended that county governments should improve citizen participation practices to ensure citizen involvement in governance.

Keywords: Administrative Decentralization, Citizen Participation and Decentralization.

1. INTRODUCTION

Devolution is the strongest form of governance decentralization (Olatona&Olomola, 2015). Devolution involves rescaling of responsibilities or powers from the national to the regional political organization (Lobao, Martin, & Rodriguez-Pose, 2009). The actual form and politics of such rescaling will vary substantially between states, however, amounting to a radical transfer of powers and resources in some cases and a more modest and rhetorical shift of responsibility and service delivery in others (Cox, 2009).In practice, devolution grants the devolved governments the capacity to develop policies that are better tailored to the economic and social conditions of their areas, encouraging policy divergence through the introduction of 'local solutions to local problems (Mackinnon, 2015).

Statement of the problem:

Kenya has been struggling with corruption cases and mismanagement of public funds. Corruption drew from public coffers over 600 million dollars in Goldenberg scandal and a further loss in Anglo leasing scandal (Transparency International Kenya, 2013). There are regular reports of tax evasion and high-level government officials using their

positions and influence to obtain tax exemptions for themselves or their relatives (Global Integrity, 2015). Corruption and tax evasion has greatly crippled functioning of the national treasury in that; it has influenced the inflow of cash through taxation and effectiveness of use of budgetary allocation to national and county governments. Experience with CDF has shown that there are various avenues for corruption, wastage and loss of public resources. A review of the National Tax Association (NTA) reports over the last five years identifies several mechanisms of leakages including poorly implemented projects, abandoned projects, unaccounted for funds, ghost projects, failure to adhere to procurement regulations and processes and a tokenistic involvement of citizens in committees.

Various studies have been done in the area of public financial management. Lawson (2012) in a study Commissioned by Sida, Danida and AfDB did an evaluation of public financial management reforms in Burkina Faso, Ghana and Malawi for a period between 2001 and 2010. Further, Wyk (2003) did a study to determine a performance measurement approach to improve financial management in provincial governments in South Africa. Locally, Gathuya (2010) conducted a survey of factors that influence local authority's financial management taking a case of City Council of Nairobi. However, there lack empirical studies done to investigate success of these reforms to achieve set objectives under devolved system of governance in Kenya.

Therefore this study seeks to establish the effect of influence of governance structures on county funds management in Kenya

Objectives:

- i. To establish the effect of administration decentralization on the county funds management in Kenya
- ii. To determine the effect of political decentralization on the county funds management in Kenya
- iii. To find out the effect of financial decentralization on the county funds management in Kenya
- iv. To investigate the effect of citizen participation on the county funds management in Kenya

2. THEORETICAL REVIEW

Souffle Theory:

The Soufflé Theory was proposed by (Parker, 1995) who postulates that the element of decentralization is administrative decentralization. Parker (1995) emphasized that decentralization is a multi-dimensional process that proceeds with successes and setbacks. The theory argues that like a Souffle that needs just the right combination of milk, eggs, and heat to rise, a successful program of decentralization must include the right combination of institutional elements to improve rural development outcomes (Farooq, Shamail, & Awais, 2008; Laryea-Adjei, 2006). Decentralization initiatives will therefore be subject to a continuous process of modification reflecting changes in social, political and economic conditions (Laryea-Adjei, 2006). There is therefore the need to include all dimensions of administrative decentralization. Parker suggests a conceptual model, the soufflé theory, which incorporates the essential elements of political, fiscal, and administrative decentralization as they combine to realize desired outcomes

Agency Theory:

Agency theory is concerned with agency relationships. The two parties have an agency relationship when they cooperate and engage in an association wherein one party (the principal) delegates decisions and/or work to another (an agent) to act on its behalf (Eisenhardt 2009; Rungtusanatham et al., 2007). The important assumptions underlying agency theory is that; potential goal conflicts exist between principals and agents; each party acts in its own self-interest; information asymmetry frequently exists between principals and agents; agents are more risk averse than the principal; and efficiency is the effectiveness criterion.

The Sequential Theory of decentralization:

The Sequential Theory of decentralization was proposed by Falleti (2004). The theory contends that decentralization is a set of state reforms. As such, decentralization does not include transfers of authority to non-state actors. Akorsu (2015) cited Falleti (2004) and noted decentralization reforms may take place in authoritarian as well as democratic contexts, which means that the concepts of decentralization and democratization should not be conflated. Notably, (Falleti, 2004;

Falleti, 2005) opined that sequential theory of decentralization classifies territorial decentralization into fiscal dimensions. Awortwi (2011) avers that Falleti's sequential theory of decentralization is based on three propositions: First, Institutional design of decentralization policies is highly dependent on when those policies take place within the sequence of reforms.

Stakeholders Theory:

This theory was proposed by Freeman in 1984. The general idea of the stakeholder concept is a redefinition of the organization. In general the concept is about what the organization would be and how it should be conceptualized. Friedman (2006), states that the organization itself should be thought of as a grouping of stakeholders and the purpose of the organization should be to manage their interests, needs and viewpoints. This stakeholder management is thought to be fulfilled by the management of the organization. The managers should on one hand manage the corporation for the benefit of its stakeholders in order to ensure their rights and the participation in decision making and on the other hand the management must act as the stakeholder's agent to ensure the survival of the firm and safeguard long-term stakes of each group (Friedman, 2006).

Conceptual framework:

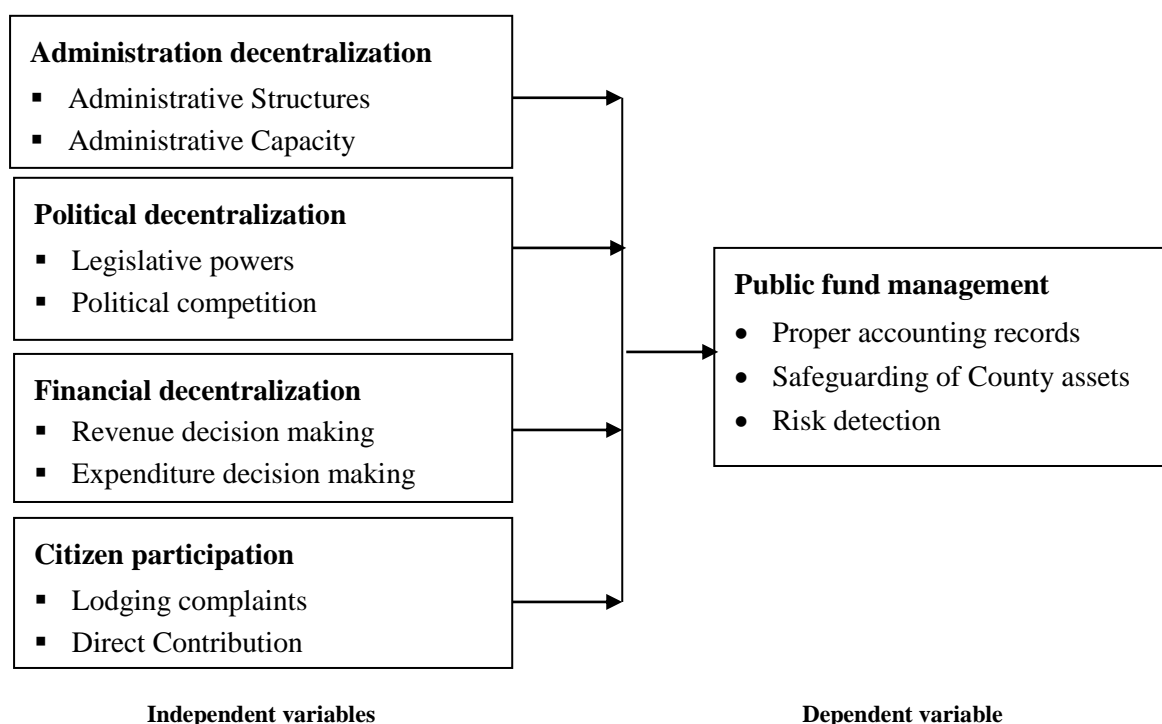


Figure 2.1: Conceptual framework

Research gaps:

Majority of previous empirical studies on decentralization and fund management have been conducted in developed or developing countries of Asia and Latin America (Kyriacou & Roca-Sagale's, 2011; Wei-qing & Shi, 2010). There is relatively small body of work and attempts to systematically examine the evidence on the impact of decentralization on fund management in Sub-Saharan Africa. Consequently, the link between decentralization and fund management in the context of Sub-Saharan Africa is scarcely explored. Only a limited number of studies have so far examined the impact of decentralization on fund management in the context of Sub-Saharan Africa (Balunywa et al., 2014; Tshukudu, 2014). The near absence of research in Africa in this area raise a question as to whether decentralization influences fund management in Africa. Empirical findings in developed countries may not be generalized in developing countries due to different cultural and political context. Further, there is also the need to test if decentralization frameworks, models or theories developed in western countries are applicable in poor African countries suffering high unemployment rates. Moreover, it has been argued that people's attitudes, beliefs and values vary across countries, cultures and continents. Hence, this study to bridge the knowledge gap by establishing the impact of decentralization on fund management in a less developed, non-Western context like the Kenyan context.

3. RESEARCH METHODOLOGY

The research design used in this study was descriptive research design. This study targeted all staff of Kwale County across the 4 sub-counties and county head quarter composed of senior managers, middle level managers and operational staff. The study used a sample of 50 respondents from finance & economic planning, Tourism, Investment and ICT, Public Service and Administration, public works & infrastructure departments. The researcher used questionnaires as research instruments to collect data to study. The statistical Package for Social Sciences (SPSS) was used for data analysis purpose.

Model:

Analysis of data will use multiple regressions to test the research questions

$$Y = \beta_0 + \beta_{X1} + \beta_{X2} + \beta_{X3} + \beta_{X4} + \varepsilon$$

Where,

Y = Public fund management

β_0 = Constant

β_i = Regression coefficients

X_1 = Administration decentralization

X_2 = Political decentralization

X_3 = Financial decentralization

X_4 = Citizen Participation

ε = Error term

4. RESULTS AND DISCUSSION

Regression Results:

Table 4.1: Significance of Independent Variables

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.875	.562		4.785	.000
Administrative decentralization	.675	.218	.688	4.810	.000
Political decentralization	.385	.255	.460	1.708	.000
Financial decentralization	.295	.186	.370	1.671	.000
Citizen Participation	.267	.172	.310	2.086	.000

The results in Table 4.1 indicate that administration decentralization has a significant and a positive effect on county funds management in Kenya ($\beta = 0.675$; $t = 4.810$; $p < 0.05$). The implication of the study is that administrative decentralization was statistically significant in explaining service delivery in county governments in Kenya. This indicated that county government officials were optimistic about administrative decentralization and how it had impacted on the operations of the county governments in Kenya.

Further, political decentralization has a significant and a positive effect on county funds management in Kenya ($\beta = 0.385$; $t = 1.708$; $p < 0.05$). This result indicates that effective local political institutions, better informed citizen and transparency, citizen political participation via community programs, and the presence of social group in community are significant for improving local public fund performance.

Improved County fund management requires well-functioning local political institutions, transparent local government and effective channels for political participation.

Financial decentralization had significant and a positive effect on county funds management in Kenya ($\beta = 0.370$; $t = 1.671$; $p < 0.05$). These results indicate that financial decentralization promotes higher efficiency, better public service, greater transparency and, eventually effective fund management in the County. Fiscal decentralization is the most traceable type of decentralization as it is directly linked to budgetary practices. It necessitates the transfer of powers to raise and retain financial resources to fulfill assigned responsibilities to local level political and administrative organizations

Citizen Participation had a significant and positive effect on the county funds management in Kenya ($\beta = 0.267$; $t = 2.086$; $p < 0.05$). The findings confirm that there is a statistically significant positive influence of citizen participation on fund management in county governments in Kenya. This indicates that involvement of local citizens in fund management is in within the confines of decentralization as a governance structure where services are brought close to the people with a consequent effect of involving them in decision making.

5. CONCLUSION

From the study findings, this study concluded that administration decentralization has a significant and a positive effect on county funds management in Kenya. The study also concluded that political decentralization has a significant and a positive effect on county funds management in Kenya. From the findings, the study further concluded that financial decentralization had significant and a positive effect on county funds management in Kenya. The study finally concluded that Citizen Participation had a significant and positive effect on the county funds management in Kenya.

6. RECOMMENDATION

The study recommends that the government should increase county government autonomy to promote administrative decentralization. The study also recommends that national and county governments should put in place measures to safeguard the independence of political decentralization. The study further recommends that national and county should put in place a set of deliberate and proactive processes, policies and structures that supports financial decentralization. The study finally recommends that county governments should improve citizen participation practices to ensure citizen involvement in governance.

Suggestions for Further Research:

To validate the findings of this study, this study recommends that future studies be replicated in other 47 county governments in Kenya. Future research should include larger sample size to analyze the in-depth relationship. Studies could be conducted on other level of the government i.e. national government to study if relationship differs in different setting. Researcher used quantitative research future researchers can take interviews to investigate the relationship further. Finally, while this research has identified how administration decentralization, political decentralization, financial decentralization and citizen participation influence county funds management in Kenya it is necessary for further research to establish how best the County government should maximize on these factors for effective fund management in the County.

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