THE STRATEGIC EFFECT OF AUTOMATING FINANCIAL SYSTEMS IN DEVOLVED GOVERNMENTS PERFOMANCE
A CASE OF NAIROBI COUNTY

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DECLARATION

This research project is my original work and has not been presented for academic purposes in the University of Nairobi or any other university.

Signed…………………………… Date……………………………

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D61/84311/2012

This research project will be submitted with my approval as the university supervisor.

Signed…………………………… Date……………………………

PROF. BITANGE NDEMO

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DEDICATION

I dedicate this research project to All Mighty God, my dear husband Mr. John Maina, my children Kelvin and Maree for their love, moral and support you extended to me during my study: As well as their encouragement throughout my research. I love you all.

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LIST OF ABBREVIATIONS

AFS	Automated Financial System
CEO	Chief Executive Officer
CFO	Chief Financial Officer
ERP	Enterprise resource planning
ICGFM	International Consortium of Governmental Financial Management
ICT	Information and Communication Technologies
IFMS	Integrated Financial Management Systems
IT	Information Technology
KNBS	Kenya National Bureau of Statistics
LAIFORM	Local Authority Integrated Financial Operations Management System
LMs	Line Ministries
OTS	Off-The-Shelf
USAID	United States Agency for International Development

ABSTRACT

Globally, many scholars view financial system automation as important to any organisation or institution because of the role it play in enhancing efficiency in service delivery. In the wake of devolution, county governments financial performance has been pegged on how efficient, economical and effective are their operations. The major administrative problems being their inability to cost effectively collect fully the revenues. This research develops a conceptual model to test how Nairobi County management strategies affect the automation of its financial systems policies, decisions and implementation. The target population was purposefully chosen for this study and included individuals with significant knowledge about automating financial system especially those at strategic level. Data was collected by means of personal interviews, approximately 15 face-to-face interviews with the Nairobi County senior executives was conducted. The study used qualitative techniques to enable an in-depth understanding of the strategic effect of automating financial system in Nairobi County. Moreover, it adopted a case study research design and used a purposive sampling design to make sure that all significant sectors of the study were systematically covered. Results indicated that senior executive support and goodwill played an integral role in the implementation of automation process. The results further indicated that there was a positive correlation between the financial system automation strategies and the implementation of the same. In addition, the study established that stakeholder’s involvement in formulation and implementation of the same strategies promoted its success. As the staff at operation level tends to own up the entire system. The analysis of the data revealed that the major challenges facing the financial automation are reduced commitment among some stakeholders; inadequate resources allocated for the implementation process, poor succession plans and reduced commitment in adopting the County strategic agenda blueprint. To avert the same the researcher recommended that the AFS formulation and implementation committee should include all stakeholders who are affected by the same. As well as support and train their employees of how the system works and the accruing benefits of using the system. Lastly, they should provide incentives and awards to those operation levels staff that show increased commitment in the implementation process.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Public financial is an integral component of fiscal policy and administration in any economy because of its influence on national government operations and the grassroots. It is the fuel of every government as it is the main instrument through which government funding is ensured. Financial systems should comply with best practices of equity, ability to pay, economic efficiency, convenience and certainty (Visser & Erasmus, 2005). For a government to match its performance with the needs and expectations of its citizens, it should increase its fiscal depth without incurring costly recurring overheads (Gidisu, 2012).

The theories that form the theoretical premises are: resource based view theory that emphasizes on the firm's resources as the fundamental determinants of competitive advantage and performance (Barney, 1991). And agency theory that focuses on the principal-agent relation asymmetries. It is a theory explaining the relationship between principals such as shareholders, and agents, such as a company's executives in this relationship the principal delegates or hires an agent to perform work (Taylor & Kasacadag, 2000).

Kenya has undergone significant political change in the last four years, the most significant being the recent implementation of a new constitution. In this new constitution the government's operations are being devolved from a national management level to largely independent running County Governments, 47 in total. Each County is self-governing with some support from the national government. The Nairobi County Government is in the process of implementing systems that allow for the maximum and effective collection of revenues across the County. This study seeks to address the financial objective of the Nairobi County Government. According to Kamolo (2014) it is inconsistent for county governments to exclusively look to the national government for revenue to establish or maintain programmes whose benefits have a local reach.

County governments need to collect much revenue by way of taxes to face the increasing financial expenditures budgeted by the county and to ensure a balance between county budgetary allocations and county financial through tax instruments.

Following the establishment of devolved governments, county governments are expected to collect their own revenue to mitigate between allocation of revenue from central government and their own budget. This has called for automation of financial systems from Local Authority Integrated Financial Operations Management System (LAIFORM) to Integrated Financial Management Information System (IFMIS). This is intended to enhance collection from multiple revenue streams including single business permits, market stalls, parking fees, real estates, land rates, and to achieve real time transaction reports on a secure central server that must be accessible on web and mobile platforms. One major administrative problem today for many county governments is their inability to cost effectively collect fully the revenues due to them. Here emphasis was on the cost-effectiveness of county governments' performance (Muriu, Oduor & Nguti 2013).

1.1.1 Automated Financial System and Management

In government operations, AFS refers to the computerization of public financial management processes, from budget preparation and execution to accounting and reporting, with the help of an integrated system for the purpose of financial management (Lianzuala & Khawlhring 2008). According to Diamond and Khemani

(2006) and Chene (2009), a well-designed Automated Financial System (AFS) is a management tool that provides a wide range of non-financial and financial information. Brar (2010) defines AFS as an information system that integrates budget preparation, budget execution, accounting, financial management and reporting activities for effective financial management.

According to the USAID practical guide (2008), sound AFS systems coupled with the adoption of centralized treasury operations help developing country governments gain effective control over their finances, and enhance transparency and accountability, reduce political discretion and act as a deterrent to corruption and fraud.

The success of a project implementation is characterized by many factors. "A project is generally considered to be successfully implemented if it: comes in on-schedule (time criterion), comes in on-budget (monetary criterion), achieves basically all goals originally set for it (effectiveness criterion) and it is accepted and used by the clients for whom the project is intended (client satisfaction criterion)" (Hill & Jones, 2001). Alternatively, implementation is assumed to be a success if it achieves a large fraction of its potential benefits for example personnel reductions or a decrease in the cost of information technology. Another description would be that the system accomplishes the level of Return on Investment identified in the project approval thus an ERP implementation should be evaluated based on cost of ownership against quantifiable benefits, taking into account the time (Visser & Erasmus, 2005).

The initial implementation and use of AFS faced challenges that pressed for a re-engineering process where business and system processes would be modified to enable full automation of the processes as well as proper functioning of the system. This would be in line with the vision of AFS which is "An excellently secure, reliable, efficient, effective, and fully integrated financial management system" and its mission which is "To passionately and with commitment continuously enhance our capacities to innovate, and leverage the best of technology, to provide for a fully integrated financial management" (AFS Strategic plan, 2011).

1.1.2 Automated Financial System and Performance

Automated financial system enhances the performance functions as efficiency and effectiveness is enhanced. Integrated financial system involves computerization of public expenditure management processes including budget formulation, budget execution, and accounting with the help of a fully integrated system for financial management of the line ministries (LMs) and other spending agencies (Kotze, 2012). Such system puts in place effective controls that ensure transparency and accountability. The system also provides real-time financial information that end users can use to formulate budgets, manage resources and oversee projects and programs effectively.

1.1.3 Concept of Strategy

A strategy is the direction and scope of an organization over a long term; which gives advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets to fulfill owners' expectation (Mintzberg and Quinn, 1998). Barney & Arikan (2001) argues that with respect to corporate strategy, strategists address what the firm might and can do as well as what the firm wants to do. This will help to understand the strategic benefits and risks associated with particular financial decisions such as spending, borrowing, leverage and investing. Ability is required to understand basic financial concepts, including the tradeoff between risk and return, the main attributes of different types of investments, other 4 financial products, and benefits of diversification and the time value of money. (Widdowson & Hailwood, 2007). The lack of knowledge in financial management contributes to the low survival of new venture creation and eventually the high rate of failure among the entrepreneurs and frequently the entrepreneurs are intimidated by financial management (Timmons and Spaneli, 2007).

Thomson and Strickerland (2007) observe that strategies are at ends and these ends concern the purpose and objectives of the organization. They are the things that organizations do, the paths they follow and the decisions they take in order to reach certain points or level of success. Mintzberg and Quinn (1998) identify four interrelated definitions of strategy as a plan, perspective, pattern and position. As a plan, it is some sort of consciously intended course of action, a guideline to deal with a situation. Since financial management is managerial activity which is concerned with the planning and controlling of financial resources. Strategic will help in Planning, directing, monitoring, organizing and controlling of the monetary resources (Suad & Enny , 2006). As a pattern it integrates an organization's major goals, policies and actions sequences into a cohesive whole. Strategy as a position becomes a mediating force or match between the organizations and its external and internal environments. Strategy as a position looks outside the organization seeking to locate the organization in the external environment and it in a cohesive position. Strategy as a perspective looks at the organization. In this respect it is a concept and a perspective shared by the members through their intentions and actions.

1.1.4 Devolved Government

Devolution in its philosophy, design and architecture is one of the pillars of realizing the aspirations of bringing service closer to the people and equity. That devolution is a reality in Kenya today cannot be gainsaid. This foremost constitutional provision has positioned itself at the core of national life today affecting not just the citizenry, but elevating itself into a national discourse, that even its opponent cannot wish it away.

The onset of devolution in Kenya was marked by the promulgation of the current constitution on the 4th August 2010. Through a popular referendum, Kenyans adopted the new Constitution marking the end of centralized government. The purpose of devolution is to allow citizens greater control over resources affecting their priorities through active participation in planning, budgeting and resource allocation among others as outlined in Cap 11 of the constitution. The transition from central to devolved government however is only two and half year old characterized with more challenges than success stories.

Since the promulgation of the constitution (2010) in Kenya, there is rhetoric in the background that there are efforts to derail devolution. In addition, the Civil Society has increasingly; found itself overwhelmed by the multiplicity of its challenges and the overbearing weaknesses of its capacity-human, financial and organizational in the midst of a determined national state that seeks to subdue its leadership. It is clear that since the implementation of the devolved government system, there has not been a united and convicted voice on the most efficient revenue collection method.

1.1.5 Nairobi County

The County Government of Nairobi was established by the Constitution of Kenya 2010, article 176. The County covers an area of 696 km^2 (269 sq mi) with a population of 3,375,000 (2009 National Census).The County of Nairobi consists of 17 constituencies. Former city council was the main collectors of local revenue in the County, mainly because they had a structure in place for revenue collection (CRA, 2014).

Nairobi County has diversified in their principal sources of revenue in order to increase its tax base. The county has developed a strategic plan in which he has deployed the revenue collection instruments for example water charges, land rates, house rents, and sewerage fees land rates and infrastructure-based revenue plot rents, licenses and incomes from less capital-intensive services such as market and bus park fees.

Nairobi is the capital and largest City of Kenya. Founded by the British in 1899 as a simple rail depot on the railway linking Mombasa to Uganda, the town quickly grew to become the capital of British East Africa in 1907, and eventually the capital of a free Kenyan republic in 1963. The Nairobi City County is the creation of the Constitution of Kenya 2010 and successor of the defunct City Council of Nairobi. It operates under the auspices of the Cities and Urban Areas Act, The Devolved Governments Act and a host of other Acts. The executive department is headed by Governor Evans Kidero with his deputy Jonathan Mueke and ten member executive committee. The Nairobi City County is charged with the responsibility of providing a variety of services to residents within its area of jurisdiction. These include the services that were hitherto provided by the former City Council and the ones that have been transferred from the national government. The former include public works, environment management, physical planning, primary education infrastructure, public health, social services and housing, inspectorate services while the latter include agriculture, livestock development and fisheries, trade, industrialization, corporate development, tourism and wildlife, public service management. Its vision is to be the city of choice to invest, work and live in while its mission is to provide affordable, accessible and sustainable quality services, enhancing community participation and creating a secure climate for political, social and economic development through the commitment of a motivated and dedicated team. And is guided by the following core values: accountability, transparency, excellence, accessibility, integrity, responsiveness, equity and team work **(**Buluma, 2013).

1.2 Research Problem

In today's competitive, fast-paced business landscape, getting the most out of available resources is not an option but rather a necessity. Organizations are taking a highly proactive approach to systems modernization and operations in an effort to increase efficiency and effectiveness in their operations. System automation allows firms to automate new platforms of their revenue collection systems in order to reap maximum benefits (Indege & Zheng, 2010).

Before the introduction of automated systems of revenue collection, local authorities used manual systems of collections by using manual receipts. Problems such as high costs for collection, fraud, underpayment and leakages in revenue were worse by massively expanding the current taxable base without the use of adequate computerized solutions (Hove & Wynne, 2010). None automated systems of revenue are attributable to problems of tracking and identifying fraud or rogue revenue collectors are only compounded by the usage of manual or centralized systems due to the resources and overheads needed to monitor and control such problems. Manual collection of payments at several service points lead to delayed customer service with built-in Risk Of manual cash management Minimal payment channels. Desperate payment applications and Lack of integration to the back office applications bring about delayed and possibly erroneous analysis and reporting (Kotze, 2012).

Nairobi County has been occasioned by fraud and embezzlement of funds by its officials from time to time. This is a result of limited automation of most of its financial systems. Moreover, the County government has been losing millions of money from these financial scams **(**Buluma, 2013). Therefore, doing a research on the strategic effect of automation of financial system on Nairobi County government is of essence in the fight against financial scandals and inefficiencies in service delivery.

The research problem was the high costs of revenue collection, fraud, underpayments and revenue leakages as a result of using manual systems *in lieu* of automated financial systems. The research question governing the research was: What is the strategic effect of financial automation on Nairobi county government performance?

1.3 Research Objective

The research objective of the study was to establish the strategic effect of automating financial systems in devolved governments' performance with reference to Nairobi County.

1.4 Value of the Study

The findings of this study would be important to policy makers in Kenya in the formulation of Automated Financial Systems policies. More specifically, the findings of this study would be valuable not only to the County government of Nairobi but also other organizations.

The study will help the county government through financial management, human resource management, and integrated supply chain management (including asset and procurement management) and related business intelligence, audit and decision systems. The study would indentify good strategic actions that if well implemented would guarantee and promote performance. It will also provide guidelines to strategic for the effective use of strategic actions to positively contribute to organizational growth through the AFS. The research could also be used by advisory experts and researchers as it is expected to provide information on the research area. Lastly, it will contribute to the theories on financial systems.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter covered general aspects of literature review based on the strategic effect of automating financial systems in devolved government performance, starting with brief introduction, the theoretical review, concept of strategy, benefits of AFS, Strategic management and AFS and challenges involved in implementation of AFS and Empirical Literature

2.2 Theoretical Review

This section presents a theoretical review of the study. The theories reviewed here are agency and critique of theories and model is then made.

2.2.1 Resource Based View Theory

According to Barney (1991) the resource-based view (RBV) emphasizes on the firm's resources as the fundamental determinants of competitive advantage and performance. It adopts two assumptions in analysing sources of competitive advantage (Peteraf and Barney, 2003). First, this model assumes that firms within an industry or within a strategic group may be heterogeneous with respect to the bundle of resources that they control. Second, it assumes that resource heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms that are some of the resources cannot be traded in factor markets and are difficult to accumulate and imitate. Resource heterogeneity or uniqueness is considered a necessary condition for a resource bundle to contribute to a competitive advantage (Barney, 1991; Conner, 1991; Teece, Pisano and Shuen, 1997)

Scrutiny and assessment have pointed to a number of unresolved problems in the resource-based approach. Some of these problems justify the approach adopted in this research and indicate ways to integrate the RBV and the firm's competitive environment. These criticisms relate to the unit of analysis, the circularity or tautological nature of the resource-based. Foss (1998) states that the resource-based perspective does not escape the general problem of finding the appropriate unit of analysis. Most contributions within the RBV take the individual resource as the relevant unit of analysis to study competitive advantage. Porter (1991) critiqued the RBV since resources are valuable and rare, they can become the source of competitive advantage.

2.2.2 Agency Theory

Taylor & Kasacadag (2000) focus on principal-agent relation asymmetries. It is a theory explaining the relationship between principals such as shareholders, and agents, such as a company's executives in this relationship the principal delegates or hires an agent to perform work. The theory attempts to deal with two specific problems: first the goals of the principal and agents are not in conflict agency problem and second the principal and agent reconcile different tolerance for risk. Reininger, Schardaxc and Summer (2002) consider banks as coalitions of depositors that provide households with insurance against idiosyncratic shocks that adversely affect their liquidity position.

The management of the changes that accompany the implementation of AFS can be regarded as one of the most critical, but also one of the most neglected aspects of AFS reforms. The success of IT reforms depends upon the capacity of the organization to change, to manage the change and to survive whilst changing

(Peterson, 1998). Resistance to change may come from various stakeholders in the organization, such as individuals with vested interests who benefited from previous methods, civil servants who see it as a threat to their jobs and people who resist change simply for fear of the unknown.

According to Rozner (2008), a change management strategy should be developed as soon as an AFS project is conceived, taking into consideration the change implications for diverse stakeholders, that is, from politicians and senior officials to heads of departments, civil servants and the IT personnel who will support the new systems. If this aspect is not addressed early in the project, the project will constantly be faced with resistance and obstacles from elected politicians, executive officials and personnel who will use the systems regularly.

2.3 Benefits of Automated Financial Systems

An AFS provides decision-makers and public-sector managers with the information they need to perform their managerial functions. Rodin-Brown (2008) states that an AFS provides timely, accurate and consistent data for management and budget decision-making. By computerizing the budget management and accounting system for a government, an AFS aims at improving the quality and availability of information necessary at various stages of public financial management, such as budgeting, treasury management, accounting and auditing (Barata, 2001). An AFS allows users anywhere within the AFS network to access the system and extract the specific information they need. A variety of reports can be generated to address different budgeting, funding, treasury, cash flow, accounting, audit and day-to-day management concerns (Rozner, 2008).

The scope and functionality of an AFS can vary from a basic general ledger accounting application to a comprehensive system covering budgeting, accounts receivable or payable, cash management, commitment control, debt, assets and liability management, procurement and purchasing, revenue management, human resource management and payroll (Rozner, 2008). Its role is to connect, accumulate, process and then provide information to all parties in the budget system on a continuous basis (Diamond & Khemani, 2006). It is therefore imperative that the system should be able to provide the required information timely and accurately, because if it does not it will not be used and cease to fulfill its central function as a system.

An AFS can improve public financial management in a number of ways, but generally seeks to enhance confidence and credibility of the budget through greater comprehensiveness and transparency of information. The purpose of using an AFS is to improve budget planning and execution by providing timely and accurate data for budget management and decision-making (Chêne 2009). A more standardized and realistic budget formulation process is allowed for and improved control over budget execution is affected through the full integration of budget execution data.

According to Hove and Wynne (2010), an AFS assists management in ensuring accountability for the deployment and use of public resources and in improving the effectiveness and efficiency of public expenditure programmes. By tracking financial events through an automated financial system, management is able to exercise improved control over expenditure and to improve transparency and accountability in the budget cycle as a whole. Diamond and Khemani (2006) argue further that, as a management tool, an AFS should support the management of change. As such, it should be viewed as part of the broader financial reforms of government, such as budget reforms.

The goal of AFS is to integrate independent, geographically distributed and disparate databases. This integration serves a number of useful purposes. It provides a unified view of the underlying collection of databases. That is, a user may access logical records of data without any particular concern as to where the components of the logical record physically reside. It permits the sharing of resources provides for extensibility--the ability to add new functions without having to rewrite or make extensive modifications to the existing software.

2.4 Strategic Effect and Automated Financial Systems

Emerging Information and Communication Technology (ICT) can play an important role in fighting corruption in public finance systems by promoting greater comprehensiveness and transparency of information across government institutions (Barcan, 2010). As a result, the introduction of Automated Financial Systems (AFS) has been promoted as a core component – and in many cases a driver- of public financial reforms in many developing countries. Yet, experience shows that in spite of the considerable amount of resources allocated to such schemes, AFS projects tend to stall in developing countries, as they face major challenges of institutional, political, technical and operational nature.

Strategic Management links automated systems planning with business planning. Ideally, business plan and automated financial systems plan –either product or corporate planning function– should be linked through the direct mapping of automated financial systems strategy to one or more business strategies (Hill &

Jones, 2000).Through the alignment of financial systems plan and business plan, information resources will support the business goals, and reap the advantage of automated systems strategic utilization. Therefore, an increase in financial automation can be achieved and competitive advantage will be attained, leading to the organization thriving despite many challenges. Reininger ,Schardaic and Summer (2002) states that "Companies that appear to perform best are companies in which there is alignment between realized business strategy and realized automated systems strategy." Barcan (2007) similarly declares, "Companies that have achieved alignment can build a strategic competitive advantage that will provide them with increased visibility, efficiency, and profitability to compete in today's changing markets".

The introduction of Automated Financial Systems (AFS) has become a core component of financial reforms to promote efficiency, security of data management and comprehensive financial reporting. Hove and Wynne (2010) argues that AFS provide an integrated computerized financial package to enhance the effectiveness and transparency of public resource management by computerizing the budget management and accounting system for a government. It consists of several core sub-systems which plan, process and report on the use of public resources. The scope and functionality of AFS can vary across countries, but sub-systems normally include accounting, budgeting, cash management, debt management and related core treasury systems and as well as strategic management. The scale of AFS may also vary and be limited to specific country-level institutions such as the Ministry of Finance. However, AFS is generally meant to be used as a common system across government institutions, including in the more ambitious schemes for federal, state and local governments.

The integration of AFS across the board ensures that all users adhere to common standards, rules and procedures, with the view to reducing risks of mismanagement of public resources (Transparency International, 2009).

2.5 Automated Financial System and Performance

According to Diamond and Khemani (2006) and Chene (2009), a well-designed Automated Financial System (AFS) is a management tool that provides a wide range of non-financial and financial information. Brar (2010) defines AFS as an information system that integrates budget preparation, budget execution, accounting, financial management and reporting activities for effective financial management.

Chêne (2009) asserts that an AFS implies both efficiency reforms and reforms that change existing procedures. It involves organizational reform, which deeply affects work processes and institutional arrangements governing the management of public finance. Institutional reform is, however, not easily achieved and, according to the International Consortium of Governmental Financial Management (ICGFM) (2008), it takes time, commitment, champions and courage to achieve. Indeje and Zheng (2010) contend that the introduction of a new information system fundamentally changes the way operations are carried out and therefore requires a carefully managed process. This process results in the creation of a new organizational culture, that is, change in the way the organization operates. In Rwanda, for example, there were three teams responsible for the development of the AFS (Hove & Wynne 2010).

The ability to accurately and efficiently track financial information is crucial in maximizing profitability and reducing overhead expenses. Automated financial systems can allow government to quickly assemble financial statements and balance sheets, which not only eliminates lengthy manual processes but also provides the necessary data to make important business decisions (Indeje and Zheng, 2010).

2.6 Challenges in the implementation of Automated Financial System

The sheer size and complexity of an Automated Financial System (AFS) poses significant challenges and a number of risks to the implementation process that go far beyond the mere technological risk of failure and deficient functionality. The effective implementation, operation and maintenance of an AFS require staff with the necessary knowledge and skills. Lack of capacity is regarded as one of the main causes for the delay in the implementation process (Diamond & Khemani 2006).

The salary structure and terms of employment in the public sector are usually not attractive enough to compete with the private sector and to incentivize candidates with the required IT-skills levels (Chêne 2009). Brar (2010) argues that low capacity for system implementation at the sub-national level, such as provincial and regional governments, is one of the major challenges in the implementation of an AFS in developing countries. This aspect is especially relevant in the South African context with its nine provinces and the consequent demand that the duplication of efforts creates for skills and knowledge, of which a shortage already exists. Hove & Wynne (2010) contend that the human resource development issue within government needs prioritization, the education system needs to be aligned with the information and communication technologies (ICT) demands of the country and scarce ICT skills need to be attracted and retained particularly within government.

The implementation of an AFS is a complex, risky, resource-intensive process that requires major procedural changes and often involves high-level officials who lack incentives for reform (Chêne 2009). It demands a commitment to change: change in technology; in processes and procedures; as well as changes in skills, responsibilities and behaviours (Rodin- Brown 2008). An AFS must be underpinned by a coherent legal framework governing the overall public finance system (Chêne 2009).

Many AFS projects have failed because the basic system functionality was not clearly specified from the onset of the intervention. Chêne (2009) posits that an AFS must be carefully designed to meet the needs and functional requirements, including the accounting and financial management tasks the system should perform. Consideration must be given to the type of systems that will be implemented, for example, off-the-shelf (OTS) or custom-built systems that fit the requirements of the specific country. An analysis of the different systems used by developing countries indicates that they make use of both off-the shelf systems as well as custom-built systems. It is important to note that a determining factor in the success of the implementation is not in the type of system, (i.e. off-the-shelf or custom-built) but rather in the complexity of the system.

2.7 Empirical Literature

The empirical evidence on automated financial system and performance and growth reveal a positive correlation as noted by various authors.

2.7.1 Automated Financial System and Performance

Gyamfi, Acheampong & Asamoah (2007) studied banks in Ghana for the period 2003-2007 to establish the relationship between automated service delivery and business growth. The findings were that when banks equip their employees well enough for quality service delivery a drastic shift occurs in the management and success of the banks. They found out that profit and growth are stimulated by quality service delivery that satisfies customers and employees. In their study they found out that a growing number of Banks in Ghana got to know that emphasis had to be put on service deliver, customers' service and employees through automation. They also looked at how managers can build on both automated service delivery and customer satisfaction to assess the corresponding impact on profitability and growth of these Banks.

Sonja (2010) analyzed Saccos in Uganda to determine effect of automation on the growth of Saccos. Her findings suggested that automation of Saccos and therefore automated services lead to efficiency in running the Saccos, customer growth, increased transparency and generation of different accurate financial reports. Sonja noted that many Saccos that had not automated their operations had it rough on gaining customer loyalty and even introduction of new products and services was a challenge being that managing many products without proper automation was posing a great challenge.

2.8 Conceptual Framework

The conceptual framework of this study include the independent variable whiph is the strategic effects of automated financial systems policies. The independent variable specific factors include: employees' involvement in decision making process, management goodwill on the implementation process, resources set aside for the implementation process and stakeholders collective effort on the implementation of automated financial system and their effect on the dependent variable which is the Nairobi County government performance.

Independent Variables **Dependent Variable**

Strategic Effect of Automated Financial Systems policies on:

- Employees' involvement in decision making process
- Management goodwill on the implementation process
- Resources for the implementation process
- Stakeholders collective effort on the implementation of automated financial system

→

Nairobi County government performance

Source: Author (2015)

Figure 1.1: Conceptual Framework

2.9 Summary of Literature Review

Most researches have noted that the automation of financial systems plays a significant role in enhancing any organisation operations by improving on efficiencies. However, little has been done on the strategic effects of the automated financial system on Counties government in Kenya that are mired in bureaucracies, inefficiencies and corruption as result of using manual systems.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology used in the research. The chapter adopted the following structure: the research design, target population, and data collection methods and data analysis method used.

3.2 Research Design

The research adopted a case study research design. A case study is an in-depth investigation of an individual, institution or phenomenon. This research design was adopted in this particular study since not all the target population of the study was knowledgeable of the strategic effect of automating financial systems in devolved government. In light of this therefore, a case study design was deemed the best design to fulfill the objective of the study as only a few members of staff was knowledgeable to the research area. Further, allowed the researcher to prop further an interviewee in case the answer to a particular question was not adequately answered at a given point since the design was a face to face interview.

3.3 Data Collection

The study used both primary and secondary data collection technique. The primary data was collected using an in-depth interview on the strategic effect of automating financial system in Nairobi County. The interview method of data collection was preferred because it allowed for greater control of the interview situation by the interviewer, as well as giving the respondent an opportunity for the researcher to probe and obtain high response rate.

The respondents were selected purposefully for this study and included individuals at strategic level with significant knowledge about automating financial system. Those interviewed included the 1 chief financial officer, 1 chief executive officer, 8 county executive committee and 5 county board. It was deemed that the above interviewees were well versed with the research subject area and contributed to the realization of the research objective.

3.4 Data Analysis

The data obtained from the interview guide was analyzed qualitatively. Qualitative data analysis makes general statements on how categories or themes of data are related. The qualitative analysis was adopted in this study because the researcher was able to describe, interpret and at the same time criticize the subject matter of the research since it was difficult to do so numerically. The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study. It involved observation and detailed description of objects, items or things that comprise the object of study.

3.5 Summary

In summary this research adopted a case study research design where it used Nairobi County as the case study. This research design was adopted in this particular study since not all the target population of the study was knowledgeable of the strategic effect of automating financial systems in devolved government. It involved respondents at strategic levels who were interviewed on the same. The data was later analyzed for completeness, accuracy and tested for validity.

CHAPTER FOUR: DATA ANALYSIS RESULTS AND DISCUSIONS

4.1 Introduction

This chapter presents the data analysis and interpretation of the results. It provides the general information of the interviewees as well as the response rate. It summarizes the interviewee responses on the strategic effect of automating Nairobi County financial systems. In addition, this chapter presents findings of this study with regards to the specific objectives and discussion of the same.

4.2 General Information of the Interviewees

The study aimed to interview the strategic level executive who included the 1 chief financial officer, 1 chief executive officer, 8 county executive committee and 5 county board executives. The response rate was considerable as the study population was small and the researcher was able to schedule interview with respondents at their own convenient time. The researcher was able to interview 12 out of the 15 respondents. The purpose of interviewing them was to find out their experiences and their opinions regarding financial automation and county government performance. The interviewees provided an in-depth, reliable and accurate information about the automation of Nairobi County financial system.

4.3 Respondent Analysis

4.3.1 Current Financial System

The majority of the respondents agreed that the current financial system in the Nairobi County is inadequate in addressing the on-and-off financial scams that occur in its operation. The finance and procurement department are the worse hit. Some of the participants cited integrity and impunity as the main cause of the weak financial system and they suggested that the County Government to be working closely with the Ethics and anti-corruption as well as the Judiciary.

4.3.2 County Government and Implementation of AFS

According to participants automated financial system is an integral ingredient of fiscal policies and revenue administration and there by influencing Nairobi County governments operations. The participants indicate that laxity and complacence among its stakeholders is hindering successful implementation of automating the financial functions of the Nairobi County Government. Some participants said that the Nairobi County Government is in the process of implementing systems that allow for the maximum and effective collection of revenues across the County. This study seeks to address the financial objective of the Nairobi County Government.

4.3.3 AFS and County Financial Competitiveness

According to participants automated financial system enhances County government financial competitiveness as the revenue leakages are sealed. They further cited stakeholder involvement in formulation and implementation of automated financial systems in the County government as an integral component of enhancing its success. Some of the respondents at a considerable number also acknowledge the periodic review and analysis of the implementation process to gauge the progress, achievements and challenges. This however is crippled if there is no team spirit among all the stakeholders. The County Executives complemented the County government of its increased commitment in embracing technology in some of its operations notably the e-parking which has reduced the cost of revenue collection.

4.3.4 Nairobi County Management Goodwill on AFS

The senior county executives confirmed their commitment on enhancing the County financial system as well as other operations. They further attributed its success to increased goodwill among its senior stakeholders. The computerization of public financial management processes that is, from budget preparation to formulation of accounting activities. The fact that some respondents felt that the management needs to have goodwill by working close with those at the operation level since the implementation process does not occur in a vacuum.

4.3.5 Strategies to enhance Financial Competitiveness

The deputy CEO believed that the successful implementation of AFS was pegged on increased commitment of all the stakeholder involved from the county board, county executive, ceo, cfo to the staff at the operation level. The respondent further noted that automation of all its operation will enhance the Nairobi County competitive edge as efficiency and optimal service delivery will be achieved. The County executive board members expressed their views on the strategies that enhance financial competitiveness which includes: automation of all its operation and reduction of its overhead costs.

4.3.6 Level of Employees Involvement in the Implementation of AFS

The importance of employees' involvement was reinforced by other County Executive Board. They acknowledge the integral role they play in ensuring successful implementation of automated financial system in Nairobi County. The senior executive echoed the same and noted that employees at operation have been committed in ensuring AFS implementation is a success. The management executive has been providing financial, technical and training resources to the staff at the operation levels. They further note that employees' goodwill is positively correlated to the successful implementation of automated financial system.

4.3.7 Effect of AFS in Financial Performance

The chief financial accountant purported that the automation of financial system in Nairobi County enhances its financial performance. It was frequently reported in the interview that there is a positive correlation between AFS and financial performance. In similar vein the county executive explained that technology enhances County operations by reducing overhead costs and enhanced revenue collection.

4.3.8 Resource Allocation and the Implementation of AFS

The chief executive officer confirmed to the researcher of the management commitment in automating the Nairobi County financial system. They have further set adequate resources that include finances, time, manpower and intellectual resources. Similarly, some respondents contended that the Nairobi county government has been investing heavily in training its staff and promoting service delivery. The County executive board members felt that the County budget allocation was minimal and ought to be increased to a considerable level.

4.3.9 Nairobi County Government and Future of AFS

The senior county executive was very positive on the future of AFS in Nairobi County as its advantages outweigh the cost of adopting such a system. And that it will mop up all the revenue leakages and reduce fraud cases as it is to conduct audit trail.

4.4 Discussion of the Findings

4.4.1 Link to Theory

Based on the findings, the resources allocated to the implementation process play a critical role in enhancing the success of automating financial system in the Nairobi County. This is in line with Barney (2003) resource –based view that emphasizes on the firm's resources as the fundamental determinants of competitive advantage and performance. Barney's model assumes that firms within an industry or within a strategic group may be heterogeneous with respect to the bundle of resources that they control. Based on the findings of the study, it is clear that the success depends entirely on the availability of financial and non-financial resources. And thus the Nairobi county government should identify its key potential resources to fulfil the implementation process.

4.4.2 Link to Other Studies

The findings established that that the successful implementation of AFS was pegged on increased commitment of the entire stakeholder involved from the county board, county executive, CEO, CFO to the staff at the operation level. And that automation of all its operation will enhance the Nairobi County competitive edge as efficiency and optimal service delivery will be achieved. This is in agreement with the findings of Porter (1991) that established that successful implementation of any strategy is anchored on stakeholders' commitment and goodwill.

4.5 Summary

In summary most respondents agreed that employee's involvement in decision making contributes to the successful implementation of automation of financial system which in turns translates to increased profitability. Further it results to increased commitment among workers as they tend to own up the entire process. A significant number also agreed that management commitment in setting aside financial and non-financial resources for the implementation process is critical as far as the performance of Nairobi County is concerned. Lastly, a considerable number of the participants noted that much needs to be done by all the stakeholders to see to it that the automation of financial systems yield the desired results.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is based on the research objective of the study which sought to establish the strategic effect of the automated financial system in Nairobi County. It discusses the key findings of the study and makes recommendation for practice, improvements and for further research.

5.2 Summary of Findings

The findings indicate that the current financial system in Nairobi County is faced by various challenges such as revenue leakages. This is because most of its operations are generated manually. The management however is committed to ensuring that it is strengthened through strong internal controls procedures and protocols.

According to the findings the Nairobi County Government is in the process of implementing systems that allow for the maximum and effective collection of revenues across the County. The County government commitment has a positive correlation with the implementation of automated financial system.

The findings indicate that the automated financial system has a positive correlation with the County government financial competitiveness. Further, stakeholder involvement in formulation and implementation of AFS in the County government plays an integral role in enhancing its success.

The computerization of public financial management processes that is, from budget preparation to formulation of accounting activities is dependent on the senior management goodwill. If there is no goodwill among them, implementation process will be faced by problems.

The study established that the successful implementation of AFS was pegged on increased commitment of all the stakeholder involved from the county board, county executive, CEO, CFO to the staff at the operation level. And that automation of all its operation will enhance the Nairobi County competitive edge as efficiency and optimal service delivery will be achieved.

The findings indicated how management competitive priorities affect the implementation of AFS operational strategies in many ways. The employees' involvement plays an integral role they play in ensuring successful implementation of automated financial system in Nairobi County. Also it was established that employees' involvement in AFS strategies formulation correlates with the County performance.

The study established a correlation between AFS and the County financial performance. In similar vein the county executive explained that technology enhances County operations by reducing overhead costs and enhanced revenue collection. Resource allocation was found to be influencing the implementation of AFS and Nairobi County government performance. And thus AFS strategic policies should be tailored to reflect the overall implementation goals set by the county government. The County executive board members felt that the County budget allocation was minimal and ought to be increased to a considerable level.

5.3 Conclusions of the Study

In conclusion the study indicates that the strategic and operation level staff plays a significant role in the formulation and implementation of the financial system automation. And thus they should work hand-in-hand to make it a success. The strategic level needs to consult with those at operation level to know their challenges, and opinions regarding how they can improve it. Conversely, the financial system automation policies should be in harmony with the County strategic goals and growth agenda. The study established that stakeholders increased involvement promotes discipline among its employees as they are under the obligation to make the implementation process a success. In addition, the County budget committee needs to work with those involved in adoption and implementation in order to set realistic appropriations in *pro rata* basis.

5.4 Recommendation of the Study

After carrying out the research, analyzing data collected and interpreting the findings, it is clear that Nairobi County senior executive strategies have an effect on its performance either directly or indirectly. Based on the study, the following recommendation is made in order to improve the Nairobi County performance through adoption of AFS.

The researcher recommend the management to develop relevant support groups that incorporate staff at operation and middle level staff who will periodically review the achievements in the implementation process. This will in turn assist the County government to operate in a cost effective fashion with no or limited revenue leakages.

Further, the researcher recommends that the current financial system enhanced through the use of new technology and reinforcing of internal controls. The researcher recommends the Nairobi County to involve their operation staff not only on the implementation of AFS but also on the formulation process. This is likely to boost their morale as they feel that their views and opinions are being heard. A good financial system is the one that is tailored to enhance County competitive edge.

Automation of financial system will only enhance county financial competitiveness if those involved understand it well. And thus the management should develop a training pack for its staff since its successive implementation will yield desirable results. In addition, the Nairobi County management should have goodwill on the implementation of AFS and support those staff at the operation level in all capacities. Besides there should develop policies consistent with those set and adopt an efficient succession plan of the senior executives such that implementation goals run independent of the holder of office.

The Nairobi County government should explore other strategies geared at enhancing its financial competitiveness such as: developing an AFS implementation technocrat or committee that will be mandated by periodically review its progress. Also it should send some staff to other countries whose county or central governments have succeeded in the implementation of AFS.

The researcher recommend to the management of Nairobi County government to always involve the staff at the operation in decision making on matters regarding the system they intend to adopt. That will aid the implementation process. Nairobi County performance is pegged on how well AFS is embraced by all the stakeholders. On the light of that the researcher recommend that the Nairobi County management

The implementation process will never be a success if the Nairobi County does not set financial and technical resources. And thus the researcher recommends the senior executive management and other stakeholders involved to develop a realistic budget that will adequately aid the adoption and implementation of AFS.

5.5 Limitations of the Study

Although the research was able to answer the research question it sought to answer, there were some unavoidable limitations. First, because the researcher believed that the chosen case study research methodology was an appropriate method to employ on this study. However, a case study only provides information about perceptions of the interviewees regarding operations of a single unit and its results generalized. Secondly the study was conducted through interview guide; this provided a challenge as respondents were not willing to participate owing to their busy schedule. The researcher was forced to leave them with the interview questions to fill during their free time. This study was also limited by the small study population adopted as it targeted senior executives at strategic level only.

5.6 Suggestions for further study

Further research can be done on the effect of employees' involvement on the implementation of automated financial system in organization and governments as this thesis focused solely on the strategic effects of AFS on Nairobi County performance. Moreover, researcher can subject the research hypothesis of this research to test by using a different research methodology and see whether the findings are applicable in other context.

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APPENDICES

Appendix I: Interview Guide

The aim of this interview guide is to gather views on the strategic effect of automating financial systems in Nairobi County. The information given will be exclusively used for academic purpose and treated with utmost confidentiality. Your honest views and opinions will assist the researcher to come up with useful information on how to enhance Nairobi Count financial system.

Respondent Number:……………..…………………………

Date:……………………………………………………….

SECTION 1: GENERAL INFORMATION

1. What position do you hold?
2. How long have you been working with Nairobi County?
3. What financial system does the Nairobi County Government use?

SECTION 2: STRATEGIC EFFECT OF FINANCIAL SYSTEM AUTOMATION IN NAIROBI CONTY

4. How can you describe the current financial system?
5. Has the County government succeeded in automating its financial system?
6. Does automation enhance the County financial competitiveness?
7. Does the management of Nairobi County have goodwill on automating all its operation so as to ease the back logs and increased efficiency?
8. What strategies have been used by the Nairobi County to enhance financial competitiveness?
9. Does the employees' involvement affect the automation of financial systems?

10. How does financial automation influence the financial future of Nairobi County?

11. What other strategies that the County government should explore in enhancing the financial automation?

SECTION 3: EFFECT OF FINANCIAL SYSTEM AUTOMATION ON COUNTY FINANCIAL PERFORMANCE

12. How has the automation of financial system affect the financial performance of Nairobi County?

13. How does the finance staff ensure successive implementation of the automation of financial system?

14. How does resource allocation affect the implementation of the automation of financial systems?

15. Is the County government supporting their staff to see to it they have achieved full automation of all its processes?

16. What should the County government do to ensure successive implementation of the automation of financial system?

THANK YOU FOR YOUR TIME

Appendix II: List of Counties

Code	Tour	Population	Capital
		Census 2009	
1	Mombasa county	939,370	Mombasa (City)
2	Kwale county	649,931	Kwale
3	Kilifi county	1,109,735	Kilifi
4	Tana River county	240,075	Hola
5	Lamu county	101,539	Lamu
6	Taita -Taveta county	284,657	Voi
7	Garissa county	623,060	Garissa
8	Wajir county	661,941	Wajir
9	Mandera county	1,025,756	Mandera
10	Marsabit county	291,166	Marsabit
11	Isiolo county	143,294	Isiolo
12	Meru county	1,356,301	Meru
13	Tharaka-Nithi county	365,330	Chuka
14	Embu county	516,212	Embu
15	Kitui county	1,012,709	Kitui
16	Machakos county	1,098,584	Machakos
17	Makueni county	884,527	Wote
18	Nyandarua county	596,268	OlKalou
19	Nyeri county	693,558	Nyeri
20	Kirinyaga county	528,054	Kerugoya / Kutus
21	Murang'a county	942,581	Murang'a
22	Kiambu county	1,623,282	Kiambu
23	Turkana county	855,399	Lodwar
24	Westpokot county	512,690	Kapenguria
25	Samburu county	223,947	Maralal
26	Trans Nzoia county	818,757	Kitale
27	UasinGishu county	894,179	Eldoret
28	Elgeyo-Marakwet county	369,998	Iten
29	Nandi county	752,965	Kapsabet
30	Baringo county	555,561	Kabarnet
31	Laikipia county	399,227	Rumuruti
32	Nakuru county	1,603,325	Nakuru
33	Narok county	850,920	Narok
34	Kajiado county	687,312	Kajiado
35	Kericho county	752,396	Kericho
36	Bomet county	730,129	Bomet
37	Kakamega county	1,660,651	Kakamega
38	Vihiga county	554,622	Vihiga
39	Bungoma county	1,375,063	Bungoma
40	Busia county	743,946	Busia

41	Siaya county	842,304	Siaya
42	kisumu county	968,909	Kisumu
43	Homabay county	963,794	Homa Bay
44	Migori county	917,170	Migori
45	Kisii county	1,152,282	Kisii
46	Nyamira county	598,252	Nyamira
47	Nairobi city county	3,138,369	Nairobi (City)
	Totals	**38,610,097**	**Nairobi**

(Source KNBS, 2009)