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Assessment of the Effect of Supplier Innovative Capabilities Evaluation on Service Contract Performance in the Lake Region of Kenya

Nashon Munika Oruko[a], Dr. Dan Andolo[b]

[a]Research Scholar, Maseno University,kenya.
[b]Research supervisor, Maseno University,Kenya.

A B S T R A C T :

The evaluation of supplier innovative capabilities is a critical aspect of modern business, as it enables firms to assess the potential of their suppliers to drive innovation and improve overall performance. This is further supported by dynamic capabilities theory which suggests that firms should focus on assessing the supplier's ability to adapt, innovate, and respond to changing market conditions. However, in the Lake region of kenya which encompasses the counties of Siaya, Kisumu, Homa-Bay and Migori, , there is a worrying challenge regarding the poor performance of service contracts across various sectors evidenced by to stalled projects, under-delivered services, and significant financial wastage, undermining the devolved units' ability to achieve their development mandates. This persistent underperformance is observed even as global and national entities increasingly emphasize the role of innovation in driving efficiency and effectiveness, yet questions remain regarding the extent to which the innovative capabilities of suppliers are leveraged or, conversely, are a contributing factor to the existing shortfalls in service contract performance within this specific regional context. The aim of the study was to examine the effect of evaluating supplier innovative capabilities on service contract performance in the Lake region of Kenya.The research was grounded in the dynamic capabilities theory and Resource based view theory. A correlational research design was employed, aligned with a positivist research philosophy. The study population comprised contract evaluation committee members from the ten departments in the four county governments totaling to 180.A pilot study was conducted on 20 respondents selected randomly from the study population. A census survey method was employed to reduce sampling error. The results indicated that the innovative capabilities of suppliers in the lake region of Kenya were positive and significant predictors of service contract performance and accounted for 39.0% variance in service contracts performance. The study recommends investing in building strong supplier relationships, characterized by open communication and collaborative problem-solving, that can foster a more conducive environment for achieving superior service contract performance. It also recommends that firms and government departments should invest in research and development through tailored training and development programs for suppliers to enhance the specific innovative capabilities identified as crucial for service contract success.

Keywords: Supplier,Innovation,Innovative capabilities, Service contract performance

1. Introduction

Efforts in capacity evaluation of suppliers are essential for the performance of service agreements, profoundly impacting many aspects of an organisation's functions and strategic objectives. Accurate assessment of a supplier's capabilities can help mitigate risks (Agarwal, Sahai, Mishra, Bag & Singh, 2011). The effectiveness of service contracts is heavily reliant on the competencies of the selected suppliers (Govindan, Rajendran, Sarkis & Murugesan, 2015).

Innovative capabilities are broadly defined as a firm's ability to develop new products, processes, or ideas that improve efficiency, quality, and competitiveness. According to Camison and Villar-Lopez (2014), innovative capabilities refer to an organization's proficiency in generating and implementing novel solutions that meet evolving market demands. Similarly, Lichtenthaler (2009) emphasizes that these capabilities extend beyond mere invention, encompassing the effective integration of new knowledge and technologies into existing operational processes. By fostering such capabilities, organizations can respond swiftly to changes and uncertainties, thereby gaining a competitive edge. By thoroughly evaluating these aspects, organizations can partner with suppliers who demonstrate reliability, quality, and efficiency, thus ensuring that service contracts meet their intended performance standards (Ho & Dey, 2010).

Organizations increasingly prioritize the evaluation of supplier innovative capabilities due to the competitive pressures of globalization and the accelerating pace of technological change. According to Zahra and Nielsen (2002), a strong emphasis on innovative capabilities allows firms to better respond to market dynamics and customer demands, thereby enhancing their competitive positioning. Furthermore, Sikombe & Phiri, (2019) argue that innovative capabilities contribute to sustained growth by fostering adaptability, resilience, and operational efficiency. The growing pressure to differentiate offerings in saturated markets has also intensified the evaluation of suppliers' innovative capabilities, as firms aim to secure partnerships that boost their own innovation ecosystems. The ability of suppliers to generate and implement innovations translates directly into enhanced service

quality, cost-effectiveness, and responsiveness to evolving customer needs (Barney, 1991). This focus on innovation is driven by the need for sustained competitive advantage in dynamic markets, prompting organizations to seek suppliers who can not only meet current needs but also proactively anticipate and address future challenges. Furthermore, innovative suppliers offer a strategic advantage by contributing to the development of new products and services, fostering collaboration, and accelerating the overall innovation ecosystem (Chesbrough, 2003). This collaborative innovation approach shifts the focus from transactional relationships to long-term partnerships predicated on mutual benefit and shared innovation. Therefore, the evaluation of supplier

According to Melander, (2018),innovation capability is a crucial element in selecting strategic partners capable of contributing meaningfully to continued organizational success. He argues that specific dimensions of supplier innovative capabilities that correlate with enhanced service contract performance. These dimensions generally include technological skills, process innovation, collaborative innovation practices, and knowledge management capabilities (Zhao *et al*., 2013; Gunday *et al*., 2011). Effective evaluation mechanisms often assess these dimensions through both qualitative and quantitative indicators, such as patent counts, R&D investments, employee expertise, and historical innovation outcomes (Drejer, 2004). In service contexts, innovation is also tied closely to relational factors such as trust and communication between buyers and suppliers, suggesting that innovative capability evaluations should extend beyond technical aspects to incorporate relational and social capital variables (Koufteros, Vonderembse & Jayaram, 2005).

From the theoretical perspective, the Resource-Based View (RBV) offers a foundational framework for understanding supplier innovative capabilities. Barney (1991) postulates that firms achieve sustainable competitive advantage through possession and effective utilization of valuable, rare, inimitable, and non-substitutable resources. Within this context, suppliers' innovative capabilities are considered intangible resources that can create unique value propositions for buyers in service contracts (Wang & Ahmed, 2007). Consequently, evaluating these capabilities becomes essential for clients aiming to secure superior contract performance outcomes, as innovative suppliers can introduce process improvements and tailor services that align with dynamic customer needs (Liu *et al*., 2016).

The Dynamic Capabilities Theory further explicates the importance of supplier innovation in service contracts by highlighting a firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (Teece, Pisano & Shuen, 1997). Applying this lens to supplier evaluations means recognizing that innovative capabilities are not static assets but dynamic processes that enable suppliers to adapt service delivery models continuously, thereby sustaining contract performance over time (Eisenhardt & Martin, 2000). Hence, evaluation frameworks need to capture the extent to which suppliers demonstrate agility and learning in their innovative processes.

1.1 statement of the Problem

Effective service contract performance is paramount for the socio-economic development of any region, ensuring the efficient delivery of public goods and services. However, in the Lake Region counties of Kenya including Kisumu, Siaya, Homa Bay, and Migori, there is a worrying challenge regarding the suboptimal performance of service contracts across various sectors. Reports from the county assemblies and public forums frequently highlight significant delays, quality compromises, and cost overruns in critical areas such as infrastructure development, healthcare equipment maintenance, public works, and waste management. For instance, while county governments collectively allocate substantial portions of their annual budgets to external service providers for vital works and services, a considerable fraction of these investments fails to yield the anticipated value. This leads to stalled projects, under-delivered services, citizen dissatisfaction, and significant financial wastage, undermining the devolved units' ability to achieve their development mandates. This persistent underperformance is observed even as global and national entities increasingly emphasize the role of innovation in driving efficiency and effectiveness, yet questions remain regarding the extent to which the innovative capabilities of suppliers are leveraged or, conversely, are a contributing factor to the existing shortfalls in service contract performance within this specific regional context. Residents frequently contend with essential infrastructure that quickly deteriorates post-construction, such as roads needing repairs just months after commissioning, and intermittent or unreliable provision of crucial services like waste collection and water supply. For instance, reports from county procurement offices reveal that over 60% of service contracts awarded in the past five years have suffered delays, cost overruns, or substandard outcomes attributable, in part, to the inability of suppliers to adapt and innovate in response to evolving project demands.Instances of critical medical equipment lying un-serviced for extended periods due to inadequate or unresponsive maintenance contracts directly compromise healthcare access and quality, leading to preventable deaths and increased burdens on already strained facilities. Similarly, across the region, public buildings and educational institutions often suffer from a lack of preventive maintenance, leading to costly reactive repairs or premature dilapidation. These issues suggest a systemic failure where procurement processes, often prioritizing immediate low cost over long-term value, may inadvertently select suppliers who lack the necessary foresight, technological prowess, or adaptive solutions like innovative capabilities to handle the unique complexities and demands of delivering resilient and high-quality services in the region.

2. LITERATURE REVIEW

3.1 Resource Based View Theory

The RBV theory posits that a firm's competitive advantage stems from its unique, valuable, rare, and inimitable resources and capabilities(Barney,1991). This theoretical perspective posits that supplier's innovative capabilities, viewed as a bundle of resources and capabilities (Wernerfelt, 1984), are central to delivering superior service performance and ultimately influencing the buyer-supplier relationship. By engaging with

innovative suppliers, firms can access novel ideas, technologies, and processes that can help them achieve superior outcomes. According to RBV, firms with strong internal resources and capabilities are better positioned to identify, evaluate, and leverage suppliers' innovative capabilities. For instance, firms with robust research and development (R&D) capabilities can more effectively assess the potential of suppliers' innovative offerings and integrate them into their existing product or service offerings (Bataineh, Sánchez-Sellero & Ayad, 2023). Moreover, RBV theory highlights the importance of a firm's absorptive capacity in managing supplier relationships effectively. Absorptive capacity refers to a firm's ability to recognize the value of new external knowledge, assimilate it, and apply it to commercial ends (Cohen & Levinthal, 1990).The scholars argue that firms with high absorptive capacity can better identify, evaluate, and integrate suppliers' innovative offerings into their operations. This is particularly important in industries where rapid technological change is a norm, as firms need to continuously update their knowledge base to remain competitive.

Another key aspect of RBV theory is the concept of resource complementarity. Resource complementarity refers to the idea that the value of a firm's resources and capabilities increases when they are combined with complementary resources and capabilities from other firms (Barney, 1991).RBV posits that resource complementarity can be achieved by engaging with suppliers who possess complementary innovative capabilities that can enhance a firm's existing resources and capabilities. For instance, a firm with strong marketing capabilities may benefit from partnering with a supplier that has innovative packaging technologies, as this can help the firm differentiate its products in the marketplace. RBV also underscores the importance of internal consistency and dynamic capabilities. The effective deployment of a supplier's innovative capabilities requires internal coherence and alignment with overall strategic goals (Prahalad & Hamel, 1990). Furthermore, the ability to adapt, sense, and seize opportunities for innovation is crucial for sustained superior performance. Evaluations of suppliers must therefore consider not only the presence of valuable innovative capabilities but also the supplier's capacity to manage and develop them over time, ensuring continuous improvement and adaptation to changing market demands (Modi & Mabert,2007). This dynamic perspective aligns with the long-term nature of service contracts, emphasizing the importance of sustained performance beyond the initial contract period.

3.2 Dynamic Capabilities Theory

Traditional resource-based views, while emphasizing the importance of unique resources and capabilities, often fell short in explaining how firms can maintain their competitive edge in rapidly changing markets. It is in this context that Dynamic Capabilities Theory (DCT) emerges as a crucial theoretical lens, offering insights into how organizations sense opportunities and threats, seize them through new processes and products, and transform their resource base to exploit these opportunities (Teece, 2007).This theoretical perspective posits that firms can develop and leverage specific capabilities to sense, seize, and reconfigure their internal and external resources, thereby enabling them to achieve sustainable competitive advantage (Teece, Pisano, and Shuen 1997).

Unlike ordinary capabilities that pertain to operational efficiency and execution, dynamic capabilities are higher-order capabilities that enable a firm to *change* its resource base and operational routines in response to market signals. Teece (2007) later refined this framework into three main components: "sensing" (identifying and assessing opportunities and threats), "seizing" (mobilizing resources to address opportunities and capture value), and "transforming" (ongoing renewal, co-adaptation, and reconfiguration of the organizational asset base). This meta-capability perspective shifts the focus from *what* a firm possesses to *how* it can continuously adapt and innovate, making it particularly pertinent to strategic sourcing and relationship management (Eisenhardt & Martin, 2000).This theory asserts that evaluation of supplier innovative capabilities is closely tied to service contract performance, as suppliers with strong innovative capabilities are better equipped to deliver high-quality services and meet customer needs (Bhadra, K. V., Kamalanabhan & Singh, 2024). Dynamic capabilities theory also suggests that firms should assess the supplier's ability to adapt to changing customer needs, innovate and improve their services, and respond to emerging opportunities and threats (Wang & Ahmed, 2007).

3.3 Empirical Literature Review

Perunović, Mefford, Christoffersen, McIvor, and Falls (2016) explored the innovative capabilities of suppliers within the contract electronics manufacturing industry. Their research aimed to enhance the understanding of how these suppliers utilize their innovative skills to secure, manage, and sustain outsourcing agreements with their customers. Employing a resource-based perspective and performing in-depth case studies of three distinct electronics manufacturing service providers, the findings indicated that suppliers can successfully achieve outsourcing objectives throughout the contract lifecycle by focusing on competitive factors like cost, quality, delivery, and flexibility. Additionally, the study identified three innovation-related capabilities (IRCs) that influence vendor innovation: design, new product introduction, and manufacturing.

Saunila, Ukko, Nasiri, Rantala, and Sore (2021) examined the relationship between the capabilities of suppliers and the innovation outcomes of buyers within service-oriented e-business supply chains. The study's objective was to analyze how supplier capabilities, which are categorized as product, service delivery, and buyer-supplier relationship, influence buyer innovation. Research data were collected through a survey targeting a randomly chosen, cross-sectional sample of Finnish enterprises with online stores, emphasizing managerial perspectives on supplier capabilities, buyer actions, and buyer innovation outcomes. Multiple regression analysis was utilized to assess the proposed relationships. Findings indicated that supplier capabilities related to the buyer-supplier relationship positively impacted buyer innovation performance, whereas neither product nor service delivery abilities demonstrated a significant effect. Furthermore, the study revealed a negative moderating effect of buyer operations on the relationship between product capabilities and buyer innovation, while simultaneously highlighting a positive moderating effect on the relationship between service delivery capabilities and buyer innovation.

Lekakimon and Duncan (2023) investigated how supplier evaluation affects the procurement effectiveness of the Nakuru County Government in Kenya. This study was based on transaction cost theory, social exchange theory, relational theory, and resource dependency theory. A survey research method was employed, focusing on 10 divisions within the Nakuru County Government as the unit of analysis. The findings revealed a slight negative

effect of supplier evaluation on procurement efficiency. The research proposed that County Governments should consistently review supplier performance by conducting regular assessments according to established criteria.

Liem, Khuong, and Canh (2020) investigated the correlation between the duration of buyer-supplier contracts and the innovation capabilities of supplier firms within Vietnam. Utilizing data encompassing 1,516 manufacturing enterprises from 2014 to 2018, the research sought to ascertain whether the longevity of contracts had an effect on corporate innovation. The results demonstrated a positive link between extended contracts and supplier-driven innovation, particularly when the buyer was an international firm. This observation reinforces the idea that foreign partners are instrumental in promoting technological advancement for local suppliers in developing nations. Nonetheless, the analysis also revealed that particularly long contracts did not reliably result in enhanced innovation or the introduction of new products in comparison with shorter contracts, which is consistent with the principles of agency cost theory. These outcomes were upheld across different model specifications and econometric techniques.

Van der Valk, Sumo, Dul & Schroeder (2016) employed Necessary Condition Analysis (NCA) to investigate the influence of contracts and trust on advancing innovation in buyer-supplier partnerships. The research introduced NCA and utilized it on data derived from 48 service outsourcing collaborations, specifically analyzing the essential role of contracts in fostering supplier-driven innovation. Acknowledging that contracts operate within a larger social framework, the research also evaluated the importance of trust. The results demonstrated that highly innovative partnerships (the top 10%) necessitated both comprehensive contracts and elevated levels of trust. Conversely, partnerships characterized by average levels of innovation (the bottom 50%) did not require either contracts or trust. This implementation of NCA offered fresh perspectives on the interplay between innovation and relationships based on contracts and trust. The authors suggest that managers should emphasize the establishment of these necessary conditions prior to addressing other elements typically linked with promoting innovation.

Tarigan, Siagian, Panjaitan, and Sutjianto (2020) explored the impact of trust in suppliers, innovation by suppliers, and the dynamics of buyer-supplier interactions on supplier performance in the funeral service industry in Surabaya, Indonesia. The study involved a survey of 52 service suppliers in Surabaya, employing questionnaires, and analyzed the results with Partial Least Squares (PLS) methods. The results demonstrated a positive correlation between supplier trust and both supplier innovation and buyer-supplier dynamics. Additionally, the analysis showed that buyer-supplier relationships directly foster supplier innovation, while the combination of supplier trust, innovation, and relationships positively influences supplier performance in the funeral service sector in Surabaya. This research provides significant insights for supply chain management and suggests that managers can leverage these relationships to improve supplier performance.

Tarigan, Mochtar, Basana, and Siagian (2021) explored how competency management impacts organizational performance via supply chain integration and quality. The study centered on competency management, supply chain integration, supply chain quality, and operational capability as key strategies for enhancing company performance. Data was collected from medium to large manufacturing enterprises in Indonesia using an online survey sent through email and WhatsApp, achieving a response rate of 24.32% with 152 out of 625 individuals completing the questionnaire. To test the hypotheses, partial least squares analysis was applied. Findings indicated that competency management had a significant effect on supply chain integration (0.598), supply chain quality (0.387), and operational capability (0.346). In addition, supply chain integration was found to enhance supply chain quality (0.428), operational capability (0.619), and organizational performance (0.255). Despite supply chain quality having a positive influence on operational capability (0.260), it did not significantly affect organizational performance (0.018).

Maina and Moronge (2018) explored the connection between supplier evaluation practices and procurement results in Kenyan state corporations, with the Kenya Medical Supplies Authority serving as their case study. The primary objective was to assess the impact of these practices on procurement outcomes. A total of 72 individuals were surveyed, selected through stratified random sampling, and data was gathered using a self-administered questionnaire that was delivered and collected through a drop-and-pick method. The findings revealed a positive positive correlation between supplier evaluation practices and improved procurement performance, underscoring the importance of effective quality control in maintaining a sustainable competitive advantage in procurement. With a significant portion of procurement costs affecting overall expenditures, the authors emphasized the need for strategies focused on cost reduction, sustainability enhancement, and maximizing value for money. Supplier competence was recognized as a vital element affecting procurement performance. The study called for further research into the challenges associated with implementing sustainable supplier evaluation practices in the public sector and their potential to improve procurement efficiency.

Hawkins, Gravier, and Muir (2020) explored the role of supplier performance evaluations (SPEs) in minimizing risk, focusing on the processes and behaviors tied to these evaluations. The study aimed to identify the factors that influence the effectiveness of SPEs in managing risk. Their approach combined qualitative interviews with buyers and suppliers along with a quantitative analysis of survey data from 131 performance evaluators employing structural equation modeling. The results highlighted the necessity of a clearly defined scope of work, specific SPEs, and thoroughly documented justifications for performance ratings. However, the research also revealed that variations among evaluators and concerns regarding potential conflicts with suppliers can significantly undermine the efficacy of SPEs in risk mitigation. Furthermore, the study recognized a concerning tendency to use SPEs for short-term gains, distorting the assessment of supplier performance and hindering the goals of sustainable risk management. This misuse surfaced in two types of opportunism: threat-based and debt-based, each impacting the effectiveness of SPEs in distinct ways.

Dey, Bhattacharya, Ho, and Clegg (2015) conducted a case-based action research study focusing on the evaluation of strategic supplier performance within a manufacturing company in the United Kingdom. The aim of the research was to develop an extensive analytical framework incorporating both leading factors (including organizational practices, risk management, and environmental and social practices) as well as lagging indicators for supplier assessment. The research engaged stakeholders in establishing these factors and employed process mapping techniques. A key contribution of the article is its actionable research methodology, which integrated quality function deployment with the analytic hierarchy process for supplier performance evaluation. The effectiveness of this method was substantiated through focus group discussions, business outcomes, and statistical analyses, demonstrating that enhanced supplier performance positively influences the operational and business outcomes of the client organization.

Maestrini, Luzzini, Caniato, Maccarrone, and Ronchi (2018) explored the relationship between existing supplier performance measurement systems (SPMS) and supplier performance by adopting a dyadic lifecycle perspective. The study assessed how different stages of SPMS adoption, design, implementation, usage, and evaluation influenced supplier performance metrics. Through a dyadic survey involving 147 buyer-supplier pairs in the manufacturing sector, the researchers tested their hypotheses utilizing a structural model with partial least squares (PLS) regression analysis. The results

indicated that both the usage and evaluation of SPMS significantly impacted supplier performance, with SPMS utilization improving quality, delivery, and sustainability outcomes, while the evaluation phase positively affected delivery, innovation, and sustainability performance. A well-rounded design notably influenced sustainability performance, while an extensive implementation was linked to a detrimental impact on innovation performance. Notably, no lifecycle phase appeared to influence cost performance.

Perunović, Mefford, Christoffersen, McIvor, and Falls (2016) explored the innovative abilities of suppliers in the contract electronics manufacturing industry, aiming to address a knowledge gap by examining how these suppliers leverage their innovation capacities to obtain, manage, and renegotiate outsourcing contracts with customers. Adopting a resource-based perspective, the authors conducted in-depth case studies on three electronics manufacturing service providers. The findings demonstrated that suppliers can achieve outsourcing objectives by strategically aligning competitive priorities such as cost, quality, delivery, and flexibility. The study classified the capabilities influencing vendor innovation into three categories of innovation-related capabilities (IRCs): design, launching new products, and manufacturing techniques. Furthermore, it detailed three approaches that suppliers employ to manage these IRCs, along with supporting arguments that highlight the effectiveness of each approach in various situations.

Tarigan, Siagian, Panjaitan, and Sutjianto (2020) explored how supplier trust, supplier innovation, and the interactions between buyers and suppliers influence supplier performance in funeral service firms located in Surabaya, Indonesia. The study sought to identify the contributions of these factors to the improvement of supplier performance within this sector. Researchers collected data through questionnaires distributed to 52 service providers, and analyzed the results using partial least squares (PLS). The findings confirmed all proposed hypotheses, demonstrating that supplier trust positively influenced both supplier innovation and buyer-supplier relations. In addition, it was shown that buyer-supplier relationships directly and positively impacted supplier innovation, and that supplier trust, supplier innovation, and buyer-supplier relationships together improved supplier performance in Surabaya's funeral service entities. This research offers important insights into supply chain management by emphasizing the importance of these factors for enhancing supplier performance.

Liem, Khuong, and Canh (2020) investigated the correlation between the duration of contracts and innovation within supplier companies. Through the examination of data from 1516 manufacturing entities in Vietnam gathered from 2014 to 2018, the research indicated that longer contracts have a beneficial effect on innovation, especially among firms that engage with foreign clients. This implies that international collaborations are vital for improving the technological skills of local suppliers in developing nations. The study also revealed that contracts of an extended duration, in contrast to shorter ones, did not significantly increase innovation or novelty. This observation supports the agency cost theory, which argues that overly prolonged contracts may diminish the incentive for innovation. The outcomes of the research, which are uniform across different specifications and econometric methods, offer significant direction for improving buyer-supplier dynamics and stimulating innovation in manufacturing.

The studies reviewed collectively highlight the complex relationships between vendor innovation capabilities, supplier evaluations, and overall performance within various service and manufacturing sectorsPerunović *et al*. (2016) and Tarigan *et al.* (2020) investigated the impact of innovation on supplier effectiveness, though in varying contexts. Perunović *et al.* examined how suppliers in the field of contract electronics manufacturing can harness innovation capabilities, including design and the introduction of new products, to obtain and sustain outsourcing agreements. In contrast, Tarigan *et al*. highlight the importance of trust and the relationships between buyers and suppliers in the death services sector, demonstrating how these relational elements positively influence supplier innovation and overall performance. While both studies underscore the importance of innovation, they diverge in their approaches; the former employs a resource-based view to identify specific capabilities, while the latter relies on empirical data from service suppliers to establish the impact of relational dynamics. This contrast reveals a gap in understanding how the specific evaluation of innovative capabilities influences service contract performance, especially in service-oriented contexts where relational factors may disproportionately affect outcomes.

In addition to concentrating on relational dynamics and innovation competencies, research conducted by Saunila *et al.* (2021) and Liem *et al.* (2020) presents the idea that supplier capabilities play a role in shaping innovation outcomes. Saunila *et al.* highlight that the relationship between buyer and supplier critically influences buyer innovation; however, they observe that the capabilities related to product and service delivery exert a less significant effect.This suggests that while relational aspects are essential, the assessment of supplier capabilities, particularly their innovative potential, remains underexplored. Liem *et al*. add complexity to this discussion by exploring how contract length affects innovation. Their findings indicate that long-term contracts primarily enhance innovation with foreign buyers, but excessively long contracts can diminish the motivation to innovate. This highlights the need for research that not only examines how innovative capabilities are evaluated but also how these evaluations influence contract performance over time. A significant gap exists in understanding the mechanisms through which rigorously assessed innovative capabilities can lead to better service contract outcomes, especially in industries where innovation is crucial for maintaining a competitive edge.

3.METHODOLOGY

3.1 Research Design

The study utilized a correlational research design that allows investigators to evaluate both the magnitude and nature of the relationships among variables, including supplier innovative capabilities and contract outcomes, without requiring any experimental alterations. As noted by Creswell (2017), this approach is especially beneficial when conducting experimental studies is either impractical or unethical. In supplier evaluation, altering supplier performance can often be impractical and may pose risks to stakeholder relationships. Therefore, correlational studies present a valuable alternative to experimental research designs.

3.2 Area of Study

The study was carried out in the lake region, which consists of Kisumu, Siaya, Homa-Bay and Migori counties. This vibrant and speedily developing region in Western Kenya acts as an important economic hub and serves as a vital access point to the East African region. Positioned along Lake Victoria, it has a significant impact on trade, industry, and tourism. The four counties present a varied supplier environment, comprising both domestic and foreign firms that provide a diverse range of products and services to businesses and governmental organizations. This area hosts numerous small and medium-sized enterprises (SMEs) alongside large multinational companies, with principal supplier sectors including construction, engineering, IT services, transportation, and logistics.

3.3 Target Population

The target population encompasses all individuals for whom the research outcomes are expected to be relevant. Five participants were selected from each of the ten departments within the county governments of Kisumu, Homa-Bay, Siaya and Migori. This selection consisted of technical staff from each department, the secretariat led by the procurement officer who serves as the secretary to the evaluation committee, the heads of user departments, and the departmental accountant. Under the Public Procurement and Asset Disposal Act of 2015, an evaluation committee is composed of at least five members drawn from designated departments. The total respondents that were targeted for this study were therefore 200.ie the number of departments (10) multiplied by the number of personnel in each department in the evaluation committee (5) multiplied by 4 counties, i.e (10×5×4) = 200 respondents.

3.4 Sample and Sampling Technique

Sampling involves choosing a smaller group of individuals or data points from a larger population to act as a representative of that population. This approach allows researchers to draw conclusions about the entire population without examining each member individually. The goal is to make certain that the sample accurately reflects the characteristics of the larger population. In this research, census sampling was employed to identify a sample of respondents for the survey. Through the application of the census method, this study seeks to guarantee an unbiased representation of the chosen population.

3.5 Validity Test of the Research Instrument

The degree to which a research instrument accurately examines what it is designed to evaluate is known as validity in academic research (Mohamad *et al.* 2015). Establishing face validity is the first step in the validation process, which entails determining if the instrument seems to assess the desired construct on the surface (Kimberlin & Winterstein, 2008). Feedback from professionals with expertise in the relevant field is often incorporated in this assessment. In order to ascertain whether the items or queries in the instrument were suitable for measuring the anticipated construct, we conducted our inquiry with seasoned supply chain management professionals. Face validity is an important first step in determining the relevance of the material, even though it does not ensure the instrument's overall correctness (Kitagawa, 2015).

After ensuring face validity, the researcher undertook content validation to ensure the instrument's alignment with the targeted construct. This process involved a meticulous review of each item within the instrument to determine its comprehensiveness and representation of all relevant dimensions (Rahardja, Aini, Graha & Lutfiani, 2019). In order to do this, a group of experts were tasked to assess each item's relevance to the concept; their assessments was then quantified using a Likert scale.

3.6 Reliability Test of the Instrument

According to Mohamad *et al.* (2015), reliability is the stability and consistency of study findings. Results must be replicable under comparable circumstances in order to be considered reliable; that is, if another researcher were to do the study again with same protocols and techniques, they should produce results that are comparable. Any study must assess and validate reliability in order to prove the validity of its outcomes.

Internal consistency, which looks at how effectively various test or tool components measure the same underlying concept is one method of evaluating reliability. The homogeneity or unidimensionality of items meant to represent a single latent variable is shown by this reliability feature. Cronbach's Alpha, a statistic that determines the average correlation between every conceivable item pair, is often utilized to assess internal consistency. Stronger internal consistency is indicated by higher Cronbach's Alpha scores, which range from 0 to 1. A Cronbach's Alpha value above 0.7 is generally considered acceptable, though this cutoff point may be modified based on the particular circumstances and study objectives.The reliability of the research instrument was confirmed by the reliability test findings, which showed that all constructs pertaining to service contract performance and supplier innovative competencies exceeded the permissible level for Cronbach's Alpha coefficient.

4. RESULTS AND DISCUSSION

The suppliers innovative capabilities was measured in terms of their level of investment in research and development and the descriptive analysis yielded the following results:

Level of Investment in Research and Development

estment in Research and Development	N Statistic	Mean Statistic	Std. Dev Statistic	Skewness		Kurtosis	
				Statistic	Std. Error	Statistic	Std. Error
▪ Our supplier actively invests in research and development to improve their product offerings	180	4.24	.525	.196	.151	-.251	.300
▪ Our supplier frequently collaborates with external research institutions or universities to enhance their R&D projects	180	4.56	.498	-.225	.151	-1.965	.300
▪ Our supplier demonstrates a strong capacity to adopt and integrate new technologies in their R&D processes	180	4.65	.479	-.621	.151	-1.627	.300
▪ Our supplier consistently generates innovative products or services as a result of their R&D efforts.	180	4.10	.569	.012	.151	.017	.300
▪ Our supplier is proactive in their R&D efforts, anticipating and responding to emerging market trends and customer needs	180	4.46	.647	-.781	.151	-.437	.300

Source: Survey Data, (2024)

The mean scores across all five indicators related to R&D investment are notably high, ranging from 4.10 to 4.65 (on an implied scale likely representing a 5-point Likert scale). This indicates a prevalent sentiment amongst respondents that suppliers in the region are making significant investments in R&D. Specifically, suppliers are perceived to be actively engaged in improving their products through R&D (mean 4.24), frequently collaborating with external research institutions (mean 4.56), and demonstrating a strong capacity to adopt new technologies in their R&D processes (mean 4.65). Furthermore, the results suggest a direct link between R&D and innovation, as suppliers are perceived to consistently generate innovative products and services (mean 4.10) as a result of their efforts. Finally, suppliers are perceived to be proactive in their R&D, anticipating and responding to emerging market demands and customer needs (mean 4.46).

The standard deviations across all indicators are relatively low, ranging from 0.479 to 0.647, indicating that responses are clustered relatively closely around their respective means. This suggests a degree of consistency in the perception of suppliers' R&D activities across the survey respondents. While some skewness and kurtosis values deviate from a normal distribution, these deviations are not exceptionally large based on the standard errors, suggesting the data is largely representative of the supplier community in the region.

4.1 Effect of Innovative Capability on Service Contract Performance in the Lake Region in Kenya

The objective of the study was to evaluate how suppliers' innovative capabilities affected the execution of service contracts in Kenya's lake region. The study focused on two important facets of innovative capability: R&D expenditure and industry performance levels. The responses for each construct were averaged to determine construct scores, which served as the basis for a multiple regression model. The components of R&D investment and industry performance were added to the model as independent variables after the multiple regression assumptions were confirmed to be correct and the individual constructs of inventive capabilities were found to be reliable. The dependent variable was the average service contract performance scores. The findings are shown as follows:

Table 1:Effect of Innovative Capabilities on Service Contract Performance in the Lake Region

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.181	.194		16.400	.000		
	Industry performance	.095	.031	.252	3.032	.003	.498	2.008
	Investment in Research and development	.277	.055	.420	5.045	.000	.498	2.008

a. Dependent Variable: Service Contract Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.624[a]	.390	.383	.19862	.390	56.556	2	177	.000	2.827

a. Predictors: (Constant), Investment in Research and development, Industry performance

b. Dependent Variable: Service Contract Performance

Source: Survey Data, (2024)

The findings show that service contract performance has a positive relationship with both industry performance and R&D spending. In particular, the unstandardized coefficients show that increasing industrial performance by one unit raises service contract performance by.095 units, whereas increasing R&D investment by one unit raises service contract performance by.277 units. A comparative indicator of each predictor's relative influence is given by the standardized coefficients (Beta). In this instance, industry performance (Beta =.252) is less affected by R&D expenditure (Beta =.420) than service contract performance. This implies that, in this situation, R&D spending is a more important factor in determining greater service contract performance than the performance of the industry as a whole.

With an R-squared value of 0.390, the model shows significant explanatory power, meaning that industry performance and R&D expenditure account for 39% of the variation in service contract performance. This emphasizes how important these innovative capabilities are to improving the performance of service contracts. The model is further validated by the adjusted R-squared value of 0.383, which shows that its explanatory capacity is not the result of chance. The lack of positive autocorrelation is also suggested by the Durbin-Watson statistic of 2.827.

Additionally, both predictors' collinearity statistics (Tolerance and VIF) are within acceptable bounds (Tolerance > 0.4, VIF < 2), suggesting that multicollinearity is not a major problem in this model. This guarantees accurate estimation of the separate effects of R&D investment and industry performance on service contract performance. The following is the analytical model for this relationship:

Service Contract Performance = 3.181 +0.095 industry performance + 0.277 investment in Research and development.

Lekakimon and Duncan (2023) explored supplier evaluation in the context of procurement performance within a Kenyan County Government and found an insignificant negative effect. This contrasts with the current study, which demonstrates a positive correlation between innovation-related factors and performance. This difference could stem from the different contexts examined: the government procurement environment versus a broader service sector landscape. Similarly, Liem *et al*. (2020) investigated the relationship between contract length and supplier innovation, finding that longer-term contracts with foreign buyers positively influenced supplier innovation in Vietnam. This study reinforces the importance of external collaboration, particularly with more advanced economies, in driving innovation. While the current analysis does not explicitly consider contract length or foreign involvement, the importance of innovation and R&D investment as drivers of performance aligns with the findings from Vietnam.

Furthermore, Van der Valk *et al.* (2016) emphasized the necessity of both contracts and trust for achieving high levels of innovation in service outsourcing relationships. The current study, while not directly examining trust, shows that factors influencing industry performance and R&D investment positively contribute to service contract performance, suggesting that elements contributing to a positive collaborative environment, including trust, could be crucial. Lastly, Tarigan *et al*. (2020) highlighted the positive impact of supplier trust, innovation, and buyer-supplier relationships on supplier performance within the death service industry. These findings echo the general importance of collaborative relationships and innovation in driving performance, aligning with the current study's results.

5. CONCLUSION AND RECOMMENDATIONS

The study concluded that for suppliers to become more innovative and adaptive to the dynamic service contracting arena, they must continually invest in research and development to be able to keep track of the emerging needs of customers or the contracting companies.Additionally, they must also monitor the industry performance in order to be able to rate their performance against the bench mark. It was therefore recommended that research into the development of tailored training and development programs for suppliers is essential to enhance the specific capabilities identified as crucial for service contract success would be beneficial.

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