INFLUENCE OF FINANCIAL SUSTAINABILITY STRATEGIES ON PERFORMANCE OF COUNTIES IN KENYA

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DECLARATION

This thesis is my original work and has not been presented for a degree in any other University.

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DEDICATION

This thesis is dedicated to my beloved wife Caren, and my Children: Victor, Vera and Diana for their dedicated support and love.

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LIST OF ABBREVIATIONS AND ACRONYMS

AFDB	Africa Development Bank
AU	African Union
AUC	African Union Commission
BP	Budget Planning
CIDA	Canadian International Development Agency
CEO	Chief Executive Officer
CP	County Performance
CRA	Commission for Revenue Allocation
EIA	Environmental Impact Assessment
GDP	Gross Domestic Product
GoK	Government of Kenya
GS	Governance Structures
HR	Human Resources
HRD	Human Resources Development
HRM	Human Resources Management
ILO	International Labour Organization

ISO	International Standards Organization
IMF	International Monetary Fund
JKUAT	Jomo Kenyatta University of Agriculture and Technology
MDGs	Millennium Development Goals
MTP	Medium Term Plan
MTEF	Medium Term Expenditure Framework
OECD	Organisation for Economic Co-operation and Development
NGO	Non-Governmental Organization
PFM	Public Financial Management
PPPs	Public Private Partnerships
RD	Revenue Diversification
RE	Resource Endowments
SM/P	Strategic Management/Planning
SPSS	Statistical Package for Social Sciences
SSA	Sub Saharan Africa
UNDP	United Nations Development Programme
WB	The World Bank

OPERATIONAL DEFINITION OF TERMS

Financial Sustainability: An institution's ability to manage its finances so that it can meet its spending commitments, both now and in the future (Thompson, 2001). Financial sustainability of a government ensures that future generations of taxpayers do not face unmanageable bills for services provided to its citizen's generation (Gerster, 2012).

Financial Performance: This is a measure of how well an organization uses assets from its primary business to generate revenues. It measures the financial health of an organisation. The common indicators of financial performance are; profits, return on investment, return on assets, value added and margins, among others. Financial performance guides management on the strategies and policies to adopt to improve sustainability of the organisation (Almazari, 2011).

Organizational Structure: According to Lunenburg (2011), Goldhaber, Richetto and Wiio (1984), organizational structure is the network of relationships and roles throughout a given organization. Other scholars view organizational structure as the way responsibility and power are allocated inside an organization and work procedures done by employees and other members of the same organization (Germain, 1996; Gerwin & Kolodyny, 1992). Thompson (1965) adds that organizational

structure is not just the internal relationship and authority but communication.

Diversification: Diversification may generally be understood as doing something new from the usual focus (Allen & Amaud, 2007). Varghese and Puttman (2011) view diversification as the process by which a system becomes more varied or diverse in its orientation and operation. It reflects a deviation from a uniform and rigid system to a flexible system that can accommodate varying demands from a multiplicity of stakeholders and clientele.

Investment Policies: These are statements that provide general investment goals and objectives of an organisation. They describe the strategies that management should employ to meet these objectives. The policies include goals on asset allocation, risk tolerance, and liquidity requirements (Tarawneh, 2006).

Public Private Partnerships: Public Private Partnership is an umbrella name for a range of initiatives which involve the private sector in the operations of public services. In essence, a PPP is a form of collaboration or joint endeavour between the public and private sectors for the purposes of implementing a project, whereby the resources, strengths and capabilities of each are brought together (Garret, 2007; Dunn, 2006). This is done in a way which allocates risks and responsibilities between them

in a rational manner designed to achieve the optimum balance from each perspective.

ABSTRACT

Financial sustainability measures an organization's ability to meet all its financing obligations, whether these funds come from user charges or budget allocations to fulfil its mission and serve its stakeholders over time. Sustainability is also seen as a measure of an organization's ability to fulfil its mission and serve its stakeholders, including county residents in the context of this study, over time. The establishment of county governments is a new governance system in Kenya's post-independence era. This is a system, to many Kenyans, that presents an opportunity to address the diversity of local needs, choices and constraints while at the same time it carries the promise of a more equitable system of sustainable economic growth for the whole nation. This can only be achieved if financial sustainability of counties is achieved and sustained over time. This study examined the influence of financial sustainability strategies on performance of counties in Kenya. The target population of the study was the Forty-Seven Counties in Kenya as contained in the Kenyan Constitution of 2010 and the CRA report of 2011. A survey research design was adopted in the study. A combination of probabilistic and non-probabilistic sampling techniques was employed in determining the sample size of the study. Stratified sampling was applied to first group the Forty-Seven counties into eight geographic regions, equivalent to the defunct eight Kenyan provinces. Twenty-five counties were selected from the forty seven counties, from which respondents were determined per county on the basis of the proportionate county population sizes the CRA publication of 2011. A total of 350 (91.14%) of the expected 384 respondents participated in this study. Primary data was collected using questionnaires and was analysed using the SPSS software version 21. Spreadsheets were used in presenting the results using. Specifically, bar graphs, pie charts, frequency tables were among the presentation tools used in presenting results. The study revealed that county budget planning was an effective strategic tool for achieving financial sustainability and development coordination in the counties and that this is achieved best with strict adherence to budgeting procedures outlined in the PFM Act of 2012. It was also revealed that there was a strong positive relationship between budget planning, financial sustainability and performance of the counties. The study further revealed that most of the counties had diversified into other revenue streams as financial sustainability strategies for enhanced county performance. In addition, the study findings indicated that Public Private Partnerships are critical to the financial sustainability of counties. Paying strong attention to anti-corruption operations came out as a critical governance factor for the success of Public Private Partnerships. The study,

further, revealed that lean management structures enhance effective performance and decision making in counties and management should keep a close check. A rather surprising result from the study was that governance structures had a negative influence on performance of counties, a contradiction to some of the empirical studies reviewed. The rest of the study variables revealed that they had a direct positive influence of county performance. The study, therefore, recommends that a similar study be conducted, specifically on the influence of governance structures on county performance to validate the outcome of this study. Secondly, similar studies could be conducted elsewhere outside the geographical scope of this study, including additional variables discussed in section 5.5 so as to validate the findings of this study.

CHAPTER ONE

INTRODUCTION

1.1 Overview

This chapter presents the background of the study and defines the statement of the problem. Research objectives, research hypotheses, justification of the study, scope and limitations of the study are also presented in this chapter.

1.2 Background of the Study

1.2.1 Global and Regional Perspectives of Financial Sustainability and Performance

Financial sustainability measures an organization's ability to meet all its resource and financing obligations, whether these funds come from user charges or budget allocations to fulfil its mission and serve its stakeholders over time. Sustainability should be seen as a measure of an organization's ability to fulfil its mission and serve its stakeholders over time. Sustainability issues are increasingly gaining attention within the financial sector.

The financial sector of any economy occupies a prominent place in its policy framework, and there is no leeway to bypass it when heading towards a paradigm shift. The conceptual differences, if any, between the strategies for financial sustainability and the performance of a nation are not yet clear (Gerster, 2012; Thompson, 2001). IMF (2013) observes that the sustainability approach to any economy is challenging the economic focus of both the public and private sector governance systems. For instance, the providers of financial services, such as banks, Micro-financing institutions, and intermediaries, increasingly realize that sustainable financial practices in the public and private sectors have a positive potential impact on performance in a number of ways;

namely; increasing revenues, reduction of risks, development of human capital and improvement of access to capital. These approaches converge at the view that sustainability is about engaging with environmental, social and financial opportunities and risks in a systematic way while complying with regulation and voluntary standards as well as observing good practices in ethics and governance. Further, Chalk and Hemming (2000) contend that ignoring the issue of sustainability is increasing exposure to compliance and reputational risks

An economy's financial sustainability has always been a central policy issue, but the recent global financial crisis of 2007/2008has forced it to the top of the policy agenda world over (IMF, 2013). A global effort followed the 1992 Earth Summit to translate the vision of sustainability into practice. This effort included all stakeholders: governments, multilateral organisations, the private sector, and civil society. However, decades later, there is a big gap between what has been achieved, the initial ambitionof1992, and what needs to be done to offer everybody a dignified life that emanates from a financially sustainable economy (Gerster, 2012).

According to a New Zealand Auditor General's report of 2013, the sustainability of public sector finances over the medium to long term has become an increasing concern worldwide. The Auditor General argues that this is because pressures on public sector services, revenues, and expenditure have increased and are likely to increase further throughout the 21st century. Generally, sustainability is defined as the ability to maintain something at a certain rate or level, for example, sustainable economic growth and the ability to uphold or defend something. The six essential requirements for achieving financial sustainability in any organization are: long-term commitment, leadership, investment of time and money, business plan, effective management team and team work (Chalk & Hemming, 2000).

The New Zealand Auditor General's report of 2013 (Frank & Dluhy, 2003; Chalk & Hemming, 2000) looks at public sector financial sustainability as the financial capacity of the public sector to meet its current obligations, to withstand shocks, and to maintain service, debt, and commitment levels at reasonable levels relative to both national expectations and likely future income, while maintaining public confidence. In suggesting this, the auditor identifies that: Financial sustainability is determined as much by public confidence as by financial capacity; Inter-generational equity, which means any generation, should be fair and reasonable in its use of resources and wealth relative to subsequent generations and is part of the service and fiscal responsibility element.

A study by PwC (2006) on Australian Local Governments concluded that the most common characteristics of councils typically facing financial sustainability constraints often included; minimal or negative revenue growth; increasing involvement in non-core service provision due to escalating community demands, coupled with a related tendency by some councils to 'step-in' to provide a non-traditional service; a tendency by some councils to run operating deficits creating a need to defer or under spend on renewal of infrastructure, particularly community infrastructure which is often repeated annually creating a backlog; limited access for some councils to strong financial and asset management skills which are critical to identifying sustainability problems. It also means, according to PwC (2006) optimising renewals, expenditure and improving revenue streams.

Frank and Dluhy (2003) and Mango (2005) observed that financial sustainability of an organization is dependent on a number of factors; for instance, the organization's prudent savings culture and financial management systems. Financial savings are defined as an accumulation of financial surpluses built up from day one the funds are received in the life of the organization (Davey, 2012). Attaining financial sustainability by counties is, therefore, a preferable situation as it will enhance their ability to respond to recurrent and new development initiatives and programmes that would in turn

positively impact on the quality of life of the citizens. Financially sustainable counties would also be in a position to finance inevitable unplanned expenses and yet leave something for contingencies and emergencies that are a common phenomenon in governments.

Historically, the discussion on public financial sustainability began as a struggle over public revenue in England, where cities demanded a say in how revenues were spent. According to Boix (2003), this was the beginning of the concern by ordinary citizens that the peoples' representatives manage their public revenue prudently. A study by Olowononi (2000) observed that the most feasible option of achieving a sustainable financial status by the public sector is through fiscal decentralization and efficient allocation of resources, distribution of national wealth and prudent spending of the developed new financial sources (Afolabi, 1999). Poor governance is increasingly cited as one of the most significant factors contributing to poor government's financial performance in most developing countries. The World Bank has repeatedly argued that poor economic performance in most developing countries, particularly in Sub-Saharan Africa (SSA), is attributed to poor governance (World Bank, 1988). The issue of "good governance" was amplified by the 1989 World Bank report on SSA when the crisis in the region was termed as a "crisis of governance" (World Bank, 1989).

The finances of local governments depend heavily on intergovernmental transfers, especially from state governments. These intergovernmental transfers are, however, just one element in a complex system of intergovernmental fiscal and regulatory linkages. Local finances depend on the entire national fiscal system, because of the changing roles of the state and local governments in the provision of social assistance to low-income households (Wildasin, 2009). As cited in Keraro (2014), an empirical study by UNIDO in 2010 observed that governance systems were seen as processes and interactions by which an organization engages and consults with its stakeholders and accounts for its achievements. Governance characterizes how things are decided, including financial

sustainability decisions for public sector (SID, 2012). Governance is, thus, a relevant strategic matter for the financial sustainability of counties as it influences how they are directed, administered or controlled (World Bank, 2012).

According to Jones, Goodwin and Jones cited in Keraro (2014), financial sustainability and economic performance is often cited as a justification of devolution. The World Bank (2012) reported that a greater organizational autonomy is linked to an increased sense of financial empowerment and sustainability.

1.2.2 Kenyan Perspective of Financial Sustainability

The debate on financial sustainability of counties in Kenya is fundamental given its potential in influencing rapid economic growth and social development of the country. Despite the significant efforts made to promote the devolved system of governance by empowering counties in Kenya, the expected impact on financial sustainability has not been realized (Kiringai, 2006). A study by Muganda and Belle (2009) focusing on adoption of e-government by Kenya's Local concluded that the main impediments of these institutions in Kenya included weak financial base and incompetent personnel that are even sceptical of losing jobs if this is introduced. This was also noted by Waema and Mutullah (2006) in Local government authorities due to lack of adoption of ICT. These two studies stressed on financial distress in government institutions as a major reason for their dysfunctional nature.

A study carried out by Njenga, Omondi and Omete (2014) to determine the impact of financial management reforms on the economic performance of public sector entities in Kenya revealed that financial reforms achieved more than half of the intended performance targets over the period under investigation. The results showed that budgetary planning reforms had the strongest explanatory power on performance indicators at 0.681, followed by accounting reforms at 0.47 and audit reforms at 0.387. The researchers, therefore, concluded that audit reform does not aid in improving

performance of public sector entities while budgetary planning and accounting reforms are the most effective tools

On the other hand, the existence of abundant natural resources does not guarantee financial sustainability as this is prone to stir political conflict over the sharing of national wealth even where legal entitlements are properly defined as is the case with the past two revenue allocation formulae released by the Commission for Revenue Authority (CRA). We have also witnessed brewing animosities between national government and the Turkana and Kwale Couty governments with regards to the sharing of resource revenues. Most of the newly created counties lack effective governance structures and strategies necessary to enable them attain the required financial sustainability. Article 203(2) of the 2010 Kenyan constitution stipulates that counties will get a minimum of 15% of total national revenue. As of today, the Kenyan Government adopted a 15% allocation as the amount to distribute to all the counties. This figure has elicited sharp negative reactions from the County Governors and Senators arguing that such a figure is inadequate to sustain the financial obligations of the counties as stipulated in the constitution. Given that the 15% allocation through CRA is meant to be supplementary, with the counties expected to generate the bulk of the income locally for their sustainability, it calls for county leaders to develop strategic initiatives and measures towards ensuring financial sustainability of the counties.

A study by Miring'uh and Mwakio (2006) asserted that there was overwhelming evidence that reform measures, including Rapid Results Initiative that were introduced through National government initiatives failed to stop immense haemorrhage of revenue in government institutions, thus occasioning serious weak financial sustainability situation. A damning forensic report by the Kenya Anti-Corruption Commission in 2007 stated that government institutions, due to their weak governance structures, continued to lose a huge portion of their financial resources to corrupt officials exploiting weak financial management systems (KACC, 2007). According to this report, perpetrators of

the rip-off at the government institutions had devised a complex system to block evidence of unremitted monies estimated to be worth millions of shillings. In examining the financial sustainability of local authorities in particular, the report noted that key to the financial haemorrhage was; a) the concealment of the paper work involving monies collected from various sources such as parking fees, rent, water and sewerage, b) bouncing cheques, c) tempering with the numbering of parking fees receipts and the filing of fraudulent expenditure claims at the local authorities' cash offices (Osiche, 2007; Adero, 2007; KACC, 2007).

A study by Cheluget (2014) examined the causes of financial distress in the Kenyan insurance sector and concluded that the management of insurance companies should come up with a frame work in support of high level of responsibility and independence to be observed to enhance efficiency, team work and develop a sense of control by the employees concerned. This approach ensures dedication to the organization's mission, vision and objectives. Cheluget further argued that the insurance firms' governance structures should come up with policies on assets turn over, average collection period and average payment period to enhance their long term financial sustainability.

1.3 Statement of the Problem

The issue of financial sustainability of counties is not unique to Kenya as other developing jurisdictions are contending with similar challenges and they have tried to put legal and economic measures in place to respond to this challenge. According to Watts (2008), Canada, Colombia and the United States assign the right to exploit the fiscal dividend of natural resources to its states with the aim of promoting their financial sustainability. According to Artis and Marcellino (2000), sustainable financing is about addressing environmental, social, and governance impacts of financial services. This means that the sustainability element in this case includes a longer term financial dimension and an institutional governance framework. The concrete meaning of sustainability for the financial sector is an issue of controversial debate and continues to

be evolving. According to the World Bank (2012), devolution is seen as a process of giving political autonomy to administrative units that are already in place for among other reasons promoting financial sustainability at the grassroots. In the Kenyan context, the devolved governance system carries the promise for a more equitable model of sustainable economic development. In spite of this, the constitution does not provide a comprehensive framework on how counties can ensure their own financial sustainability considering the huge financial expectations and obligations they are to fulfil. The main source of revenue for counties in Kenya is the allocation by the national government as provided for in the Constitution, in Article 217. The World Bank (2012) further observed that, in contrast, Kenya's devolution entails creating new political and administrative units without sufficient interrogation of their governance capacity and financial sustainability structures.

The debate on financial sustainability of counties in Kenya is fundamental given its potential in influencing rapid and financially sustainable growth and social development of counties. However, despite the significant efforts made to promote the devolved system of governance by empowering counties, the expected influence sustainability has had little impact on the performance of counties (Kiringai, 2006). The existence of abundant and important natural resources such as oil does not guarantee a county's financial sustainability as this is prone to stir political conflict over the sharing of national wealth even where legal entitlements are properly defined as is the case with the past two revenue allocation formulae released by the Commission for Revenue Authority (CRA). Most of the newly created counties lack effective governance structures and strategies necessary to enable them attain the required long term financial sustainability. Article 203(2) of the 2010 Kenyan constitution stipulates that counties will get a minimum of 15% of total national revenue. As of today, the Kenyan Government adopted a 15% allocation as the amount to distribute to all the counties. This figure has elicited sharp negative reactions from the County Governors and Senators arguing that such a figure is inadequate to sustain the financial obligations of

the counties as stipulated in the constitution. Given that the 15% allocation through CRA is meant to be supplementary, with the counties expected to generate the bulk of the income locally for their sustainability, it calls for county leaders to develop strategic initiatives and measures towards ensuring financial sustainability of their counties.

This study, therefore, sought to offer guidance and suggest strategic solutions to the identified challenge by establishing the influence of financial sustainability strategies on the performance of counties in Kenya.

1.4 Objectives of the Study

1.4.1 General Objective of the Study

The main objective of this study was to determine the influence of financial sustainability strategies on the performance of counties in Kenya.

1.4.2 Specific Objectives of the Study

The study pursued the following specific objectives;

i. To establish the influence of governance structures on the performance of counties in Kenya.
ii. To investigate the influence of public private partnerships on the performance of counties in Kenya.
iii. To determine the influence of revenue diversification on the performance of counties in Kenya.
iv. To explore the influence of resources endowments on the performance of counties in Kenya
v. To ascertain the influence of budget planning on the performance of counties in Kenya.

1.5 Research Hypotheses

This study sought to test the following research null hypotheses;

HO_1: Governance structures do not have a significant influence on the performance of counties in Kenya.

HO_2: **P**ublic private partnerships do not have a significant influence on the performance of counties in Kenya.

HO_3: Revenue diversification does not have a significant influence on the performance of counties in Kenya.

HO_4: County resource endowments do not have a significant influence on the performance of counties in Kenya.

HO_5: Budget planning does not have a significant influence on the performance of counties in Kenya.

1.6 Justification of the Study

A study on the influence of financial sustainability strategies on the performance of Kenyan counties is timely since several counties around the country are contending with huge financing challenges that impact negatively on performance. Financial sustainability of counties is an aspect that attracts the attention of everyone, ranging from county managers to the governed citizens of the counties. The financial capacity of the counties to meet their obligations, to withstand shocks, and to maintain service, debt, and commitment levels at reasonable rates relative to both national expectations and likely future income, are critical in maintaining public confidence. The results of this study, therefore, will be of benefit to scholars and researchers in the subject area of financial management and, particularly the branch of public sector finance as the results

will contribute to the advancement of their knowledge in the subject area. Scholars, in particular, will benefit from the knowledge on the linkages between public financial management strategies on counties and national government.

The results of this study will support and enrich the theories and models of sustainable financing of the public sector. The results will also enable national and county governments to develop informed and effective policies on financial management of counties. The Kenyan public will, on the other hand, benefit from the empirical information on the influence of financial sustainability strategies that should be closely monitored and implemented to ensure that their counties are sustainably managed. Further, the findings from this study will contribute to the creation of employment opportunities in counties given the anticipations of well performing county economies on account of them being expected to be performing well economically.

17 Scope of the Study

The study focused on investigating the influence of financial sustainability strategies on the performance of counties in Kenya. More specifically, the study examined the influence of governance structures, public private partnerships, revenue diversification, county resource endowment and budget planning strategies on the performance of counties in Kenya. The study was carried out in twenty-five (of the forty-seven) counties spread over all the 8 defunct administrative provinces of Kenya. The specific counties sampled included, Kiambu, Nyeri, Mombasa, Kilifi, Taita Taveta, Meru, Embu, Machakos, Kitui, Nairobi, Mandera, Garissa, Nyamira, Kisumu, Homa Bay, Kericho, Bomet, Nandi, Nakuru, West Pokot, Narok, Kajiado, Vihiga, Kakamega and Trans Nzoia. In all these counties, the study targeted senior county executives, finance directors, investors and professional body members. Questionnaires were administered to 384 respondents in all the 25 counties based at the county headquarters. Primary research data was collected between the months of November 2016 and November 2017.

1.8 Limitations of the Study

A number of limitations were experienced in this study, for example resistance from county management respondents primarily because they were suspicious of the study intentions although they were assured of their anonymity and the findings were to be used purely for academic purposes. The accuracy of the results depended on the honesty of the respondents, though with the assurance given to officers the Researcher confirms that honest responses were given. The other limitation encountered during the study was the length of time taken to collect data from the sampled 25 five counties spread over the Kenyan nation. Covering all the sampled counties was in all respects demanding as a result of the wide geographic spread of the counties across Kenya. This limitation was addressed through the use of research assistants who were well trained on how to administer the questionnaires. The other limitation experienced was the securing of appointments with target respondents, a challenge that required that the researcher and the research assistants make multiple visits to some of the county offices to mitigate the limitation.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter reviews literature considered relevant to the objectives of the study. More specifically, the chapter reviews literature relevant to management structures, public private partnerships, revenue diversification, resource endowments and budget planning and their influence on the performance of counties in Kenya. The chapter, also, discusses the conceptual framework and delves into literature other literature relevant to the study. Research gaps are also identified and discussed in this chapter.

2.2 Theoretical Review

2.2.1 Financial Growth Theory

Berger and Udell (1998) proposed a financial growth theory for organizations where the financial needs and financing options change as the organization grows, becomes more experienced and less informationally opaque. Berger and Udell further suggested that institutions lie on a size or age continuum where the smaller or younger opaque institutions lie near the left end of the continuum indicating that they must rely on initial insider finance, trade credit and/or angel finance. The financial growth model predicts that as a firm grows, it will gain access to venture capital (VC) as a source of intermediate equity and mid-term loans as a source of intermediate debt. At the final stage of the growth paradigm, as the organisation becomes older, more experienced and more informationally transparent, it will likely gain access to public equity (PE) or long-term debt.

2.2.2 The Economic Theory

Economic models propose to sustain opportunity, usually in the form of capital. According to the classic definition formulated by the economist Solow (1956), sustainability is viewed as an investment problem in which we must use returns from the use of natural resources to create new opportunities of equal or greater value. Social spending on the poor or on environmental protection, while perhaps justifiable on other grounds, takes away from this investment and so competes with a commitment to sustainability. With another view of capital, however, the economic model might look different. If we do not assume that "natural capital" is always interchangeable with financial capital, Herman (1996) and other proponents of ecological economics argued that then sustaining opportunity for the future requires strong conservation measures to preserve ecological goods and to keep economies operating in respect of natural limits.

From a different perspective of the relationship between opportunity and capital, spending on the poor might be regarded as a kind of investment in the future. According to the economist Amartya Sen's "development as freedom" dictum of 1999, we create options for the future by creating options for today's poor because more options will drive greater development". In this political model of sustainability, sustaining opportunity for the future requires investing in individual dignity today.

2.2.3 The Systems Theory

As reviewed in Keraro (2014), the systems theory was propounded in the 1940s by a biologist Ludwig von Bertalanffy and advanced by Ross Ashby in his study "Introduction to Cybernetics" in 1956. Von Bertalanffy was reacting to reductionism and attempted to revive the unity of science. He emphasized that real systems were open to, and interact with, their environments, and that they can acquire qualitatively new properties through emergence, resulting in continual evolution. He argued that rather than reducing an entity or organization to the properties of its parts or elements, systems

theory focused on the arrangement of and the inter-relations between the parts which connect them into a whole. Such an organization determined a system that is independent of the concrete substance of the elements (for example, the various departments such as finance, accounting, human resources, research and development). Thus, the same concepts and principles of organization underlie the different disciplines, providing a basis for their unification.

Hartman (2010), cited in Keraro (2014) observed that the systems theory provide sale ader with a tool for analysing organizational dynamics without providing a specific theory about how an organization should be managed. He further observed that with there cognition of systems theory, all organizations consist of processing inputs and outputs with internal and external systems and subsystems helpful in providing a functional overview of any organization. Smit and Cronje (2002), also cited in Keraro (2014) observed that a system is a collection of parts unified to accomplish an overall goal. If one part of the system is removed, the nature of the system is changed as well.

The effect of the systems theory in management is that managers look at the organization from a broader perspective. Systems theory has a new perspective for managers to interpret patterns and events in the work place. They recognize the various parts of the organization, and, in particular, the interrelations of the parts, for instance, the coordination of central administration with its programs, supervisors and workers, among other variables. In traditional management practices, managers typically took one part and focused on it. They then moved all attention to another part. The problem was that an organization could, for example, have a wonderful central administration and wonderful set of teachers, but the departments didn’t synchronize at all (Rue & Byars, 2004).

In using the systems theory approach, the study recognized that there is a strong influence of financial sustainability strategies on the performance of counties in Kenya. Von Bertalanffy saw organizations as a composition of its elements which

together make a "whole". The key identifiable organization variables, based on this theory were the people, leadership, structures, processes, human and financial resources, communication systems, position and power. All these are viewed by the systems theory as the parts that, if coordinated strategically, will lead to a well performing organization. The systems theory upholds the idea that the different parts of an institution should not be managed in isolation.

The constitutionally devolved county governments in Kenya could be viewed from the systems theory lens. The counties consist of several parts/units that are envisaged by the systems theory, i.e. people and skills, leadership, systems and structures, processes, financial and human resources, communication systems, position and power. The theory's key message is that organizations should be regarded as systems composed of regularly interacting or interrelating groups of activities or people performing activities. Application of this theory is recognition by management of how the different sub-systems work inter-related to enhance organizational performance. Relating the foregoing discussion to the study undertaken, the systems theory thinking will help in visualizing the fact that what may seem as an isolated problem is actually part of an interconnected network of related issues (Keraro, 2014).

2.2.4 The Contingency Theory

The contingency theory, developed by Joan Woodward in the 1950s, is a class of behavioural theory which claims that there is no best way to organize an organization, to lead a company or to make decisions. Instead, the optimal course of action is contingent upon the internal and external situations. Several contingency approaches were developed concurrently in the late 1960s. The authors of these theories argued that Marx Weber's bureaucracy and Fredrick Taylor's scientific management theories had failed as they neglected environmental influences and that there is not one best way to manage enterprises. These influences shape the individual behaviour in a certain situation while managing organizations (Ngugi, 2012).

The variables relevant for the adoption of the contingency theory in the study to be undertaken are; County Management structures, public private partnerships, budgeting planning processes, revenue diversification and resource endowments. As argued by Ngugi (2012), the contingency theory is about the need to achieve a fit between what the organization is and what it wants to become. It is all about the organization's strategy, culture, goals, technology, staff and external environment, and what it does; how it is structured and the processes, procedures and practices it puts into effect. County managers could use the contingency theory to effectively plan for future successful performance and sustainability of their counties. They can align their financial strategies within the operating environment to higher performance for their counties. However, among the gaps of this theory is the issue that it is static in nature and obsolete because of the new forms of organizational management structures, for example, the lean structures. It assumes that managers react rationally in response to organisational threats or changes. It ignores the fact that managers may act politically or pursue agendas which circumvent rational responses to the environment.

2.2.5 The Resources Based Value Theory

The Resources Based Value theory, founded by Birger Wernerfelt in 1984, is based on the premise that the sources of competitive advantage lie in their internal resources, as opposed to their positioning in the external environment. This means that rather than evaluating the external environmental opportunities and threats in conducting business, competitive advantage depends on the unique resources and capabilities that a firm possesses (Barney, 1991). The resource based value theory predicted that certain types of resources owned and controlled by firms have the potential and promise to generate competitive advantage and eventually superior organizational performance (Ainuddin, Beamish, Hulland & Rouse, 2007).

The Resource Based value theory was found to be relevant to the study because it focuses on strategy, resources, internal management structures, processes and procedures, all of which are key independent variables investigated in this research.

2.3 The Conceptual Framework

A conceptual framework is an interconnected set of ideas (theories) about how a particular phenomenon functions or is related to its parts (Burns & Burns, 2012). It is a diagrammatic, flow chart or figurative illustration explaining the relationships between factors and variables identified, relevant to the study (Punch, 2006; Oso & Onen, 2011, Burns & Burns, 2012). Conceptual frameworks are used in research to outline possible courses of action or to present a preferred approach to an idea or thought. Figure 2.1 presents the conceptual framework of the study.

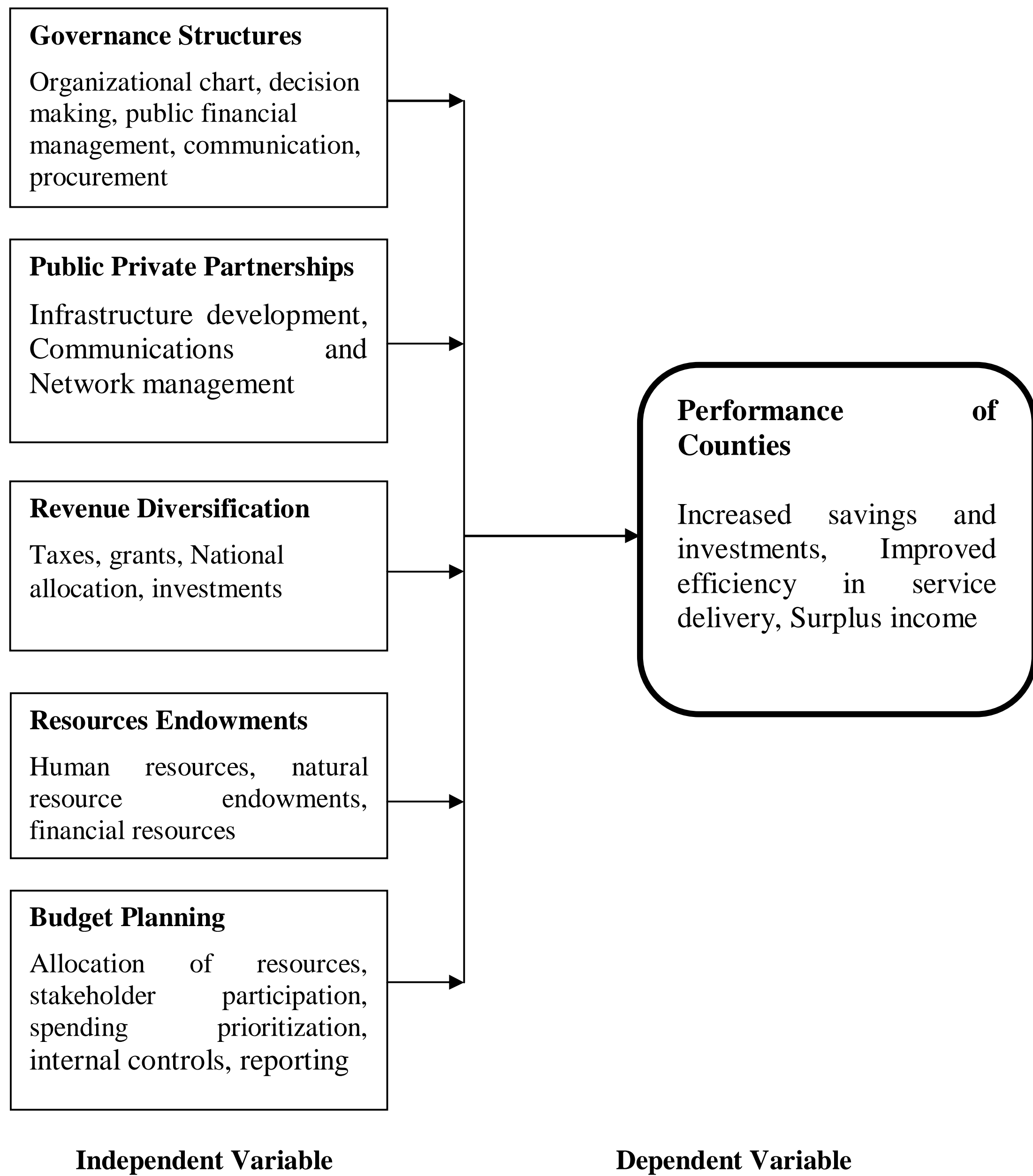

Figure 2.1: The Conceptual Framework

2.4 Empirical Literature on the Study Variables

2.4.1 Governance Structures

Scholars of public organizations (Bohte & Meier, 2001) have long been interested in understanding how organizational structures shape organizational performance. This is an important question because; if links between structure and performance exist, then manipulating organizational structures may lead to improvements in organizational financial sustainability. Provan and Patrick (2008), Goldsmith and Williams (2004) and Graddy and Bin (2006) observed that governing bodies of public sector entities need to establish effective organizational structures and processes to ensure; their statutory accountability is properly discharged to the individual(s) or entity responsible for electing or appointing the governing body and appraising its performance, and for providing the entity with assets and resource; proper accountability for public money, clear communication with stakeholders; and clarity about roles and responsibilities of top management, and in particular the relative roles and responsibilities of non-executive members of the governing body and executive management.

Organizational structures can inhibit or promote performance, depending how effectively the supervisory relationships and workflow influence productivity (Herranz, 2008). These define departmental structure and the reporting hierarchy. Performance management involves goal-setting activities and periodic reviews by managers in the reporting hierarchy. Without defined policies and procedures that are consistently enforced throughout the organization, performance management strategies can fail to achieve their desired goal of improving product and service quality for end-user customers (Herranz, 2008; Graddy & James, 2006; Graddy & Bin, 2006).

Mullins (2011), Cohen and Daniel (1990) argued that steps associated with performance management include reviewing organizational goals, prioritizing work, specifying targets, identifying specific measures and metrics, aligning employees' goals to the

company's strategic objectives and defining standards. For instance, one may institute a rating system with three levels: below expectations, meets expectations and exceeds expectations. Managers conduct appraisals and develop plans to address any gaps in performance as well as rewarding exemplary behaviour in the organization, which could lead to promotions, lateral moves or expansion of responsibilities.

In an entrepreneurial organization, a company typically has a simple, flat structure. This type of organization is relatively unstructured and informal, so performance management also may need to be flexible. According to Graddy and Bin (2006), there's significant risk to achieving strategic goals if employees have no replacement or backup, should they leave or fail to meet performance objectives for whatever reason. In a bureaucratic organization, work is much formalized, with many routines, policies, procedures and standards. Clearly articulated job descriptions and job levels establish a well-defined career path in each functional area of the company. Usually, there are fairly rigid vertical structures, so a performance review typically results in a promotion within the department but usually not into other departments, limiting growth and development.

Graddy and Bin (2006) further observed that in a professional organization structure, highly-trained individuals, such as service providers, perform work independently. Workers have a great deal of autonomy over their own performance. Because authority and power get shared, performance management may be inconsistent. Changes may be hard to implement when everyone controls his own work. Grady and Bin argue that in a divisional organization, a central headquarters supports several autonomous divisions or departments that make their own decisions and may have their own performance management policies, procedures and standards. If your company has a wide range of products and services, operates in many different locations or supports many different types of customers, you may need this type of flexibility in performance management. Conversely, this may lead to conflict if employees feel they are being treated unfairly.

As argued by Graddy and James (2006), in innovative organizations, few rules exist; with their project-based organizational structure adjusting to market demands. Performance management in this environment tends to be informal. These types of companies frequently maintain a core set of employees but hire contingent workers as needed. Performance reviews and career development usually are not provided to contingent workers. A growing emphasis has been given on employees' job performance as a source of competitive advantage to promote responsiveness in enhancing overall organizational effectiveness (Herranz, 2008; Dyer & Harbir, 1998). Although performance depends very much on personality traits, other external factors have a significant amount of influence on employees' task and contextual performance. Constraints to perform, such as bureaucratic structure and ineffective job design, will influence individual task and contextual performance negatively. Such circumstances inadvertently hinder high organizational performance.

According to Hage and Aiken (1967), two important features of organizational structure are formalization and centralization. These authors view organizational formalization as the level to which an organization precisely spells out rules and procedures related to jobs in different situations. This aspect is also known as job codification. Rule observation refers to the extent to which an organization rigidly adheres to the rules and procedures. In other words, this construct measures how far employees are supervised in ensuring that they are not committing any offense against the company's rules and regulations (Hage & Aiken, 1967). Centralization deals with the amount of power distributed among employees of various positions. This variable is measured in terms of hierarchy of authority and participation in decision making. Hage and Aiken contended that the former examines whether or not employees are reliant upon their supervisors in decision making while the latter identifies the level of employees' involvement in decisions on resource allocation and policy formation.

Kim and Lee (2006) expanded the context of a comparative study between public and private sector in the Asian context, specifically South Korea. Besides organizational culture and information technology, organizational structure was examined as the predictors of employee knowledge sharing capabilities. Dimensions of organizational structure investigated are centralization, formalization, and performance-based reward systems. It was hypothesized that while centralization and formalization influence employee knowledge sharing capabilities negatively, performance-based reward systems affect the criterion variable positively. Even though public service organizations reported higher mean scores for formalization and centralization and lower mean scores for clear vision and goals and performance based reward systems, these predictors are not related to employee knowledge sharing capabilities. Nonetheless, the level of knowledge sharing capabilities is higher among the private sector employees compared to the public sector counterparts.

The impact of decision making structures cannot be easily isolated from the interactions they engender (Graddy, 2008). Different management structures encourage different levels of inter - organizational activities. Group-oriented governance structures should encourage more interactions, and it is through repeated interactions that partners develop trust and goal congruence (Ring & Van de Ven, 1994). Parkhe (1993) argues that frequency of interactions increases transparency and thus strengthens inter-organizational relationships. The intensity of interactions is also an important indication of the nature and depth of the ties among network organizations.

Many network scholars have argued that size of organization has an important impact on performance (Provan & Patrick, 2008). Larger networks have higher coordination and control costs; it is simply more difficult to manage more independent entities. The size of the lead organization may also be important. Large organizations, with their greater financial and human resources, are presumably better able to absorb the considerable costs of sustaining inter-organizational relationships. Small organizations, however,

have greater need for the resources provided by the network, and may thus be more willing to dedicate scarce resources to their development and success. In addition, sector composition is likely to impact performance. Cross-sector networks offer the promise of more effective service delivery by introducing innovation and diversifying resources and expertise, but the coordination function is likely to be complicated by the presence of organizations from more than one sector. Graddy and James (2006) and Herranz, (2008) contended that managing across different organizational cultures, contexts, and constraints increases transactions costs Moreover, cross-sector participation that is mandated or associated with funding requirements can exacerbate these challenges (Herranz, 2008).

Keraro (2014) observed that the structure of an organization is designed to breakdown the work to be carried out, the tasks, into discrete components which might comprise individual businesses, divisions and functional departments In designing an organization’s structure and making it operational, it is important to consider the key aspects of empowerment, employee motivation and reward (Thompson & Martin, 2010). Good management structures and processes do not, in themselves, produce good performance. However, poor structures make good performance impossible, no matter how good the individual managers may be. Improving decision making structures will, therefore, always improve performance.

Dirk and Achterbergh (2011), cited in Keraro (2014) noted that to develop structures that permit institutions to attenuate and amplify talent is a crucial condition for organizational viability and that such structures should necessarily be lean to facilitate faster decision making. It is widely accepted within management circles (Martin, 2005) that achieving competitive sustainability in an organization requires developing strong links between organizational and job talent structures. Increasingly, in order to create a flexible and integrated set of decisions that balance performance and flexibility, organizations must rely on more social, informal and matrix-based shared visions among

managers and employees. By linking institutional processes and procedures to structures that bridge strategy and talent, it is possible to identify pivotal talent pools.

According to Mullins (2010), the purpose of decision making structures is the division of work among members of the organization, and the co-ordination of their activities so they are directed towards the goals and objectives of the organization. Structure makes possible the application of the processes and procedures of management and creates a framework of order and command through which activities of the organization can be planned, organised, directed and controlled. Structures define tasks and responsibilities, work roles and relationships, and channels of communication and the main objectives of structures as discussed by Mullins are: the economic and efficient performance of the organization and the level of resource utilization; monitoring the activities of the organization; accountability of areas of work undertaken by groups and individual members of the organization; co-ordination of different parts of the organization and different areas of work; flexibility in order to respond to future demands and developments; to adapt to changing environmental influences; and the social satisfaction of members working in the organization. These objectives provide the criteria for structural effectiveness in strategically managed organizations. Johnson, Whittington and Scholes (2011) argued that structural designs describe formal roles, responsibilities and lines of reporting in organizations and can influence the sources of an organization's competitive advantage, particularly with regard to talent development and management; failure to adjust structures appropriately can fatally undermine strategy implementation and thus jeopardize organizational success. On the other hand, good structures alone are not enough for organizational success. The processes that drive and support people within and around an organization can have a major influence on success or failure of organizations through defining how strategies are formulated and executed and the types of talents necessary for the success of the organization.

Fischer (2006) pointed out that organizations that identify best practices related to organizational structures have proved effective and successful regardless of size or industry sector. The scholar recognised five structural types that could be adopted for organizational success, namely; functional, multidivisional, matrix, transnational and project. Broadly, the first two of these structures tend to emphasize one structural dimension over another, either functional specialism or business units. The three others that follow tend to mix structural dimensions more evenly, for instance trying to give product and geographical unit's equal weight. However, none of these structures is a universal solution to the challenges of organizing for success. The right structures depend on the particular kinds of challenges each organization faces and uniqueness in terms of reason for existence. According to Fischer, the five different structures are: functional structure, a structure that is relevant once an organization grows beyond a very basic level of size and complexity and has to start dividing up responsibilities such as is the case in national and county governments; Multidivisional Structure; a multidivisional structure is the built up of separate divisions on the basis of products, services or geographical areas; a matrix structure**;** which combines different structural dimensions simultaneously, example, product divisions and geographical territories or product divisions and functional specialism. Among the many advantages of matrix structures is that they are effective at knowledge management because they allow separate areas of knowledge to be integrated across organizational boundaries, transnational structures are a means of managing internationally which is particularly effective in exploiting knowledge across borders. The transnational structure seeks to obtain the best from two extreme international strategies and project based structures, one where teams are created, undertake the work and are then dissolved upon completion of their assignment. Organization structure is a constantly changing collection of project teams created, steered and glued together loosely by a small corporate group. Many organizations use such teams in a more ad hoc way to complement the 'main' structure.

Ntoiti (2013) carried out a study on "determinants of financial distress facing local authorities in service delivery in Kenya" and concluded that the main causes of financial distress included; financial management practices, corporate governance practices, human resource management practices, information technology and government regulation. Ntoiti further noted that financial management practices, human resource management practices, and corporate governance practices were found to have a negative and significant relationship with financial distress. Ntoiti (2013) argued that for devolved authorities to be financial sustainable, measures to safeguard the independence and effectiveness of internal audit departments should be instated, among others, as this department is crucial in the implementation of internal controls. The finance and revenue collection departments should also uphold tenets of professionalism, integrity, regularly trained and join professional.

2.4.2 Public Private Partnerships

2.4.2.1 PP Legal Framework in Kenya

The Kenyan Public Private Partnerships Act of 2013, which amended the applicable legal framework, has now come into force. This law was adopted in line with the national strategic development framework called "Vision 2030", which is currently being implemented in Kenya. This plan aims to transform Kenya into an "average-income country", particularly through the realization of key projects that require important funding, which, in practice, cannot be fully supported by the Government.

2.4.2.2 Evolution and PPP Drive Globally

Public-private partnerships have constituted a growing movement worldwide for at least the past decade (Marty, 2008). Countries have been seeking private partners to finance, manage and maintain infrastructure serving public purposes in a growing range of areas. Transport, hospitals, prisons and schools are among the leading candidates for private

partnerships. According to English (2006), Garret (2007) and Dunn (2006), countries have increased their reliance on public-private partnerships in recent years to finance capital asset acquisition and operation. While private firms have perennially been engaged in specific phases of traditional capital construction and servicing, public-private partnerships constitute a different tool to finance and deliver infrastructure and other forms of public capital.

A report by the EUC (2004) stated that dwindling national budgets and increasing public expectations have obliged many governments to seek more innovative ways of attracting private investments to meet public objectives. This had become more critical as nations met to assess the progress made for sustainable development at the Rio+10 UN Earth Summit in Johannesburg in 2002. During this summit, the EU, US and other industrialized countries promoted the need for public private partnerships as a way of delivering environmental protection and poverty eradication (Stigson, 2004; Monteiro, 2007; Graeme & Greve, 2007). The summit outlined that PPPs are to become an increasingly important tool in the achievement of sustainable development (UN, 2002). According to the International Chamber of Commerce, PPP was one of the most hotly contested issues during the 2002 Johannesburg Summit on Sustainable Development, and one of the few concrete outcomes. While the summit recognised that there is a lot of suspicion towards 'big business' involvement in the provisions of, say, water and energy services, it concluded that public private partnerships are needed to tackle the UN Millennium targets (UN, 2002).

In a paper entitled 'Partnerships Involving the Private Sector', the president of the World Business Council for Sustainable Development, Bjorn Stigson opined that partnerships are a central element in moving toward a sustainable future (Grimsey & Lewis, 2007). The council backed up the so-called "key message" from the Johannesburg Earth Summit 2002-that partnerships between government, business and civil society are needed, and that achieving a sustainable future, in particular the Millennium

Development Goals set forth by the United Nations, cannot happen without more public private partnerships (Kappeler & Nemoz, 2010).

According to a report by Infrastructure Partnerships Australia (2007), The United Nations are actively encouraging governments to use PPPs in infrastructure for sustainable development and poverty alleviation, mindful of the limited resources available to governments to meet the huge development challenges of the era. The Monterrey Declaration, adopted at the International Conference on Financing for Development in 2002, translated the UN Millennium Development Goals of poverty eradication and environmental protection into national and global policy proposals. The declaration stressed the eighth internationally agreed goal: to develop a global partnership for development. The Monterrey Declaration recognised PPPs as an important instrument in creating an environment favourable to the normal functioning of business and the attraction of investment, an essential element in generating employment and creating wealth. Not least because of this advocacy, a number of governments are taking on board this concept and are formulating legislation and policy to mobilise resources outside the public sector (UNECE, 2004).

The last 20 years have seen the rise to power of public-private partnerships (PPPs) as a means of crowding in investment and expertise from the private sector to the delivery of public goods and services (Leigland & Russsel, 2009; Heinz, 2006). Widely utilized because of their purported advantages in off-budget funding, PPPs are a mechanism that modern governments regularly turn to in order to fulfil their responsibilities on public infrastructure and services. This trend is likely to continue following the 2007–2008 global financial crises that sees many jurisdictions strapped for cash and seeking alternative methods of meeting the increasing demands for investment in public sector development.

Public-Private Partnerships (Wen, 2011; Hart, 2005; Indjikian & Siegel, 2005; Prahalad, 2005) is a generic name that is being applied to several different types of contractual agreements between the State and the private sector for the purpose of public infrastructure development and services provision. A long time provider of goods and services to the government through traditional methods of procurement and privatisation, PPP sees the private sector increasingly taking on activities previously considered the exclusive responsibility of the State, as the State becomes the "buyer" rather than the supplier of services (Wen, 2011). As the word "partnership "suggests, the aim is to create an infrastructure "dream team" by combining the best capabilities of the public (legislation, regulations, social concern) and private (innovation, efficiency, finances) sectors to find a solution to infrastructure-related public needs. Tvarno (2010) concludes that PPP, therefore, describes the structure of the relationship between the two parties and ensures that the best of both contributes to optimal public services. What this involves and the part each of the parties will play in a project is obviously highly contextual, but there are some general principles that frame a PPP and separate it from other procurement methods.

2.4.2.3 Infrastructure Development

The relationship between the economy and infrastructure is critical for the promotion of inclusive economic growth and sustainable development (McKinsey Global Institute, 2013). In particular, high cost of transport, energy and internet access are major economic growth deflators and are partly associated with Africa's continued economic marginalization (AUC, 2011). Hope (2011) stressed that up scaling investments in infrastructure, therefore, is a necessity for an economy to pursue for Africa to become more competitive in the global market place. Jerome (2012) argued that investments inroad networks reduce transport costs while ports and other logistics infrastructure reduce the cost associated with trade, all of which improve the competitiveness of institutions.

Infrastructure is conceptually perceived from two interrelated dimensions; namely, the, social and economic dimensions (Enimola, 2011). The social infrastructure sub-sector covers social services like the provision of education, information, regional and country planning, water, electricity, health services and other social welfare services in the society. Enimola (2011) further observed that infrastructure is a public good that produces positive externalities for production. Generally, infrastructure is considered to be, peculiarly, a potential force for sparking growth and influencing economic development. Infrastructure requirements for sustainable development in Kenya, according to Hope (2011) are seriously lacking meaning that the country's infrastructure stock needs to be upgraded. The inadequate and poorly performing infrastructure is a major challenge to Kenya's economic development and growth, and constitutes a major impediment to the achievement of the country's Vision 2030 as well as the Millennium Development Goals (MDGs). The country's infrastructural needs are broad based and current investment levels in the sector are far below requirements. Jerome (2012) argued that reliable, efficient infrastructure is crucial for economic growth according to the economic pillar of vision 2030.

Infrastructure is not an end itself but a means for ensuring the delivery of goods and services that promote prosperity and growth and contribute to quality of life, including the social well-being, poverty reduction, health and safety of citizens, and the quality of their environments (UN-Habitat, 2011; McKinsey Global Institute, 2013). Physical inactivity has major impacts on health and productivity. Health plays a significant role as a promoter of social integration and economic growth in different geographical, cultural and political contexts (UN-Habitat, 2011; Gramlich, 1994; Jerome, 2012). McKinsey Global Institute (2013) observed that to achieve credible levels of development requires credible levels of infrastructure. Infrastructure is no doubt an essential element of the long-term development efforts envisioned by the Kenya Vision 2030 and the MTP 2008–2012 (Republic of Kenya, 2008).

Economists generally agree (Gramlich, 1994) that; infrastructure and its quality affect behaviour with respect to where people, activities, and businesses are located or willing to locate; and it is difficult to achieve high rates of productivity in the absence of quality infrastructure. Thus, the efficiency, reliability, and resiliency of critical infrastructure systems affect many aspects of society, including the costs of food, durable goods, and consumer goods; the competitiveness of services and goods in the global market; the health and physical fitness for the population, particularly the skilled youth who are the pillars of a strong economy, safety, and well-being of citizens.

To ensure efficiency and sustainability of economic development and the improvement of the quality of life of citizens, devolved governments have to have a strong strategic focus on a governance system that will address issues of infrastructure (Phyrum, 2007; McKinsey Global Institute, 2013). Dutta, Nicholas and Vasilakos (2007) stated that "public infrastructure investment leads to greater output, employment and improved quality of life" and that governance thus play a critical role in ensuring that there is efficient and effective infrastructure in place.

2.4.3 Revenue Diversification

2.4.3.1 Risk of Reliance on External Funding Sources and Streams

In contrast to for-profit organizations, non-profits such as local governments and civil society in the United States depend on diverse sets of funding sources and streams of funding to sustain their operations. Most non-profits receive funds from multiple sources (for example, national government, foundations, private donors) and streams (for example grants, contracts, membership fees). Substantial cutbacks in both national government and foundational funds suggest that non-profits should develop or revisit their fundraising plans to support financial sustainability. Additionally, non-profits may wish to consider innovative fundraising techniques, such as giving circles and fostering relationships with investors, to address financial challenges.

2.4.3.2 External Expectations of Partnerships

Due to changes in the funding climate and the financial challenges faced by many non-profit organizations during these turbulent economic times, non-profits have begun to consider formalized collaborations as a way to respond to the changing resource environment and minimize competition for funding sources (Renda & Schrefler, 2006; Marty, 2008). This is occurring as non-profit leaders are seeking each other out to explore potential partnerships, and also through funders themselves that are trying to maximize impact with limited resources (Marty, 2008).

2.4.3.3 Demonstrating Value and Accountability to Funders

Foundations and other donors increasingly want access to up-to-date information about an organization's operations and finances as a way of ensuring return on their investment (IMF, 2006). Engaging in evaluation activities that outline financial and programmatic outcomes as a result of funding support demonstrates the value of a non-profit's operations and helps determine mission impact. Additionally, clearly and consistently communicating evaluation efforts and findings to funders and investors demonstrates accountability.

2.4.3.4 Promoting Community Engagement and Leadership

Non-profits often reside within the communities that they serve, creating a unique challenge of promoting ownership and collaboration among community members while maintaining programmatic and mission integrity. Establishing and engaging community board leadership and a system of community volunteers provides non-profits a resource of varied experiences and expertise while bringing a sense of ownership to the communities that they serve.

Sustainability is a challenge that most non-profit organizations and local governments must address: managing financial viability in an evolving funding landscape, contending with "competing" non-profit organizations while establishing collaborative partnerships, demonstrating value and accountability to funders and supporters, and maximizing the contribution of leadership within the community. However, these challenges become exacerbated, if not over-shadowed, by other factors for non-profits serving those communities that are most in need. Non-profit organizations serving high-need or low-income, and sometimes minority, populations are faced with balancing multiple community challenges that reach far beyond the mission of the organization (e.g., economic challenges, poor education, poor health, crime or safety issues, housing concerns, lack of business or community development). Understanding the interaction between the economic and cultural contexts of low-income communities and the sustainability challenges that non-profit organizations face is necessary to maximize strategies to address financial sustainability challenges and ultimately improve non-profit services for communities of the greatest need.

Diversification is a strategy in which an organization sets up or acquires business outside its current products and markets. According to Kotler and Armstrong (1993) and Oyedijo (2012), there has been a major interest on diversification as a subject of research and other scholarly interest in order to enable managers respond better to the question; what other business should the organization be in? While there could be various drivers of diversification as discussed in the next topic, the main objective of diversification for an organization is to gain an extra market share and seek opportunities which may generate synergy (Thompson, 2001). Chandler (1977) noted that a diversification strategy is pursued when there exist opportunities embedded in market structures, technology and growth opportunities with the organization's basic business. There is a trend among institutions of higher learning in which most of these institutions are shifting from their traditional areas of focus to embrace other new academic programs and other none academic activities. Huisman, Meek and Wood (2007) refer to this trend

as diversification and can be demonstrated by various activities and factors. Varghese and Puttman (2011) observed that diversified institutions are characterized by different programs, semi-autonomous units, different sources or forms of funding, varied styles of instructions, presence in different geographical locations and different groups of employees.

2.4.3.5 Diversification in Devolved Institutions

Neave (2000) and Teichler (2008) contend that when an institution's systems become diversified, the institution becomes increasingly differentiated in sub-units for instance in departments or research units, and their functional sub-units. Other dimensions as presented by Teichler (2008) and Neave (2000) include; horizontal and vertical difference, formal and informal elements, institutional size and range of disciplines. Huisman, Meek and Wood (2007) attempt to measure diversity focusing on the core business of, for example, universities such as teaching and research, institutional size, forms of institutional control, range of disciplines offered, degrees awarded, and modes of study.

2.4.3.6 Diversification and Organizational Performance

Management scholars and researchers agree that there exists a relationship between diversification as a strategy and organizational performance (Penrose, 1959; Thompson & Strickland, 2008; Mintzberg et al., 2009). From his research findings, Oyedijo (2012) contributed to the debate on diversification and performance thus "diversification is positively associated with growth although growth in concentric businesses is faster than in unrelated diversified once.

There seem to be a general position that there is a positive relationship between revenue diversification and performance. Research findings seem to indicate that performance, for instance, profitability or service delivery in the case of counties increases with

diversity but only to the limit of complexity (Grant, Jammine & Thomas, 1988). Klein and Lasse (2009) also share a similar perspective that a diversified organization in related portfolios might obtain efficiency advantages unavailable to a non-diversified organization or that with unrelated portfolios.

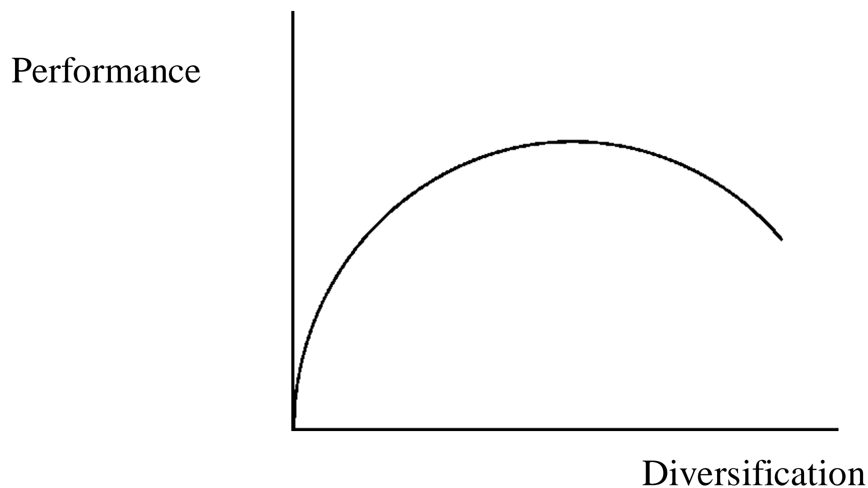

Figure 2.2: Relationship between Level of Diversification and Performance; Source: Shyne (1998).

While there is a general agreement that revenue diversification strategy is an avenue for growth and expansion, Wernerfelt and Montgomery (1988), cited in Isoe (2014) assert that organizations can only diversify to such an extent where potential synergistic benefits diminish to zero. This curvilinear kind of relationship between diversification and performance of organizations is also advanced by Penrose (1959) who using a resource based view contends that diversified organizations stop expanding at a point where 'excess productive services' have been utilized and managerial dis-economies have begun to set in.

2.4.4 Resources Development

2.4.4.1 Natural Resources Endowment

The term of natural resources includes “all resources” that exist in natural state and all systems that are or can be useful to the man in the actual technological, economic and social circumstances (Flavin, 2002). Economies endowed with vast natural resources across the world have reported high economic growth rates, experienced unequalled inflows of capital and grown their investments and infrastructure a great deal (Kitonyo, 2012). However, if not carefully identified and strategically managed, natural resource endowments could easily become a curse rather than a benefit to an economy as has been witnessed in mineral rich Nigeria, South Sudan, Angola, the Democratic Republic of the Congo and large parts of the oil rich Arab world. In some of the natural resource rich, particularly oil rich economies that have experienced high growth rates, the benefits of the oil resources have not trickled down to the general citizenry of those economies. McKinsey Global Institute (2013) cited in Keraro (2014), stressed that many resource driven countries have failed to convert their resource endowments into long-term prosperity. McKinsey stated that “even fewer countries have translated growth into broad based prosperity and that, on average, these countries score almost one quarter lower than other countries on McKinsey’s Economic Performance Index”. The resource curse syndrome or the “Dutch disease” as it is also called is a phenomenon that describes the inability of natural resource abundant countries to derive full benefits from their natural resources (Soros, 2007). It epitomizes the fact that the resource which should be a blessing becomes a curse due to some intervening factors. These intervening factors which are economic, political and social underpin the phenomenon of the resource curse.

Humphreys, Sachs and Stiglitz (2007) argued that the Dutch disease is a shift from the hitherto productive sectors such as agriculture and manufacturing to the non-tradable sectors such as resource export and construction industry. The term is attributable to the

1960s economic downturn of The Netherlands with regards to the manufacturing sector and the North Sea natural gas discovery. Pick and Thein (2010) submitted that the growth of countries rich in natural resources ultimately depends on the quality of institutions and governance. Institutions with sound governance system as well as effective and efficient strategic management approaches provide the right environment for optimal operational performance and vice versa (McKinsey Global Institute, 2013).

2.4.4.2 Human Resources

The development of human capital and talent in organizations has become critical in an increasingly knowledge-based globalizing economy. In particular, human resource capacity building for public service delivery has been recognized by developed, transitioning, and developing economies under the notion of the "new public management (NPM)" reform (Taylor, 2001). Generally, decentralization is accepted in both theory and practice as a means to ensuring good local governance and the delivery of effective public service by increasing a locative and productive efficiency (Analoui, 2002). The scholars argued that this assumption of great promise is contingent on its design, and the institutional, technical and human resource development (HRD) capacity arrangements governing its implementation.

The strategic importance of identification and development of human resource capacity was first raised at the African Leadership Forum on June 21, 1990 in Nigeria. At that meeting, Robert McNamara, the former President of the World Bank emphasized "the imperative of building local African capacities" as the cutting edge of Africa's strategic development agenda. In his view, the lack of necessary human skills and well-managed public and private institutions for long term, sustainable economic growth was a priority to be included in every development activity in Africa, because of its implications for improved development management and good governance (World Bank, 2000).

The Bank's observation was underscored by Analoui and Antwi (2008) and many other scholars in the past who argued that the most valuable and critical organizational resource is its people. It is a fact that people conceive, plan, and execute all tasks, coordinate and organize inputs and produce outputs. It should, thus, be safely assumed that endeavours would succeed or fail because of the people involved (Keraro, 2014). As Analoui and Antwi (2008) further observed, decentralization has the potential to improving local public service delivery and ensuring good governance. Tewfik (2010) supported the views expressed by Analoui and Antwi (2008) by stating that "in the short term, while establishing training institutions to develop the needed manpower, outsourcing of the critically needed skills should be considered as a welcome option".

As cited in Keraro (2014), a study by Tewfik (2010) established that Ethiopia faced several human resource challenges at the outset of the implementation of the regional governments. In particular, the government experienced the challenge of how to rebuild and sustain an efficient and productive civil service. In spite of the significant redeployment of civil servants from the central government to regional governments, all the regional governments suffered a scarcity of skilled personnel and poor capacity for the implementation of their policies and programmes, the scholar observed.

In essence, the scholar made the point that public service delivery was largely inadequate and civil service performance continued to be constrained by a lack of skilled and qualified personnel. To address this HR challenge in the country, the Ethiopian Civil Service College was established (Tewfik, 2010) with the aim of identifying and building human resource capacity through the provision of education and training for civil servants. The education and training offered by the college helped to alleviate the severe shortage of skilled human resources that the regional governments were confronted with.

Jarvalt and Randma-Liiv (2010) recognised that strategic human resource management (HRM) is crucial in public organizations in order to adapt to the changing role of government and of those who work in the public service. The scholars argued that

comprehensive human resource strategies are needed to exploit new opportunities and to ensure that all public service functions are carried out according to the highest professional standards. Political environment may influence the implementation of strategic HRM since successful HRM in the public sector requires not only support from top managers but also political support (Storey, 1989).

2.4.5 Budget Planning

A study by Mugwe (2010) recommended that budgets should be used effectively to achieve organizational coordination and that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. The study further recommended that governments should employ highly qualified personnel to enhance proper budget planning and budget control.

According to Muleri (2001), the government's main focus should be on the funding process, the constraints faced the legal frameworks and competition among the endless expenditure against the limited resources (revenue). The study further recommends that well advanced and current technology should be installed in all the Ministries in Kenya to enhance communication. Proper frameworks need to be implemented to ensure that budget inflexibility does not pose a challenge in the budgeting process. The Ministries need to be politically independent to avoid political interference.

A study was carried out by Njenga, Omondi and Omete (2014) to determine the impact of financial management reforms on the economic performance of public sector entities in Kenya. The study used the economic unit performance contracting results as the measure of performance, which is in some direct way, is similar to the undertaken study. The main objective of the study was to determine the relationship between financial management reforms and the economic performance of the public sector in Kenya. Three key financial reforms were targeted; budgetary reforms, accounting reforms and auditing reforms in this study. The findings of the study revealed that financial reforms

achieved more than half of the intended performance targets over the period under investigation. The results showed that budgetary reforms had the strongest explanatory power on performance indicators at 0.681, followed by accounting reforms at 0.47 and audit reforms at 0.387. The researchers therefore concluded that audit reform does not aid in improving performance of public sector entities while budgetary and accounting reforms are the most effective tools. As explained by the study, the reason for this misnomer could be that civil servants have developed a negative attitude against audit and see it as slowing down delivery of services or that audit is a conduit for corruption. The study concluded that more financial and budgetary reforms should therefore be undertaken for improved results. Audit reforms need to be closely re-evaluated and new approaches employed to yield better results and economic performance.

According to the World Bank (2000), a key aspect of a government's Financial Management Reforms (FMR) program is the progressive devolution of greater operational authority to managers, balanced by greater accountability for the exercise of that power. Devolution is the placement of power or authority to make decisions on strategies, priorities and resource allocation at the level of the organisation that leads to the most cost effective decisions. The aim is to give individual managers greater scope to achieve the policy outcomes sought by each agency and the government overall, while retaining an appropriate level of cohesion, consistency and focus at the whole-of government level. Devolution holds out the prospects of improvement in the allocation and efficient use of public resources, together with more responsive and enhanced service delivery.

Rotich and Nhahu (2015) argued that a key challenge of effective budget devolution in the public sector is finding an appropriate balance between managerial autonomy, management and ministerial accountability, and the need to maintain a certain level of centralised information and decision-making. Successful planning and implementation of county budgets (Mugambi & Theuri, 2014) both in macro and micro terms is critical

for the successful performance of counties. Once developed, the county budget must be well managed, monitored and reported to achieve the anticipated outcomes, within three overriding themes; value for money, the efficient and effective delivery of services, and financial compliance, all three acting as overriding performance principles.

Kiriria (2013) cited in Mugambi and Theuri, 2014 argues that there must be an effective Public Financial Management (PFM) system at the county level to ensure successful management of the public sector and the economy. World Bank (2012) recommends that guidelines and templates need to be developed to guide the formulation of county budgets. More so the World Bank advocates for a country-wide chart of accounts for preparing, executing and reporting the budget. In addition to this, the counties are expected to develop adequate PFM, Human resource and service delivery capacity.

A study by Muriu (2010) noted that governments at sub-national levels are increasingly pursuing participatory mechanisms in a bid to improve governance and service delivery. Muriu adds that Kenya has entrenched public participation in its devolved governance structure based on Constitution of Kenya, 2010 and there is need to look at past experiences for lessons. Muriu further argues that influence of participation is assessed in terms of how it affects efficient allocation of resources; accountability and reduction of corruption; and, equity in service delivery. It finds that the participation of citizens has been minimal and the resulting influence on the decentralized service delivery negligible. It concludes that despite the dismal impact of citizen participation, the first step towards institutionalizing participation has been made upon which current structures of county governments should build on. According to Roth (2011), a primary impediment in state budgeting transformation efforts is the inability to document, optimize, and ultimately automate the entire budgeting process.

As cited in Mugambi and Theuri (2014), Brookson (2000) explains that a budget model helps one get it right with budgets the first time as well as improves its quality and failure to properly plan and monitor budgets leads to their failure and, therefore, to avert

this, there is a need to write and monitor budgets. In fulfilling this, the PFM Act 2012 stipulates all the processes, policies, the personnel required for preparation and approval of the same budget as well as the conditional ties that need to be met to come up with the budgets. In the same line of thought, organizations that strive to maintain efficiency; effectiveness and equity may become so bound up with rules and forget the human needs (Voigt, 2010). Pierre and Peters (2011) recognizes that for an effective budget, the budget must first of all be adopted by a duly constituted authority, and it must be adhered to. The government must avail the information on budgets to the public, which must have been involved in its preparation and despite the fact that revenue is always limited; the available resources must be matched with the expenditure. Availability of a functioning accounting system on the other hand, cannot be emphasized as well as effective auditing system to guarantee an efficient budget preparation process. In the preparation of the national budget, the debate and approval process in parliament is given a lot of emphasis through media coverage, together with the budget reading day which is also graced by the head of state, contrary to other stages of the budget process. The success of the entire budget process is dependent on the success of each and every phase of the budget process (Mwenda & Gachocho, 2003).

2.5 Other Empirical Literature Relevant to the Study

2.5.1 Sustainability

Sustainability has become one of the most widely used terms in the assessment of financial policy in any government system (Kredjl, 2006). However, hardly has the meaning of sustainability been adequately explained. Kredjl further argues that financial policy is sustainable if the present value of future primary surpluses equals the current level of debt. If this condition is met, the government avoids excessive debt accumulation, is able to roll over its debt and thus no risk of financial distress.

According to Artis and Marcellino (2000), sustainability indicators help detect unsustainable policies with a sufficient lead so that policy-makers have time to act and mitigate the costs ensuing from the fiscal correction. Some of the key financial indicators point to unsustainable finance policy at different levels of government. For instance, the current county governments' financial targets as laid down in their medium term plans (MTP) are over-ambitious to be adequately sustained through county finances and allocations from national government. The medium-term financial targets envisaged in the MTPs somewhat aggravate the existing financial imbalances (Chalk & Hemming, 2000). Thus, it is important to detect any unsustainable financial policies with a sufficient leads other policy-makers are well informed to act and to mitigate the negative effects of those imbalances.

Balassone and Franco (2000) identified different conditions for financial sustainability, from a non-ever-rising tax rate to an inter-temporal discounted budget constraint. The requirement that the tax rate should not rise forever is one of the first definitions of sustainable finance policy. Balassone and Franco derive a necessary condition for sustainability: an ever-growing tax ratio cannot be sustainable, i.e. sustainability requires a non-ever-rising tax ration.

Blanchard (1990) argued that sustainability is about whether, based on current fiscal policy, a government is headed towards excessive debt accumulation. To make this rather general statement operational, Blanchard defines sustainable fiscal policy as a policy that ensures that the ratio of debt to GDP converges back towards its initial level. A similar definition is provided in Buiter (1985), who calls a fiscal policy sustainable if it maintains the ratio of government net worth to GDP at the present level. These definitions are essentially the same. They differ only from the statistical point of view. By focusing on net worth, Buiter explicitly recognises that the government may temporarily keep its gross debt from rising by using its assets to finance the deficits. But the fact that gross debt does not rise immediately by no means signifies sustainability,

since the government will sooner or later deplete its assets and the debt will start growing again. Blanchard was well aware of the complexities involved in measuring the asset/liability position of the government, but in his definition he paid attention to debt dynamics rather than to the precise content of the word debt.

2.5.2 Financial Sustainability

Financial sustainability is a goal that all institutions strive to achieve and it is largely used as a measure of good performance. Theoretically, this financial sustainability enables a firm to cover recurrent or overhead costs and to prioritize activities so as to accomplish missions, without undergoing interminable negotiations with donors who may or may not agree with one's vision or cost percentages (Chalk & Hemming, 2000). Many institutions approach donors that will allow them to set up a trust fund or income-generating opportunities that yield a profit margin above market conditions. The ingenuity and creativity of non-profit organizations has led to the development of many innovative mechanisms. This ability to dream and to persuade others to realize these dreams is one of this sector's principal strengths. Nonetheless, the percentage of organizations that achieve financial sustainability remains very low. This is due not to a lack of creativity or commitment, but rather to the fact that many organizations continue to have a donor-dependent vision.

If a trust fund is obtained, it is usually through an outside source. Moreover, attaining a profit margin that exceeds market conditions generally requires appealing to the organization's non-profit status in order to obtain special concessions. While it is important to consider this capacity for access to capital or preferential terms as a competitive advantage enjoyed by a non-profit organization, attaining financial sustainability through a single source or mechanism is a stroke of luck.

On the threshold of the twenty-first century, faced with an increasingly competitive market, a globalized economy, and a context in which change is a constant rather than a variable, one must employ more sophisticated methods to attain financial sustainability. The survival of the sector depends on a nation's ability to achieve this goal (Chalk & Hemming, 2000; Artis & Marcellino, 2000).

The corporate sector offers the most successful model to date to be adapted to one's reality. The main difference between the two sectors is that the surplus generated in the corporate sector is used to create individual wealth. In the non- profit sector, this surplus is reinvested to accomplish a mission. After all, "not-for-profit" does not mean "for losses." If the corporate sector is efficient, in theory, non-profit organizations must be even more efficient to reach their objectives.

2.5.3 Pillars for Measuring Financial Sustainability

According to Artis and Marcelino (2000), there are four key pillars of measuring financial sustainability. These are;

a) Financial Sustainability and Strategic Planning

As an organization grows and takes on an increasing number of activities (Kiringai, 2006), it runs the risk of focusing on day to day management issues and losing sight of long range objectives. Strategic planning is the mechanism to help clarify an organization's mission and objectives as well as prioritize the actions needed to accomplish them. Effective planning has become a prerequisite for accessing available international funds (IMF, 2005).However, since it operates at the purely conceptual level, strategic planning has a weakness: it does not adequately take into account the resources an organization has available to implement the chosen strategies, or its capacity to obtain new resources. It is therefore important to engage in a parallel financial planning process that makes it possible to convert the actions described in the

strategic plan into figures. A financial plan of action basically consists of projected expenditures and the organization's potential to generate the income to cover those expenditures. Although it may appear that a financial plan is very similar to a budget, there are significant differences between the two. A financial plan is a dynamic document that changes frequently.

The ultimate purpose of the financial plan, according to Monteiro (2002), is to determine if the organization is going to have sufficient resources available in the medium term to meet the objectives described in the strategic plan. The financial plan operates on the basis of scenarios, ranging from the minimum feasible to the ideal. The minimum feasible scenario quantifies priorities that are indispensable to fulfilling the mission within a specific time frame, and whether the organization can cover its fixed or operational costs during that period. These indispensable priorities and fixed operational costs represent the minimum fundraising goal.

b) Income Diversification

The second pillar of financial sustainability is income diversification, referring not only to internal income generation, but also to the number of income sources that provide main funding. Even if an organization has a plurality of donors, it will remain vulnerable if a large portion of the budget depends on only one of these. Any change in this donor's decision can induce a major crisis. At least 60% of the organization's overall budget must come from five different sources, a move that borders on determination of effective financial sustainability strategies for the organization.

c) Sound Administration and Finance

Knowing how to manage resources is as essential to achieving financial sustainability as knowing how to generate income. Efficient procedures for administration and finances are governed by a series of institutional policies that help us make the most of our

resources and ensure transparency in fiscal management. Moreover, these procedures must enable one to anticipate the organization's financial standing and, ultimately, make appropriate decisions in a timely manner. Efficient procedures also allow us to generate income through the financial management of available assets.

Any accounting and administrative procedures in any entity must fit the organization's needs (IMF, 2005; Monteiro, 2002). Regardless of their scope and structure, these procedures must record the organization's transactions for easy visualization of the organization as a whole. In many organizations, accounting procedures are set up by project or by donors since this facilitates issuing donor reports that often require specific accounting categories and codes. Nonetheless, to find out the overall budget or calculate the total expenses in a particular category such as travel, accountants add up the figures from each project. This is not the best practice as it does not contain the adequate controls for regular, automatic review of the organization's financial standing. This type of accounting, known as project or donor-based accounting is highly susceptible to error. Organizations must have cost centre accounting that allows for double entry coding for donor reports. Statements issued for decision-making purposes are just as important as accounting procedures.

d) Income Generation

Own income generation is one way for an organization to diversify its sources of revenue. In this category, a discussion on all the ways in which an organization can generate unrestricted income is critical; in other words, income that the organization, not the donor, decides how to spend. The principal ways an organization can generate its own revenues is through; a trust fund with the objective to derive benefits from the interest generated by the capital invested; fundraising, where this refers to requesting donations from individuals, corporations or agencies willing to make contributions in support of the institutional development of the organization; public contributions – a case where some organizations turn to the public to solicit for support for their mission

and financial planning**- d**eveloping financial sustainability strategies, an implementation plan, and performance targets and this thus putting counties on a sure path to financial sustainability.

2.6 Governance Policies and Financial Sustainability

From the early 1990s, most aid-donor and aid-recipient nations, besides international development organizations stressed the importance of certain key elements of good governance in core functions of governments (AfDB, 2004). The various elements included; accountability of public officials due to improved accounting and auditing standards, decentralized decision making, responsive management structures, participation of NGOs and civil society, and implementation of effective anti-corruption strategies (World Bank, 2000; Kulshreshtha, 2008).

The World Bank (2000) averred that governance is "the institutional capability of public organizations to provide the public and other goods demanded by a country's citizens or their representatives in an effective, transparent, impartial, and accountable manner". This implies that good governance and institutionalization of sound governance systems is a demonstration of "predictable, open and enlightened policy making, that is, a transparent process; a bureaucracy imbued with professional ethos; an executive arm of government accountable for its actions; and a strong civil society participating in public affairs; and all behaving under the rule of law" (Kerandi, 2011).

Good governance is a "sound development management" based on five interrelated pillars: accountability, transparency, combating corruption, participation and an enabling legal and judicial framework (AfDB, 2004). Pick and Thein (2010) observed that governance is a key concept for interpreting and explaining changes in a society. Collier (2007) observed that there are big differences in the consequences of getting governance and economic policies right and getting them wrong. Generally, good governance and economic policies significantly improve growth but bad governance destroys an

economy. In explaining this concept, the new institutional economics approach argued that an essential element of good governance and effective development policy is the establishing of institutions that are favourable to economic growth (Lepenies, 2008).

Rose-Ackerman (2008) pointed out that without good polices and effective institutions, competitive sustainability will not succeed. Kerandi (2011) postulated that governance systems can be broad and have different means and approaches towards its attainment. He contended that there is a general consensus on good governance that it is a major ingredient to economic development. Good governance, in the form of institutions that establish a predictable, impartial, and consistently enforced set of rules for investors, is crucial for the sustained per capita income growth of poor countries. It is for this reason that multilateral donors such as the World Bank and IMF have been actively involved in governance initiatives in most developing nations including those from the Sub Sahara Africa region (Tisdell & Roy, 1998). Sections 2.6.1 to 2.6.4 present detailed theoretical and empirical literature reviews relevant to each of the four research areas of this study.

2.7 Research Gaps

Despite the plethora of research on financial sustainability in both public and private institutions, there seem to be inadequate literature specific to the determinants of financial sustainability in a devolved set up, such as what is the case in Kenya. This study fills this gap by delving into establishing the determinants of financial sustainability for counties in Kenya.

As discussed in the literature reviewed, sustainability has become one of the most widely used terms in the assessment of financial policy in any government system (Kredjl, 2006), yet it is hardly ever explained what sustainability actually means. The current county governments' financial targets, as laid down in their medium term plans (MTP), have proven to be over-ambitious to be adequately sustained through county finances and allocations from national government. The literature reviewed has brought

out the fact that the medium-term financial targets envisaged in the MTPs, somewhat, aggravate the existing financial. Gerster (2012) and Thompson (2001) and Artis and Marcellino (2000) observed that the conceptual differences, if any, between the determinants of financial sustainability and the economic development of a nation are not yet clear to the leadership and citizenry of the counties. According to these scholars, the sustainability element includes a longer term financial dimension and an institutional governance framework that should ensure delivery of a financial sustainability status for all counties.

While the new devolved governance system in Kenya carries the promise for a more equitable model of sustainable economic development, neither the constitution nor the existing literature reviewed provides a comprehensive framework on how counties can ensure their own financial sustainability considering the huge financial expectations and obligations they are expected to fulfil. Thus, reliance on national government for adequate financial support is simply myopic, an aspect that calls for genuine efforts, backed up by requisite competencies to determine and aggressively operationalize efforts towards ensuring attainment of financial sustainability of the counties. This study responded to the identified gaps by establishing the determinants of financial sustainability for counties in Kenya.

2.8 Summary of Literature Reviewed

This chapter has reviewed literature relevant to the objectives of the study. The chapter presented a conceptual framework showing the variables of the study and their inter-relationships. Theories underpinning the study have been discussed and critiqued. Empirical reviews of relevant literature to the study have been presented. Additional literature review under each of the four research questions has been detailed.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research philosophy and research design of the study. The chapter also presents the population, sampling frame, sampling technique, sample size, instruments used, pilot test data analysis and presentation and other diagnostic tests.

3.2 Research Philosophy

This study adopted a Positivist Research Philosophy. According to Levin (1997), a positivist approach to research is based on knowledge gained from "positive" verification of observable experience rather than introspection or intuition. May (1997) stated that the positivist philosophy presupposes that there is an objective reality that people can know reality and that symbols can accurately describe and explain this objective reality. A study by Schiffman and Kanuk (1997) observed that principal positivist methods often involve statistical analysis in order to generate findings and to test hypotheses.

3.3 Research Design

Research design refers to how data collection and analysis are structured in order to meet the research objectives through empirical evidence economically (Chandran, 2004). According to Cooper and Schindler (2011), Kerlinger (1986) and Kothari (2011), research design is the plan and structure of investigation so conceived as to obtain answers to research questions. This study adopted a survey research design. A survey study is a type of research design used to collect information using a highly structured questionnaire or interview guide (Cooper and Schindler, 2011). In a survey design, questions are carefully chosen or crafted, sequenced and precisely asked of each

participant. The goal of the survey is to derive comparable data across subjects of the chosen sample so that similarities and differences can be found. When combined with statistical probability sampling for selecting participants, survey findings and conclusions are projectable to large and diverse populations (Oso & Onen, 2011; Cooper & Schindler, 2011; Mugenda & Mugenda, 2012). The greatest strength of the survey as a primary data collecting approach is its versatility.

3.4 Population of the Study

Kombo and Tromp (2011) defined a population as a group of individuals, objects or items from which samples are taken for measurement. Kothari (2011) defined population as the researcher's 'universe.' Cooper and Schindler (2011), Kothari (2011) Oso and Onen (2011) and Kombo and Tromp (2011) observed that a population is the total collection of elements about which one wants to make inferences on. These scholars contended that a population of study should possess characteristics that meet a researcher's study interests. The scholars cited here contended that a target population is the entire set of units for which the survey data is to be used to make inferences. Based on this background, the population for the study was the 47 Counties(Appendix V) identified by the Kenyan Constitution promulgated in 2010.

3.5 Sampling Frame

A sampling frame is a list of population from which a sample is drawn (Särndal, Swensson & Wretman, 1992). It is the source material or device from which a list of all elements within a population that can be sampled is drawn and may include individuals, households or institutions. A sampling frame facilitates formation of a sampling unit that refers to one member of a set of entities being studied which is the material source of the random variable (Bailey, 2008; Klaus & Oscar, 2008; Cochran, 1977 and Särndal, Swensson & Wretman, 1992). Common examples of a unit would be a single person, animal, plant, or manufactured item that belongs to a larger collection of such entities

being studied. The study relied on a sampling frame drawn from the 47 counties as per Appendix V.

3.6 Sample and Sampling Technique

Hyndman (2008) and Marczyk, DeMatteo and Festinger (2005) states that, a sample is a subset of the population under study. It is a true representative of the entire population to be studied (O'Leary, 2001). The main advantages of sampling are cost, speed, accuracy and quality of the data (Adèr et al., 2008). Sampling on the other hand is the selection of a subset of individuals from within a population to yield knowledge about the whole population, especially for the purposes of making predictions based on statistical inference (Scott & Wild, 1986; Black & William, 2004). A good sample should be: truly representative of the population; result in a small sampling error; viable, economical, and systematic, whose results can be applied to a universe with a reasonable level of confidence (Kothari, 2011).

Probabilistic and non-probabilistic sampling techniques were employed in order to determine the exact sample size for the study. In stage one, Stratified Sampling was applied to group the forty-seven (47) counties into eight geographic regions (strata), equivalent to the defunct eight Kenyan provinces. Once the counties were grouped into strata, 25counties (unit of analysis) or 53.2% of the total counties was selected as presented in Table 3.1.The 25 counties (tailored around the constitutional threshold concept of presidential election winners in Kenya) were considered to be a good enough representative sample, in both development and other forms of geographical diversities, as it was more than 50% of the total population. From the sampled counties, a total of 384 respondents (unit of observation) based at county headquarters of the sampled 25 counties participated in the study that consisted of county senior county executives, finance directors of the counties, and professional body members. Table 3.2 shows the distribution per county is as per Table 3.2.

Table 3.1: County Sample Size

County	Region	Population (2009 Census)
Kiambu	Central	1,623,282
Nyeri	Central	693,558
Mombasa	Coast	939,370
Kilifi	Coast	1,109,735
Taita Taveta	Coast	284,657
Meru	Eastern	1,356,301
Embu	Eastern	516,212
Machakos	Eastern	1,098,584
Kitui	Eastern	1,012,709
Nairobi	Nairobi	3,138,369
Mandera	North Eastern	1,025,756
Garissa	North Eastern	623,060
Nyamira	Nyanza	598,252
Kisumu	Nyanza	968,909
Homa Bay	Nyanza	963,724
Kericho	Rift Valley	758,339
Bomet	Rift Valley	724,186
Nandi	Rift Valley	752,965
Nakuru	Rift Valley	1,603,325
West Pokot	Rift Valley	512,690
Narok	Rift Valley	850,920
Kajiado	Rift Valley	687,312
Vihiga	Western	554,652
Kakamega	Western	1,660,651
Trans Nzoia	Western	818,757
Total		**24,876,275**

Source: Kenya National Bureau of Statistics (2011)

For the purpose of this study, the sample size was determined using the procedure by Mugenda and Mugenda (2003) in which they concluded that if selecting a sample from a population of less than ten thousand (10,000) objects, then the sample size should be:

$$\mathbf{n = (z^2pq)/d^2}$$

Where:

n = is the desired sample size when the population is < 10,000

z = standardized normal deviations at a chosen confidence level, for instance if the confidence level is 95%, then Z =1.96.

p= the proportion in the target population that assumes the characteristics being sought. In this study, the optimal 50:50 basis was assumed.

q = The balance from p to add up to 100%. That is 1-P, which in our case yielded 1- 50% (.5)

d = Appropriate significance level, for instance at 95%, the significance level is .05.

Using this procedure, the sample size of the respondents was found to be $n= (1.96^2 \times 0.5 \times 0.5)/0.05^2 = 384$.

The 384 respondents (units of observation)was allocated to the 25 (53%) selected counties on the basis of the sampled counties' proportional population. The weights attached to each county were informed by the population of each selected county as contained in Annex V and VI. The respective county samples are presented in the Table 3.2.

Table 3.2: Respondents Distribution by County

County	Region	Population	% Proportion	No. of Respondents
Kiambu	Central	1,623,282	6.53	25
Nyeri	Central	693,558	2.79	11
Mombasa	Coast	939,370	3.78	15
Kilifi	Coast	1,109,735	4.46	17
Taita Taveta	Coast	284,657	1.14	4
Meru	Eastern	1,356,301	5.45	21
Embu	Eastern	516,212	2.08	8
Machakos	Eastern	1,098,584	4.42	17
Kitui	Eastern	1,012,709	4.07	16
Nairobi	Nairobi	3,138,369	12.62	48
Mandera	N. Eastern	1,025,756	4.12	16
Garissa	N. Eastern	623,060	2.50	10
Nyamira	Nyanza	598,252	2.40	9
Kisumu	Nyanza	968,909	3.89	15
Homa Bay	Nyanza	963,724	3.87	15
Kericho	R. Valley	758,339	3.05	12
Bomet	R.Valley	724,186	2.91	11
Nandi	R. Valley	752,965	3.03	12
Nakuru	R. Valley	1,603,325	6.45	25
West Pokot	R. Valley	512,690	2.06	8
Narok	R. Valley	850,920	3.42	13
Kajiado	R. Valley	687,312	2.76	11
Vihiga	Western	554,652	2.23	9
Kakamega	Western	1,660,651	6.68	26
Trans Nzoia	Western	818,757	3.29	13
Total		**24,876,275**	**100.00**	**384**

3.7 Data Collection and Instrumentation

The overall aim of this study was to establish the influence of financial sustainability strategies on the performance of counties in Kenya. The study analysed primary data obtained through the administration of questionnaires. According to Oso and Onen (2011), data is anything given or admitted as a fact on which a research inference will be based. Cooper and Schindler (2011) and Mugenda and Mugenda (2012) defined data collection instruments as the tools and procedures used in the measurement of variables in research.

Table 3.3: Type of Variable, Measurement and Data Collection Method Used

Type of Variable	Operationalisation of Variables	Data Collection Method
Independent Governance Structures	Forms of diversification strategy; Concentric, Conglomerate, geographical and Technological	Questionnaires
Independent: Public Private partnerships	Infrastructure development, communications and network management	Questionnaire
Independent: Revenue diversification	Taxes, grants, national allocation, investments	Questionnaires
Independent: Budget Planning	Allocation of resources, prioritization on spending, stakeholder participation, internal controls and reporting	Questionnaires
Dependent: County Performance	Increased savings, increased investments, improved efficiency in service delivery, surplus income, higher per capita income, financial sustainability	Questionnaires

3.7.1 Questionnaires

A questionnaire is a collection of questions or statements that assesses attitudes, opinions, beliefs, biographical information or other forms of information (Oso & Onen, 2011; Cooper & Schindler, 2011; Burns & Burns, 2012; McMillan & Schumacher, 2001). According to researchers, questionnaires are preferred for primary data collection because they are less costly, especially when the population is large and widely spread geographically. They ensure anonymity, permit use of standardized questions and ensure uniform procedures. It also ensures that respondents who are not easily approachable are reached conveniently. Besides, questionnaires can provide time for respondents to think about responses and are easy to administer and score (Peil, 1995; Mugenda & Mugenda, 2003; Kothari, 2011). Thus, questionnaires were used as important tools for collection of primary data due to their many positive attributes discussed herein. The method was found useful in the interest of time and given the wide spread of the countiesthatwere involved in thestudy. Likert scale types of questions were designed in the questionnaire and balanced between quantity and quality of data collected.

3.8 Data Analysis and Presentation

According to Kombo and Tromp (2011), data organization in research is about the orderliness in data; that is putting data into some systematic format. Data analysis refers to examining the data that has been collected and making deductions and inferences (Oso & Onen, 2011; Cooper & Schindler, 2011; Kothari, 2011; Mugenda & Mugenda, 2012; Kombo & Tromp, 2011). Data analysis involves uncovering underlying structures, extracting important variables, detecting any anomalies and testing any underlying assumptions. It involves scrutinizing the acquired information and making inferences.

This study collected and analysed primary data which was keyed into an excel table, before it was subjected to meaningful analysis through SPSS version 21. The process involved the identification and correcting of errors in the data (data cleaning), coding the data and storing it in excel form. Data was coded and analysed simultaneously using content analysis method. A list of key categories and themes for each variable was generated and this greatly helped in interpreting the nature of integration needed for the data processed. This process, according to Cooper & Schindler (2011)involved reading through the questionnaires, developing codes, coding the data, and drawing connections between discrete pieces of data. With the data coded and summarized, the researcher then analysed and synthesized the findings using the Statistical Packages for Social Studies (SPSS) software version 21.Bar charts, frequency tables, graphs, pie charts ratios were among the techniques and tools used to present the results of the study.

3.9 Testing the Level of Significance of Variables

Information gathered from the questionnaires and interview guides was sorted, coded and inputted into the statistical software for production of frequencies, descriptive statistics and inferential statistics. The information generated by the statistical software was then used to make generalizations and conclusions of the study. A multiple regression model was used to test the significance of the influence of the independent variables on the dependent variable. The multiple regression model is laid below.

$$Y = \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_{4+}\,\beta_5X_5+\mu$$

Where: Y = Performance of Counties (dependent variable)

β_0 = Constant

$\beta_1 \ldots \beta_4$ =Coefficients of independent variables

X_1 = Governance Structures

X_2 = Public Private Partnerships

X_3 = Revenue Diversification

X4 = Resource Endowments

X_5 =Budget Planning

μ = Error term

The significance of each independent variable was also tested and results are presented in Chapter 4. Fischer distribution test called F-test was used to test the significance of the overall model at 5 per cent confidence level. The p-value for the F-statistic was then applied in determining the effectiveness of the model generated. Factor analysis was performed on the data collected and the findings are reported in chapter 4. Factor analysis is a statistical method used to describe variability among observed and correlated variables in terms of a potentially lower number of unobserved variables called factors. A t-test statistic was used to test the significance of each individual predictor (independent) variable and its related hypothesis. The p-value for each t-test was used to make conclusions on whether to fail to accept or fail to reject the null hypotheses at 5 per cent level of significance. The degree of relationships between independent variables was expressed using a Person's correlation coefficient (r). A multiple correlation coefficient of determination (R^2) was tested in the study. The coefficient of determination, $R^2$is the proportion of the variance in the dependent variable explained uniquely or jointly by the independent variables in a study.

3.10 Diagnostic Tests

3.10.1 Reliability and Validity Testing

The data collection phase of a research process typically begins with pilot testing. This is a pre-test done prior to the commencement of data collection to determine the accuracy of the research instruments (such as interview method questions and questionnaires) that is applied in obtaining desired information (Cooper & Schindler, 2011; Punch, 2006; White, 2000). Pre-testing the instrumentation and the entire research design permits refinement before the commencement of the study. In particular, pilot testing helps to detect weaknesses in design and instrumentation and provides proxy data for selection of a sample. Other benefits of pilot testing are that it helps in: assessing the feasibility of a study; designing a research protocol and assessing whether it is realistic and workable; establishing whether the sampling frame and technique are effective; identifying logistical problems which might occur with the study methodology; determining resources needed for the planned study and; assessing the study data analysis techniques to uncover potential problems.

Owing to the many positive attributes of pilot testing discussed above, the study conducted a pilot test equivalent to 10% of the study sample objects. The pilot testing exercise was conducted in a manner that mirrored the actual study. Observations made during the pilot testing exercise helped to improve the nature of questions contained in the questionnaire instrumentation.

Reliability of the instruments was measured to determine internal consistency to yield the expected results. As observed by Bramble & Mason (1997), instruments with a reliability index of 0.5 and above can be used to collect data. According to Berthoud (2000), a reliability index of 0.7 or 70% is satisfactory for any research instrument.

Cronbach's alpha was used on the standardized items. This is a reliability coefficient that indicates how well the items in a set are positively correlated to one another. Cronbach's alpha is computed in terms of inter-correlation among the items measuring the concept. The closer Cronbach's alpha is to 1, the higher the internal consistency reliability (Sekaran, 2010). If the Cronbach's alpha is above .70 the instrument is reliable. Actual results achieved in this study are presented in Chapter 4.

3.10.2 Multi-collinearity Test

According to Besley, Kuh and Roy (1980) cited in Keraro (2014), identification of multi-collinearity in a model is important and is tested by examining the tolerance and the variance inflation factor (VIF) . The variance inflation factor (VIF) measures the impact of multi-collinearity among the variables in a regression model. Green (2000), also cited in Keraro (2014) argued that even though there is no formal criterion for determining the bottom line of the tolerance value or VIF, tolerance values that are less than 0.1 and VIF greater than 10 roughly indicates significant multi-collinearity. This same conclusion is supported by Tavakol and Dennick (2011) and Gujarat (2009). This study sought to find out if multi-collinearity existed between the dependent variable and the independent variables. According to Cohen *et al.,* (2003), the suggested cut-off point for multi-collinearity is tolerance level 0.8.

3.10.3 Autocorrelation

Gujarat (2009) and Cameron (2005) defined autocorrelation as the correlation between members of a series of observations ordered in time or space. A Durbin-Watson test was used to detect the presence of autocorrelation between the variables. According to Gujarat (2009), the Durbin-Watson statistic ranges in value between 0 and 4. A value near 2 indicates non-autocorrelation; a value closer to 0 indicates positive correlation while a value closer to 4 indicates negative correlation. An autocorrelation test was thus

performed on the variables of the study and the results obtained are discussed in Chapter 4.

3.10.4 Normality Test

An assessment of the normality of data is a prerequisite for many statistical tests because normal data is an underlying assumption in Classical Linear Regression Modelling (CLRM) as well as parametric testing. A normality test is used to determine whether sample data has been drawn from a normally distributed population (within some tolerance) and that the data set is well-modelled by a normal distribution. It is also important as it enables a researcher to compute the likelihood of a random variable underlying the data set to be normally distributed (Cooper & Schindler, 2011). A normality test was, thus, carried out on the dependent variable, the Performance of Devolved Governance Systems. A Normal Q-Q plot of the data was generated from the SPSS software version 21 and the findings are presented in chapter 4.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents findings on the following five study; areas: governance structures, public private partnerships, revenue diversification, resources endowments and budget planning and their influence on the performance of counties in Kenya. Results from each study are discussed, corroborated with the literature reviewed in chapter two and inferences drawn. Summary descriptive statistics, regression and correlation analyses and analysis of variance (ANOVA) are presented for each study variable together with the fitting of a model.

4.2 Demographic Study Results and Tests

This section presents findings of key preliminary results and the various tests conducted during the research.

4.2.1 Response Rate

A total of 384 questionnaires were distributed, out of which 350 were duly filled and returned, resulting to a response rate of 91.14%. Nachmias and Nachmias (2004) cited in Keraro (2014) argued that survey researches face a challenge of low response rate that rarely goes above 50%. They, therefore, contended that a response rate of 50% and above is satisfactory and represents a good basis for data analysis. Mugenda and Mugenda (2003) argued that a 50% response rate is adequate, 60% is good and above 70% is very good, which concurs with Kothari (2011) who asserted that a response rate of 50% is adequate, while a response rate greater than 70% is very good. Based on these findings, the response rate of 91.14% (Figure 4.1) achieved by the study was very good and, therefore, allowed the researcher to proceed with data analysis.

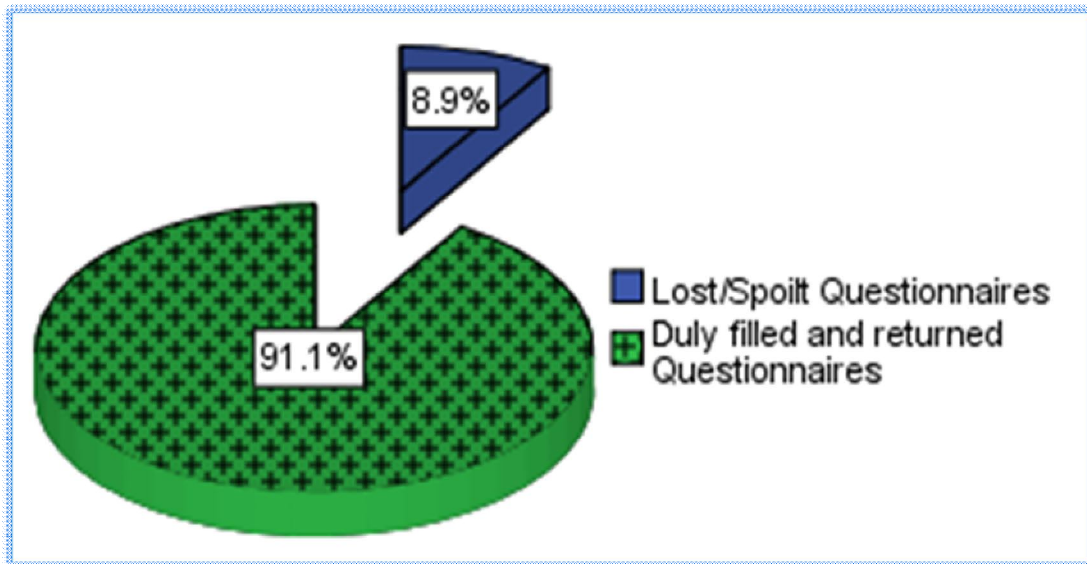

Figure 4.1: Response Rate

4.2.2 Gender of Respondents

The study sought to establish the gender of the respondents. The findings are presented in Figure 4.2. These results indicate that a majority (67.3%) were male while 32.7% were female respondents. This was considered a fair distribution (within the 1/3rd and 2/3rds Kenyan constitutional requirement) as it accommodated the opinions and views from both genders.

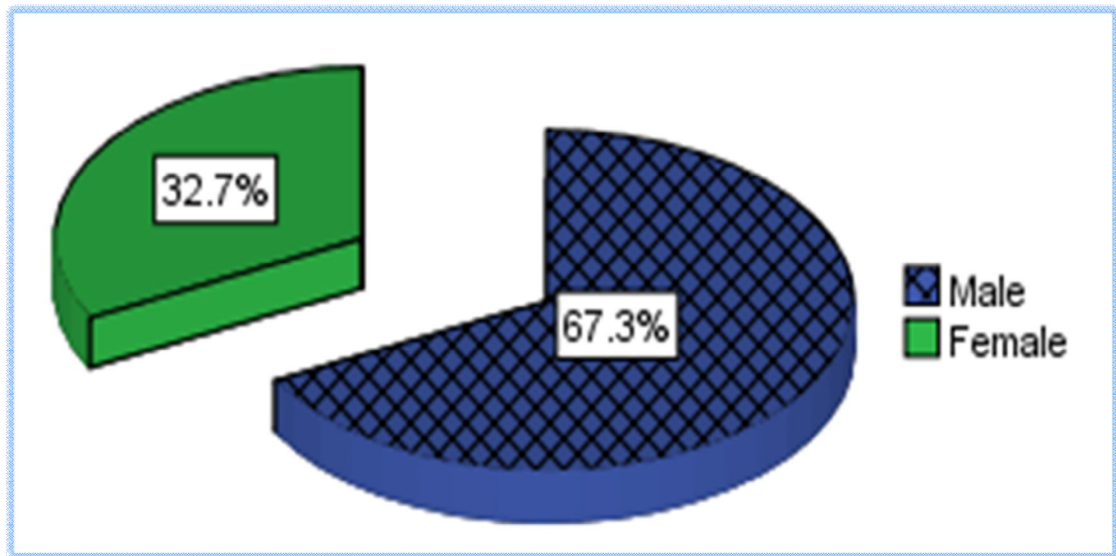

Figure 4.2: Gender of the Respondents

4.2.3 Duration of Service of Respondents

The study sought to find out the duration the respondents had served their counties. The results are presented in Figure 4.3. From these results, 1.7% had served for 1 year, 9.8% for 2 years, 24.0% for 3 years, a majority (46.6%) for 4 years while 17.9% had served for 5 years. These findings imply that most of the participations in this study have served their counties long enough and that their responses could be relied on in the study.

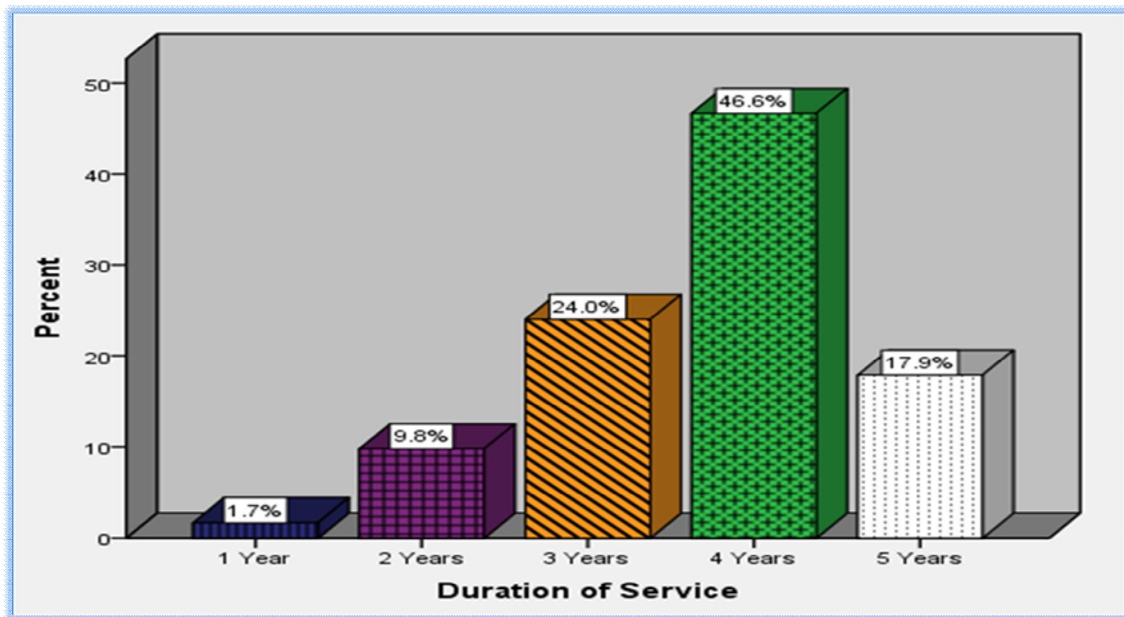

Figure 4.3: Duration of Service by the Respondents

4.2.4 Testing for Multi-Collinearity between the Study Variables

Besley, Kuh and Roy (1980) cited in Keraro (2014) and Opiyo (2017) concluded that identification of multi-collinearity in a model is important and is tested by examining the tolerance and the variance inflation factor (VIF) diagnostic factors. The variance inflation factor (VIF) measures the impact of multi-collinearity among the variables in a regression model. Green (1998), also cited in Keraro (2014) argued that even though there is no formal criterion for determining the bottom line of the tolerance value or VIF, tolerance values that are less than 0.1 and VIF greater than 10 roughly indicate significant multi-collinearity. This same conclusion is supported by Tavakol and Dennick (2011) and Gujarat (2009). The study sought to find out if multi-collinearity existed between dependent variable and the independent variables. According to Cohen et al. (2003), the suggested cut-off point for multi-collinearity is tolerance level of 0.8.

Also, Hair et al. (2006) and Leech et al. (2014) proposed a cut-off point for determining presence of multi-collinearity at a tolerance value of less than 0.10, or a VIF of above 10. From Table 4.1, the study concluded that there was no case of multi-collinearity between the dependent and independent variables.

Table 4.1: Multi-collinearity Check between the dependent and independent variables

Coefficients

Model		Collinearity Statistics	
		Tolerance	**VIF**
1	Governance Structures	.986	1.015
	Public Private Partnerships	.853	1.173
	Revenue Diversification	.485	2.064
	Resources Endowments	.573	1.746
	Budget Planning	.533	1.875

4.2.5 Checking for Autocorrelation between the Study Variables

Gujarat (2009) and Cameron (2005), both cited in Keraro (2014) and Opiyo (2017) defined autocorrelation as the correlation between members of a series of observations ordered in time or space. According to Gujarat (2009), the Durbin-Watson statistic ranges in value between 0 and 4. A value near 2 indicates no-autocorrelation; a value closer to 0 indicates positive correlation while a value closer to 4 indicates negative correlation.

The study sought to establish whether there was any presence of autocorrelation between the dependent and independent variables. The results are presented in Table 4.2. From the Table, there was no autocorrelation between the dependent and independent variables since the Durbin-Watson coefficient was 1.623 which is nearly a value of 2.

Table 4.2: Test for Autocorrelation between Study Variables

Model Summary	
Model	**Durbin-Watson**
1	1.623

4.2.6 Correlation Test between the Study Variables

The study sought to establish the strength of the relationship that existed between County Performance and the Independent Variables (Governance Structures, Public Private Partnerships, Revenue Diversification, Resource Endowments, and Budget Planning). The findings were summarized in Table 4.3. From the Table, a statistically significant positive correlation existed between the dependent variable (County Performance) and the independent variables (Public Private Partnerships, Revenue Diversification, Resource Endowments, and Budget Planning). Governance Structures, however, had a negative statistical correlation. From the table, all initials used are explained as follows: CP – County Performance, GS – Governance Structures, PPP- Public Private Partnerships, RD – Resource Endowments and BP – Budget Planning.

Table 4.3: Correlation Coefficient between study variables

Correlations							
		CP	**GS**	**PPPs**	**RD**	**RE**	**BP**
County Performance	Pearson Correlation	1	-.188**	.309**	.608**	.380**	.715**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	350	350	350	350	350	350
Governance Structures	Pearson Correlation	-.188**	1	-.045	-.083	-.033	-.110*
	Sig. (2-tailed)	.000		.398	.120	.533	.039
	N	350	350	350	350	350	350
Public Private Partnerships	Pearson Correlation	.309**	-.045	1	.310**	.352**	.307**
	Sig. (2-tailed)	.000	.398		.000	.000	.000
	N	350	350	350	350	350	350
Revenue Diversification	Pearson Correlation	.608**	-.083	.310**	1	.605**	.650**
	Sig. (2-tailed)	.000	.120	.000		.000	.000
	N	350	350	350	350	350	350
Resources Endowments	Pearson Correlation	.380**	-.033	.352**	.605**	1	.543**
	Sig. (2-tailed)	.000	.533	.000	.000		.000
	N	350	350	350	350	350	350
Budget Planning	Pearson Correlation	.715**	-.110*	.307**	.650**	.543**	1
	Sig. (2-tailed)	.000	.039	.000	.000	.000	
	N	350	350	350	350	350	350

4.2.7 Normality Check on the Dependent Variable (County Performance)

According to Pallant (2010), a test of normality is done by inspecting the output of the normal Q-Q plot for the dependent variable. A normality check on the dependent variable (County Performance) was done by generating a Normal Q-Q plot of the data using the SPSS program.

An assessment of the normality of data is a prerequisite for many statistical tests because normal data is an underlying assumption in Classical Linear Regression Modelling (CLRM) as well as parametric testing. A normality test is used to determine whether sample data has been drawn from a normally distributed population (within some tolerance) and that the data set is well-modelled by a normal distribution. It is also important as it enables a researcher to compute the likelihood of a random variable underlying the data set to be normally distributed (Cooper & Schindler, 2011). A normality test was carried out on the dependent variable, the Performance of devolved governance systems. A Normal Q-Q plot of the data was generated from the SPSS software and the findings are presented in Figure 4.4. The Figure 4.4 shows that most of the scatter dots fell within the line of best fit and, therefore, the study concluded that the dependent variable was drawn from a normally distributed population.

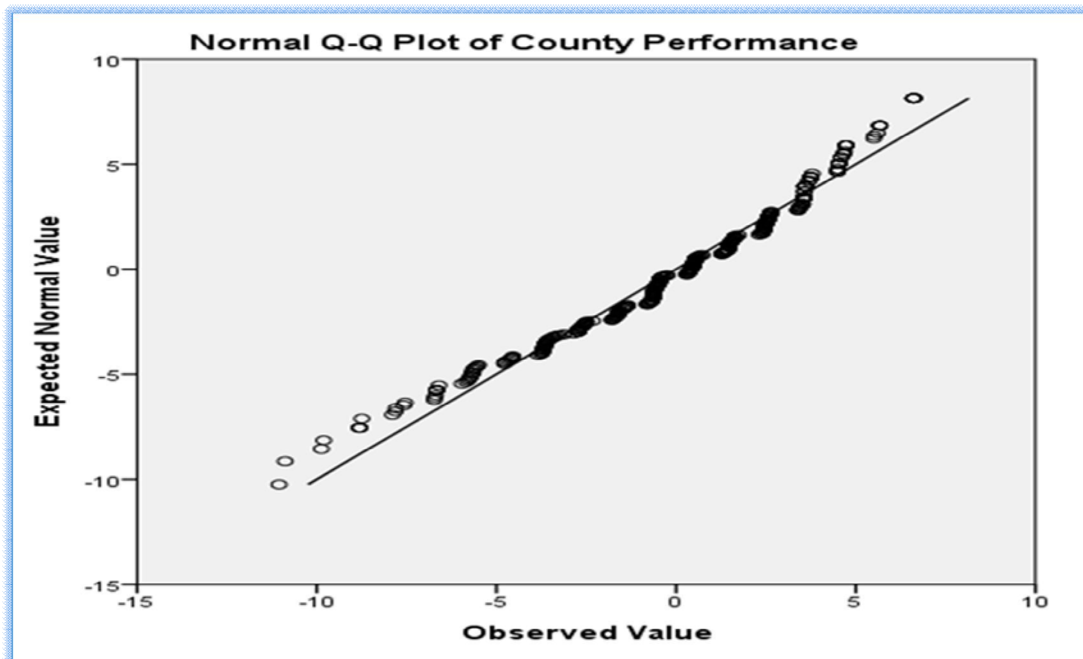

Figure 4.4: Normal Q-Q Plot on the Dependent Variable (County Performance)

4.2.8 Checking for Outliers on the Dependent Variable

A boxplot was generated from the SPSS software so as to establish if the dependent variable, County Performance had any outliers. The findings presented in Figure 4.5 show that there are no observed outliers as there are no scatter dots below and above the box plot.

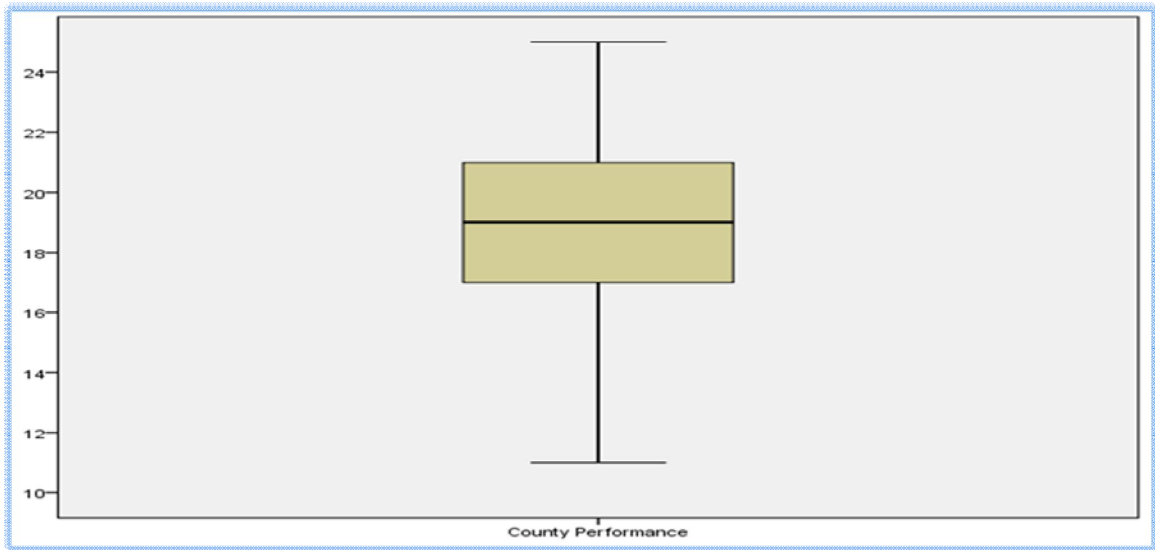

Figure 4.5: Box plot to check for outliers on the dependent variable

4.2.9 Checking for Heteroscedasticity in the dependent Variable

The researcher sought to check for the presence of heteroscedasticity on the dependent variable, County Performance. A scatter diagram was generated from SPSS software and presented in Figure 4.6. From the figure, the dependent variable was observed to have no presence of heteroscedasticity as the scatter dots do not form any systematic pattern that is either exploding or converging from the origin (Shen, Cui & Wang, 2014).

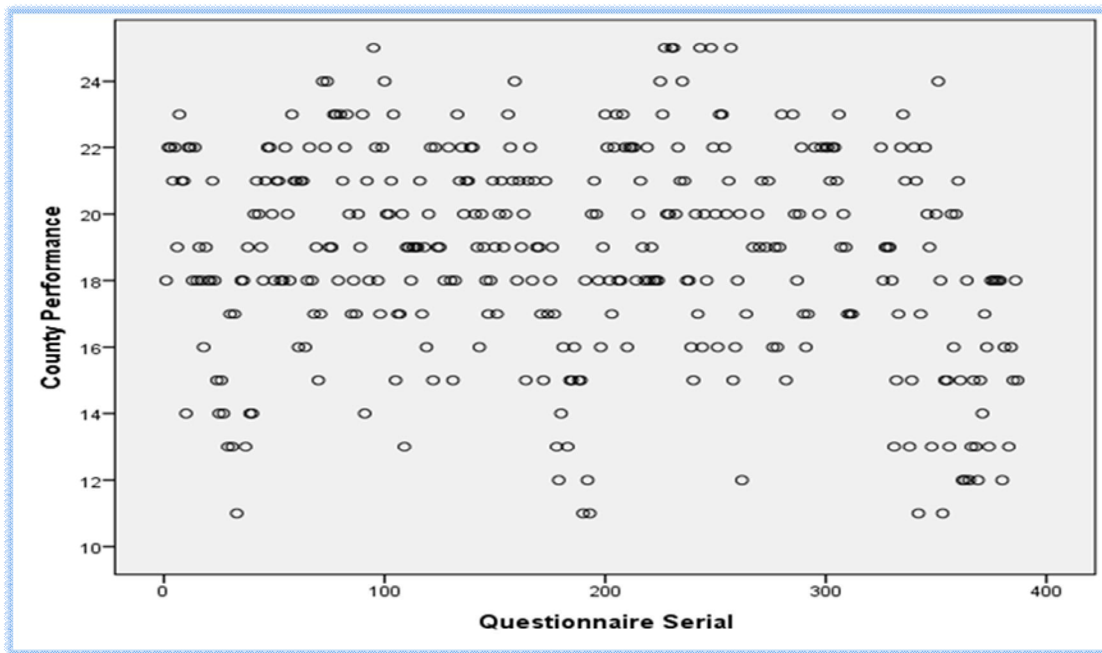

Figure 4.6: Scatter Diagram showing absence of heteroscedasticity on the dependent variable (County Performance)

4.3 Reliability Test on the Study Variables

Reliability refers to the repeatability, stability or internal consistency of a questionnaire (Jack & Clarke, 1998). According to Sekaran (2008), Cooper and Schindler (2011), Cronbach's alpha which has the most utility for multi-item scales at the interval level of measurement, requires only a single administration and provides a unique, quantitative estimate of the internal consistency of a scale. The study carried out a reliability test on the dependent variable, County Performance. Results from this test are summarized in Table 4.4. According to Iacobucci and Duhachek (2003) and Cooper and Schindler (2011), a Cronbach alpha of 0.7 is an acceptable reliability. A result that is below the .5 threshold is considered unreliable. From Tables 4.4, all variables tested were found to be

reliable at a Cronbach's Alpha of .7 which was greater than the recommended .7 thresholds.

Table 4.4: Reliability of Study Variables

Reliability Statistics

Variable	**Cronbach's Alpha**	**No of Items**
County Governance	.735	5
Governance Structures	.810	6
Public Private Partnerships	.797	5
Revenue Diversification	.784	8
Resource Endowments	.879	9
Budget Planning	.795	6

4.4 Factor Analysis of the Research Variables

4.4.1 Introduction

According to Kothari (2011) and Cooper and Schindler (2011) factor analysis is a statistical method used to describe variability among observed, correlated variables in terms of a potentially lower number of unobserved variables called factors. Kothari (2011) adds that factor analysis originated in psychometrics and is used in behavioural sciences, social sciences and other fields that deal with data sets where there are large numbers of observed variables that are thought to reflect a smaller number of underlying/latent variables.

4.4.2 Factor Analysis on County Performance

From the findings summarized in Table 4.5 all the factors loaded highly on the dependent variable, County Performance as all of them had scores above the threshold of 0.3.

Table 4.5: Factor Analysis on the Dependent Variable (County Performance)

Component Matrix

	Component
	1
People livelihoods in my county have improved due to efficient service provision	.784
There is improved infrastructure in my county	.773
My county's revenue has witnessed an increasing trend which is a sign of good managerial performance	.729
My county is able to meet its financial obligations	.682
My county is one of the best performing counties around the country	.529

4.4.3 Factor Analysis on Governance Structures

Table 4.6 presents factor analysis results on Governance Structures.

Table 4.6: Factor Analysis on Governance Structures

	Component
	1
Lean management structures enhance effective performance and decision making in my county	.756
Developing appropriate policies, procedures and processes is important for effective financial decision making for my county	.728
My county benefits greatly from the implementation of sound procurement policies at all county levels	.720
Management structures that are less bureaucratic facilitate faster financial decision making for my county	.713
The PFM Act 2012 provides adequate financial sustainability of my county	.712
A well-developed organogram enhances the performance of my county	.669

The findings summarized in Table 4.6 show that one factor did not attain the threshold and was therefore dropped from the analysis. Only one factor was dropped while all other factors loaded highly on the Governance Structures variable as they had scores above the threshold of 0.3.

4.4.4 Factor Analysis on Public Private Partnerships

Table 4.7 presents factor analysis results on Public Private Partnerships.

Table 4.7: Factor Analysis on Public Private Partnerships

Component Matrix

	Component
	1
The private sector has a responsibility to support the development of my county	.778
My county has laid out inventive plans on how to lure private sector investors	.765
Anti-corruption operations in our county is single most important governance aspect for the success of Public Private Partnerships	.735
My county has developed sufficient guidelines on how to engage the private sector in the development of our county	.734
Public Private Partnerships are key to the financial sustainability of my county	.702

From the findings in Table 4.7, all the factors loaded highly on Public Private Partnership's variable since none of them had a score below the required threshold of 0.3.

4.4.5 Factor Analysis on Revenue Diversification

Table 4.8 presents factor analysis results for Revenue Diversification.

Table 4.8: Factor Analysis on Revenue Diversification

	Component
	1
Our county finances for development are sourced from donors	.795
Our county has automated its logistical operations	.696
Our county has partnered with those in the Diaspora for increased investment	.647
Besides the county levies, our county engages in a wide range of revenue activities	.638
Our county engages in inter-county trade (across county borders) around Kenya for financial sustainability	.617
Our county has diversified into other revenue streams for financial sustainability	.589
Our county has financial management capacity that ensures appropriate use of our financial resources	.535
Our county has other sources of revenue from other investments besides allocation from National Government	.535

From the findings summarized in Table 4.8 one factor was dropped from analysis as it did not attain the 0.3 threshold. All other factors loaded highly on the independent variable (Revenue Diversification) as they all had scores above the threshold of 0.3.

4.4.6 Factor Analysis on Resource Endowments

Table 4.9 presents factor analysis results for Resource Endowments.

Table 4.9: Factor Analysis on Resource Endowments

Component Matrix

	Component
	1
Effective management of resources endowments for my county is the role of the county governance systems	.761
I am confident that my county has the ability (human and systems) to manage existing resources endowments efficiently	.755
Development and management of financial resources is urgent and critical for my county	.749
Development and implementation of effective anti-corruption laws is a sure way to avoid "resource curse" syndrome that most resource rich countries have experienced	.741
Our county benefits from the development of appropriate training institutions that fill identified recourse gaps	.709
My county could rely on outsourcing/importing critical human resource expertise both for the short and long term	.706
Management of resources in my county is the responsibility of professionally qualified personnel	.698
Our county requires well developed human resource plan	.672
Stock taking and identifying resource endowments is important for our county's financial sustainability	.614

A factor analysis done to determine how various factors loaded on Resource Endowments showed that all the factors loaded highly on Resource Endowments as all of them had scores above the required 0.3 threshold as shown in Table 4.9.

4.4.7 Factor Analysis on Budget Planning

Table 4.10 presents factor analysis results on budget planning.

Table 4.10: Factor Analysis on the Budget Planning

Component Matrix

	Component
	1
There is a strong PFM system in my county	.819
There is a strong positive relationship between budget planning and a financial sustainability and the performance of my county	.783
Budget planning in my county is a participatory exercise	.754
Involvement of the public in the budget planning exercise in my county has significantly helped to prioritise spending of the public resources	.725
The budgeting procedures laid out in the PFM Act on 2012 are followed to the letter in my county	.669
County budgets are effective strategic tools for achieving development coordination in my county	.442

The findings summarized in Table 4.10 indicate that all the factors loaded highly on the independent variable (Budget Planning) as all of them scored above the threshold of 0.3.

4.5 Descriptive Statistics for the Research Variables

4.5.1 Introduction

Descriptive statistics is important because it enables us to present data in a meaningful way, and therefore allows for a simpler interpretation of the data in any form of research (Cooper & Schindler, 2011: Sekaran, 2008; Kothari, 2011).

4.5.2 Descriptive for Dependent Variable, County Performance

The researcher sought to determine the descriptive statistics of dependent variable, (County Performance). A descriptive statistics Table was generated from SPSS software and was as presented in Table 4.11. The Table shows that a 43.1% of the respondents agreed that there is improved infrastructure in their county. 46.9% agreed that people's livelihoods in their county have improved due to efficient service provision, 43.1% agreed that their county's revenue has witnessed an increasing trend which is a sign of good managerial performance, 39.7% agreed that their county is able to meet its financial obligations, while 38.6% agreed that their county is one of the best performing counties around the country.

Table 4.11: Descriptive Statistics for Dependent Variable (County Performance)

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
There is improved infrastructure in my county	2.6%	6.3%	27.7%	43.1%	20.3%
People livelihoods in my county have improved due to efficient service provision	0.9%	5.4%	27.1%	46.9%	19.7%
My county's revenue has witnessed an increasing trend which is a sign of good managerial performance	0.9%	4.3%	26.3%	43.1%	25.4%
My county is able to meet its financial obligations	2.6%	8.0%	24.0%	39.7%	25.7%
My county is one of the best performing counties around the country	4.9%	8.3%	29.4%	38.6%	18.9%

These results confirm the views by McKinsey Global Institute (2013) who argued that the relationship between the economy and infrastructure is critical for the promotion of inclusive economic growth and sustainable development. Hope (2011) stressed that up-scaling investments in infrastructure, is a necessity for an economy to pursue for Africa to become more competitive in the global marketplace, while Jerome (2012) argued that investments in road networks reduce transport costs while ports and other logistics infrastructure reduce the cost associated with trade, all of which improve the competitiveness of institutions.

A close examination of the results shows that a majority of the responses fell within agreed and strongly agreed. This leads to a conclusion that most of the counties were performing well and that the citizenry was satisfied with the performance of their county governments.

4.5.3 Descriptive Statistics for Governance Structures

The researcher sought to find the descriptive statistics for governance structures and the results are presented in Table 4.12. From the table, 31.4% of the respondents remained neutral on the statement that a well-developed organogram enhances the performance of their county, 30.9% agreed that lean management structures enhance effective performance and decision making in their county, and 33.7% remained neutral on management structures that are less bureaucratic facilitate faster financial decision making for their counties A majority (31.1%) also remained neutral on the statement that developing appropriate policies, procedures and processes is important for effective financial decision making for their counties, 28.0% disagreed that the PFM Act 2012 provides adequate financial sustainability of their county, and 37.7% disagreed that their county benefits greatly from the implementation of sound procurement policies at all county levels.

Table 4.12: Descriptive Statistics for Governance Structures

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
A well-developed organogram enhances the performance of my county	7.7%	24.6%	31.4%	26.9%	9.4%
Lean management structures enhance effective performance and decision making in my county	8.0%	25.1%	28.0%	30.9%	8.0%
Management structures that are less bureaucratic facilitate faster financial decision making for my county	12.0%	25.1%	33.7%	21.4%	7.7%
Developing appropriate policies, procedures and processes is important for effective financial decision making for my county	7.4%	28.9%	31.1%	22.0%	10.6%
The PFM Act 2012 provides adequate financial sustainability of my county	16.6%	28.0%	25.1%	22.3%	7.7%
My county benefits greatly from the implementation of sound procurement policies at all county levels	8.9%	37.7%	24.3%	24.3%	4.9%

Herranz (2008) argued that organizational structures can inhibit or promote performance, depending how effectively the supervisory relationships and workflow influence productivity. According to Graddy (2008), the impact of decision making structures cannot be easily isolated from the interactions they engender. Findings by Tata and Prasad (2004) suggested that there is a stronger relationship between self-

management and team effectiveness in organizations that have lower level of formalization. In other words, fewer rules, policies, and procedures allow flexibility in teams' self-management, which eventually boost teams' effectiveness. However, the findings here were inconclusive since majority of the respondents were undecided (remained neutral) on the statement that management structures that are less bureaucratic facilitate faster financial decision making for their county.

These findings are in agreement with the reviewed literature to an extent while to some other extent they are in contradiction. A majority of the responses lay within neutral and disagreed. A conclusion that can be derived from this is that being a new system of governance, counties have yet to find governance structures that ultimately positively influence performance of the counties.

4.5.4 Descriptive Statistics for Public Private Partnerships

The researcher generated descriptive statistics for Public Private Partnership's variable. The findings summarized in Table 4.13 show that 46.0% of the respondents agreed that Public Private Partnerships are key to the financial sustainability of their county, 43.4% agreed that their county has developed sufficient guidelines on how to engage the private sector in the development of their county, and 45.1% agreed that the private sector has a responsibility to support the development of their county. A majority (40.9%) of the respondents agreed that their county has laid out inventive plans on how to lure private sector investors, while 43.7% agreed that anti-corruption operations in their county is the single most important governance aspect for the success of Public Private Partnerships.

Table 4.13: Descriptive Statistics for Public Private Partnerships

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Public Private Partnerships are key to the financial sustainability of my county	3.1%	6.9%	22.3%	46.0%	21.7%
My county has developed sufficient guidelines on how to engage the private sector in the development of our county	1.1%	9.4%	23.1%	43.4%	22.9%
The private sector has a responsibility to support the development of my county	2.9%	5.4%	22.6%	45.1%	24.0%
My county has laid out inventive plans on how to lure private sector investors	2.9%	5.4%	26.3%	40.9%	24.6%
Anti-corruption operations in our county is single most important governance aspect for the success of Public Private Partnerships	2.3%	8.0%	27.4%	43.7%	18.6%

The findings from this study concur with the observations of (Leigland & Russsel, 2009; Heinz, 2006) that the last 20 years have seen the rise to power of public-private partnerships (PPPs) as a means of crowding in investment and expertise from the private sector to the delivery of public goods and services. The authors averred that as result of their (PPPs) purported advantages in off-budget funding, PPPs are a mechanism that modern governments regularly turn to in order to fulfil their responsibilities on public infrastructure and services. Tvarno (2010) asserts that PPPs describe the structure of the

relationship between the two parties and ensures that the best of both contributes to optimal public services.

As indicated in the literature review, the benefits of PPP to a county are many, some of which include; value for money, optimization of the design and operation, and quicker delivery of projects among other benefits. Based on the findings, the researcher infers that public-private partnerships are the way to go for the counties if they are to succeed in delivering optimal services to their people. The fact that a majority (40.9%) of the respondents agreed that their counties have laid out inventive plans on how to lure private sector investors is a clear indicator of their awareness of the immense opportunity for development that awaits them and that can majorly be realized through PPPs.

4.5.5 Descriptive Statistics for Revenue Diversification

A descriptive statistics table for Revenue Diversification was generated from SPSS and the results were presented in Table 4.14. From the findings, 42.0% of the respondents agreed that their county has other sources of revenue from other investments besides allocation from National Government, 32.0% agreed that their county has financial management capacity that ensures appropriate use of their financial resources, 38.9% agreed that their county has diversified into other revenue streams for financial sustainability, while 36.6% remained neutral on the statement that their county finances for development are sourced from donors. A majority (47.4%) agreed that besides the county levies, their county engages in a wide range of revenue activities, 50.0% agreed that their county engages in inter-county trade (across county borders) around Kenya for financial sustainability, 42.9% agreed that their county has partnered with those in the diaspora for increased investment, and 38.6% agreed that their county has automated its logistical operations.

Table 4.14: Descriptive Statistics for Revenue Diversification

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Our county has other sources of revenue from other investments besides allocation from National Government	2.6%	8.9%	28.3%	42.0%	18.3%
Our county has financial management capacity that ensures appropriate use of our financial resources	7.7%	12.9%	29.7%	32.0%	17.7%
Our county has diversified into other revenue streams for financial sustainability	7.1%	10.9%	31.4%	38.9%	11.7%
Our county finances for development are sourced from donors	5.4%	12.3%	33.4%	36.6%	12.3%
Besides the county levies, our county engages in a wide range of revenue activities	1.1%	5.7%	29.1%	47.4%	16.6%
Our county engages in inter-county trade (across county borders) around Kenya for financial sustainability	0.9%	2.0%	18.9%	50.0%	28.3%
Our county has partnered with those in the Diaspora for increased investment	5.1%	3.1%	17.4%	42.9%	31.4%
Our county has automated its logistical operations	1.4%	8.3%	22.3%	38.6%	29.4%

These results are a confirmation to other studies that have been carried out in this area. From the findings, 42.0% of the respondents agreed that their counties have other sources of revenue from other investments besides allocation from national government. This confirms a study by Sontag-Padilla, Staplefoote and Gonzalez Morganti (2012) who concluded that nonprofits may wish to consider innovative fundraising techniques, such as giving circles and fostering relationships with investors, to address financial

challenges. This is further confirmed by Marty (2008) who notes that non-profit leaders are seeking each other out to explore potential partnerships, and also through funders themselves that are trying to maximize impact with limited resources, as is also noted in the results where 50.0% of the respondents agreed that their county engages in inter-county trade (across county borders) around Kenya for financial sustainability.

Given the findings that majority of the respondents were in agreement with the variable statements, the research is guided to draw the inference that revenue diversification is a major contributor to the performance of the counties.

4.5.6 Descriptive Statistics for Resource Endowments

The findings presented in Table 4.15 on Resource Endowments show that a majority (43.6%) of the respondents agreed that stock taking and identifying resource endowments is important for their county's financial sustainability, 43.9% agreed that their county requires well developed human resource plan, 36.3% agreed that their county benefits from the development of appropriate training institutions that fill identified human recourse gaps, 64.8% of the respondents either agree or strongly agreed that their county could rely on outsourcing/importing critical human resource expertise both for the short and long term, and 38.8% agreed that development and implementation of effective anti-corruption laws is a sure way to avoid "resource curse" syndrome that most resource rich countries have experienced. A majority (41.3%) agreed that they are confident that their counties have the ability (human capacity and systems) to manage existing resources endowments efficiently, 44.1% agreed that development and management of financial resources is urgent and critical for their county, 40.5% agreed that management of resources in their county is the responsibility of professionally qualified personnel, while 39.7% agreed that effective management of resources endowments for their county is the role of the county governance systems.

Table 4.15: Descriptive Statistics for Resource Endowments

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Stock taking and identifying resource endowments is important for our county's financial sustainability	0.3%	2.5%	26.0%	43.6%	27.7%
Our county requires well developed human resource plan	0.6%	4.7%	26.0%	43.9%	24.9%
Our county benefits from the development of appropriate training institutions that fill identified recourse gaps	0.8%	7.5%	26.5%	36.3%	28.8%
My county could rely on outsourcing/importing critical human resource expertise both for the short and long term	0.8%	6.7%	27.7%	32.4%	32.4%
Development and implementation of effective anti-corruption laws is a sure way to avoid "resource curse" syndrome that most resource rich countries have experienced	0.6%	5.9%	21.5%	38.8%	33.2%
I am confident that my county has the ability (human and systems) to manage existing resources endowments efficiently	0.8%	6.4%	23.5%	41.3%	27.9%
Development and management of financial resources is urgent and critical for my county	1.7%	4.2%	25.4%	44.1%	24.6%
Management of resources in my county is the responsibility of professionally qualified personnel	2.2%	4.7%	30.7%	40.5%	21.8%
Effective management of resources endowments for my county is the role of the county governance systems	1.7%	4.5%	27.4%	39.7%	26.8%

Kitonyo (2012) observed that economies endowed with vast natural resources across the world have reported high economic growth rates, experienced unequalled inflows of capital and grown their investments and infrastructure a great deal. From the findings, a majority (43.6%) of the respondents agreed that stock taking and identifying resource endowments is important for their county's financial sustainability while another majority (38.8%) agreed that development and implementation of effective anti-corruption laws is a sure way to avoid "resource curse" syndrome that most resource rich countries have experienced. This finding is in harmony with the observations of Keraro et al. (2014) that, if not carefully identified and strategically managed, natural resource endowments could easily become a curse rather than a benefit to an economy as has been witnessed in oil rich Nigeria, Algeria, South Sudan, Angola, the Democratic Republic of the Congo and large parts of the oil rich Arab world. These results show that a majority (39.7%) agreed with the statement that effective management of resource endowments for their county is the role of the county governance systems. These findings concur with McKinsey Global Institute (2013) who maintained that institutions with sound governance systems as well as effective and efficient strategic management approaches provide the right environment for optimal operational performance and vice versa.

Based on the finding that a majority (39.7%) agreed with the statement, effective management of resources endowments for their county is the role of the county governance systems, one can concur with Keraro (2014) that county government endeavours would succeed or fail because of the people involved. From these findings, it is in order to conclude that resource endowments enable increased performance of the county. However, it is all dependent on the human resource and governance systems in the county as is well noted in the literature.

4.5.7 Descriptive Statistics for Budget Planning

A descriptive statistics table for Budget Planning was generated from the SPSS and presented in Table 4.16. From the table, a majority (45.5%) of the respondents agreed that county budgets are effective strategic tools for achieving development coordination in their county, 49.2% agreed that the budgeting procedures laid out in the PFM Act on 2012 are followed to the letter in their county, 46.4% agreed that there is a strong positive relationship between budget planning and a financial sustainability and the performance of their counties, 39.1% agreed that there is a strong PFM system in their county, 39.7% agreed that budget planning in their county is a participatory exercise, and 38.8% agreed that involvement of the public in the budget planning exercise in their county has significantly helped to prioritise spending of the public resources

Table 4.16: Descriptive Statistics for Budget Planning

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
County budgets are effective strategic tools for achieving development coordination in my county	1.4%	2.8%	19.3%	45.5%	31.0%
The budgeting procedures laid out in the PFM Act on 2012 are followed to the letter in my county	2.2%	2.2%	18.7%	49.2%	27.7%
There is a strong positive relationship between budget planning and a financial sustainability and the performance of my county	0.8%	3.4%	25.1%	46.4%	24.3%
There is a strong PFM system in my county	1.7%	5.0%	25.7%	39.1%	28.5%
Budget planning in my county is a participatory exercise	2.2%	5.9%	24.3%	39.7%	27.9%
Involvement of the public in the budget planning exercise in my county has significantly helped to prioritise spending of the public resources	3.9%	5.3%	31.0%	38.8%	20.9%

From the finding that a majority (45.5%) of the respondents agreed that county budgets are effective strategic tools for achieving development coordination in their county, this study concurs with the recommendation of Mugwe (2010) that budgets should be used effectively to achieve organizational coordination and that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. Mugambi and Theuri (2014) emphasized that successful planning and implementation of county budgets both in macro and micro terms is critical for the successful performance of counties. Once developed, the county budget must be well managed, monitored and reported to achieve the anticipated outcomes, within three overriding themes; value for money, the efficient and effective delivery of services, and financial compliance, all three acting as overriding performance principles. On the question if there is a strong PFM system in their counties, a majority (39.1%) of the respondents agreed. Another majority (49.2%) agreed that the budgeting procedures laid out in the PFM Act on 2012 are followed to the letter in their county. These findings confirm the argument by Kiriria (2013) cited in Mugambi and Theuri (2014) that there must be an effective PFM system at the county level to ensure successful management of the public sector and the economy.

Generally, most of the statements were responded to with a strong bias to agreeing or affirmative. Therefore, with these findings the research is guided to conclude that budget planning is an element that needs to be taken with a lot of seriousness in the counties. Failure to this, service delivery and general county performance will be at a great danger, as is observed by Pierre and Peters (2011) who recognizes that an effective budget must first be adopted by a duly constituted authority and must be adhered to.

4.6 Linearity Check between the Dependent and Independent Variables

The study sought to determine if a linear relationship existed between the dependent variable (County Performance) and independent variables (Governance Structures, Public Private Partnerships, Revenue Diversification, Resource Endowments, and Budget Planning). The findings of the study are presented and discussed in the subsections that follow.

4.6.1 Linearity between County Performance and Governance Structures

A linearity plot for Governace structures and county perofrmance is plotted on figure 4.7.

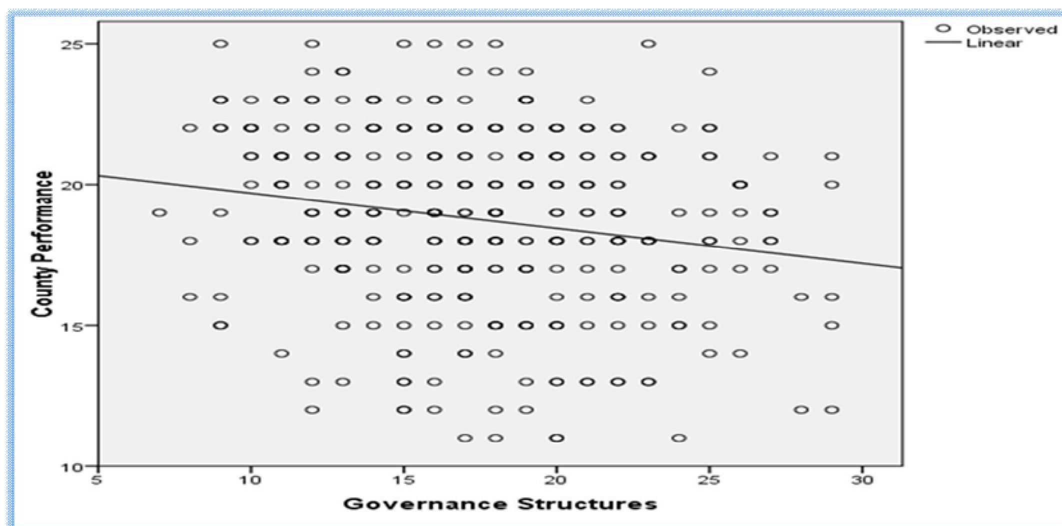

Figure 4.7: Linearity between County Performance and Governance Structures

From Figure 4.7, the researcher concluded that a negative linear relationship existed between the dependent variable, County Performance and independent variable, Governance Structures.

4.6.2 Linearity between County Performance and Public Private Partnerships

The diagram Figure 4.8 presents a lineraity plot for PPP and county performance.

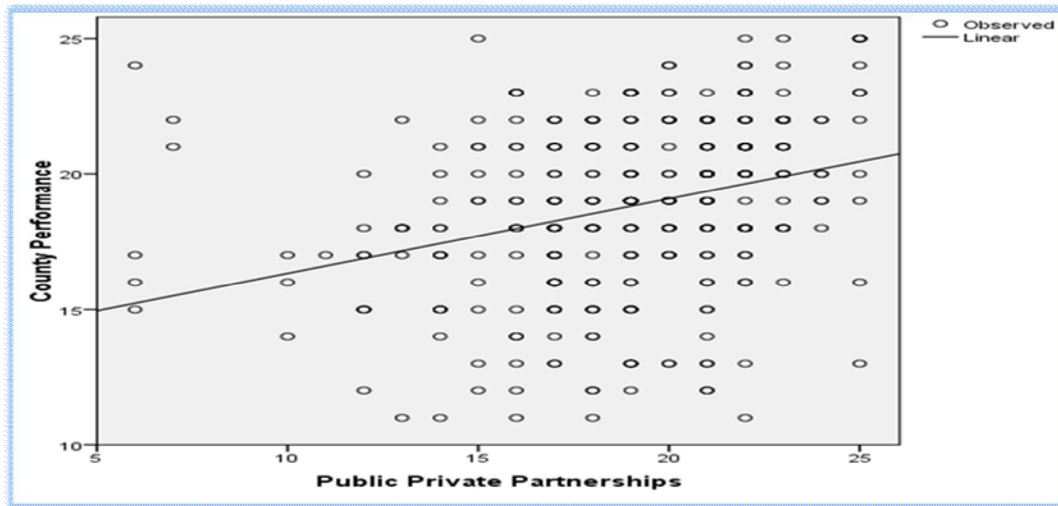

Figure 4.8: Linearity between County Performance and Public Private Partnerships

From Figure 4.8, the study revealed that a positive linear relationship existed between the dependent variable, county performtmance and the independent variable, Public Private Partnerships.

4.6.3 Linearity between County Performance and Revenue Diversification

A lineraity plot drawn between county performance and revenue diversification is presented on Figure 4.9.

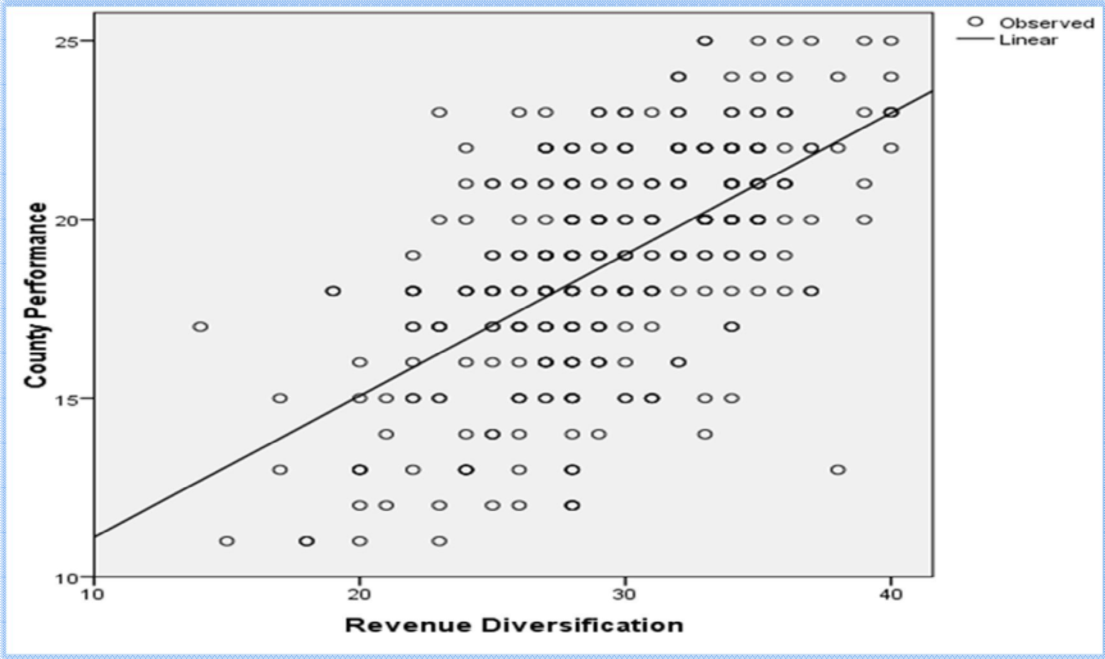

Figure 4.9: Linearity between County Performance and Revenue Diversification

Figure 4.9 shows that a positive linear relationship exist between the county performanec and Revenue Diversification.

4.6.4 Linearity between County Performance and Resource Endowments

A lineraity plot drawn between county performance and resource endowments is presented on Figure 4.10.

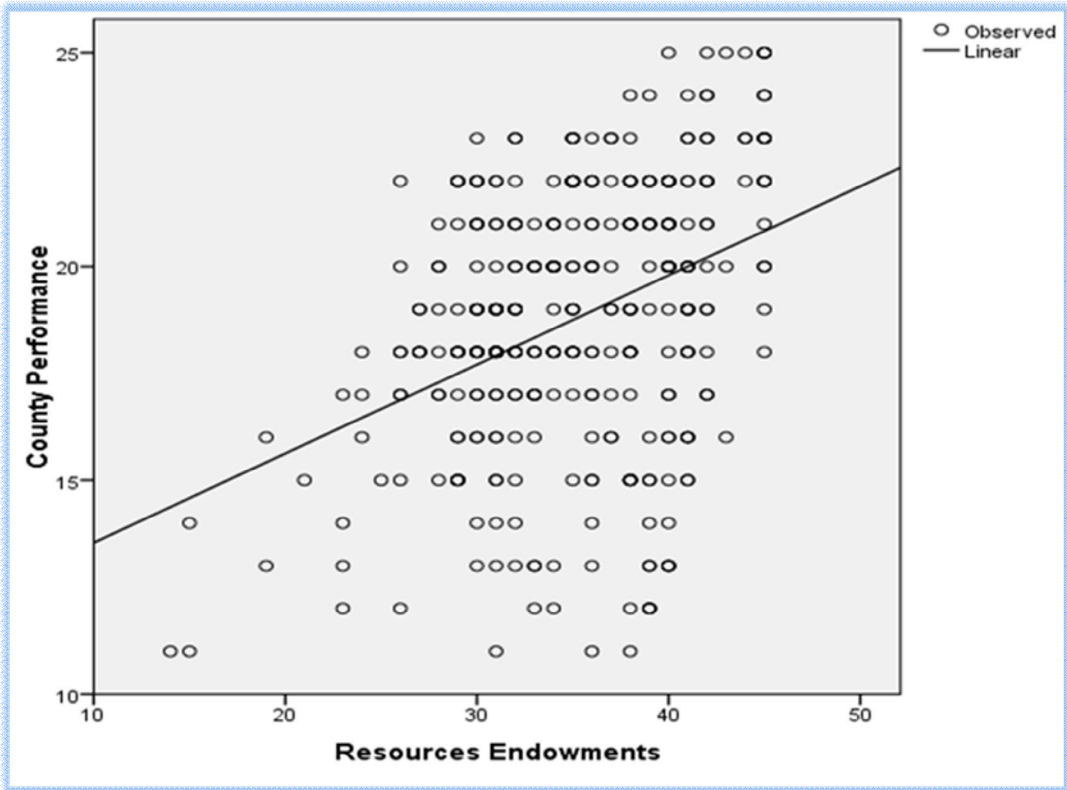

Figure 4.10: Linearity between County Performance and Resource Endowments

From the curvillinear Figure 4.10, the researcher found that a positive linear relationship existed between the dependent and independent variable (Resource Endowments).

4.6.5 Linearity between County Performance and Budget Planning

A lineraity plot was darwn between County performance and Budget Planning and the same presented in Figure 4.11.

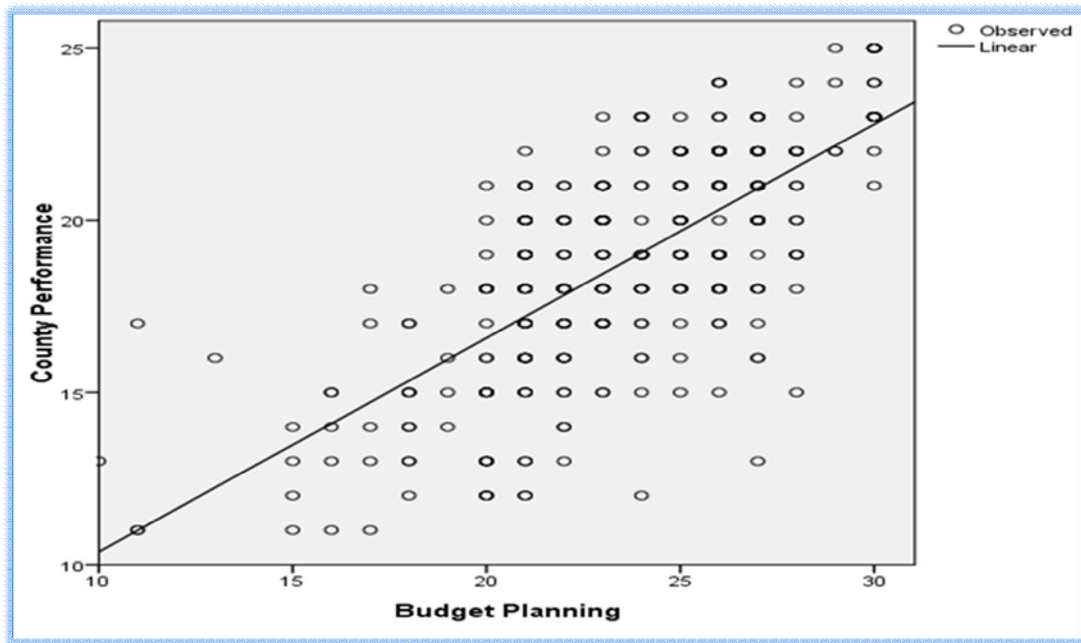

Figure 4.11: Linearity between County Performance and Budget Planning

From curvillinear Figure 4.11 a positive linear relationship exists between the dependent variable, County Performance and independent variable,Budget Planning.

4.7 Model Estimation and Hypothesis Testing

4.7.1 Regression between County Performance and Governance Structures

A regression analysis between County Performance and Governance Structures was performed and the findings were presented and discussed under this section. From the

Model Summary Table 4.17, 3.5% (R^2) of the total variability in the dependent variable (County Performance) can be explained by the independent variable (Governance Structures).

Table 4.17: Model Summary of County Performance and Governance Structures

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.188[a]	.035	.033	3.088

a. Predictors: (Constant), Governance Structures

The ANOVA Table 4.18 shows that the variability in the dependent variable (County Performance) as a result of the influence that Governance Structures had on it, was statistically significant ($p = .000$). Further, the null hypothesis that Governance Structures do not have a statistically significant influence on the performance counties is rejected and instead the alternative hypothesis is accepted.

Table 4.18: ANOVA Table of County Performance and Governance Structures

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	121.661	1	121.661	12.757	.000[b]
	Residual	3318.696	348	9.536		
	Total	3440.357	349			

a. Dependent Variable: County Performance

b. Predictors: (Constant), Governance Structures

Coefficient Table 4.19 shows that Governance Structures contribute a negative statistically significant value of .125 for every unit increase in performance of the counties Therefore, the regression equation is presented as follows;

$$Y = 20.940 - .125X_1+\mu$$

Table 4.19: Coefficients of County Performance and Governance Structures

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	20.940	.633		33.077	.000
	Governance Structures	-.125	.035	-.188	-3.572	.000

4.7.2 Regression between County Performance and Public Private Partnerships

Regression analysis was done between County Performance and Public Private Partnerships and the findings were presented and discussed under this section. From the Model Summary Table 4.20, 9.5% (R^2) of the total variability in the dependent variable (County Performance) can be explained by the independent variable (Public Private Partnerships).

Table 4.20: Model Summary of County Performance and Public Private Partnerships

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.309[a]	.095	.093	2.990

From the ANOVA Table 4.21, the variability in the dependent variable (County Performance)as a result of the influence of Public Private Partnerships was found to be statistically significant as its p-value was less than 5% threshold at Sig. = .000. Also as result, the null hypothesis that Public Private Partnerships does not have a statistically significant influence on the performance of counties is rejected and the alternative hypothesis is accepted.

Table 4.21: Model Summary of County Performance and Public Private Partnerships

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	328.539	1	328.539	36.741	.000[b]
	Residual	3111.818	348	8.942		
	Total	3440.357	349			

a. Dependent Variable: County Performance

b. Predictors: (Constant), Public Private Partnerships

The Coefficient Table 4.22 shows that Public Private Partnerships contributes a positive statistically significant value of .275 for every unit increase in performance of the county. The model equation is presented; $Y = 13.583 + .275X_2 + \mu$

Table 4.22: Coefficients of County Performance and Public Private Partnerships

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	13.583	.869		15.638	.000
	Public Private Partnerships	.275	.045	.309	6.061	.000

a. Dependent Variable: County Performance

4.7.3 Regression between County Performance and Revenue Diversification

The researcher carried out a regression analysis between County Performance and Revenue Diversification. The findings were presented and discussed under this section. From the Model Summary Table 4.23, 37.0% (R^2) of the total variability in the dependent variable (County Performance) can be explained by the independent variable (Revenue Diversification).

Table 4.23: Model Summary of County Performance and Revenue Diversification

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.608[a]	.370	.368	2.495

a. Predictors: (Constant), Revenue Diversification

From the ANOVA Table 4.24, the variability in the dependent variable due to the influence that Revenue Diversification had on it was statistically significant as its p-value was .000 (which is less than 5% threshold). Further, the null hypothesis that Revenue Diversification does not have a statistically significant influence on the performance of the counties was rejected and instead the alternative hypothesis was accepted.

Table 4.24: ANOVA of County Performance and Revenue Diversification

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1273.513	1	1273.513	204.529	.000[b]
	Residual	2166.844	348	6.227		
	Total	3440.357	349			

a. Dependent Variable: County Performance

b. Predictors: (Constant), Revenue Diversification

From the Coefficient Table 4.25, the Independent Variable (Revenue Diversification) contributes a positive statistically significant value of .396 for every unit increase in the Dependent Variable (Performance of the County). The regression equation is presented as;

$$Y = 7.157 + .396X_3 + \mu$$

Table 4.25: Coefficients of County Performance and Revenue Diversification

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	7.157	.822		8.707	.000
	Revenue Diversification	.396	.028	.608	14.301	.000

a. Dependent Variable: County Performance

4.7.4 Regression between County Performance and Resource Endowments

The researcher ran a regression analysis between County Performance and Resource Endowments. The findings were presented and discussed under this section. The Model Summary Table 4.26 shows that 14.5% (R^2) of the total variability in the dependent variable (County Performance) can be explained by the independent variable (Resource Endowments).

Table 4.26: Model Summary of County Performance and Resource Endowments

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.380[a]	.145	.142	2.908

a. Predictors: (Constant), Resources Endowments

From the ANOVA Table 4.27 the model was statistically significant as p-value was less than .05 at Sig. = .000. Further, the null hypothesis that Resource Endowments does not have a significant influence on the performance of the county is rejected and instead the alternative hypothesis that Resource Endowments has a significant influence on the performance of counties is accepted.

Table 4.27: ANOVA Table of County Performance and Resource Endowments

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	497.639	1	497.639	58.850	.000[b]
	Residual	2942.718	348	8.456		
	Total	3440.357	349			

a. Dependent Variable: County Performance

b. Predictors: (Constant), Resources Endowments

Coefficient Table 4.28 shows that Resource Endowments contributes a statistically significant value of .208 for every unit increase in performance of the county. The regression model equation is presented as; $Y = 11.456 + .208X4 + \mu$

Table 4.28: Coefficients of County Performance and Resource Endowments

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.456	.964		11.879	.000
	Resources Endowments	.208	.027	.380	7.671	.000

a. Dependent Variable: County Performance

4.7.5 Regression Analysis between County Performance and Budget Planning

A regression analysis between County Performance and Budget Planning was carried out and the findings were presented and discussed under this section. From the Model Summary Table 4.29, 51.1% (R^2) of the total variability in the dependent variable (Performance of the County) can be explained by the independent variable (Budget Planning).

Table 4.29: Model Summary of County Performance and Budget Planning

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.715[a]	.511	.510	2.199

a. Predictors: (Constant), Budget Planning

The ANOVA Table 4.30 shows that the variability in the dependent variable due to the influence that Budget Planning had on it, was statistically significant at $p = .000$. This led to the rejection of the null hypothesis that Budget Planning does not have a significant influence on the performance of counties and instead the alternative hypothesis that Budget Planning has significant influence on the performance of counties is accepted.

Table 4.30: ANOVA of County Performance and Budget Planning

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1758.075	1	1758.075	363.679	.000[b]
	Residual	1682.282	348	4.834		
	Total	3440.357	349			

a. Dependent Variable: County Performance

b. Predictors: (Constant), Budget Planning

From the Coefficient Table 4.31, Budget Planning contributes a statistically significant value of .621 for every unit change in performance of the county. Additionally, the regression equation is as presented as; $Y = 4.164 + .621X_5 + \mu$

Table 4.31: Coefficients of County Performance and Budget Planning

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	4.164	.774		5.378	.000
	Budget Planning	.621	.033	.715	19.070	.000

a. Dependent Variable: County Performance

4.7.6 Combined Influence of the Independent Variables on the Dependent

The researcher carried out a regression analysis to determine the influence that all independent variables had on Performance of Counties. The findings were presented and discussed under this section. From the Model Summary Table 4.32 57.3% (R^2) of the total variability in the dependent variable (County Performance) can be explained by the

independent variables (Governance Structures, Public Private Partnerships, Revenue Diversification, Resource Endowments, and Budget Planning).

Table 4.32: Model Summary Table of County Performance and Combined Independent Variables

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.757[a]	.573	.566	2.067

a. Predictors: (Constant), Budget Planning, Governance Structures, Public Private Partnerships, Resources Endowments, Revenue Diversification

The ANOVA Table 4.33 shows that the model was statistically significant as its p-value was less than .05 at Sig. = 000. Therefore, the null hypothesis that independent variables (Governance Structures, Public Private Partnerships, Revenue Diversification, Resource Endowments, and Budget Planning) do not have a significant influence on the performance of counties is rejected and instead the alternative hypothesis accepted.

Table 4.33: ANOVA Table of County Performance and Combined Independent Variables

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1970.159	5	394.032	92.196	.000[b]
	Residual	1470.199	344	4.274		
	Total	**3440.357**	**349**			

a. Dependent Variable: County Performance

b. Predictors: (Constant), Budget Planning, Governance Structures, Public Private Partnerships, Resources Endowments, Revenue Diversification

Coefficients Table 4.34 shows that all the variables contribute statistically significant values for every unit increase in performance of the county. However, Governance Structures and Resources Endowments variables contributed negatively to the model. Further, thecombined regression equation model is presented as follows;

$$Y = 4.064 - .068X_1 + .079X_2 + .187X_3 - 073X_4 + .487X_5 + \mu$$

Table 4.34: Coefficient Table of County Performance and Independent Variables

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	4.064	1.002		4.057	.000
	Governance Structures	-.068	.024	-.102	-2.886	.004
	Public Private Partnerships	.079	.034	.089	2.342	.020
	Revenue Diversification	.187	.033	.288	5.692	.000
	Resources Endowments	-.073	.026	-.134	-2.875	.004
	Budget Planning	.487	.042	.561	11.634	.000

a. Dependent Variable: County Performance

4.8 Optimal Model

From the research findings presented in this thesis and taking into consideration the significance of the coefficients for the combined study variables on the performance of the counties, the revised study model is presented in Figure 4.12.

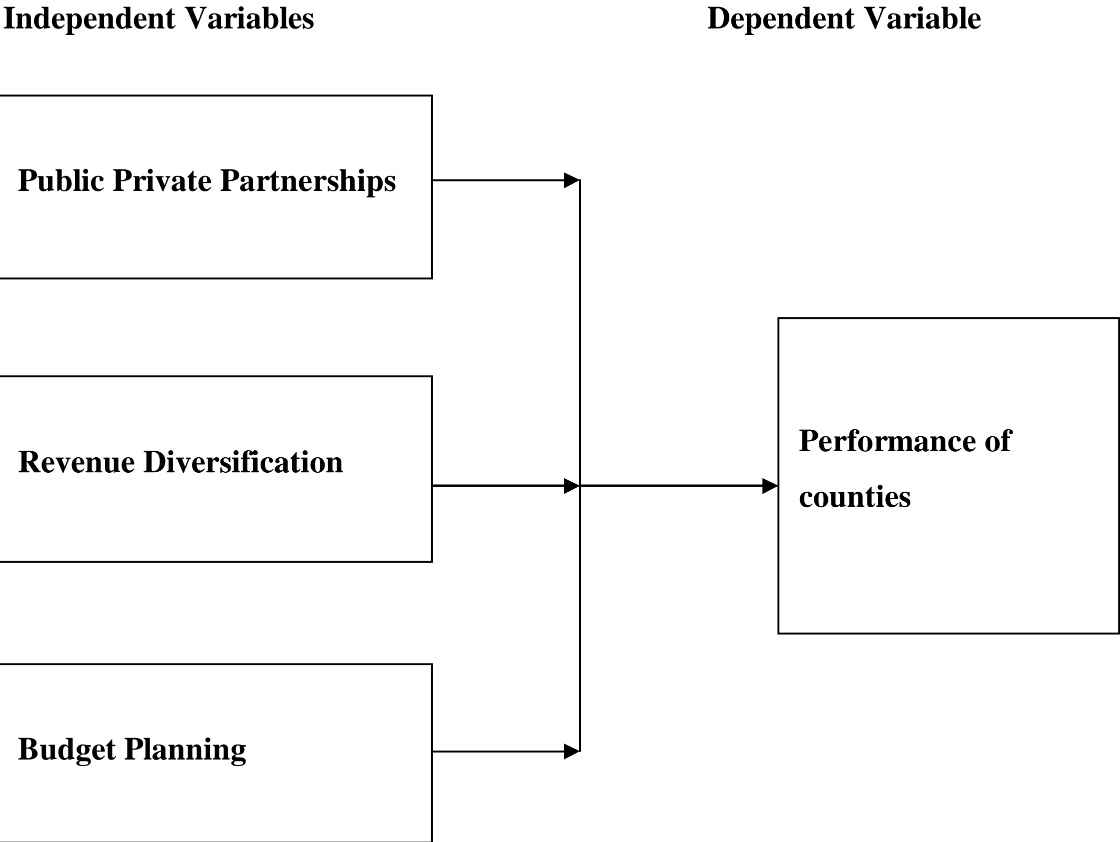

Figure 4.12: Revised Study Model

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusions and recommendations that have been derived from the results. The presentation is organized on the basis of the five study areas which include; Governance Structures, Public Private Partnerships, Revenue Diversification, Resources Endowments, and Budget Planning.

5.2 Summary of the Study Findings

This section carries out a summary of the results guided by the objectives that were formulated in chapter one.

5.2.1 Influence of Governance Structures on County Performance

The study began with a preliminary test on the variable, governance structures, whereby factor analysis and reliability test were carried out. From the factor analysis on governance structures, one factor was dropped as it did not attain the needed threshold of 0.3. From the reliability analysis, a Cronbach's Alpha of .810 was obtained meaning that governance structures were reliable. Correlation between County Performance and Governance Structures analysis revealed that Governance Structures had a negative correlation coefficient. Further, the study established that a negative linear relationship existed between the County Performance and Governance Structures. From the coefficient of determination, the study established that governance structures had an insignificant effect in total variability in county performance. Nevertheless, the analysis of variance showed that the relationship between governance structures and county performance was statistically significant as p-value was less than the threshold of .05 at .000.

This also led to the rejection of the null hypothesis that Governance Structures did not have a statistically significant influence on the performance of counties and instead the alternative hypothesis was accepted.

5.2.2 Influence of PPP on County Performance

Under this objective, the study first carried out a factor analysis to determine how various factors on the variable, public private partnerships, to which it was established that all the factors loaded highly since none of them had a score below the acceptable threshold of 0.3. A reliability check also showed that Public Private Partnerships had a Cronbach's Alpha coefficient of .797 which was above the recommended threshold of .7 and was therefore reliable. A descriptive analysis established that a majority of the respondents agreed that Public Private Partnerships are key to the financial sustainability of their counties; that counties had developed sufficient guidelines on how to engage the private sector in their development; and that the private sector has a responsibility to support the development of counties in the country. It was also revealed that a majority of counties have started to lay out inventive plans on how to lure private sector investors for growth and development. The study also revealed that anti-corruption operations in counties was the single most important governance challenge to effective and meaningful Public Private Partnerships relationships. The researcher further carried out a correlation analysis to determine the kind of relationship that existed between County Performance and Public Private Partnerships, to which the results showed a statistically significant positive correlation of .309. A plot of the curvilinear graph between County Performance and Public Private Partnerships confirmed that there was a positive linear relationship between the two. Regression analysis results indicated PPP could explain a significant impact on the total variability in county performance. Further, analysis of variance indicated that its p-value was less than 5% threshold at .000 and this led to the rejection of the null hypothesis that Public Private Partnerships did not have a

statistically significant influence on county performance and instead the alternative hypothesis was accepted.

5.2.3 Influences Revenue Diversification on County Performance

The study carried out a factor analysis on revenue diversification. One factor was dropped following the analysis as it did not attain the 0.3 threshold while all other factors loaded highly on Revenue Diversification. A reliability analysis revealed that Revenue Diversification had a reliability of .784 which was above the recommended threshold of .7 meaning that it was reliable. The study further established that a majority of counties have established other sources of revenue from other investments besides allocation from National Government; that counties' financial management capacities have been developed to ensure appropriate use of their financial resources; and that a number of counties had diversified into other revenue streams for financial sustainability. The study further revealed that besides the levies, counties do engage in a wide range of revenue activities for financial sustainability. Inter-county trade (cross county borders) around Kenya is also emerging as a major strategy for financial sustainability while counties have also taken pro-active steps to partner with Kenyans in the diasporas for increased investment. Automation of logistical operations across counties was also revealed to be on the surge as a way of limiting pilferage as well as inculcating a sense of transparency and accountability in the financial management of counties. Correlation analysis revealed that there was a statistically significant and strong positive relationship between County Performance and Revenue Diversification. This was further observed in the curvilinear graph which showed a strong relationship between county performance and revenue diversification. The study further generated the coefficient of determination for revenue diversification and this revealed that it had a significant impact on the total variability in the dependent variable (County Performance). The analysis of variance (ANOVA) showed that relationships between County Performance and Revenue Diversification were statistically significant as the p-

value was less than the threshold of .05 at .000. This result led to the rejection of the null hypothesis that Revenue Diversification did not have a statistically significant influence on the performance of counties and instead the alternative hypothesis was accepted.

5.2.4 Influence of Resources Endowments on County Performance

A factor analysis on this variable revealed that factors loaded highly as all of them had scores above the recommended 0.3 threshold. Reliability analysis indicated that Resource Endowments had a reliability coefficient of .879 which was above the required threshold of .7. The study further established that a majority of counties rely on outsourcing/importing critical human resource expertise both for the short and long term in order to build strong capacities for future financial sustainability of their counties. The study further revealed that development and implementation of effective anti-corruption laws across counties is one sure way to avoid the resource-curse syndrome that most resource rich countries have experienced. A majority of respondents were confident that their counties have the human capacities and systems ability to manage existing resource endowments efficiently. Correlation analysis revealed that there existed a statistically significant positive correlation between County Performance and Resource Endowments. The positive linear relationship between County Performance and Resource Endowments was further confirmed by the curvilinear diagram. Regression analysis between County Performance and Resource Endowments showed that 14.5% of the total variability in County Performance could be explained by Resource Endowments. ANOVA results indicated that the relationship between County Performance and Resource Endowments was statistically significant as p-value was less than .05 at .000. This led to the rejecting of the null hypothesis that Resource Endowments did not have a significant influence on the performance of counties and instead the alternative hypothesis that Resource Endowments had a significant influence on county performance was accepted.

5.2.5 Influence of Budget Planning on County Performance

The study sought to ascertain factor loadings on the budget planning variable. The study established that the factors loaded highly as all of them scored above the threshold of 0.3. From the reliability analysis, the results showed a of reliability of .795 which implied that Budget Planning was reliable. From the descriptive results, the study found out that a majority of county budgets are considered effective strategic tools for achieving development coordination; that the budgeting procedures laid out in the PFM Act of 2012 are followed to the letter; that there is a strong positive relationship between budget planning and financial sustainability and the performance of counties; that budget planning in counties is a participatory exercise. The study confirmed that involvement of the public in the budget planning exercise across counties has significantly helped to prioritise spending of public resources. Correlation analysis showed a strong and statistically significant Pearson product-moment correlation which implied that there is a strong positive relationship between County Performance and Budget Planning. This was further confirmed from the curvillinear which indicated a positive linear relationship between Performance of counties and Budget Planning. From the coefficient of determination, the researcher established that 51.1% of the total variability in Performance of the Counties could be explained by Budget Planning. Analysis of variance showed that the relationship between County Performance and Budget Planning was statistically significant at $p = .000$. This led to the rejection of the null hypothesis that Budget Planning did not have a significant influence on the performance of counties and instead the alternative hypothesis that Budget Planning had significant influence on county performance was accepted.

5.3 Conclusions of the Study

The study derived the following conclusions from the findings in chapter four and the summary presented in section 5.2 of this thesis.

5.3.1 Influence of Governance Structures on County Performance

From the objective that sought to establish the influence of governance structures on county performance in Kenya, the study concluded that lean management structures enhance effective performance and decision making. The study also concluded that, being a new governance system in Kenya, counties have yet to find governance structures that ultimately enhance their performance. This is, especially, emphasized by the correlation and regression results which showed that a negative relationship existed between governance structures and county performance.

5.3.2 Influence of PPP on County Performance

Under this objective, the study concludes that Public Private Partnerships are key to the financial sustainability of counties; counties have developed sufficient guidelines on how to engage the private sector in their development as well as the private sector has a responsibility to support the development of counties. The study further concludes that counties have laid out inventive plans on how to lure private sector investors; and that anti-corruption operations in their counties are important governance aspects for fostering strong and successful Public Private Partnerships.

5.3.3 Influence of Revenue Diversification on County Performance

The study sought to determine how revenue diversification influenced county performance in Kenya. The study concluded that most of the counties had revenue from other investments besides allocation from National Government; counties had financial management capacity that ensured appropriate use of their financial resources; and that

counties had diversified into other revenue streams for financial sustainability. The study further concluded that besides county levies, counties engaged in a wide range of revenue activities as well as in inter-county trade (across county borders) around Kenya for financial sustainability; counties had partnered with those in the diaspora for increased investment, in addition to counties automating their logistical operations.

5.3.4 Influence of Resources Endowments on County Performance

Under this objective, the study concluded that stock taking and identifying resource endowments is important for counties' financial sustainability; counties required well developed human resource strategies; and that counties benefited from the development of appropriate training institutions that filled identified human recourse gaps. The study further concluded that counties could rely on outsourcing/importing critical human resource expertise, both for the short and long term; that development and implementation of effective anti-corruption laws was a sure way to avoid the "resource curse" syndrome that most resource rich countries have experienced; citizens were confident that their counties had the ability to manage existing resource endowments efficiently; and that effective management of resources endowments for counties was the role of the county governance systems.

5.3.5 Influence of Budget Planning on County Performance

The study sought to ascertain the influence that budget planning had on county performance in Kenya. The study concluded that county budgets were effective strategic tools for achieving development coordination, the budgeting procedures laid out in the PFM Act of 2012 were followed to the letter in the counties; that there was a strong positive relationship between budget planning, financial sustainability and the performance of the counties; there was a strong PFM system in the counties; budget planning in the counties is a participatory exercise, and that involvement of the public in

the budget planning exercise in the counties had significantly helped to prioritise spending of the public resources.

5.4 Recommendations

Based on the results of the study on the influence of financial sustainability strategies on performance of counties in Kenya, the study makes the following recommendations;

5.4.1 Influence of Governance Structures on County Performance

The study recommends that all counties should adopt lean management structures, with smaller numbers of supervisees (maximum 6), as highlighted in the literature reviewed and findings from the study to enhance effective performance and decision making. Secondly, counties need to quickly establish governance structures that ultimately improve their performances, as it was established that being a new system of governance, counties were yet to find governance structures that ultimately improved their performances.

5.4.2 Influence of PPP on County Performance

Under this objective the study recommends that counties that have not yet developed sufficient guidelines on how to engage the private sector in their development to do so with haste so that they could take advantage of these engagements. For all the stakeholders to be meaningfully and effectively involved in PPP relationships, proposed guidelines should; ensure that there is open market access and fair competition for all stakeholders involved; protect the public interest and maximise value addition; define optimal levels of grant financing both to realize viable and sustainable projects but also to avoid any opportunity for windfall profits from grants; and assess the most effective type of PPP for a given project. Engaging in an effective PPP should also ensure that background research is done to consider the potential partner's areas of interest, image and motivation for partnering, track record for social and environmental responsibility,

and financial soundness. Additional considerations to look at are issues such as; impact/value - the partnership should have a large impact relative to the resources required; there should be an opportunity for return on investment for public health and that the expected benefits are clearly defined and made explicit by all potential partners.

The study further recommends that counties should develop a sound and inventive plan, through the public participation and professionals, on how to lure private sector investors as well as weed out corruption as it is the single most killer of the success of Public Private Partnerships engagements with the counties.

5.4.3 Influence of Revenue Diversification on County Performance

The study recommends that all counties should diversify to other sources of revenue, besides allocation from national government, as it will help to deliver services to the citizens in timely manner even when there are delays in allocation or the allocation is not enough. Revenue sources to be seriously considered should include; *Estate Taxes*: Estate taxes can be a significant source of revenue for the county government. Ensuring existence of sound records of resources claims from beneficiaries left behind by deceased citizens would be the beginning point in this. Any money, possession or valuables that citizens wish to pass to their beneficiaries should be therefore subjected to effective inheritance taxes; *Lotteries:* Lotteries are a major financial windfall for states. Lotteries are often touted as a way to boost spending in areas such as education, and other social demands on government; *Property Taxes*: Ad valorem taxes are the number one source of revenue for governments. Ad valorem taxes are taxes based on the value of citizen's properties. Every year, property owners have to pay taxes on the assessed value of their homes and personal property; *Sales Taxes*: Sales taxes represent a big chunk of income for states. Sales taxes help fund numerous public services and government programs. A sales tax is a tax on consumption and is added to just about any product bought including food, clothing, gasoline, alcohol, and other luxury consumables; *Traffic Tickets:* Counties should develop sound systems to tap into traffic

to find extra revenue for financing development as well as for sustainability. Funds from traffic by issuing speeding tickets, defective vehicles on the roads, un-insured or licensed motor vehicles, and several other traffic offenses generate what is often referred to "hidden taxes", because they allow governments to collect revenue from residents and non-residents alike. Other sources could include taxes on entertainment, business licensing, liquor licensing, levies on agricultural produce and other commodities, levies on touristic cites, advertising, trust funds, fundraising, among other sources. Besides, the researcher recommends that counties should develop strong inter-county trade (cross county borders) around Kenya as this was found to enhance financial sustainability.

Formation of mini-county economic blocks to allow free movement of goods and services will spur economic development, thus leading to long-term financial sustainability for counties.

5.4.4 Influence of Resources Endowments on County Performance

Under this objective, the study recommends that counties should carry out a stock take and identify resource endowments as this is important for counties financial sustainability. The study further recommends that counties that lacked qualified personnel could rely on outsourcing critical human resource expertise both for the short and long term. In addition, the study recommends corruption should be fought through development and implementation of effective anti-corruption laws in order to avoid "resource curse" syndrome that most resource rich countries have experienced.

5.4.5 Influence of Budget Planning on County Performance

The study sought to ascertain the influence that budget planning has on the performance of counties in Kenya. The study recommends that counties need to strictly follow the PFM Act to develop and closely monitor budgets as they are effective strategic tools for achieving development coordination in the counties. Based on the results of this study,

effective budget planning and control is one of the strongest strategies that guarantee financial sustainability and performance of counties. Further, the study recommends that budget planning in the counties should be a participatory exercise, as the involvement of the public in the budget planning exercise in the counties could significantly help to prioritize spending of the public resources.

5.5 Recommendations for Further Research

This study sought to establish the influence of Financial Sustainability Strategies on Performance of Counties in Kenya. One of the variables (governance structures) was found to have a negative influence on the county performance. This was found to contradict some of the studies that have been carried out in this area. Therefore, this study recommends that a similar study be conducted specifically on the influence of governance structures on county performance. Similarly, studies can be done using other variables that were found to have low variability on county performance such as, Public Private Partnerships and Resource Endowments. Similar studies could be conducted elsewhere outside the geographical realm of this study so as to validate the findings.

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APPENDICES

Appendix 1: Introduction Letter

Date: ……………….

Dear Respondent,

RESEARCH QUESTIONNAIRE

I am a PhD student at Jomo Kenyatta of Agriculture and Technology (JKUAT) conducting a research entitled "**Influence of Financial Sustainability Strategies on Performance of Counties in Kenya"**. A questionnaire has been designed and will be used to gather relevant information to address the research objectives of the study. The purpose of writing to you is to kindly request you to grant me permission to collect information on this important subject from randomly selected members of staff.

Please note that the study is an academic research and the information provided will be treated in strict confidence. Strict ethical principles will be observed to ensure confidentiality and the study outcomes and reports will not include reference to any individuals.

Your assistance is highly appreciated.

Regards,

Philip Machuki Nyanumba

Appendix II: Questionnaire

SECTION I BACKGROUND INFORMATION

A. Letter of Introduction

Date: ________________________________

Dear Respondent,

This questionnaire is aimed at collecting data for academic research purposes on "**Influence of Financial Sustainability Strategies on Performance of Counties in Kenya**". The study is in partial fulfilment of the requirements for the award of a PhD degree in Business Administration of Jomo Kenyatta University of Agriculture and Technology (JKUAT).

Please be assured that any information collected through this questionnaire will be treated with utmost confidence and will be used for research purposes only. Thank you in advance for your time and cooperation.

Yours faithfully,

Philip Machuki Nyanumba

Student, PhD, Business Administration

Reg. No. HD433-C004-1351//2011

PERSONAL INFORMATION

1. Name of County_____________
2. Institution of Affiliation _____________________ Position____________
3. **Gender** M/F _____________________
4. How long have you served this county? ________________

B. Governance Structures

To what extent do the following statements apply to your County? Please tick as appropriate in a corresponding box? **Use a scale of 1 to 5, where 1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4= Agree; and 5 = Strongly Agree**

	Governance Structures	**1**	**2**	**3**	**4**	**5**
a	A well-developed organogram enhances the performance of my county					
b	Lean management structures enhance effective performance and decision making in my county					
c	Management structures that are less bureaucratic facilitate faster financial decision making for my county					
d	Developing appropriate policies, procedures and processes is important for effective financial decision making for my county					
e	The PFM Act 2012 provides adequate financial management Policies and guidelines for the financial sustainability of my county					
f	My county benefits greatly from the implementation of sound procurement policies at all county levels					
g	Our County benefits from transparent and accountable governance system in order to attain financial sustainability					

C. Public Private Partnerships

To what extent do the following statements apply to your County? Please tick as appropriate in a corresponding box? **Use a scale of 1 to 5, where 1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4= Agree; and 5 = Strongly Agree**

	Public Private Partnerships	**1**	**2**	**3**	**4**	**5**
a	Public Private Partnerships are key to the financial sustainability of my county					
b	My county has developed sufficient guidelines on how to engage the private sector in the development of our county					
c	The private sector has a responsibility to support the development of my county					
d	My county has laid out inventive plans on how to lure private sector investors					
e	Anti-corruption operations in our county is single most important governance aspect for the success of public private partnerships					

D. Revenue Diversification

To what extent do the following statements apply to your County? Please tick as appropriate in a corresponding box? **Use a scale of 1 to 5, where 1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4= Agree; and 5 = Strongly Agree**

		1	2	3	4	5
	Revenue Diversification					
a	Our county's main source of financing is National Government through CRA					
b	Our County has other sources of revenue from other investments besides allocation from national government					
c	Out County has financial management capacity that ensures appropriate use of our financial resources					
d	Our County has diversified into other revenue streams for financial sustainability					
e	Our County finances for development are sourced from donors					
f	Besides the county levies, our county engages in a wide range of revenue activities					
g	Our county engages in inter-county trade (across county borders) around the Kenya for financial sustainability					
h	Our county has partnered with those in the Diaspora for increased investment					
i	Our county has Automated its logistical operations					

E. Resources Endowments

To what extent do the following statements apply to your County? Please tick as appropriate in a corresponding box? **Use a scale of 1 to 5, where 1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4= Agree; and 5 = Strongly Agree**

	Resources Development and Management	**1**	**2**	**3**	**4**	**5**
a	Stock Taking and identifying resource endowments is important for our county's financial sustainability					
b	Our county requires well developed human resources plan					
c	Our County benefits from the development of appropriate training institutions that fill identified recourse gaps					
d	My county could rely on outsourcing/importing critical human resource expertise both for the short and long term					
e	Development and implementation of effective anti-corruption laws is a sure way to avoid "resource curse" syndrome that most resource rich countries have experienced					
f	I am confident that my county has the ability (human and systems) to manage existing resources endowments efficiently					
g	Development and management of financial resources is urgent and critical for my county					
H	Management of resources in my county is the responsibility of professionally qualified personnel.					
i	Effective management of resources endowments for my county is the role of the county governance systems					

F. Budget Planning

To what extent do the following statements apply to your County? Please tick as appropriate in a corresponding box? **Use a scale of 1 to 5, where 1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4= Agree; and 5 = Strongly Agree**

	Budget Planning	**1**	**2**	**3**	**4**	**5**
a	County budgets are effective strategic tools for to achieving development coordination in my county					
b	The budgeting procedures laid out in the PFM Act on 2012 are followed to the letter in my county					
c	There is a strong positive relationship between budget planning and a financial sustainability and the performance of my county					
e	There is a strong PFM system in my county					
f	Budget planning in my county is a participatory exercise					
g	Involvement of the public in the budget planning exercise in my county has significantly helped to prioritise spending of the public resources					

G. County Performance

		1	**2**	**3**	**4**	**5**
A	There is improved infrastructure in my county					
B	Peoples livelihoods in my county have improved due to efficient services provision					
C	My county's revenue has witnessed an increasing trend which is a sign of good managerial performance					
d	My County is able to meet its financial obligations					
e	My county is one of the best performing counties around the country					

THANK YOU FOR YOUR INVALUABLE TIME IN THIS EXERCISE

Appendix III: Kenyan Counties and Estimated Population

No.	County	Region	Population	Land Area (Sq. Kms)
1	Kiambu	Central	1,623,282	2,543.40
2	Muranga	Central	942,581	2,558.80
3	Kirinyaga	Central	528,054	1,479.10
4	Nyeri	Central	693,558	3,337.10
5	Nyandarua	Central	596,268	3,245.30
6	Mombasa	Coast	939,370	518.9
7	Kilifi	Coast	1,109,735	12609.7
8	Kwale	Coast	649,931	8,270.20
9	Taita Taveta	Coast	284,657	17,084.10
10	Lamu	Coast	101,539	6,273.10
11	Tana River	Coast	240,075	38,436.90
12	Meru	Eastern	1,356,301	6,936.20
13	Embu	Eastern	516,212	2,818.00
14	Machakos	Eastern	1,098,584	6,208.20
15	Tharaka Nithi	Eastern	365,330	2,638.80
16	Makueni	Eastern	884,527	8,008.80
17	Kitui	Eastern	1,012,709	30,496.50
18	Isiolo	Eastern	143,294	25,336.10
19	Nairobi	Nairobi	3,138,369	695.1
20	Mandera	North Eastern	1,025,756	25,991.50
21	Garissa	North Eastern	623,060	44,175.00
22	Wajiri	North Eastern	661,941	56,685.80
23	Marsabit	North Eastern	291,166	70,961.20

24	Kisii	Nyanza	1,152,282	1,317.50
25	Nyamira	Nyanza	598,252	899.3
26	Kisumu	Nyanza	968,909	2,085.90
27	Migori	Nyanza	917,170	2,596.40
28	Siaya	Nyanza	842,304	2,530.40
29	Homa Bay	Nyanza	963,724	3,183.30
30	Kericho	Rift Valley	758,339	2,479.00
31	Bomet	Rift Valley	724,186	2,471.30
32	Uasin Gishu	Rift Valley	894,179	3,345.20
33	Nandi	Rift Valley	752,965	2,884.20
34	Nakuru	Rift Valley	1,603,325	7,495.10
35	Elgeyo-Marakwet	Rift Valley	369,998	3,029.80
36	West Pokot	Rift Valley	512,690	9,169.40
37	Baringo	Rift Valley	555,561	11,015.30
38	Narok	Rift Valley	850,920	17,933.10
39	Laikipia	Rift Valley	399,227	9,461.90
40	Kajiado	Rift Valley	687,312	21,901.00
41	Turkana	Rift Valley	855,399	68,680.30
42	Samburu	Rift Valley	223,947	21,022.20
43	Vihiga	Western	554,652	530.9
44	Kakamega	Western	1,660,651	3,051.20
45	Bungoma	Western	1,630,934	3,032.20
46	Busia	Western	488,075	1,695.00
47	Trans Nzoia	Western	818,757	2,495.50
	Total		**38,610,057**	**581,613**

Source: Kenya National Bureau of Statistics (2011)

Appendix IV: Map of Kenyan Counties

Source: Commission of Revenue Allocation (2011)