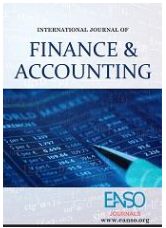

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Original Article

Moderating Role of Legal Framework on the Effect of Resource Mobilization Reforms on Financial Performance of County Governments in Kenya

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Resource Mobilization, Legal Framework, Revenue Collection, Revenue Administration, County Government Financial Performance.

ABSTRACT

This study examined the effect of resource mobilization reforms on the financial performance of county governments as well as how legal frameworks could moderate this relationship. The study was grounded on New Public Management theory. The research followed a positivist research philosophy and utilized a correlational research design. The target population was the 47 county governments in Kenya which were clustered into seven regional blocs. A county with the least budget absorption rate as per the controller of budget report of 2023 was picked per regional bloc. The top and middle-level management employees in the Department of Finance and Economic Planning were selected resulting in 229 target respondents upon which a sample size of 144 was determined based on Krejcie and Morgan. A pilot study was carried out to determine the reliability of the instrument. Data was analyzed using SPSS Analysis of Moments Structure (AMOS), employing principal component analysis and confirmatory factor analysis to evaluate the associations between latent variables. Structural equation modelling was undertaken to evaluate any inherent relationship between the study variables. Results revealed that resource mobilization reforms had a statistically significant effect on the financial performance of county governments ($\beta=0.566$, $t=3.390$, $p<0.05$). Legal framework also had a significant moderating effect on the relationship between resource mobilization reforms and this performance ($\beta=0.189$, $t=2.283$, $p<0.05$). The study concludes that resource mobilization reforms are a driver of devolved governments in Kenya. Improving such performance therefore calls for additional reforms focusing on mobilizing more resources.

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INTRODUCTION

The financial performance of any public institution is a matter of significant concern in developing economies. It is characterized by numerous challenges that significantly affect governance efficacy and service delivery. The central government has initiated various reforms in Countries' public finance management particularly when responding to challenges of public service delivery. These reforms primarily focus on development-related objectives. For instance, countries in South-East Europe have undertaken various reforms in their public finance management. Notably, Bulgaria, Moldova, Croatia and Slovenia have achieved significant advancements in implementing reforms in public financial management (Tandberg & Pavesic-Skerlap, 2008). Several South-East European countries have also undertaken substantial public finance management reforms although they have not entirely completed their implementation (Bouckaert, Nakrosis & Nemec, 2011). Such reforms have focused on budgeting, reporting, debt management, fiscal transparency and monitoring performance.

Kenya implemented similar reforms in its public finance management in the year 2006. County governments were established with the sole intention of improving the provision of public services through devolution. However, counties have encountered numerous obstacles in fulfilling this mandate. This is evidenced by several key indicators such as low revenue collection rates, inefficient utilization of development budgets, a persistent increase in pending bills and a lack of adherence to predefined spending limits. Ochuodho and Ngaba (2020) have reported that among the forty-seven counties in Kenya, only three met their revenue collection targets, four counties achieved over 90 percent of their targets, while twenty counties collected between 70 and 90 percent.

However, seven counties failed to reach even 50 percent of their revenue targets. Tana River, Kwale and Migori counties reported the highest percentage of own-source revenue collected when compared to annual revenue targets with percentages of 188.8 percent, 100.5 percent, and 111.1 percent, correspondingly. Nairobi county generated the highest absolute amount of own-source revenue at Ksh 10.11 billion, whereas Lamu county collected the least, with Ksh 55.29 million. Notably, the National Treasury observed a consistent decrease in county revenue collection, dropping from Ksh. 41 billion in FY 2018/19 to Ksh. 35.9 billion, Ksh. 34.4 billion and Ksh. 32 billion in the subsequent fiscal years up to 2021/22. According to the National Treasury, counties have the potential to raise up to Ksh. 216 billion compared to the current Ksh. 32 billion collected in FY 2021/2022. However, all 47 counties jointly collect only 16 percent of their own-source revenue potential with only four counties

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Turkana, Migori, Lamu and Vihiga attaining their own source revenue target (Government of Kenya, 2023).

Moreover, the revenue collection trend has been declining steadily, from Ksh. 41 billion in the fiscal year 2018/19 to Ksh. 32 billion in fiscal years 2021/22. Over the past five fiscal years up to FY 2021/22, 36 out of 47 counties have exceeded the threshold of spending 35 percent of their revenues on salaries and wages, thereby breaching the stipulated limit on county expenditure for these purposes. Additionally, 35 out of the 47 counties allocated less than 30 percent of their budgets to development projects during the same period. Furthermore, after the completion of the fiscal year 2021/22, all 47 counties cumulatively had accumulated pending bills totalling Ksh.161.36 billion. Of this amount, Ksh. 33.98 billion was earmarked for development projects, while Ksh. 127.38 billion was allocated for recurrent expenses (Government of Kenya, 2023). The goal of these reforms was to tackle the county governments' performance issues. Despite the implementation of resource mobilization reforms, the performance of county governments has not yet reached the anticipated optimal levels. This raises questions of whether such reforms have had any effect on the performance of county government in Kenya. In the next sections, the term performance is taken to mean financial performance.

This paper therefore, had two objectives:

- To examine the effect of resource mobilization reforms on the performance of county governments
- Investigate if there exists any moderating role of the legal framework on the effect of resource mobilization reforms on the performance of county governments in Kenya.

Lastly, the study hypothesized that there is no statistically significant effect of resource mobilization reforms on the performance of County Governments in Kenya, as well as that the legal framework does not statistically and significantly moderate the effect of resource mobilization reforms on the performance of county governments in Kenya.

LITERATURE REVIEW

This paper was guided by the Resource-Based Theory proposed by Barney in 1996 which posits that an entity’s competitiveness is dictated by the extent of resources it possesses. The theory is applied in determining the nature of resources that an organization can adopt to acquire a competitive edge, and the emphasis of the theory is on firms’ internal resources. Firm resources form the basis for developing firm capabilities, which can result in sustained superior performance over time. The theory highlights that a firm's resources include human, financial, technological, and physical resources. These resources are imperfectly mobile and heterogeneous. Firm management is required to understand and engage these resources in a manner that will lead to attaining a sustainable competitive advantage. Barney proposes key managerial tasks related to resources, which include identifying the organization's key resources, assessing resources using valuable, rare, imperfectly imitable, and non-substitutable (VRIN) criteria, and developing, nurturing, and safeguarding the resources that pass this evaluation (Holdford, 2018).

In fact, Barney (1996) argued that firms are diverse and are endowed with varying resources; this implies that firms can employ different strategies to attain different levels of competitive advantage. This theory thus provides a framework useful in determining the strategic resources that an entity can take advantage of to realize sustainable competitive advantage. This approach places emphasis on managers' attention to the company's internal resources when identifying resources, skills, and abilities that can give them a competitive edge. The internal resources are applied by firms to organize the process and obtain long-term success. Firms are therefore expected to have or develop

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firm-specific resources that are unique to enable them to surpass competitors or by doing different things. According to this theory, an organization's inimitable resources including specialized knowledge, proprietary technology, skilled employees, and efficient processes – can be utilized to establish and sustain a competitive edge. By emphasizing these internal strengths, firms can differentiate themselves from competitors, adapt to market changes, and build resilience, ultimately leading to enduring success in a competitive and ever-evolving landscape.

Resource-based theory has, however, faced some criticisms, challenging its applicability and generalizability. Connor (2002) argues that its focus on larger firms with considerable market dominance limits its relevance to smaller firms that may not rely on static resources for sustained competitive advantage. This limitation excludes these smaller firms from the theory's framework. Secondly, Gibbert (2006) argues that the theory's emphasis on the uniqueness of resources restricts its ability to be widely applicable, rendering it impractical and overly academic. Further, Anderson (2011) has questioned the theory's generalizability by arguing that while firms may have varying resource configurations if these resources provide equal value across firms, they may not confer competitive advantages. Moreover, meeting Barney's VRIN conditions for resources can be challenging, further limiting the theory's practicality. An important insight from these criticisms is that not all resources hold equal importance for firms.

In terms of empirics, the literature points to the fact that resource mobilization encompasses all activities conducted by an organization to acquire new and additional financial, human, material, and technological resources to further its objectives (Adegboye et al., 2022). Several studies have explored the correlation that exists between resource mobilization and performance. For instance, in Malaysia, Rengasamy and Olaniyi's (2017) study on resource mobilization in the commercial sector found a positive impact on performance in instances where there was an increase in mobilized resources. Arsallya et al. (2021) found that local revenue significantly influences capital expenditure, where factors such as economic growth, balanced funds, and accurate budgeting positively affect government capital expenditures. Adu et al. (2020) study on the digitization of the collection of local revenue in Ghana narrowed on assessing sources of revenue and understanding the circumstances limiting the effectiveness of the collection of revenue. They found that the main sources of revenue for the Accra Metropolitan Assembly include property rates, market tolls, licenses, and parking fees, with property rates contributing the most to the revenue. Revenue mobilization did face challenges such as insufficient data on sources of revenue and the absence of by-laws for revenue mobilization enforcement. Further, a shortage of collectors of revenue, and lack of adequate training for revenue collection staff was noted.

Similarly, Katonon and Moi (2024) explored the power of mobilization of resources on the execution of national government constituency-funded projects within Embakasi South Constituency, Nairobi County. They revealed a significant unidirectional connection between the mobilization of resource efforts and the successful implementation of projects, highlighting the crucial role that effective resource mobilization plays in the realization of constituency-funded initiatives.

Further, Mutinda (2021) looked at how 30 Kenyan commercial state enterprises performed after changes to public financial management, viz changes to internal control frameworks, financial reporting procedures, revenue mobilization strategies, and financial planning. The findings showed that financial planning reforms alone accounted for 21.9 percent of the variance and had a substantial positive correlation with organizational performance. Nevertheless, there was no revealed significance when financial

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planning was evaluated alongside other variables. Neither the income mobilization reforms implemented independently nor their combined effect with other factors affected the organization's performance. Revenue mobilization reforms by themselves reported a mere 1.3 percent influence on performance, indicating only a weak positive correlation. Furthermore, there was no substantial relationship observed between organizational effectiveness and the overall impact of the revenue mobilization strategies. In contrast, the collective influence of public finance management reforms was far more significant, explaining a notable 92.8 percent of the alterations. This underscores the critical role that comprehensive public finance management reforms can play in driving meaningful changes in organizational outcomes.

Lastly, Walubengo (2022) examined how outsourcing revenue collection affects revenue optimization in three western counties in Kenya and revealed a unidirectional connection between outsourcing and enhanced revenue collection in these counties, suggesting that outsourcing contributed to increased revenue. While the above studies focused on one or a few counties in a region, this paper covered counties across the country in all regions, offering findings that can be applied to other regions for broader applicability.

METHODOLOGY

The study adopted a correlational research design of a predictive nature as it sought to determine the effect of resource mobilization reforms on the performance of county governments in Kenya indicating whether alterations in one variable coincide with corresponding changes in the other variable (Kabir, 2016). The study targeted 229 top and middle management employees in the selected county governments, out of which 144 were sampled using cluster sampling technique by dividing the entire population into clusters which are smaller groups and then a random selection from the clusters is done as a sample. Primary data was collected using five-point Likert scale questionnaires.

Data was analyzed using SPSS Analysis of Moments Structure (AMOS) employing principal component analysis and confirmatory factor analysis to assess the relationships between the latent variables. Structural equation modelling was applied to investigate any inherent relationship between the study variables similar to Oyewo et al. (2024); Zweni et al. (2022); and Ochieng' and Onyuma (2023) who used structural relationships between contextual factors. Resource mobilization reforms variable was measured using county revenue sources, revenue collection and revenue administration. The partial structural equation models used include:

$$Y_i = \alpha_0 + \beta\ RS + \varepsilon \quad \text{(i)}$$

$$Y_i = \alpha_0 + \beta\ RC + \varepsilon \quad \text{(ii)}$$

$$Y_i = \alpha_0 + \beta\ RA + \varepsilon \quad \text{(iii)}$$

Where: Y_i = Performance of county government, α_0 = Constant, β= Path coefficient, RS = County Revenue Sources, RC = Revenue Collection, RA = Revenue Administration, and ε = Error term.

RESULTS

This paper tested for the reliability and validity of the research instrument and the conditions for discriminant validity and reliability were achieved as presented in Table 1.

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Table 1: Reliability and Validity Results

	Reliability	Convergent validity	Discriminant validity		
Construct	Cronbach	AVE	RMR	LF	PER
Resource Mobilization Reforms (RMR)	0.705	0.793	**0.890**		
Legal Framework (LF)	0.714	0.689	-0.080	**0.830**	
Performance (PER)	0.812	0.699	0.658	-0.025	**0.836**

The paper explored structural equation modelling for latent variables and assessed the hypothesized relationships. To evaluate the contribution of each of the indicators to each component, it applied regression weights to help understand the nature of the relationship between all variables. The calculated t-values were compared against the critical |t|-values of 1.96, which corresponds to the p-value of 0.05.

The measurement model fitness test was crucial for assessing how effectively a statistical model aligns with the data it intends to measure as it determines whether the model's structure accurately captures the underlying relationships among variables (Kharuddin et al. 2020). Chi-Square (CMIN) test statistics were used to assess the overall model fitness. However, as argued by Yaslıoglu and Yaslıoglu (2020), the CMIN test is sensitive to the size of the sample. To mitigate this risk, the study used CMIN with other fit indices which included the Adjusted Goodness of Fit Index (AGFI), Normed Fit Index (NFI), Comparative Fit Index (CFI) and Root Mean Square Error of Approximation (RMSEA) statistics, as recommended by Schumacker and Lomax (2004). The analysis results are presented in Table 2.

Table 2: Model Fitness Test Result

Variable	CMIN	CMIN/DF	DF	AGFI	CFI	NFI	RMSEA
Resource Mobilization Reforms	23.68	2.960	8	0.85	0.94	0.91	0.027

The model fitness test results for all variables suggest that the various thresholds were attained and concluded that the model fits the data well. The indices for all four independent variables for the chi-square ratio fell within the acceptable range of between 1 and 5, indicating a reasonable fit. The indices for AGF, CFI and NFI were all above the threshold of 0.8 for the independent variables indicating a good fitness of the model. According to McDonald & Ho (2002), an AGFI coefficient of 0.8 or greater is deemed appropriate. Similarly, Tabachnick, Fidell and Ullman (2013) maintain that CFI values similarly vary from 0 to 1, with values of 0.8 or above typically considered acceptable. Further, Hu and Bentler (1999) suggest that an NFI score of 0.8 or above typically suggests a good fit for the model. The RMSEA values indicated goodness of fit as they all fell below the acceptable maximum threshold of 0.1 affirming model fitness. Hu and Bentler (1999) defined acceptable boundaries for RMSEA from 0.08 to 0.10 as acceptable, values from 0.05 to 0.08 as good and values less than 0.05 as excellent.

Prior to structural modelling, an Exploratory Factor Analysis (EFA) was carried out to evaluate whether the selected indicators had significant loading to the construct. This paper retained eight measurement items of resource mobilization reforms that had a factor loading of greater than 0.7, and the results are presented in Table 3.

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Table 3: Factor Loadings for Resource Mobilization Reforms

Resource Mobilization Reforms Indicators	Loadings
Revenue Collection (RMR1)	
RC9-Revenue collection has a positive influence on county performance.	.879
County Revenue Sources (RMR2)	
CRS3- The county government continuously reviews its revenue sources to identify new and emerging revenue sources.	.815
CRS2- Own-source revenue streams have been identified and operationalized.	.790
CRS5- The county has been successful in mobilizing resources from external sources such as grants and loans.	.790
CRS4- The county government conducts a cost-benefit analysis on potential revenue sources before adoption to ensure that the cost of collection does not surpass the revenue generated.	.741
Revenue Administration (RMR3)	
RA5- The county government has implemented a mechanism for measuring the effectiveness of resource mobilization efforts.	.734
RA1- There is an established system of revenue administration in the county.	.728
RA3-On matters of revenue mobilization, the county government has adequately trained its revenue collection employees.	.742

The paper hypothesized that resource mobilization reforms do not have a statistically significant effect on the performance of county governments. The results indicate a statistically significant association between resource mobilization reforms and performance. Specifically, the analysis yielded a $\beta = 0.740$, a t-value of 3.419 (greater than the threshold of ±1.96) and the p-value was found to be below 0.05, confirming that the observed effect is statistically significant at the conventional level of significance. Thus, a unit increase in the level of resource mobilization reforms leads to a 0.740 unit rise in the performance of a county, thereby failing to accept the null hypothesis. This finding therefore showcases the relevance of the Resource-Based theory which argues that the organizational level of performance is pegged to the resources endowed to it. Table 4 also presents the regression weights and C.R values.

Table 4: Regression Weights and C.R Values

			Estimate	S.E.	C.R.	P
Performance	<---	R_M_R	.566	.167	3.390	***
RMR3	<---	R_M_R	1.000			
RMR2	<---	R_M_R	.546	.099	5.524	***
RMR1	<---	R_M_R	.674	.119	5.683	***
PER1	<---	Performance	1.000			
PER2	<---	Performance	.920	.119	7.762	***
PER3	<---	Performance	.881	.105	8.376	***

Additionally, the intercepts for each observed variable indicate the expected value of that variable when the corresponding latent variable is zero as outlined below.

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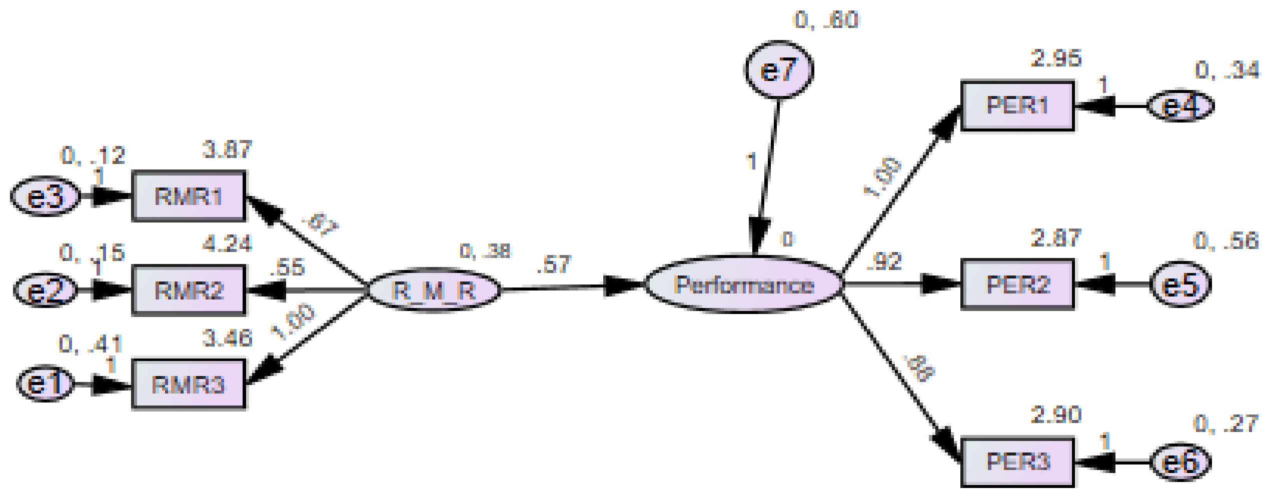
Table 5: Regression Intercepts for Resource Mobilization Reforms

	Estimate	S.E.	C.R.	P
RMR3	3.459	.080	43.027	***
RMR2	4.240	.047	90.831	***
RMR1	3.870	.049	78.675	***
PER1	2.951	.094	31.480	***
PER2	2.869	.098	29.158	***
PER3	2.902	.083	35.072	***

The findings show that all intercepts were positive and significantly correlated with the dependent variable, as indicated by high critical values and low p-values. The path diagram in Fig. 2 illustrates the hypothesized structural relationships between resource mobilization reforms and the performance of county governments.

Figure 2: Path Coefficients for Resource Mobilization Reforms and Performance



The following Structural Equation was therefore fitted:

County Performance= 3.870+ 0.674 λ+ 0.566* CRS + ε…………………… (i)

County Performance = 4.240+ 0.546 λ+ 0.566* RC + ε……..…....……… (ii)

County Performance = 3.459+ 1.000 λ+ 0.566* RA+ ε…………………… (iii)

Next, the paper ventured into the assessment of the moderating effect of legal framework by introducing an interaction term between resource mobilization reforms and legal framework. The interaction term had a coefficient of β = 0.189, a t-value of 3.142, and p-values below 0.05, suggesting statistical significance since the t-calculated value exceeded the critical t-value of ±1.96 and the p-value was less than 0.05. The result reveals that resource mobilization reforms are a significant predictor of performance. In contrast, the legal framework does not have a significant impact on performance. This highlights the importance of resource mobilization reforms in determining the performance of county governments. It further suggests that the relationship between resource mobilization reforms and performance is significantly moderated by the legal framework. Consequently, the study failed to accept the null hypothesis that the legal framework has a

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statistically significant effect on the effect of resource mobilization reforms on county government performance. The findings support that of Oduol (2023), who sampled five of the forty-seven counties and found a significant linear association between regulatory framework and improvement of county revenue collection.

This means that the success of resource mobilization reforms in improving performance is influenced by the existing legal framework. A strong legal structure offers crucial guidelines and support for implementation. This underscores the importance for counties to focus not only on resource mobilization but also on strengthening legal frameworks to enhance performance in devolved government units. This is so since weak or poorly executed legal structures can undermine the benefits of these reforms, highlighting the need for regulatory compliance. For optimal results, resource mobilization efforts should align with legal standards to ensure smoother implementation and greater accountability. Ultimately, county governments should take a dual approach of prioritizing resource mobilization reforms and enactment of laws to maximize performance outcomes through adequate revenue mobilization.

Table 6: Moderated Regression Weights and C.R Values

			Estimate	S.E.	C.R.	P
Performance	<---	Legal_Framework	.083	.087	-.948	.343
Performance	<---	R_M_R	.750	.072	2.283	.022
Performance	<---	ZRMR_X_ZLF	.189	.060	3.142	.002
PER1	<---	Performance	1.000			
PER2	<---	Performance	.780	.135	7.732	***
PER3	<---	Performance	.932	.231	4.036	***
RMR3	<---	R_M_R	.830	.260	5.578	***
RMR2	<---	R_M_R	.710	.120	5.911	***
RMR1	<---	R_M_R	1.000			
LF3	<---	Legal Framework	1.000			
LF1	<---	Legal Framework	.530	.431	1.231	.218

The path diagram in Figure 3 illustrates the hypothesized structural relationships between resource mobilization reforms and the financial performance of county governments including the moderating effect of the legal framework.

Figure 3: Path diagram for Legal Framework, Resource Mobilization Reforms and Performance

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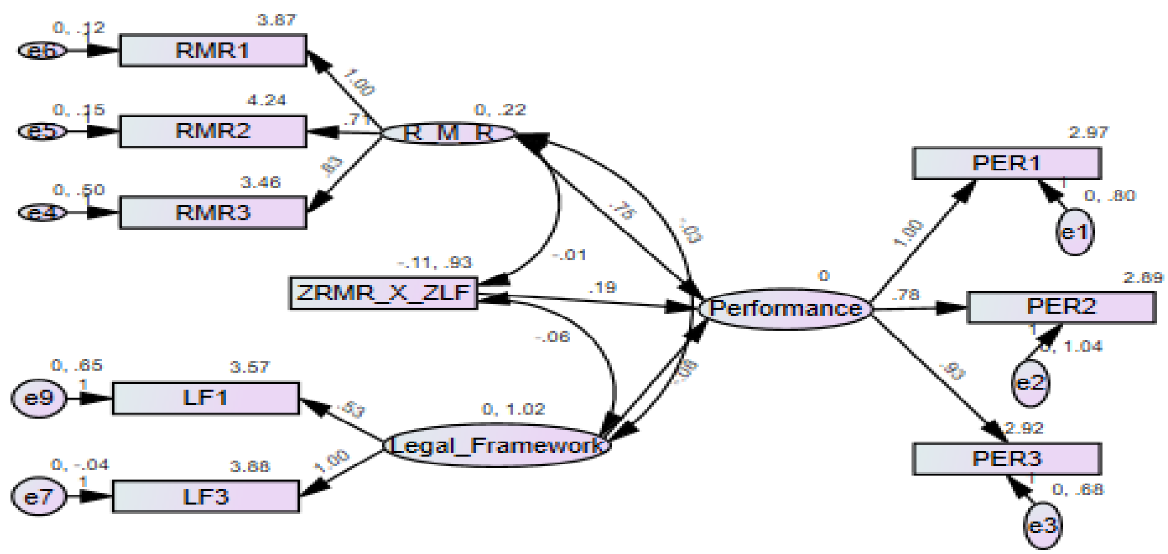

CONCLUSION AND CONSIDERATION FOR POLICY

Based on the study's objective, it can be concluded that resource mobilization reforms significantly and positively affect the performance of county governments in Kenya, and this effect is significantly moderated by the legal framework in place. Effective mobilization of local revenue is crucial for the operational success and expansion of county government services. Own-source revenue is not sufficient to meet the needs despite the county governments identifying diverse revenue streams. As a result, county governments have had to depend significantly on the equitable share of revenue from the national government, as well as on funds raised through debt and grants. Nevertheless, there seem to be commitments by the county governments to improve revenue mobilization, as was evident by strategies implemented by the studied county governments on revenue mobilization which were periodically reviewed. Further, prior to the operationalization of the identified revenue sources, county governments conduct a cost-benefit analysis to ensure that the cost incurred in revenue collection does not outweigh the revenue collected. Training provided to revenue collection staff was inadequate and a few counties have considered outsourcing of revenue collection though established to be ineffective. Further, automation of revenue collection processes could lead to improvement in revenue collection, however, many counties still lag in the automation of revenue collection.

Any reform aimed at improving the level of resources must also consider the acceleration of the implementation of automated county revenue collection systems. Counties must also develop and implement extensive training programs for revenue collection staff to enhance their skills and effectiveness Furthermore, the counties must also improve and streamline the legal frameworks governing resource mobilization to better support county governments and to continue to explore and develop a variety of own-source revenue streams.

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