

**Factors Affecting Effective Participation of Micro and Small  
Enterprises in Public Procurement in Kenya**

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**A Thesis Submitted in Partial Fulfillment for the Award of the Degree  
of Doctor of Philosophy in Entrepreneurship of Jomo Kenyatta  
University of Agriculture and Technology**

**2015**

**DECLARATION**

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

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## **DEDICATION**

This thesis is dedicated to my dear wife Nancy Wambui, my dear daughter Esther Wanjiru and sons Henry Njuguna and Walter Kamau for their patience and support during the entire process of course work and proposal writing. I also wish to dedicate this thesis to my late parents Mr. & Mrs. Kimani who encouraged me to continue studying. You have been my strength throughout this taxing moment in my life and your encouragement has enabled me to execute the thesis successfully. May God bless you all.

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## **ABBREVIATIONS AND ACRONYMS**

<b>ACEPD</b>	Africa Center for Entrepreneurship Proficiency Development
<b>BERR</b>	Department for Business, Enterprise & Regulatory Reform
<b>CTB</b>	Central Tender Board
<b>DTB</b>	District Tender Board
<b>EC</b>	European Commission
<b>ERS</b>	Economic Recovery Strategy
<b>EU</b>	European Union
<b>EUR</b>	Euro Rates
<b>FSD-Kenya</b>	Financial Sector Deepening-Kenya
<b>GDP</b>	Gross Domestic Product
<b>HKP</b>	Hayekian Knowledge Problem
<b>ICT</b>	Information Communication Technology
<b>IMF</b>	International Monetary Fund
<b>MSEA</b>	Micro and Small Enterprises Authority
<b>MSEs</b>	Micro and Small Enterprises
<b>MSMEs</b>	Micro, Small and Medium Scale Enterprises
<b>MTBs</b>	Ministerial Tender Boards
<b>OECD</b>	Organization of Economic
<b>PPOA</b>	Public Procurement Oversight Authority
<b>ROK</b>	Republic of Kenya
<b>SAPs</b>	Structural Adjustment Programmes
<b>UK</b>	United Kingdom
<b>USAID</b>	United States Agency for International Development

## OPERATIONAL DEFINITION OF TERMS

<b>Challenges</b>	Is used in this context to denote the difficulties or problems that face micro and small businesses while trying to access public procurement market (Salganicoff, 2013)
<b>Effective Participation</b>	This is the ability of Micro and Small Enterprises to actively and successfully trade with the government (Annino, Davidow, Harrison, & Davidow, 2009). In view of this study, effective participation in its minimum would have been proportional to the GDP contribution by MSEs which is 18.4%. Considering that MSEs' contribution to national employment is about 74%, then the most effective participation of MSEs should not be less than the 30% of the annual budget reserved for procurement of goods, works and services.
<b>Entrepreneur</b>	This is the person who comes up with a business idea and gathers necessary resources to start and run a business (Muske, 2010).
<b>Micro Enterprise</b>	A Micro Enterprise is a business that has less than Ksh.5million invested in it, or has sales of less than Ksh.500,000 a year, or has 1–9 people working in it. A Small Enterprise is a business that has sales of between Ksh.500,000 –Ksh.1million a year, or has 10–50 people working it (RoK, 2005).
<b>Public Procurement</b>	Covers specification of the kind and quality of works, goods or services to be undertaken, acquired or disposed; with government organization being the clients (Lewa, 2007).

## **Small Enterprises**

A firm, trade, service, industry or a business activity whose annual turnover ranges between five hundred and five million shillings; which employs between ten and fifty people; and whose total assets and financial investment shall be as determined by the Cabinet Secretary from time to time, and includes- (i) the manufacturing sector, where the investment in plant and machinery as well as the registered capital of the enterprise is between ten million and fifty million shillings; and (ii) service and farming enterprises, where the equipment investment as well as registered capital of the enterprise is between five million and twenty million shillings. Farm holdings are excluded from the definition of micro and small enterprises, except those farm-based enterprises that involve some sort of processing before marketing (RoK, 2005).

## ABSTRACT

This study sought to investigate the challenges to effective participation of micro and small enterprises (MSEs) in public procurement market in Kenya. It sought to establish how MSEs' capability, information accessibility, access to finance and competitive environment pose challenges to MSEs' participation in public procurement market in Kenya. The study was guided by Schumpeter's Theory of Innovation, Theory of Social Change, Sociological Theories, Family Orientation Theory, Hayekian Knowledge Problem (HKP), Resource Based Theory, Theory of Perfect Competition, Decision Theory, and Contingency Theory. This study was a descriptive survey design. The population of the study was the 2 million MSEs in the entire country and the target population was 519,385 MSEs in Nairobi County. The owner-managers of MSEs were the unit of analysis and were targeted for information because they are likely to be the decision makers in these businesses and are actively involved in their day to day operations. The study also sought the opinion of the public procuring entities through their chief procurement officers/managers. 384 MSE owner-mangers and 15 chief procurement officers/managers were sampled. Questionnaires and interview schedules were used to collect data from the field. Quantitative and qualitative data gathered were coded and analyzed using Statistical Package for Social Sciences (SPSS) computer software. Descriptive statistics were used to analyze the data which was presented in frequency tables, percentages, bar graphs and pie-charts. ANOVA was used to analyze the degree of relationship between the variables in the study and hypotheses testing. The study established that a majority of MSEs are not trained in procurement/supply chain management. Access to tender information was found to be irregular limiting MSEs' chances of participating in public tenders. Most effective medium of communication was found to be social media, newspaper adverts, personal referrals, own network and radio advertisement in a descending order. Language of communication used in tender documents was found to pose a challenge. Government and private funding opportunities were inaccessible due to numerous stringent conditions. Other factors include: favouritism, nepotism, clanism, tribalism, complicity among fund officials, inadequate information about available funding opportunities, and political differences. Majority of MSEs were found not compete favourably with established enterprises since many lack the necessary financial support to invest in modern technologies, advertise their products and services and provide quality services demanded by the government. MSEs were found to be fragmented, disorganized and lack change management skills to outmanoeuvre established players in the market. Laws and policies which govern public procurement in Kenya were found to be technical, elitist, hard to follow and difficult to implement leading to low participation of MSEs in public procurement market. The study has confirmed that regulation and policy frameworks influences MSE capability, access to information, financial accessibility, the environment in which businesses operate and the level of competition which businesses encounter in the market place. Regression analysis findings indicated that there is correlation between the predictor variables (capability, information accessibility, access to finance, and competitive environment) and response variable.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background to the Study**

This study sought to find out the factors affecting effective participation of micro and small-sized enterprises (MSEs) in public procurement market in Kenya. Enterprises qualify as micro or small-sized if they fulfil maximum ceilings for staff headcount, turnover ceiling or a balance sheet ceiling. The chapter examines the background information of the study to review the challenges to effective participation of micro and small enterprises in public procurement in Kenya. The chapter develops the statement of the research problem, the general and specific objectives, and research questions, justification of the study, scope of the study and limitations of the study.

An enterprise can be classified as either micro or small depending on the number of employees in the business, the nature of the industry, ownership structure and revenue base. Microenterprise is a common aspect in business communities everywhere (WB, 2012). The government of Kenya's initiative to help MSEs through the public procurement process has uncovered a range of problems including administrative issues with e-procurement systems, cancelled tenders and exclusive contract conditions. The Vision 2030, the blueprint of the country's development, has clearly articulated the need to support SMEs which account for 20% of the country's GDP (GOK, 2011).

#### **1.1.1 Micro and Small Enterprises**

There is certainly a strong case to be made for MSEs as suppliers in public procurement. But benefits go both ways – the volume of public sector procurement of goods and services from third parties offers considerable opportunities for MSEs as government suppliers. In fact, public procurement is one of the critical areas for development of small and medium business according to the United Nations Industrial Development Organisation (UNIDO) (Jones, 2010). Effective national procurement policies have an important developmental effect in both developed and developing countries. They attract foreign investment and provide local economic opportunities through their employment generating activities. This is no surprise given the substantial proportion of national GDP that public procurement expenditure takes up. In the developed world, public procurement makes for an average 12 per cent of GDP in OECD countries (OECD, 2011).



Nevertheless, smaller businesses generally face substantial hurdles in winning government contracts both in developed and developing countries, and the proportion of government contracts that go to MSEs offers considerable room for improvement (Eei & Mustaffa, 2012), and most industrialized countries spend at least 10 per cent of their GDP on public procurement (OECD, 2011). In developing countries, these figures are at approximately 15-20 per cent of GDP and the public procurement sector is often the largest domestic market. In Sub-Saharan Africa, for instance, the procurement market could be worth between US\$ 30 to US\$ 43 billion<sup>10</sup>. Public procurement in Kenya follows this trend by taking up an estimated 13.3 per cent of national GDP (Jones, 2010) and the Kenyan government remains the country's largest consumer (Odhiambo & Kamau, 2010).

MSEs participation in public procurement has been used in several countries to create markets for their goods and services. However their participation is often plagued by a myriad of constraints including; competition from large firms, constraints in accessing information, low quality service and products due to financial constraints and finally, interference from scrupulous middle-men to then sub-contract to MSEs (Odhiambo & Kamau, 2003). In Kenya, the public procurement market is estimated to range between 8 – 13 percent of Gross Domestic Product in recent years for the central government (Wittig, 1998; Odhiambo & Kamau, 2003). This translates into Ksh 73-106 billion. Total government procurement as percentage of total government expenditure has averaged 26 percent in the last decade. Most MSEs have not had access to this potentially large public sector market and participation is dominated by large enterprises. There is a general perception that small enterprises are unlikely to deliver. They are thus made to go through several barriers before they can even get a sniff of public procurement contracts.

The contribution of MSEs to economic growth and sustainable development is globally acknowledged. There is an increasing recognition of its pivotal role in employment generation, political stability, poverty reduction, income redistribution and wealth creation. MSEs are diverse in nature and can be established for any kind of business activities in urban or rural area. It is considered as a back bone of the economies of many nations globally. Due to their significant contribution towards the development of the economy, various agencies, particularly those of government, have given a lot of importance on the development of MSEs (Khalique, Isa, Shaari & Ageel, 2011).

Similarly, Moore, Petty, Palich and Longenecker (2012) assert that micro and small-sized enterprises play important roles in the economic growth and sustainable development of every nation. MSEs cut across all sectors of the economy. They outnumber large companies by a wide margin and employ many people. MSEs represent about 78 per cent of all the firms operating globally (USAID, 2010). Non-farm micro and small enterprises account for over 35 per cent of total employment and 20 per cent of the gross domestic product (GDP) in many developed and emerging economies (IFC, 2013). In countries like Indonesia, Singapore, Thailand and India, MSEs contribute over 40 per cent of the GDP (Fink, 2012). In 2012, the contribution of MSEs in the industrial sector to the national GDP was estimated at 40%, 52%, 55% and 47.5% for India, Japan, Sri Lanka and Thailand respectively. Similarly, micro and small-sized enterprises (MSEs) are the backbone of Singapore's economy, contributing about 47% of the country's GDP and generating 62% of available jobs (UNCTAD, 2013).

In the European Union countries, some 21 million MSEs provide around 59 million jobs and represent 73 percent of all enterprises. For instance in Britain, SMEs are the backbone of the British economy (Rowe, 2010). The UK economy is 48% MSEs, employing 14.47 million people, out of a working population of approximately 30 million. In terms of UK turnover and GDP, MSEs accounted for 1.48 trillion British Pounds in 2011. MSEs (with at least 1 employee) outperform the large UK Corporations in terms of productivity despite having minimal resources, little support and being largely ignored. Large UK Corporations of 250 employees and over account for 52% of employment but less than 50.8% of the UK turnover. Thus the UK economy, just like many world economies, is supported by MSE performance, and improving participation has a substantially positive effect on the entire economy (UK, 2012).

Regionally, the promotion of MSEs and, especially, of those in the informal sector is viewed as a viable approach to sustainable development because it suits the resources in Africa. MSEs are the main source of employment in developing countries and comprise of over 70% of African business operations. They contribute to over 50% of African employment and GDP. In Nigeria, MSEs contributed an estimated 37 per cent of the GDP (SMEDAN, 2011).

Locally, the MSEs occupy a very strategic position in the development of this country. They cut across all sectors of the Kenyan economy and have been identified as major contributors to employment creation and income generation. MSEs are largely found in the informal sector, mostly employing 1-2 people, although, there are many others that operate in the formal sector. Most of the local investment businesses in Kenya fall under the MSE business sector (ACEPD, 2011). Employment within the MSEs sector increased from 4.2 million persons in 2000 to slightly over 7 million persons in 2014. This accounts for 74.2% of the total persons engaged in employment. The sector contributes up to 18.4% of the country's GDP and is not only a provider of goods and services, but also a driver in promoting competition and innovation (RoK, 2014b).

MSEs and in particular *Jua Kali* expansion has been identified as one of those activities that will assist in economic recovery and growth in Kenya. They enhance the enterprise culture needed to spur growth and development necessary for the country to attain industrialization. MSEs are therefore, a major source of entrepreneurial skills, innovation, employment creation, political stability, poverty reduction and wealth creation. Consequently, many governments and development organizations have focused on the promotion of MSEs as a way of encouraging broader participation in the private sector (ACEPD, 2011).

In order to strengthen the MSEs, a number of programs and facilities are needed to enhance their performance and competitiveness. In this regard, the Kenyan government has developed the necessary regulatory, policy and institutional framework for the development of MSEs in the country. The Micro and Small Enterprise Act was passed by parliament in 2012 and establishes rules and institutions to support micro and small businesses in Kenya. The Act establishes the Micro and Small Enterprises Authority (MSEA) which is mandated to formulate and coordinate policies needed to facilitate the integration and harmonization of various public and private sector initiatives, for the promotion, development and regulation of the MSEs to become key industries of tomorrow. The MSE Act has also set up a Micro and Small Enterprises Fund to: finance the promotion and development of MSEs; provide affordable and accessible credit to MSEs; and finance research, development, innovation and transfer of technology. The Fund received a total of Kshs 309 million in the 2014-15 financial year to promote the activities of MSEs in the country (RoK, 2015).

Other than financial support offered through the MSEA, the government has also established other support programs, institutions and agencies such as the *Uwezo* Fund and Women Enterprise Fund to finance, guide, promote, and enhance MSEs activities in the country. In 2014, the government launched a Kshs. 6 billion fund for both the youth and women, dubbed the *Uwezo* Fund which is available to women and youth groups and is distributed at the constituency level. The Fund operates as a revolving fund to ensure continuity and sustainability and the borrowing groups are expected to apply Table Banking principles. The Fund is organically linked to the 30% public procurement spend preference for youth, women and persons with disabilities and is meant to close the loop between access to opportunities for enterprise development and supply side capabilities (RoK, 2014).

These support programs are meant to provide guidance, promotion, production efficiency, research and development activities, and product development. The net effect should be an expanded market for MSEs' products, increased capacity to service the market, and improved returns for MSEs. One such market is the public procurement which is the single largest market in any emerging economy. It is the principal means through which a government meets its developmental needs such as the provision of essential services, physical infrastructure and the supply of essential commodities (Vinod, 2011). Being the single largest market in the country, access to the public procurement market is core to the promotion and development of SME sector in the country and is the subject of the present study.

### **1.1.2 The Public Procurement Market in Kenya**

The public procurement is a vital component of a country's public administration that links the financial system with economic and social outcomes (Schapper & Veiga Malta, 2011). It is seen as an objective and efficient way of contracting between the state and private entities (Schooner, 2012) and is widely used to promote socio-economic development objectives of a nation, such as the economic development of disadvantaged social groups (Arrowsmith, 2010). The state of government procurement greatly determines the governance and performance of community services and cuts across almost every area of planning, program management, and budgeting. It is therefore, an important market in any economy as it consumes a substantial percentage of public revenue of a country (Schapper & Veiga-Malta, 2011).

The public procurement has been used by many governments all over the world to support the development of domestic industries, overcome regional economic imbalances, and support minority or disadvantaged communities. The size of public procurement varies between 5 and 10 percent of the GDP in industrialized countries. In most developing countries, it accounts for a significant proportion of the GDP; even as much as 60% in some cases. By managing such a margin of the GDP and 60 percent or more of annual government budget of emerging economies, a public procurement system that optimizes the inclusion of micro and small enterprises has wide-ranging socio-economic benefits (Schapper & Veiga-Malta, 2011).

In the European Union, statistics indicate that public procurement accounts for over 17 percent of the EU's Gross Domestic Product (GDP) and was in excess of €2.6 trillion in 2011 (Prieb, Harvey & Friton, 2011). The UK public sector spends around £240 billion each year on the procurement of goods, works, and services, which accounts, as a share of total spending, for around a third of overall public sector expenditure (UK, 2012). The US federal government has the world's largest purchasing budget which exceeded \$380 billion in 2012 (US, 2013). In addition to supplying federal agencies with required goods, services and works, US government acquisition is also used as "a public policy tool to achieve certain socio-economic goals" (Drabkin & Thai, 2012).

In Kenya, public procurement consumes about 60 percent of the country's annual revenue (Lewa, 2014). It is estimated that public procurement amounts to between 10-20 percent of the country's GDP (Odhiambo & Kamau, 2013). Further statistics indicate that 30 percent of each county government's annual allocation is meant for development expenditures. For example, in 2013-14 fiscal year, a total of 61.1 billion shillings was used to procure goods, works and services in the 47 county governments (RoK, 2013b). This is by any description a big market and a major expenditure area for any government which if made accessible to the MSEs, can lead to an accelerated wealth creation, economic growth and development, increased employment opportunities, socio-economic and political stability and balanced regional development (ACEPD, 2011).

Globally, many countries have made deliberate steps to streamline the administration and management of public procurement through the enactment of legal and procedural

framework (Jones, 2011). On this front, Kenya has not been left behind. Originally, the government's procurement system in Kenya was contained in the Supplies Manual of 1978, which was supplemented by circulars that were issued from time to time by the Treasury. In 2005, the Public Procurement and Disposal Bill was introduced in Parliament and subsequently enacted into law. The Public Procurement and Disposal Act (2005) was operationalized in 2007 following the gazettment of the Public Procurement Regulations of 2006 (Migai-Akech, 2005).

The purpose of the Act is to establish procedures for procurement and the disposal of unserviceable, obsolete or surplus stores and equipment by public entities to achieve the following objectives: (a) to maximize economy and efficiency; (b) to promote competition and ensure that competitors are treated fairly; (c) to promote the integrity and fairness of those procedures; (d) to increase transparency and accountability in those procedures; (e) to increase public confidence in those procedures; and to facilitate the promotion of local industry and economic development. The Act lays down the legislative framework within which the public procurement should take place in the country (RoK, 2005c).

This study opines that the Act is a major milestone on the part of the Government of Kenya in its efforts to streamline the public procurement function following reforms started in the late 1990s. Even though the Act may have apparent weaknesses, it meets the baseline elements required for the public procurement legislative and regulatory framework to achieve the agreed international standards and comply with applicable obligations (Nzai & Chitere, 2013). From the foregoing, the issue of promotion of local industries is a key tenet espoused by the Act in any public procurement process. However, one needs to ask the question; to what extent has it increased the ability of the MSEs to access the public procurement market in the country? While trying to answer this question, one needs to review statistics on the MSE participation in the public procurement market.

### **1.1.3 Participation of MSEs in Public Procurement Market**

Since 2000, the government had reduced its role as the major driving force of the economy through the process of economic liberalization entrenched in the IMF bill of Structural Adjustment Programmes (SAPs) of 1990s. Emphasis, therefore, shifted from large-scale industries to micro, small and medium-scale industries, which have the potentials for developing domestic linkages for rapid and sustainable industrial development. Attention is now focused on the organized private sector to spearhead subsequent industrialization programmes. The incentives given to encourage increased participation in these sectors are directed at solving and/or alleviating the problems encountered by micro and small business, thereby giving them opportunity to increase their contribution to the GDP (Ayopo, 2011).

Whilst MSEs are an important part of the business landscape in any country, they are faced with significant challenges that inhibit their ability to function and contribute optimally to the economic development of many African countries (Ayopo, 2011). The position in Kenya is not different from this generalized position (MSEA, 2012). Despite MSE's important contributions to economic growth and development, they are plagued by many problems including stagnation and failure in most Sub-Saharan African countries (Bekele, 2010).

Previous attempts have been made to “define the field of research in entrepreneurship” to include accessibility of markets for products, technology and innovation, availability of finance, research and development, organizational capability, information flow, networking and marketing. Along the Bruyat and Julien model of research in entrepreneurship, effort has been made to establish the general challenges facing MSEs globally, regionally and locally. Review of past studies undertaken so far shows that there has been little attempt to investigate the aspect of the MSEs' access to the public procurement market (Bruyat & Julien, 2010).

This position is corroborated by Cahill, Clifford, Evans, Lee, Ringwald & Williams in a study of seven EU member states conducted in 2012 to investigate the *Barriers to Procurement Opportunity Research*. It was established that previous studies on challenges facing MSEs have mainly revolved around general market access for MSE

products, business environment, institutional and individual characteristics, finance availability, and research and innovation among others. This alienates the public procurement which is the single largest market by volume in most economies globally (Cahill, Clifford, Evans, Lee, Ringwald & Williams, 2012).

## **1.2 Statement of the Problem**

In spite of the legal, policy and institutional reforms undertaken so far in the public procurement sector in Kenya, MSEs still find it hard to effectively participate in this particular market. Muchira (2013) indicated that over 70 percent of key government contracts in Kenya are won by large multinational companies. This implies that only 30% of major tenders go to micro, small and medium enterprises (MSMEs) in this country. In 2013-14, further statistics show that of the 30 percent contract value that went to MSMEs, MSEs had less than a third of the total contracts while two-thirds went to the middle-level enterprises (RoK, 2014b). The market share for MSEs in the public procurement at below 14 percent is too small compared to the 86 percent market share enjoyed by medium and large-scale enterprises since MSEs are the majority at about 70 percent of the total business operations in the country (Okafor, 2012), employs about 74.2% of the Kenyan workforce and contributes to about 18.4% of the country's GDP (RoK, 2014b).

In the view of this study, effective participation in its minimum would have been proportional to the annual GDP contribution by MSEs which is 18.4%. Considering that MSEs' contribution to national employment is about 74%, then the most effective participation of MSEs should be not less than 30% of the annual national budget meant for the purchase of goods, works and services from the market place. This presents a gap for research to establish the reasons behind such a lacklustre performance of MSEs in the public procurement market in Kenya.



### **1.3 General Objective**

The overall objective of the study was to find out the factors affecting effective participation of MSEs in the public procurement market in Kenya.

#### **1.3.1 Specific Objectives**

The study was guided by the following specific objectives:

1. To establish MSEs' capability challenges in participation in public procurement market.
2. To find out information accessibility challenges to MSEs' participation in public procurement systems in Kenya.
3. To establish access to finance challenges to the MSEs' participation in public procurement market in Kenya.
4. To determine how competitive environment pose challenges to MSEs' participation in public procurement market in Kenya.
5. To determine the moderating effect of the Public Procurement Law in Kenya to the MSEs' access to the public procurement market.

### **1.4 Hypotheses**

1. H<sub>A</sub>: There is a significant relationship between MSEs' capability and access of government contracts in Kenya.
2. H<sub>A</sub>: There is a significant relationship between information accessibility and MSEs' participation in public procurement market in Kenya.
3. H<sub>A</sub>: There is a significant relationship between access to finance and MSEs' participation in public procurement market in Kenya.
4. H<sub>A</sub>: There is a significant relationship between level of competitiveness of MSEs and their effective participation in public procurement market.
5. H<sub>A</sub>: The Public Procurement Law in Kenya mediates the relationship of study variables that influence MSEs' participation in public procurement market in Kenya.

## **1.5 Justification of the study**

In spite of the importance of the MSE sector in national development, the Kenyan policies on taxation, regulations on the financial and social sector, credit conditions and collateral requirements among others, does not meet the reality and logic of MSE growth and development. While the procurement and supply systems currently appear to function reasonably well after the enactment of the Public Procurement and Disposal Act of 2005, there are constraints that hinder effective participation of MSEs in the public procurement market in Kenya. This underscores the need for a coherent and unambiguous public procurement policy framework on MSEs covering the goals and objectives of government purchasing decisions towards them as well as the strategies to be used. Whereas public procurement has great significance for the national economy, as a policy instrument, it has its limitations and failures. While the MSE sector contribute over 75 per cent of new jobs created yearly (Schapper & Veiga-Malta, 2011), their significance has not been reflected well in the various policy documents. Even where such policies exist, their implementation is wanting. MSEs are faced with the threat of failure with past statistics indicating that three out of five fail within the first few months of inception.

There are major opportunities for greater MSE involvement in the public procurement with benefits for all concerned - greater competition among suppliers and an increased range of solutions for the procurer, as well as more business opportunities for MSEs. The realization of these opportunities must start with greater awareness among MSEs and public bodies of their respective challenges. Moreover, public procurement is the largest market in any economy. In Kenya, it accounts for about 20 percent of the GDP (Nzai & Chitere, 2013). According to Public Procurement Oversight Authority report of 2012-13, public procurement consumed Kshs. 840 billion. As the economy of the country grows, this public expenditure is also expected to proportionately grow.

From this analysis, enabling MSEs to access this market -which is the biggest in the country - has a potential of unlocking economic growth and development of individual MSEs and the country as a whole. This study was an attempt to explore how support for MSEs can be generated and sustained through appropriate legal and policy frameworks, affordable and accessible financial resources, appropriate infrastructure and technological support, and conducive business environment. This study may also help to expand

knowledge and address informational gaps that currently exist concerning hindrances to effective participation of MSE in public procurement market in Kenya. Information generated from this study can be used by both the national and county governments to formulate favourable policies which can assist MSEs access tenders in public procuring entities. It may also assist MSEs to understand the nature and operations of public procurement market. Results of this study may also spur interest among MSEs to increase their participation in the market.

### **1.6 Scope of the Study**

The scope of the study was limited to the challenges to effective participation of MSEs in the public procurement market in Kenya. There are various factors which can influence MSE participation in the public procurement market. However, the study limited itself to MSEs' capability, information accessibility, access to finance, and competitive environment in order to establish the challenges facing MSE participation in the public procurement market. The mediating effect of the Public Procurement Law in Kenya to the MSEs' access to the public procurement market was also incorporated in the research.

The study based its review of literature on MSEs capability, information accessibility, access to finance, competitive environment and legal environment which regulates the market. The study used "micro enterprises" as the firms, trade, services, industries or business activities whose annual turnover do not exceed five hundred thousand shillings and which employs less than ten people (RoK, 2012). "Small enterprises" was used in this study to refer to firms, trade, services, industries or business activities whose annual turnover ranges between five hundred and five million shillings; which employs between ten and fifty people; and whose total assets and financial investment as determined by the Cabinet Secretary is between ten million and fifty million shillings, and service and farming enterprises, where the equipment investment as well as registered capital of the enterprise is between five million and twenty million shillings (RoK, 2012). The key respondents of the study were limited to owner-managers of micro and small enterprises and the chief/senior procurement officers of public procuring entities in Nairobi County, Kenya. The research instruments were pilot tested in Thika Municipality, Kiambu County.

### **1.7 Limitations of the Study**

A number of MSEs in Nairobi are not permanently located at a particular place where they can be found all the time. Many are also busy moving up-and-down hawking their wares and may not have ample time to respond to questionnaires or take part in physical interviews. However, the researcher administered questionnaires for those who are highly mobile at their own convenient time. The study cultivated a positive study relationship with prospective respondents after past experiences showed that many respondents are willing to go the extra mile to be part of a study if they know it will positively impact on their lives. Thus, the significance of the study was objectively articulated to the prospective respondents during the piloting phase and the actual study.

The study also assured respondents of strict adherence to ethical standards throughout the research. Respondents were assured of strict confidentiality where any information obtained from them was used solely for the purpose of the present study and no any other use whatsoever. The study also sought and obtained informed consent from owner-managers of MSEs and chief/senior procurement officers of various public procuring entities in Nairobi County before data collection.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews literature derived from the research works of other scholars. It also lays down the theoretical orientation, empirical review, conceptualization and operationalization as relates to the study. It presents theories that seek to predict MSE capabilities to access procurement market, theories that explain the influence of information accessibility, access to finance, and competition on market accessibility. Theories that encourage participation of MSEs and minimize risks for small businesses are also discussed.

#### **2.2 Theoretical Framework**

This subsection provides an insight into theories revolving around MSEs access to procurement market in Kenya. It explores Schumpeter's Theory of Innovation, and Theory of Social Change. Also examined are the Sociological Theories, Family Orientation Theory, Hayekian Knowledge Problem (HKP), and Resource Based Theory. Others are the Model on Corruption effect (The interaction of Corruption, Inequality, and Fairness), Theory of Perfect Competition, Decision Theory and Contingency Theory.

#### **Schumpeter's Theory of Innovation**

The term "entrepreneur" is derived from a French root *entreprendre*, meaning, "to undertake". The term "entrepreneur" seems to have been introduced into economic theory by Cantillon (1755) but Say (1803) first accorded the entrepreneur prominence. It was Schumpeter however, who really launched the field of entrepreneurship as associating it clearly with innovation (Filion, 2007). According to Mourdoukoutas (2009) Schumpeter treat entrepreneurship as a distinct and separate function of a firm in revolutionizing the pattern of production through development of product, discovery and exploitation of new market and discovery and exploitation of new source of supply of raw materials.

In Bull *et al* (1995) perception, Schumpeterian model of the theory of entrepreneurship makes no attempt to deduce what the innovating entrepreneur does or how he or she can do better, neither does it make any pretence of constituting a piece of theoretical

reasoning. Theoretical analysis only enters the discussion when Schumpeter turns the enhancement of profits made possible by innovation, which in turn, stimulates imitation that finally brings the flow of innovator's profits to an end. The model shows why innovators must search constantly for yet further novelties in flow of profits. The innovator therefore introduces new products, introduce new production methods, open up new markets, discover new source of supply of raw materials and come up with new organizations. Much of the academic debate on entrepreneurship over the last quarter of a century or more has concerned itself with entrepreneurial, behavioral and personal traits (McClelland (2001), McClelland and Winter (2009) Fraboni and Saltstone (2010) and Gibb (2011).

### **Theory of Social Change**

This theory was realized by Everett E Hagen. Who based his argument on how a traditional society becomes one in which continuing technical progress takes place. Entrepreneur's creativity is key element in this theory. The theory reveals a general model of the society which considers interrelationship among physical environment, social structure, personality and culture. Hagen respected the idea that the solution to economic development lies in imitating western technology. So followers syndrome on the part of the entrepreneur is discouraged.

Although there are many agencies (NGOs, Government and the private sector) that provide support for the MSE sector, Moyi *et al.* (2006) observes that the institutional framework for facilitating the planning, implementation, coordination and impact assessment of marketing activities within the MSEs is weak. Better coordination and interaction across the various institutions would enhance networking as well as access to information. As noted by Mbugua (2009), one of the main problems in policy implementation is the lack of collaborative arrangements between the implementing and other organizations as well as weak linkages between established formal marketing institutions and MSEs.

## **Sociological Theories**

From ethnical identification, individuals attain some sociological values and may be a “push” factor for entrepreneurial skills. Sociological theories argue that social structures such as work place, family and organized social life affect the success of an entrepreneur (Fitzgerald & Muske, 2002). It is on this background the individual will attain information on the way of undertaking procurement because he or she will have experienced it. According to Baeva (2004), people starting new venture are frequently hindered by lack of business information, advice and access to networks and business support systems.

## **Family Orientation Theory**

Family background and orientation bring out the character of an entrepreneurial. The role of the family; the home atmosphere and values there in provide a great deal of nurturing the development of entrepreneurial personality (Kuratko, 2005). This is because the family background of an individual is a strong source of influence of the future result of a person; will he or she become an entrepreneur or not? This reasoning promotes the belief that certain traits established and supported early in life will lead eventually to entrepreneurial emergence and success (Kuratko & Lafollette, 2006).

However, the depth of influence as par this theory remains a source of research in its validation or rejection. Gartner (2005) asserts that children never imbibe their parents’ entrepreneurial characters, even when the parents try to make them succeed them. That is, children often choose their path; therefore creating the problem of entrepreneurial succession.

## **Hayekian Knowledge Problem (HKP)**

This theory was brought up by Hayek in 1948. He did state that, “The peculiar character of the problem of a rational economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess. The economic problem of society is thus not merely a problem of how to allocate “given” resources—if

“given” is taken to mean given to a single mind which deliberately solves the problem set by these “data.” It is rather a problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge which is not given to anyone in its totality”.

Kirzner (1992) elaborated the implication of Hayekian understanding of information stemming from uncertainty about future and genuine ignorance. It rests on a narrow view of knowledge. Adjustment/change on how one undertake business like procurement, are either instantaneous or impossible without government intervention. Moreover, the context in which decision are being made is crucial to the nature of the information at stake. As Boettke puts it: “It is not just that information is costly to obtain, but that it is different information if it is stimulated by a context of rivalrous, private-property exchange.” The knowledge actors rely on to make decisions is not universal and abstract, as it must be if it is to be replicated through either bureaucratic planning or political deliberation (Boettke, 2007).

According to Sautet (2003), a direct implication of the lack of the HKP in mainstream economic theory is the absence of adequate consideration of the role of the entrepreneur in the market system. As Penrose admits, defining the nature of the entrepreneurial function is difficult. The entrepreneur is the one who introduces, on behalf of the firm, innovation in every possible way (with respect to products, location, technology, personnel, and administrative organization). This is to be contrasted with managerial services, which relate to the implementation of entrepreneurial innovation. Furthermore, enterprising is “a psychological disposition on the part of individuals to take a chance in the hope of gain, and, in particular, to commit effort and resources to speculative activity” (Penrose, 2005).

### **Resource Based Theory**

Penrose (1959) provided initial insights of the resource perspective of the firm. However, the resource-based view of the firm (RBV) was put forward by Wenerfelt (1984) and subsequently popularized by Barney’s (1991) work. Many authors for example Nelson and winter (1982),Dierick and Cool (1989),Mohoney and Pandian (1992) Eisenhardt and



Martin (2000), Zollo and Winter (2002), Zahra and George (2002) and Winter (2003) made significant contribution to its conceptual development. The theory emphasized the importance of organization resources and their influence on performance and competitive advantage in the market. According to RBV, every organization has its own unique resources that enable it to remain competitive in the market, by addressing the rapidly changing environment (Helfat, 2007). These resources may be financial, human, physical, technological and information. These may be valuable, rare and non-substitutable (Crook, Ketchen, Combs & Todd, 2008).

Critiques of the RBV have pointed out that some resources contribute to competitive advantage while others do not; hence, not all resources of an organization have the ability to contribute to competitive advantage. Secondly, the mere availability of resources are coordinated and integrated (Lopez, 2005). To execute procurement function, there is need to have informed professionally trained and experienced staff in the field of procurement.

### **Model on Corruption Effect**

In societies with politicized resource allocation systems, the civil service becomes the principal mechanism for the allocation of resources, and not the market. Consequently, entrepreneurs seeking to secure the rights to lucrative monopoly positions created by government intervention must purchase these rights from politicized markets controlled by civil servants. Bureaucrats, aware that the permits provide their owners with significant monopoly profits, try to capture some of these rents by demanding bribes from entrepreneurs who request licenses. Government regulation also imposes significant costs on business enterprises. To reduce the burden of such regulations, many entrepreneurs attempt to bribe civil servants, whose job it is to administer these laws. The main purpose of a bribe is either to obtain an exemption from the laws, or to have one's enterprise taxed at a diminished rate.

If the economic system were deregulated and access to markets unrestricted – that is, licenses and permits were not required, for example, to engage in economic activity – there would be no reason for entrepreneurs to pay bribes to civil servants. If, for example, there were no restrictions on international trade, entrepreneurs would not be required to obtain import permits, and as a result, bureaucrats would have no opportunity to extract

bribes from participants in international trade. Thus, bureaucratic corruption is directly related to the level and extent of government activity in the economy.

Several studies have examined corruption in Africa, including Werlin (2003), LeVine (2005); Gould and Mukendi (2009). Ghana represents an excellent example of a country in which excessive government intervention in private exchange gave rise to high levels of corruption. Corruption in Ghana is well documented, by for example, Werlin (2003) and LeVine (2005). Ghana gained independence from Great Britain in 1957, with Dr Kwame Nkrumah as the country's first chief executive. The Nkrumah government subsequently established a repressive political system and, like many other developing countries, adopted statism as the country's development path. Within a few years of independence, the incumbent government had succeeded in manipulating the rules to insure its total and absolute control of resource allocation. In fact, by 1966, the year in which Nkrumah's regime was overthrown by a military coup, the country had degenerated into a venal society with a repressive and highly controlled internal economic structure in which access to lucrative monopoly positions was regularly sold by civil servants.

The destruction of the market mechanism and the relatively heavy reliance on the political system for the allocation of resources increased the level of rent-seeking and created opportunities for bureaucrats to extort bribes from entrepreneurs seeking access to markets. Since the government of Nkrumah was overthrown in 1966, Ghana has enjoyed only a brief period of civilian rule. Despite efforts at institutional reform, the economy is still characterized by significant levels of state intervention and as a result, rent-seeking, including corruption, continues to be a major development problem. Democratic Republic of Congo represents another important case of corruption in post-independence Africa. In a little over five decades of independence, the country's apparatus of state has been converted into a framework for the enrichment and self-advancement of the nation's elites.

In fact, Mobutu Sese Seko, who ruled DR Congo for a long time acknowledged that corruption was the nation's greatest development problem (Gould & Mukendi, 2009). Its leaders have been cited in several cases of abuse of the public trust, including the illegal

appropriation of military resources by military officers, and the use of judiciary authority by some of the nation's judges to punish their enemies and those of their friends. Also reported are incidents of adjudication of court cases based on the accused wealth status, mass smuggling of diamonds and coffee, and placement of dead or non-existent individuals on the national payroll. There are cases of non-payment of import duties by entrepreneurs, who pay bribes to the bureaucrats in the customs and excise department.

Three important forms of corruption have been identified in DR Congo: first, in routine state business, individuals bribe civil servants to have incriminating or compromising documents expunged from their official files. Bribing the right official, especially in the government's salary computerization bureau, can result in an increase in one's base salary. Second, supervisors may also engage in corruption while implementing public programmes. For example, an individual given the responsibility for implementing a bridge construction project may receive additional compensation either by submitting false accounts and pay vouchers, or by allowing contractors to submit invoices with inflated costs. Based on a prior agreement, the civil servant is paid a bribe by the contractor. If completion of the project involves the importation of raw materials, the civil servant supervising the project may be able to earn extra-legal income by purchasing more inputs than are required to complete the project and then selling the surplus to private entrepreneurs, usually at below market prices.

Third, state intervention in private exchange is carried out by the country's bureaucracy. For example, civil servants design and implement state price control programmes, as well as assessing the taxes each enterprise must pay. In addition, as is the case in most other African countries, the state in the Democratic Republic of Congo is responsible for marketing most cash crops and other primary commodities (including fuels and minerals) produced domestically.

In the implementation of the myriad of state regulations, civil servants have an opportunity to extract additional income from the economy for themselves. Entrepreneurs regularly pay bribes to civil servants in order to minimize or eliminate their tax obligations. Officers of the customs and excise departments routinely reduce import duties owed to the state by importers. The latter, of course, share the cost savings with the

bureaucrats. Gould and Mukendi (2009) state that these and other corrupt behaviour or practices have been ‘ingrained, institutionalized and routinized’ in the economy of DR Congo and have resulted in the ‘systematic bleeding of the state treasury’.

We start by analyzing how inequality, fairness and corruption affect optimal policy choices and how policies in turn affect the equilibrium levels of inequality, fairness and corruption. The gap between actual and fair income can be decomposed into four terms:

$$y_{it} - \hat{y}_{it} = (1 - \tau) (w_{it} - \hat{w}_{it}) - \tau \hat{w}_{it} + G_t + (r_{it} - R_t)$$

The first term implies that a higher tax rate corrects more for the unfairness generated by unjustifiable inherited wealth, whereas the second term implies that a higher tax rate also deprives the individual of some of her fair wealth. Therefore, to the extent that  $w_{it} - 1 \neq \hat{w}_{it} - 1$  for a positive measure of agents, society faces a trade off in choosing the size of the government that is optimal from a fairness perspective. The last term, on the other hand, captures the net gain or loss of the agent from his participation in the zero-sum game of corruption, which also depends on the size of the government.

### **Theory of Perfect Competition**

A study by KIPPRA (2006) on Neoclassical Paradigm Theory which is based on the concept of perfect competition which has several assumptions. These assumptions include perfect and costless information, no transaction cost, no public goods, no economies of scale and scope, perfect (or strong form) rationality and that firms maximize profit. Given these assumptions, all players in the perfect market will seek to maximize their gain in all exchanges and, in the long term, the market will tend towards an equilibrium in which returns will equal total costs of production. Consumer demand and producer supply are both homogenous such that the market price acts as the “invisible hand” that equilibrates the market. In the neoclassical theory, consumer sovereignty is critical in allocating production and determining the associated cost.

MSEs as producers may lack the resources to enter the market, access distribution, acquire complete information, and lack the ability to transact and sell. They may be limited in terms of competitive advantage required in various government tenders. Similarly, production is most likely to correspond to the ability of producers with the

most monetary resources. In the absence of sophisticated legal and contractual structures, competition law and regulation, MSEs operating in these markets suffer from high transaction costs, monopoly distortions (due to limited choices of buyers or suppliers), information failure, mistrust, uncertainty and risk aversion. Such market failures reduce responsiveness to changing demand, and discourage investment, locking MSEs into unrewarding activities that create bottlenecks, and sometimes facilitate outright exploitation.

In this regard, it is of utmost importance to develop a marketing strategy incorporating support services to micro and small enterprises by creating an enabling environment for them and have a legal and regulatory environment that is conducive for their survival and growth. It is also necessary to offer support services that ensure market access and product improvement. A survey of street vending in the City of Nairobi reported that about 85 percent faced very severe competition from like businesses (NCBDA, 2004). However, it is important to note that competition in the MSE sector is not only between MSEs that are engaged in the same line of business but also between the MSEs and the relatively larger and resource-rich businesses who seek the same market opportunity.

According to NCBDA, the latter is what concerns MSEs more than competition from themselves because they serve different market segments and target same clients. The target clients for MSEs are low-end income earners who invest in consumption goods/services than making long-term capital investments. Competition is most severe for MSEs when they “discover” a certain trade and tend to flood it albeit in the same location causing over saturation of their products in the markets.

### **Decision Theory**

This theory as discussed by Jurison (2008) indicates that a manager should be accountable to his/her decision. (S) he should be concerned about the outcome of his/her action by weighing the risk of taking any of the options to reduce the risk of the outcome. Decision theory is about decision made at both the individual and institutional level. According to Dickert *et al* (2013), one might decide between giving up resources to influence the well being of others often without expecting direct benefits. On the other hand, it is the stakeholders’ expectation that public procurement officer uphold the

interest of the wider society before their own and this remain the decision of the individual procurement office holder at any circumstance.

Murphy *et al* (2011) observe that the procurement officers are consistently presented with opportunity to make decision at all levels of the procurement process. This leads to several assumptions one of which is narrow self interest which is central to rational choice theory. This means that the decision maker is concerned about maximizing own material gain, indifferent to the payoffs of other decision makers around them.

### **Contingency Theory**

This theory suggests that congruence or fit among key variables is critical for obtaining optimal performance (Lumpkin & Dess, 2006). According to this theory, there is no best way to strategize and no strategic choice is universally beneficial in all conditions. The theory holds that the relationship between two variables depend on the third one. The essence of contingency theory is that the best practice depends on the contingencies of the situation (Lawrence & Lorsch, 2013). To achieve a competitive advantage, MSEs must match their strategic decision to certain sets of contingency factors including external and internal environments (Covin & Slevin, 2012).

Contingency theory suggests that there is no optimal structure for an organization, thus viewing the optimal strategy as a function of different contingency factors in an industry, strategy and environment (Donaldson, 2010). Yeoh and Jeong (2011) found that the studies in which contingency perspective is embraced can offer a deeper understanding of complex research such as entrepreneurship and strategic management. Covin and Slevin (2009) viewed entrepreneurial orientation and performance relationship from a contingency framework to consider external environment factors and internal organization factor. These could impinge upon the level of entrepreneurial orientation and the high level of revenues/profitability.

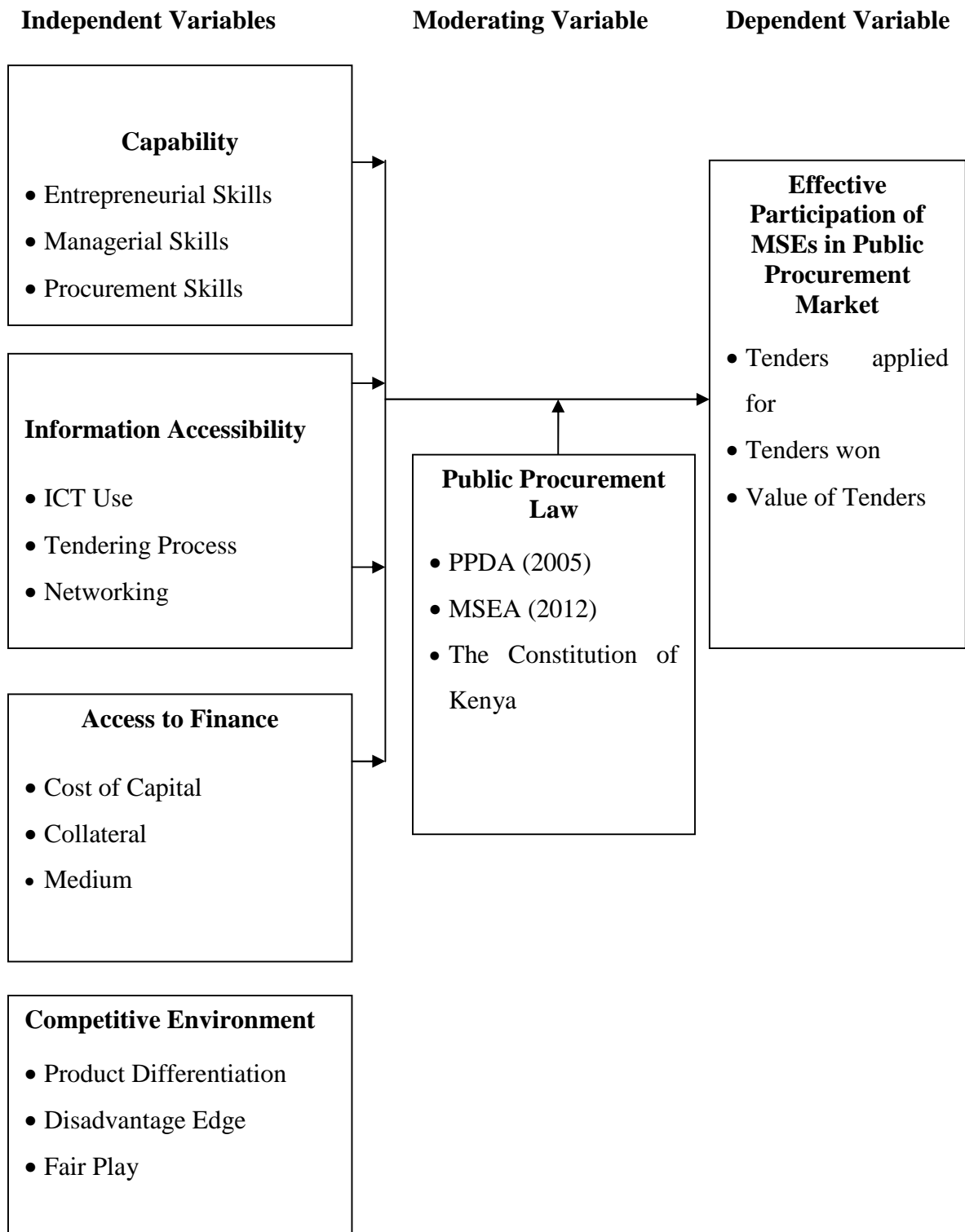
Several empirical studies have used the contingency theory to examine the relationship between entrepreneurial orientation and performance. Keh, Ngyen and Ng (2007) investigated the effect of entrepreneurial orientation and firm's market information acquisition and utilization approaches on performance of MSEs in Singapore. Liu,

Manolova and Edelman (2009) examined the contingency value of resource endowments to the effect of entrepreneurial orientation on firm's performance in China. Li, Huang and Tsa (2009) found that knowledge creation process had contingency value on the effect of entrepreneurial orientation on firm performance.

### **2.3 Conceptual Framework**

A conceptual framework presents factors that are helpful in conceptualizing a study. It is a concise description accompanied by a graphical or visual depiction of the major concepts of the study and the hypothesized relationships and linkages among them (Mugenda & Mugenda, 2012). The conceptual framework presented here shows the interaction between MSE capabilities, environmental, technological, financial, and organizational practice factors in influencing participation of MSEs in public procurement market in Kenya. An attempt is made to outline the existing inter-play between independent, dependent and intervening variables in the study.

Participation of MSEs in public procurement market in Nairobi County depends on certain factors as set out into two categories as dependent and independent variables. Independent variables include: access to business information, access to financial resources, competitive environment and MSE capability. Government regulations are included as an intervening variable. The relationship of the variables is displayed in the figure 2 below:



**Figure 2.1: Conceptual Framework**



### 2.3.1 Capability

Entrepreneurial capacity is one of the entrepreneurial framework conditions beside opportunity, social legitimacy, finance and IT. Entrepreneurial capacity captures motivation and skill. There is a relationship between expert perceived lack of entrepreneurial skill and new business creation (Inter-American Development Bank, 2012). Through the development of an innovative analysis based on information collected at the individual level that is, the entrepreneur, this paper aims to evaluate the importance of entrepreneurship individual capacity built on human capital and organizational capital, in terms of the determination of SME performance.

The emergence of lively future empirical research developed by Hébert and Link (2008), Bruyat and Julien (2000), Casson (2003), Shane (2004), Blanch flower (2007), Jungwirth (2007), and Parker (2005, 2006, 2007), stresses the need for developing eclectic approaches aiming to allow us to gauge the entrepreneurship-firm size relationship. In this framework, aspects of human behavior, such as the leadership and psychology of an entrepreneur, and the organizational networks deserve further research. Although it has previously been pointed out that firms with higher level of human capital tend to have improved financial performance (Youndt *et al.*, 2004), there is a caveat on the literature about the association between human capital and non-economic performance of firms. Baumol (2002) writes that the entrepreneur has the specific capability of creating a new market, by carrying out some test marketing or test ballooning, in order to learn about the characteristics of the market and to reveal consumers' preferences. That is an example of how an entrepreneurial activity may transform uncertainty into risk, and that is the way Individual Entrepreneurship Capacity becomes seen in the market.

In this framework, organizational entrepreneurship capacity corresponds to the organizational factors that catalyze the combination of factors of production and result in the creation of sources of capital in the pursuit of entrepreneurial activities within a single firm or a single unit of the firm, that embrace multiple levels of Individual Entrepreneurship Capacity (Audretsch & Monsen, 2008). Chung and Gibbons (2007) stress the importance of two basic aspects of organizational culture: (i) the superstructure, and (ii) the socio-structure. The former is concerned with the ideology that is represented

through the core beliefs, values, and dominant assumptions of the organization. The later includes the social capital whose constitution includes learning, information exchange, norms and sanctions.

The proposal of Chung and Gibbons (2007) is the basis of the current proposal for a conceptual model, since we consider that basic aspects of organizational culture, along with human capital, play an influential role in determining Individual Entrepreneurship Capacity. Under a managerial and organizational framework, and linking different dimensions of human capital and organizational capital in our revisited conception of Individual Entrepreneurship Capacity within an SME, we propose to explore the relationships established between the dimensions of these types of capital, and the levels of non-economic and economic performance. This is particularly innovative since it is more usual to find examples of studies focused on economic performance in the existing literature on entrepreneurship. Therefore, this paper is a first attempt to identify the significant dimensions and variables of individual entrepreneurship capital that impact both on economic and non-economic performance of an SME.

### **2.3.2 Information Accessibility**

Muteti (2005) observed that lack of sufficient market information poses a great challenge to the growth of micro and small enterprises in Kenya. Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even physical contacts for market related information. This is due to inability to interpret the statistical data and poor connectivity especially in rural areas. Since there is vast amount of information and only lack of statistical knowledge to interpret and Internet connectivity, small enterprises entrepreneurs need to be supported.

Similarly, Moyi *et al.* (2006) observe that MSEs have limited means in obtaining effective and relevant information on market availability to enable them market or sell their products. Even though such information should be provided by centers that include Chambers of Commerce, MSE development agencies, and associations as well as trade, industry and tourism bureaus, many of these are not within easy reach of most MSEs. According to them, the Government can intervene by: removing information and other

market failures associated with the provision of technical and marketing support to MSEs; allow the growth of MSEs to provide a seedbed for the emergence of dynamic and efficient large-scale national firms and consequently a more flexible and competitive domestic economy; provide a micro environment (whether private, government or NGO markets and institutional) support that is external to the firm; and ensuring well-functioning support systems that minimize the transaction costs and competitiveness of the MSEs. Direct government involvement in marketing services is usually justified on the basis of the market failure argument. The role of the state is to provide an enabling business environment that allows access to markets.

Further, Mutuku (2011) indicates that change of technology has posed a great challenge to small businesses. Since the mid-1990s there has been a growing concern about the impact of technological change on the work of micro and small enterprises. Even with change in technology, many small business entrepreneurs appear to be unfamiliar with new technologies. Those who seem to be well positioned, are most often unaware of this technology and if they know, it is not either locally available or not affordable or not situated to local conditions. Foreign firms still remain in the forefront in accessing the new technologies.

Muteti (2009) further asserts that in most of the African nations, Kenya inclusive, the challenge of connecting indigenous small enterprises with foreign investors and speeding up technological upgrading still persists. There is digital divide between the rural and urban Kenya. With no power supply in most of the rural areas, it is next to impossible to have Internet connectivity and access to information and networks that are core in any enterprise. Thus technological change, though meant to bring about economic change even among the rural lot, does not appear to answer to the plight of the rural entrepreneurs.

Crown (2005) further emphasized that poor infrastructure pose a major challenge to micro and small enterprises in Kenya. There are poor roads, inadequate electricity and water supply and related services. According to the proceedings of the National Investment Conference, November 2003, Kenya still stands in need of better infrastructure. The poor development of roads and other infrastructural networks adversely affects both MSEs and established enterprises. This adds to the cost of information access.

Similarly, the Economic Recovery Strategy Paper (2003) also identified poor infrastructure as a critical factor that constrains profitable business in Kenya. The poor state of the country's road network, for example, adds to the cost of producing and marketing of goods and services, thereby rendering them less competitive than imported substitutes. Other infrastructural problems identified in the *Strategy Paper* include inaccessibility to land, workspace, feeder roads, electricity and other utilities. In conclusion, inadequacy of physical infrastructure is identified as a principal cause of low levels of investment and unsatisfactory performance of micro and small enterprises. However, it is notable that tremendous efforts have been made to improve infrastructure, particularly roads, electricity, and water supply in the last decade.

### **2.3.3 Access to Finance**

According to Mbaku (2012), after constitutional rules have been adopted and the apparatus of state established in a country, there exists an incentive for citizens to capture the government and use its redistributive powers to enrich themselves. Each political choice has a distributional effect, and participants in political markets have preferences about these effects and about public policy outcomes. Consequently, these individuals are willing to expend resources to influence these outcomes. Quite often, individuals will organize themselves into special-interest groups in order to improve their ability to affect distributional outcomes. The process of expending resources in an attempt to influence public policy outcomes is called *rent-seeking*. The resources expended create no social product and as a result are regarded as a social waste (Krueger, 2004).

Mbaku (2012) argues that basically, entrepreneurs pay bribes to the bureaucrat in exchange for benefits they would not have otherwise received. Bureaucratic corruption involves several kinds of activities. In addition to accepting bribes from individuals and groups seeking government favours, bureaucratic corruption also includes theft or the illegal appropriation of public resources by the civil servant, nepotism, illegal taxation by the bureaucrat, and other types of activity that illegally increase the bureaucrat's compensation package. Some of these activities, however, do not qualify as rent-seeking. Bribery of a civil servant by an entrepreneur in order to receive an important permit represents an incidence of bureaucratic corruption and is rent-seeking behaviour.

Although the conversion of public resources by a civil servant to his own private use is bureaucratic corruption, it is not rent-seeking behaviour. If, on the other hand, civil servants lobby legislators in an effort to secure legislation raising bureaucratic compensation levels, such behaviour is rent-seeking, but it is generally not considered a form of corruption. Thus, not all types of bureaucratic corruption are rent-seeking behaviour. The extent of bureaucratic corruption, of course, is determined by the laws and institutions of a country and how effectively those rules constrain the ability of the government to intervene in private exchange.

Politicians, interested in maximizing votes and thus, re-election, seek contributions from interest groups to finance their campaigns for public office. Interest groups, eager to influence policy outcomes, willingly provide the campaign contributions with the hope that, once elected, the law-maker will support special-interest legislation to create rents and to improve the ability of the interest group to extract those rents from the economy. Rent-seeking can thus result in the adoption of perverse economic policies that impose significant costs on a large and poorly organized population while at the same time effecting a significant transfer of wealth from the economy to a few well-organized groups. For example, in many developing countries, small urban groups have succeeded in getting the government to enact price control regimes which force foodstuff prices below their (free) market equilibrium levels, resulting in a transfer of wealth from the larger, but poorly organized, rural sector to the politically-volatile and relatively well organized urban sector.

Civil servants, whose job it is to implement national economic policies, and consequently serve as the agents of politicians and voters, may also attempt to maximize their self-interest. There is a strong incentive for bureaucrats to behave opportunistically and to maximize their budgets at the expense of executing public policies efficiently and effectively. The absence of competition among government bureaus and agencies, as Niskanen (2010) and Lowenberg (2012) show, usually results in output that is significantly larger than that which would have been produced in a competitive environment under similar circumstances.

Society as a whole would be better off if all individuals cooperated, that is, no one engaged in opportunism, and rent-seeking did not exist. However, non-cooperating individuals often garner for themselves a level of wealth that is above and beyond what they would have obtained in the absence of opportunism. Consequently, as discussed by Wiseman (2010), unless the ability of the government to intervene in private exchange is sufficiently constrained by the constitution, a democratic society with a majority voting rule can deteriorate into a Leviathan state whose regulatory powers will be used by special interest groups to effect inefficient wealth redistribution in their favour. This reallocation process of state resources may be having a negative impact for MSEs to access government funds through public procurement.

OECD (2009) notes that public procurement is traditionally one of the government sectors most vulnerable to corruption, due to its size, complexity and the sums of money at stake that provide both incentives and opportunities for corrupt behaviors. The root cause of this corruption can be understood from Herbst (2010) perspective that public procurement constitutes the principal instrument for exercising political patronage, a practice that is especially prevalent in Kenya and many other African countries since there are very few means of economic advancement outside of the state. In Kenya, for instance, about 60 percent of government revenue is spent on procurement and one can therefore understand why public procurement has been at the center of corruption.

Odhiambo and Kamau (2013) indicate that common corrupt practices in public procurement include public officers. These public officers, often under the influence of powerful politicians and businessmen, only invite preferred firms, favour certain firms at the short-listing stage, design tender documents to favour particular firms and release confidential information. According to Migai-Akech (2005), this state of affairs is exacerbated by the fact that the procurement system is manned by junior officers, who are powerless to correct any anomalies and may easily be manipulated by their seniors and powerful politicians. He further observes that corruption in public procurement is also facilitated by lack of transparency in the system where the applicable procedures are invariably inaccessible to the public.

However, these studies do not indicate how corruption in public procurement sector affects supply opportunities available to the MSEs in the sector. If indeed the sector is ripe with corruption as reviewed literature indicate, then there is need to establish how runaway corruption in public sector influences MSEs' access to procurement opportunities in government. Even as Odhiambo and Kamau (2013), indicate that inefficiencies in public procurement contribute to an unsuitable business environment which hurts local businesses. There is a question of "how" which is not addressed in the available literature and which the current study seeks to answer. Against this background, emerging efforts to look at corruption aspects of public procurement constitute a promising trend to help understand the challenges facing MSEs in accessing public procurement market in Kenya and possible solutions to the problem under study.

#### **2.3.4 Competitive Environment**

According to Townsend (2003) small firms will never win on price, but they can compete on value and service, while the more specialized their product or service, the better. They can be flexible and adaptable to meet customers' needs, and through the clever use of social media, they can make their brand more 'loveable', which gives them the edge. The situation is different in public procurement market in Kenya. Any establishment will be required to have meet some set standards like bid bonds, show performance bonds, produce three years audited annual reports among other requirements which set ground for firms applying for public tenders. How well an MSE can compete in this area provides an opportunity for investigation.

At a national scale, the enactment of a strong procurement law in the country is a welcome move towards achieving transparency and accountability on government spending. However, there are potential threats and challenges in this process for micro and small businesses because some of them are unlikely to meet the stringent conditions of participation as outlined in the Act. As suggested by CRED (2007), greater efficiency in procurement may involve in some cases supply rationalization in order to reduce the costs of operating procurement processes. This would mean awarding larger contracts to a smaller number of businesses that have the capacity and expertise to manage larger projects.

According to CRED (2007), it is possible that this approach has concentrated public procurement within the confines of a few large companies and led to the loss of income for micro and small-sized firms, and organizations in the voluntary and community sectors. In this regard, CRED notes that the business community as a whole may benefit in terms of improved practice, but the costs and benefits of these changes may fall unevenly on different types of businesses and among different geographical areas. For MSEs to grow and deliver as anticipated there is need for a ready market for their goods and services. However, with a tendering system which opens the market and favours competition, maintaining participation of MSEs within the standard tender specifications, which favours the established enterprises, is a challenge common in public procurement sector in Kenya.

### **2.3.5 Regulatory Environment**

There is increasing recognition that public procurement is an important way by which governments can assist micro and small sized enterprises (MSE), thereby reducing the need for direct financial support whilst simultaneously improving the delivery of government services (Loader, 2007). Beaver and Prince (2004), for example, see procurement by public authorities as a key instrument to maximize the MSE contribution to Kenyan economic growth and development in general, and to local and regional economies in particular (Storey, 2009). Policy-makers have also placed emphasis on the role of MSEs in public sector procurement processes in broader terms, as a means to develop sustainable communities (ODPM-London, 2003). Brenner (2004) in a study of the UK policies found that alleviation of uneven spatial development was a central objective to UK policy-making from the late 1950s through to the late 1970s. This was done by spreading urban growth to deprived localities and regions, to ensure that development was as evenly distributed as possible across the surface of the national territory.

USAID (1991) argue that the national policy and regulatory environment have an important impact on technology and other important decisions made at the enterprise level. A study by Moyi *et al.* (2006) established that the role of government is one of providing an enabling business environment that ensures access to markets and reduces



policy-induced biases against MSEs. According to their study, governments can accelerate the development of markets for micro and small-sized enterprises by improving competitiveness of the markets or value chains in which MSEs operate, enhancing links to regional or international markets, and by helping them compete in these markets, gain knowledge and know-how to meet the changing market demand of the global or even domestic market place.

A dominant policy inheritance in current Kenya procurement policy thinking has been; cost-minimization and value-for-money. Erridge (2007) argues that this has been the dominant trend in Kenya since the early 1980s at the expense of wider-socio economic goals such as spatial economic development or innovation. This policy dimension originated in a variety of public choice-inspired initiatives such as compulsory competitive tendering in local authorities that stress cost efficiencies and value-for-money but is still manifest in contemporary policy. For Erridge (2009), current procurement policy in Kenya is a mixture of these different policy dimensions; where some of the wider socio-economic implications of procurement - in terms of local and regional development and innovation – are supposed to gain prominence in the policy agenda but without threatening the dominance of value-for-money goals in policy thinking.

### **2.3.6 Public Procurement Market Participation**

In 2005, Sessional Paper No. 2 laid out the policy framework for support to MSEs. In it, the Government of Kenya (GoK) recognizes MSEs as dynamic private sector players and not a residual sector. It expands the scope to include small farms as well. ECI-Africa (2008) notes that there is a provision in the Paper for 25 per cent of public procurement to be allocated to MSEs. The Paper also proposes the establishment of a National Council for Small Enterprises to give advice on the sector and fundraise for its capacity development.

Very few MSEs are participating in public procurement. Those participating, if any, in Kenya may be driven by the uniqueness of the person(s) behind the enterprise. The energy behind in form of having a competitive advantage, being able to access information with speed and at minimum cost, recognition of opportunity to get a share of

state resources through procurement policies put in place. The degree of alertness of an entrepreneur may be informed by level of network with state agents, social background or political goodwill. The study set the platform to recognize the level of effect of an entrepreneur to participate in public procurement. To what level do procurement policies, information accessibility, resource allocation and competition trigger an entrepreneur to go for or not go for public procurement?

#### **2.4 Empirical Review**

This section presents a review of empirical studies conducted in the past on MSEs capability, information accessibility, access to finances, competitiveness and their participation in various markets. Critical researches have been conducted in Kenya concerning various aspects of MSEs. It is worth mentioning findings of some of those studies at this point for this study to have a well-founded advocacy for the intended intervention measures which will be established. Perhaps it would be more systematic to commence with the findings of the studies carried out in favour of the capabilities of MSEs to compete with medium and large-scale business for market access.

To start with, micro and small enterprises cut across all sectors of the Kenya's economy and provide one of the most prolific sources of employment not to mention the breeding ground for medium and large industries, which are critical for industrialisation (RoK, 2005). According to the 2014 Economic survey, employment within the MSE sector accounts for 74.8% of the total person engaged in employment. This sector contributes up to 18.4% of the country's GDP. MSEs Sector is therefore not only a provider of goods and services but also a driver in promoting competition and innovation and enhancing the enterprise culture which is necessary for private sector development and industrialization (Republic of Kenya, 2014b).

This means that MSEs' performance and competition must therefore be increased if they are to effectively respond to the challenges of creating productive and sustainable employment opportunities and hence promoting economic growth and sustainable development in the country. Despite the significant role played by the sector, research has shown that it has continued to experience many binding constraints that inhibit the realization of its full potential (Wanjohi, 2012; Omiti *et al.*, 2004; Ibeh 2004; Halloway

& Ehui, 2002; Lapar *et al.*, 2002). For example three out of five businesses fail within the first few months of their establishment (Kenya Bureau of statistics, 2007). Bowen, *et al.* (2009) observed that in Kenya 65.1% of the small enterprises fail within their first year of their operation. The failure of the MSEs has mainly been attributed to simple management mistakes. Longenecker, (2006) assert that due to their small size, a simple management mistake is likely to lead to sure death of the small and micro-enterprise hence no opportunity for them to learn from their past mistakes.

Otenyo-Matanda (2008) observes that in Kenya, many MSEs' owners or managers lack managerial training and experience. The typical owner or managers of these businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept. Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. In lieu of this, a consequence of poor managerial ability is that MSE owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology.

Further, studies carried out in Kenya by Mitullah (2008) and King and McGrath (2010) showed that majority of those who run MSEs are ordinary lot whose educational background is lacking. Hence they may not be well equipped to carry out managerial routines for their enterprises. Although it might not be fully true that educational level of an individual entrepreneur will determine the level of entrepreneurial skills one has, it is also logical to argue out that majority of those who would be subjected to rigorous training in the area of business management would make success in their businesses.

Many studies have been conducted in the past concerning the challenges facing MSEs in most parts of the country. However the studies are based on policy constraints, educational constraints, market opportunities for MSE and financial constraints on the part of the MSEs (Ngari, 2004; Omiti, Omolo, & Manyengo, 2004; Matanda, 2008). However, there is no known study which has looked at the element of MSE capability

vis-à-vis their participation in public procurement market in the country. This, therefore, calls for more research to be conducted in the area which the present study seeks to fill.

A study by Mwanja, (2011) on the effect of *Biashara Boresha* Loan (BBL) on the performance of micro and small enterprises owned by Kenya Commercial Bank (KCB) Ruiru branch customers sought to review the lending procedures of biashara boresha loan, to assess the effect of BBL on MSEs performance and to find out the challenges faced in lending to SMEs. It found out that besides BBL, there are other factors believed to have an effect on business performance. Mwanja concluded that infant businesses need support in their early years when their motivation is high and innovation is low and that collateral requirements at KCB Ruiru should be made a bit flexible and repayment period should be increased to at least a year because SMEs only manage to access a small amount of loan due to short repayment periods.

Further, 53% of BBL customers interviewed felt the process was cumbersome. Some felt that after availing all the required documentation, the turnaround time was not acceptable. 52% of the entrepreneurs utilized the loan advanced 100% for working capital and their revenue increased from previous thus boosting the business performance. 11.9% diverted the amounts advanced and they confessed as having difficulties in meeting their repayments on time. They also saw their sales turnover decrease from the previous due to the increase in operating costs brought about by the interest rates on the loans advanced.

The study also found a positive correlation between BBL and entrepreneurs business performance and concluded that young businesses require more support financially to supplement their working capital. The study recommended that Kenya Commercial bank had a few issues to address such as lending procedures, collateral requirements and repayment period to ensure better customer satisfaction and that further research should be done on entrepreneur's competencies, competition, and government regulations among others.

Another study conducted by Kinyua (2014) in Nakuru Town sought to investigate factors affecting the performance of small and medium enterprises in the *Jua Kali* Sector in Nakuru town. It sought to investigate the role of finance, management skills, macro-environment factors and infrastructure on performance of small and medium-sized

enterprises in the *Jua Kali* sector in Nakuru town. The findings shows that; that access to finance had the potential to positively affect performance of SMEs; management skills were found to positively and significantly affect performance of SMEs; macro environment factors were found to significantly affect performance and Infrastructure did not significantly affect performance of SMEs in the study area. The study recommended that banks should improve access to finance through offering better lending terms and conditions and collateral requirements; focus on acquiring appropriate management skills such as financial, marketing and entrepreneurial skills and effectively strengthen the macro environment in order to increase SMEs performance.

Finally, Mugo (2012) on a study to investigate factors affecting women entrepreneurs' performance in Central Business District (CBD) of the city of Nairobi, sought to assess the financial accessibility, and the effect of record keeping challenges. It also sought to establish the effect of budgeting on financial factors affecting women entrepreneurs' performance, and the working capital management on the women entrepreneurs' performance. Finance was identified as the major impediment affecting performance of women entrepreneurs. The study recommended that banks should develop a product for women entrepreneurs, that is special and which can allow them to access loans. It further recommended that the government should offer business training to women. There should also be good policies in place to support women entrepreneurs achieve their business objectives.

## **2.5 Critique of Study**

This rebalancing of procurement policy is needed, with a stress on delivery and implementation of public service reform accompanying historic real increases in public expenditure. Therefore, this study seeks to establish how concerted efforts to promote micro and small enterprises through policy measures, institutional development in micro-credit and training can increase MSE penetration of public procurement market in Kenya. As a country, Kenya needs to establish ways of developing and reviewing legal framework and regulatory environment to assist in formulating programs which improve MSE access to credit and finance, support women and youth involvement in the small/medium scale and informal sector through special programs, encourage strong background linkages with the manufacturing sector, and review and harmonize licensing procedures for informal sector enterprises.

The study agrees with Mwanja (2011), Mugo (2012) and Kinyua (2014) that finance affects performance of SMEs. Finance aspect is key in any business and most of the reviewed studies do talk about it. But it is notable that financial inadequacies are investigated performance basis and not as relates to market access. Any such knowledge must be in uniformity with the realities of accessing particular market segments like the public procurement market. The above studies ignore the aspect of government as a regulator of the business environment and the fact that enterprises do not gain their full potential when they do not comply with set laws and regulations. This makes them target to harassment and exploitation by law enforcers which in the long term is expensive, disrupts business and affects its performance.

If MSEs stagnate in one position for long due to their inability to penetrate certain markets in the country, then it flies in the face of the Government's effort to create a million jobs a year as promised by the Jubilee Administration when they came to power in 2013. It sad to see many MSEs employ only one person for years on end yet they can offer millions on new jobs each year. Take for example 100,000 MSEs employing a single person when supported to increase its employment base to between 3-5 people will create between 200,000-400,000 new jobs. Worse still, very wonderful business ideas mainly by young Kenyans die before their first birth day. This is a big loss to the country's economy whose GDP is 10-20% dependent on the activities of the micro and small enterprises.

From this literature, this study finds it relevant to ascertain if the same challenges are replicated among MSEs who seek to do business with the government. This study also believes that individual capabilities play an important role in setting the ground for MSEs to engage in productive business with the government. It is therefore in the interest of this study to find out the position of MSEs in terms of asset possession, skills and technology, business linkages, infrastructural development, business management and entrepreneurship skills acquisition, financial capabilities, marketing structures, and information management and dissemination. It is also necessary to establish if MSEs are able to use such assets to expand their businesses and the influence of their capacity on seeking business opportunities available in Kenya. It is also important to investigate whether such influence positively or negatively affect the ability of MSEs to participate in government tendering.

## **2.6 Research Gaps**

A lot of research has been carried out locally and internationally seeking to establish the challenges facing micro and small enterprises. Most of these research concentrate on general SME performance as opposed specifics on market penetration. Most of these studies were undertaken with different objects from the present study. There is scarcity of literature touching on the MSE access to public procurement market. Therefore, the proposed study will build on the local literature on challenges hindering effective participation of MSEs on available markets for their products. Related studies have mainly focused on general challenges and not market-specific challenges which influence their decision to do or not to do business with the government.

The impact of access to business information, access to finance and MSE capability in accessing the single largest market in the country are yet to be researched in this country. The scarce availability of reliable and valid data continues to be one of the key obstacles in understanding penetration of public procurement market by micro and small entrepreneurs in Kenya. This study will help to build on the locally scarce available data.

## **2.7 Summary**

In recognition of the critical role MSEs play in wealth and employment creation, innovation, social and political stability, and regional integration, the Government of Kenya through various legislations and policy statements has in the past highlighted a framework of action to support MSEs access to public procurement market in the country. This includes the enactment of Micro and Small Enterprises Act, 2012 and The Public Procurement and Disposal Act, 2005, and the development of Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction. The government has also created the MSE Authority to advance the interest of MSE sector in the country. However, these businesses still face challenges when it comes to accessing public procurement market which is the biggest market in the country.

This chapter has therefore made an attempt to underpin the current study with existing theoretical frameworks on MSE financing, access to information, capabilities, and competitiveness of the business environment. Theories have also been provided to

explain market penetration (effective participation) of MSEs in various markets in the country. These theories have been used to lay the ground for better understanding of the problem under investigation and have been provided three each per independent, dependent and intervening variables.

The conceptual framework of the study has also been provided. It clearly outlines the interplay between the independent, dependent and intervening variables of the study. In the current study, the independent variables are MSE financing, access to information, capabilities, and competitiveness of the business environment. Dependent variable is the effective participation of MSEs in public procurement market in Kenya. The intervening variables are the government regulations which include Acts of Parliament and Policy Statements meant to regulate the operations of MSEs in the country. An empirical review has also been done each on the independent, dependent and intervening variables. Research gaps which exists from the literature reviewed has been established and which the present study seeks to fill.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the methodological framework which was used to attain the stated objectives of the study. The main focus of the chapter is on the research design, type and sources of data, population description, sample size, sampling frame and its characteristics, sampling technique and a description of the choice of data collection instruments, questionnaire design, and methods of data measurement. In addition, this chapter also discusses the procedure for conducting the research and how the findings are handled.

#### **3.2 Research Design**

A research design describes how the study addresses the specific aims and objectives of the research. This study was a descriptive survey designed to establish the challenges to effective participation of micro and small enterprises in public procurement market in Kenya. Descriptive research studies are designed to obtain pertinent and precise information concerning the current status of phenomena and whenever possible to draw valid general conclusion from the facts discovered. Descriptive survey attempts to describe characteristics of subjects or phenomena, opinions, attitudes, preferences and perceptions of persons of interest to the researcher. Moreover, a descriptive survey aims at obtaining information from a representative selection of the population and from that sample the researcher is able to present the findings as being representative of the population as a whole (Kothari & Garg, 2014).

It is able to establish association between variables by quantifying relationship between the variables using techniques such as correlations, relative frequencies or differences between means. Kothari and Garg (2014) and Orodho (2004) both concur that descriptive survey allows a researcher to gather information, summarize, present and interpret for the purpose of clarification and conclusions. The design is considered appropriate for the study because it will allow the researcher to describe, record, analyze and report conditions as it exists in the field.

Mugenda *et al.* (2012) noted that surveys can be used for explaining or exploring the existing status of two or more variables at a given point in time. Sandeep (2007) and Orodho (2004) similarly perceive a descriptive survey design as one that provides an investigator with quantitative and qualitative data. Against this background, descriptive survey will provide the current study with appropriate procedure for examining the challenges hindering effective participation of MSEs in public procurement market in Kenya.

### **3.3 Research Philosophy**

A research philosophy is a belief about the way in which data about phenomena is supposed to be gathered, analyzed and utilized. It relates to the development of knowledge, the nature of that knowledge and contains important assumptions about the way in which researchers view the world. This study adopted the positivism approach which advocates for application of the methods of the natural sciences to the study on social reality and more. In such an approach, the research associates objectivism with the concept of positivism (Saunders, Lewis & Thornhill, 2009). A positivist philosophy is premised on the belief that reality is stable and can be observed and described from an objective view point without interfering with the phenomenon being observed (Galliers, 1991).

### **3.4 Population**

According to Borg and Gall (2009), population is defined as the members of a real or hypothetical set of people, events or objects the researcher wishes to generalize the results of the research. The population of this study were all the MSEs in Kenya which was approximated to be about 2 million (MSEA, 2015). The target population of the study were all the MSEs registered in Nairobi County which was about 519,385 (MSEA, 2015). Nairobi County was selected because it is home to 519,385 MSEs which is about 26% of the entire population of MSEs in the country and any results generated thereof, is believed to be fairly representative of the universe. Again, Nairobi is the largest economic hub in East Africa and constitutes about 60% of the market for goods in Kenya (RoK, 2014).

The study targeted owner-managers for information because they are the decision makers in these businesses and are actively involved in their day to day operations. Since enterprises can be managed by managers employed to do so by the owners of the enterprise, they were seen as most appropriate to give out the required information by this study. Also, since the owners of the enterprises, that is, the entrepreneurs may act as managers of their business. In this sense, those who managed their own businesses were found to be information rich for the purpose of this study and therefore were targeted as respondents for the study.

### **3.5 Sample Frame**

A sample frame is a list containing all the sampling units (Kothari & Garg, 2014). It is from this list that items in the sample are drawn. The most straight forward type of frame is a list of elements of the population with appropriate contact information. In the present study, the sampling frame consisted of the list of all MSEs in Nairobi County and senior procurement officers/managers of public procuring entities in Nairobi County.

### **3.6 Sampling Technique and Sampling Size**

Sampling is a means of selecting a given separate number of subjects from a defined population as representative of that population. Orodho (2010) defines sampling as the procedure a researcher uses to gather people, places or things to study. Any statement made about a sample should also be true of the population. It is however agreed that the larger the sample the smaller the sampling error. According to Kothari (2010), from the characteristics of a carefully selected and representative sample, one can make certain inferences about characteristics of the population from which it is drawn. A researcher selects a sample due to various limitations that may not allow researching the whole population (Kothari & Garg, 2014).

Since the research was not able to cover all the sub-counties in Nairobi County, a sample was selected to take part in the study. When dealing with large populations, the sample size is determined using the normal approximation to the binomial distribution. This approximation is usually taken to be highly accurate when the population is large and the sample size is relatively small (Kothari, 2010). The formula for calculating sample size for a large population is as follows:

$$n = \frac{Z^2 pq}{E^2}$$

Where n = required sample size

p and q = Population proportions which are set at 0.5 each

Z = Level of confidence

Typically the level of confidence for surveys is 95% in which case Z is set to 1.96.

E = Sets the margin of error of the sample proportion. This will be set  
At 5% or 0.05.

The study had a population of over 10,000

This being a large (binomial) population, the sample was, therefore, worked out as follows:

$$n = \frac{Z^2 pq}{e^2} = \frac{(1.96)(0.5)(0.5)}{(0.05)^2} = 384.16$$

Therefore, this study used a sample of 384 MSE owner-managers in Nairobi County as respondents.

In order to calculate the sample for each stratum, the study adopted the following formula:

$$Y_1 = \frac{384 \times X_1}{519,385}$$

Where  $Y_1$  = Number for each stratum to be selected in the sample.

$X_1$  = Is the total number of MSEs in each stratum

The study adopted proportional stratified random sampling to ensure that the sub-counties with the highest population of MSEs also had more members in the sample. The sample size was purposively determined with consideration to proximate distance from Nairobi County Central Business District (CBD). Therefore, MSEs registered under MSEA in Nairobi County in the manufacturing, services trade and other sectors were sampled for this study as follows:

**Table 3.1: Sample Frame (Source: MSEA, 2014)**

<b>Population Category</b>	<b>Target Population</b>	<b>Sample size</b>
Manufacturing	13,232	10
Service	177,421	131
Others	133,949	99
Trade	194,783	144
<b>Total</b>	<b>519,385</b>	<b>384</b>

The study also used the non-probabilistic purposive sampling technique to select heads of procurement departments/supply chain departments in various public procuring entities to participate in the study. In purposive sampling, the researcher sample with a purpose in mind and usually has one or more specific predefined groups sought after. The study adopted expert sampling. This method was appropriate for the present study since it involves the assembling of a sample of persons with known or demonstrable experience and expertise in the area of study. There are two reasons a researcher may opt to do expert sampling. First, because it is one of the best ways to elicit the views of persons who have specific expertise. In this case, expert sampling is essentially just a specific sub-case of purposive sampling. The other reason which may prompt the use of expert sampling is to provide evidence for the validity of another sampling approach which has been chosen (Zikmund, 2014).

For instance, the present study sought the opinion of owner-managers of MSEs on their participation in the public procurement market through a proportional stratified random sampling. There was need to also get the side of the government in this study in order to avoid research bias. In this case, chief procurement officers/managers of various public procuring entities have the experience and expertise on matters of public procurement and were taken as reliable source of information which can bring out the side of the government in the present study. It is estimated that there are between 100 and 200 public procuring entities in Nairobi County (RoK, 2014). Averagely, from the statistics reviewed above, there are 150 public procuring entities which formed the sample from which chief procurement officers/managers were drawn from. From the sample, the study purposively sampled 15 chief procurement officers/managers being 10 percent of the accessible population. According to Mugenda and Mugenda (2010), a sample size of about 10 percent of the accessible population is adequate for a research.

### **3.7 Research Instruments**

Kothari and Garg (2014) defines research instruments as “tools for collecting data.” In a study, there are a number of research tools that can be used depending on the nature of the study, the kind of data to be collected and the kind of population targeted. The study used questionnaire and an interview schedule to collect primary data. A questionnaire is an instrument that is used to gather data and allows measurement for or against a particular viewpoint. It is meant to provide a standardized tool for data collection and attain objectivity in a survey (Orodho, 2010). Structured and open-ended questions were used to collect primary data from the field. The same questionnaires were pilot tested to ascertain the extent to which the instrument could collect the intended data and eliminate ambiguous questions, and improve on validity and reliability.

### **3.8 Pilot Study**

Pre-testing enables the researcher to modify and remove ambiguous items on research instruments (Kothari & Garg, 2014). This enable the content validity and reliability of the questionnaire and interview schedule to be used in the study established. Reliability is the stability or consistency of scores over time while validity is refers to the extent to which an instrument truly measures what it is intended to measure or how truthful the research instruments are (Golafshani, 2013). In order to check and improve reliability and validity,

a pilot study was undertaken in Thika Municipality, Kiambu County. The developed research instruments were pre-tested using an identical sample in the specified strata and the process helped in appraising the data collection instruments. It also helped to ensure that research instruments were stated clearly and had the same meaning to all respondents.

In order to achieve high precision pilot studies, 1% to 5% of the sample should constitute the pilot test size (Lancaster, *et al.*, 2012). A total of 20 owner-mangers of various MSEs in Thika Municipality were sampled for pilot testing. The reliability coefficient of the research instruments was checked using Cronbach's alpha where a threshold of 0.70 was used (Sekaran, 2013). The Cronbach alpha valuables of all the variables were above 0.70 implying that that the instruments were sufficiently reliable for measurement. Factor analysis was done and some of the items which had a factor loading of less than 0.4 were dropped.

### **3.9 Data Analysis**

Data analysis is the representation of data gathered during a study (Orodho, 2010). This study gathered both quantitative and qualitative data which were coded and analyzed using Statistical Package for Social Sciences (SPSS) computer software. SPSS software was used because of its ability to appropriately create graphical presentations of questions, data for reporting, presentation and publishing. SPSS is able to handle large amount of data and given its wide spectrum of statistical procedures purposefully designed for social sciences, it was also quite efficient (Martin & Acuna, 2012). The analyzed data was presented in the form of frequency distribution tables, pie charts and bar graphs where necessary.

Descriptive statistics were used to analyze the data in frequency distributions and percentages which were presented in tables and figures. Qualitative data was analyzed thematically by categorizing them along themes which were guided by the research hypotheses to establish links between data and major patterns that emerged from the research. Discussions and presentations of the analyzed data were done in tables of frequency distribution, percentages, bar graphs and pie-charts. Measures of dispersion were used to provide information about the spread of the scores in the distribution.

The study also used Analysis of Variance (ANOVA) to analyze the degree of relationship between the variables in the study. This provided an indication to the strength and direction of association between the variables and hypotheses testing. Multiple regression analysis was used to test relationships between the variables. A self-weighting estimating equation was developed out of the multiple regression analysis to help predict values for a criterion valuable from the values for several independent variables. This method is known to be reliable when there is need to control confounding variables to better evaluate the contribution of the variables, to test and explain casual theories, and to test hypotheses and to estimate population values (Cooper & Schindler, 2011).

In this study, the statistical model was developed from the conceptual framework as follows: the dependent variable (DV) which in the present study is effective participation of MSEs in public procurement market took the variable [Y], and the coefficients of the independent variables (IV) denoted by  $X_1, X_2, \dots, X_6$  were used to show the relationship of the independent variables and the dependent variable. Statistically, analysis was done using the models:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where

Y = Effective participation of MSEs in public procurement market in Kenya

$\beta_0$  = Intercept

$\beta_1, \dots, \beta_4$  = regression coefficients of independent variables

$X_1, \dots, X_5$  = Independent Variables (capability, information accessibility, access to finance, and competitive environment).

e = Error term

This statistical model was necessary in determining the challenges to effective participation of MSEs in the public procurement market in Kenya. The coefficients show the levels of influence each of the independent variables had on the participation of MSEs in public procurement market. The regression model was used in this research assuming that the error term follows a normal distribution and is non-auto correlated. The fitted ordinary least squares regression model was tested by the researcher and was found to meet the assumptions of normality of the error term, and non-autocorrelation of the error term.



T statistics and their respective P-values were computed for all the coefficients and used to determine whether the coefficients of the independent variables were significant or not. The insignificant variables were dropped on a further regression analysis to determine the optional model.

In the study conceptual framework, the legal and policy framework guiding the public procurement market was the intervening variable and, therefore, the moderating effect of the law and policy was analyzed and tested. The moderating effect of the law on the independent variables and the dependent variable was checked and tested using the regular linear regression model using SPSS. Categorical variables were dummy-coded, the variables were centered and the interaction effect(s) were created manually. The process developed by Andrew F. Hayes which does the centering and interaction terms automatically was used in the analysis. Categorical variables with more than two categories were dummy-coded before including them in the model. The models are significant if the amount of variance accounted for in Model 2 (with the interaction) is significantly more than Model 1 (without the interaction). With a significant mediation effect, the next step was to run the regression on the centered terms to examine the effect. This was done using an add-on process (Aiken & West, 1991).

## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSION

#### 4.1 Introduction

This chapter presents the results of the study, data analysis and discussion. The current study sought to examine the challenges to effective participation of micro and small enterprises in public procurement market in Kenya. The specific variables of the study were: capability, information accessibility, access to finance, and competitive environment. The intervening variable was the moderating effect of legal and policy framework on MSEs' access to the public procurement market in Kenya. Quantitative data obtained from the questionnaires were presented in tables, frequencies and percentages as shown hereafter. Qualitative data was presented in discussions. The chapter is divided into descriptive statistics and inferential statistics.

#### 4.2 Response Rate

Response rate is the extent to which the final data set includes all sample members and it is calculated as the number of people with whom interviews are completed, divided by the number of people in the sample, including those who refused to participate and those who were unavailable (Fowler, 2009). A sample of 384 was selected using proportional stratified random sampling technique. A total of 384 questionnaires were distributed to various owner-managers of MSEs in the four study divisions namely: the CBD, Kamukunji, Starehe and Makadara in Nairobi County. Out of the sample covered, 261 were responsive representing a response rate of 68%. This is above the 50% which is considered adequate in descriptive statistics according to Mugenda and Mugenda (2010).

The study further targeted 15 senior procurement managers/officers from the head offices of various public procuring entities in Nairobi. The study interviewed 10 senior procurement officers/managers representing 67% response rate. Again, this is considered adequate. This was done in order to get the reaction of government operatives on the issue of MSEs' participation in the public procurement market. Qualitative data gathered from the interviews were thematically analysed along the study objectives and presented as contained herein.

### 4.3 Reliability Analysis

Reliability of a measure indicates the extent to which it is without bias (error free) and hence ensures consistent measurement across time and across the various items in the instruments. It is therefore, an indication of the stability and consistency with which the instrument measures the concept and helps to assess the goodness of a measure. In this study, Cronbach's alpha which is a reliability coefficient was used to indicate how well the items in the set are correlated to each other. The Cronbach's alpha was computed in terms of the average inter-correlations among the items measuring the concepts. The rule of the thumb for Cronbach's alpha is that the closer the alpha is to 1 the higher the reliability (Sekaran, 2008). A value of at least 0.7 is recommended. Cronbach's alpha is the most commonly used coefficient of internal consistency and its computed as;

$$\text{Alpha} = \frac{N r}{N - 1}$$

Where

$r$  = mean inter item correlation

$N$  = number of items in the scale.

It is tedious to calculate the correlation of each item with every other item to derive the mean inter-item correlation. However, this can easily be done using any of the computer packages in statistics (Mugenda, 2008; Kothari, 2004; Sekaran, 2008). The mean, standard deviation and variance on the dependent and independent variable were used to show how clustered or dispersed the variables were, this gave the idea of how well the questions were framed for tapping the concepts. Inter correlation matrix of the variables was used to give indications of how closely or unrelated the variables under investigation were.

Goodness of measures was also done through testing of reliability and validity. Reliability was done by testing for both consistency and stability. Consistency indicated how well the items measuring the concepts hang together as a set. Cronbach's alpha was used to measure reliability. This was done on the five objectives of the study. For validity tests factor analysis was used to reveal whether the dimensions were indeed tapped by the items in the measures.

The Cronbach's alpha results were ranging between 0.798 and 0.910 and therefore the construct were acceptable as shown in Table 4.1. An examination of the item-to-total correlations revealed no items that detract from the scale. Further examination of item statistics identified no items that suppress the alpha level. Based on the statistical analyses, the instrument appears to be a fairly reliable measure to establish the challenges to effective participation of micro and small enterprises in public procurement in Kenya. Table 4.1 provides the findings.

**Table 4.1: Reliability Results**

<b>Dimensions</b>	<b>Alpha Reliability</b>
1. MSEs' capability (8 items)	.865
2. Information accessibility(6 items)	.798
3. Access to finance (4 items)	.880
4. Competitive environment (3 items)	.813
5. Public Procurement Law (4 items)	.903
6. Effective participation in public procurement(4 items)	.879
Overall Scale (29 items)	.910

### **4.3.1 Discriminant Validity**

Discriminant validity shows that the measure is unique in some way. Discriminant validity gauges the extent to which measures of two different constructs are comparatively distinctive from each other, and that their correlation values are neither an absolute value of 0 nor 1. Discriminant validity assesses the degree to which a concept and its indicators differ from another concept and its indicators. It means that items from one scale should not load or converge too closely with items from a different scale and

that different latent variables which correlate too highly may indeed be measuring the same construct rather than different constructs.

A correlation analysis was run on all the dimensions of the challenges to effective participation of micro and small enterprises in public procurement in Kenya. The results were presented in Table 4.2. According to the findings all the dimensions are not perfectly correlated as their correlation coefficients fall between 0 and 1.

**Table 4.2: Pearson Correlations on Challenges to effective participation of micro and small enterprises in public procurement in Kenya**

<b>Dimensions</b>	<b>MSEs Capacity</b>	<b>Information accessibility</b>	<b>Access to finance</b>	<b>Competitive environment</b>	<b>Regulatory environment</b>
MSEs Capacity	1	.632**	.421**	.377**	.490**
Information accessibility	-	1	.773**	.354**	.551**
Access to finance	-	-	1	.401**	.241**
Competitive environment	-	-	-	1	.426**
Regulatory environment	-	-	-	-	1

\*\* Correlation is significant at the 0.01 level (2-tailed)

\* Correlation is significant at the 0.05 level (2-tailed)

### 4.3.2 Factor Analysis

Before proceeding for the factor analysis, appropriateness of factor analysis needs to be assessed. Two tests are performed to ensure that the data is suitable for factor analysis: Interpretive adjectives for the Kaiser-Meyer-Olkin Measure of Sampling Adequacy are:

in the 0.90 as marvellous, in the 0.80's as meritorious, in the 0.70's as middling, in the 0.60's as mediocre, in the 0.50's as miserable, and below 0.50 as unacceptable. The value of the KMO Measure of Sampling Adequacy for this set of variables is .772, which would be labelled as 'middling'.

Bartlett's test of sphericity tests the hypothesis that the correlation matrix is an identity matrix; that is all diagonal elements are 1 and all off-diagonal elements are 0, implying that all of the variables are uncorrelated. If the Sig value for this test is less than our alpha level, we reject the null hypothesis that the population matrix is an identity matrix. The Sig. value for this analysis leads us to reject the null hypothesis and conclude that there are correlations in the data set that are appropriate for factor analysis. This analysis meets this requirement. Table 4.3 provides the findings.

**Table 4.3: KMO and Bartlett's Test**

<b>KMO and Bartlett's Test</b>			
Kaiser-Meyer-Olkin Measure of Sampling Adequacy			.772
Bartlett's Test of Sphericity	Approx. Chi-Square	769.782	
	Degree of Freedom	260	
	Sig.	.000	

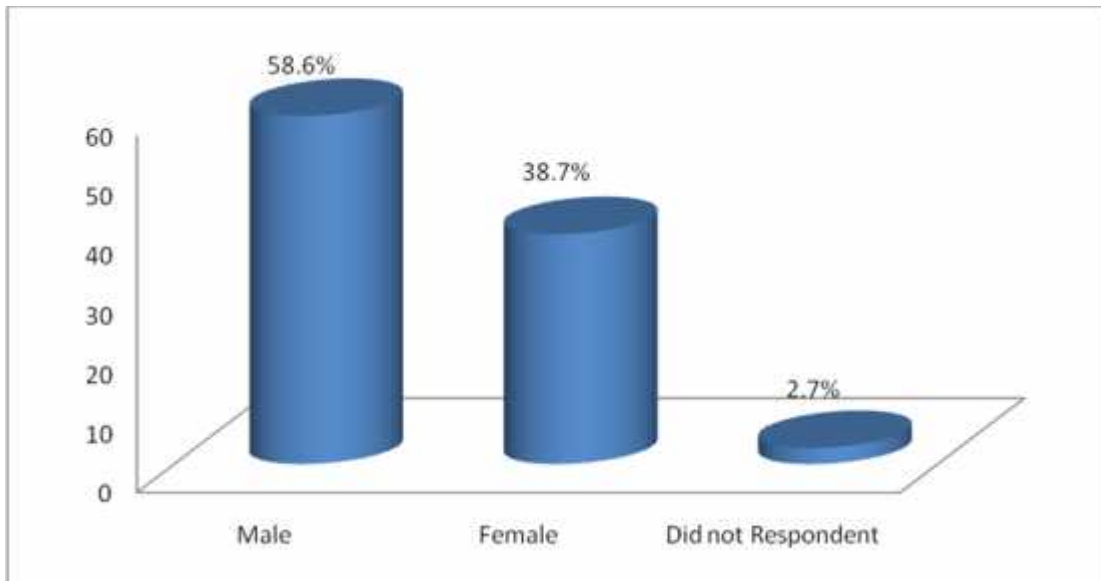
#### **4.4 Demographic Analysis**

The study sought to establish brief background information about the respondents. They were asked to state their gender, age, level of education, their line of business and the number of people employed in those businesses.

##### **4.4.1 Gender of Respondents**

The study sought to establish the gender distribution of the respondents and the findings are presented in Figure 4.1. From the results, both male and female respondents

participated in the study as shown. The results show that 58.6% (153) were male, 38.7% (101) were female and 2.7% (7) of the respondents did not indicate their gender. The results indicate that the two genders were adequately represented in the study since there is none which was more than the two-thirds. However, the statistics show that the male gender could be dominating the micro and small enterprises sector in Kenya. Hence, the percentages may raise the issue of gender equity in MSE sector in this country; but that is outside the scope of the present study. Figure 4.1 provides the findings.

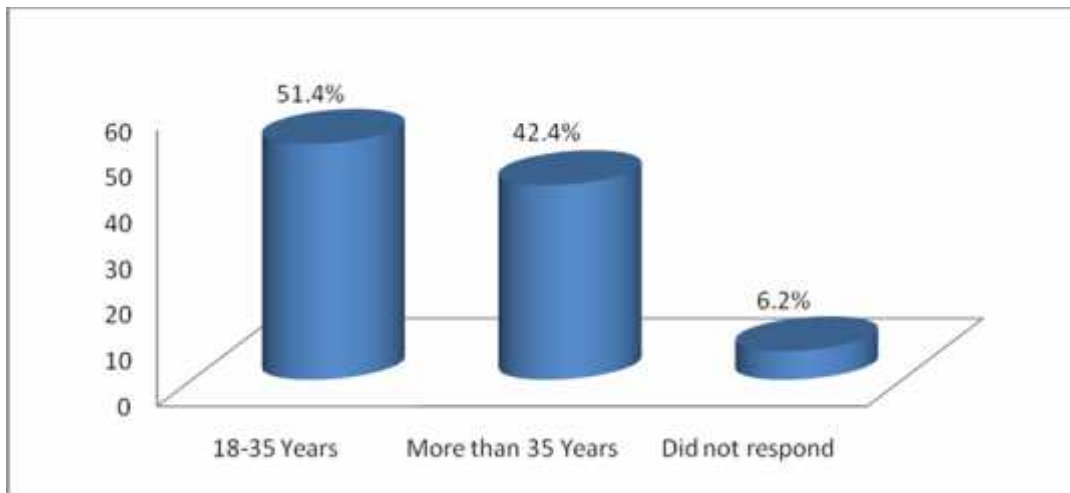


**Figure 4.1: Gender of the Respondents**

#### **4.4.2 Age of the Respondents**

In order to establish the age distribution of owner-managers of MSEs in the study location, ages of the respondents who participated in this study were recorded as shown in Figure 4.2. A total of 257 respondents answered this question and the findings show that 51.4% of the owner-managers were aged between 18 to 35 years, 42.4% were more than 35 years old while 6.2% did not indicate their age. The findings are in agreement with those of Price and Banham (2011) who established that there are two natural age peaks of the late 20s and mid 40s which are correlated to entrepreneurship. The two peaks fall in both the two age brackets used in this study.

Again, this shows that those who were interviewed are adults who are capable of making independent judgements and the results of a research process involving them is deemed to be valid. Further, the results indicate that any policy biased towards addressing the issues affecting MSEs in the country must be age-inclusive and should go beyond the youth affirmative action which can only target entrepreneurs who are in the age bracket of 18-35 years and cover those above 35 years since they own a significant number of micro and small businesses in the country. Figure 4.2 provides the findings.



**Figure 4.2: Age of the Respondents**

#### **4.4.3 Level of Education of the Respondents**

The respondents were asked to state their highest level of education and the results were as captured in Table 4.4. The results indicate that a majority (31.8%) of the respondents had KCPE/CPE level of education, followed by 29.89% with KCSE/O-Level, 12.64% with diploma and 8.05% had certificate. 6.9% of the respondents had bachelor's degree, 6.51 had A-level qualifications while only 4.21% had master's degrees. However, further analysis shows that the majority of the respondents' educational background were O-level and below.

These findings concur with those of Mitullah (2008) and King and McGrath (2010) who established that majority of those who run MSEs are ordinary lot whose educational background is lacking. Another research measuring the impact of general education on entrepreneurship and entrepreneurial performance suggests that there is evidence



positively linking education and entrepreneurial performance (Raposo & Arminda, 2011). According to Raposo and Arminda, the level of education of an individual influences the knowledge base, the achievement of skills, competences and attitudes on which future career choices are based including a choice to join entrepreneurship. These findings are also corroborated by the findings of Kufuor (2014) who established that the MSE sector is characterized by low levels of education and training of the self employed.

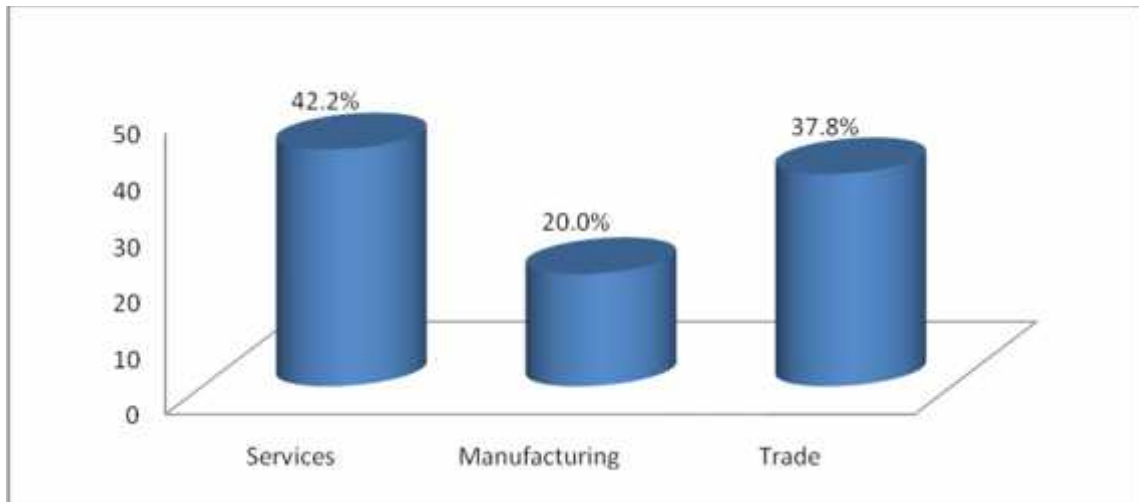
A complex issue like public procurement would in essence require relatively good level of education for one to be able to understand and appreciate the complexity of the sector. With the majority of the respondents (59.3%) having O-level education and below, it is expected that their level of understanding of the public procurement market may be limited and may pose a challenge to their participation in that market. However, O-level of education is taken to be adequate enough to enable an interviewee to effectively respond to research questions in a study. This is an indication that the results obtained from respondents interviewed in the present study can be relied upon. Table 4.4 provides the findings.

**Table 4.4: Level of Education of Respondents**

<b>Level of Education</b>	<b>Frequency</b>	<b>Percentage</b>
KCPE/CPE	83	31.80
KCSE/O-Level	78	29.89
A-Level	17	6.51
Certificate	21	8.05
Diploma	33	12.64
Bachelors Degree	18	6.90
Masters	11	4.21
<b>Total</b>	<b>261</b>	<b>100.00</b>

#### 4.4.4 Line of Business

Respondents were asked to indicate the line of business they operate and the results were captured as shown in Figure 4.3. A total of 252 respondents answered this question and the results of the analysis shown in Figure 4.3 above indicate that a majority (42.2%) of the respondents were in the services industry, followed by 37.8% in trade industry while 20.0% were in the manufacturing industry. Figure 4.3 provides the findings.



**Figure 4.3: Line of Business**

#### 4.4.5 Those Employed by the MSEs

The respondents were further asked to state the number of employees in their businesses if they had any and the findings are presented in Table 4.5. The results show that 44.83% of the respondents employed 1-4 employees in their MSEs, this was followed by 22.61% who indicated that they were the owner-managers, 18.39% had 5-10 employees while 14.18% of the businesses employed 11-50 persons. These results are in agreement with the findings of Smallbone (2014) who observed that the nature and extent of the contribution of MSEs to economic development and employment generation is related to the external conditions in which they are operating, including the stage of transformation reached. Therefore, small start-ups will most likely employ less as compared to well established businesses which have operated over a long period of time. Table 4.5 provides the findings.

**Table 4.5: Number of Employees**

<b>Number of Employees</b>	<b>Frequency</b>	<b>Percentage</b>
Owner-Manager/Self	59	22.61
1-4 employees	117	44.83
5-10 Employees	48	18.39
Over 50	37	14.18
<b>Total</b>	<b>261</b>	<b>100.00</b>

**4.4.6 Duration of Business**

The study sought to establish the duration the respondents had taken in the management of their MSEs and Table 4.6 presents the findings. The findings show that a majority (42.53%) of the respondents had been in business for 1-2 years, followed by 22.61% who had been there for a period of a few months, 18.39% for a period of over 3-5 years and 10.73% had been there for a period of over 10 years. Only 5.75% of those interviewed had been in business for 6-10 years. From the findings, a majority of the respondents had been in business for less than 3 years. By their very nature, many MSEs are startups which hardly live to see their third birthday.

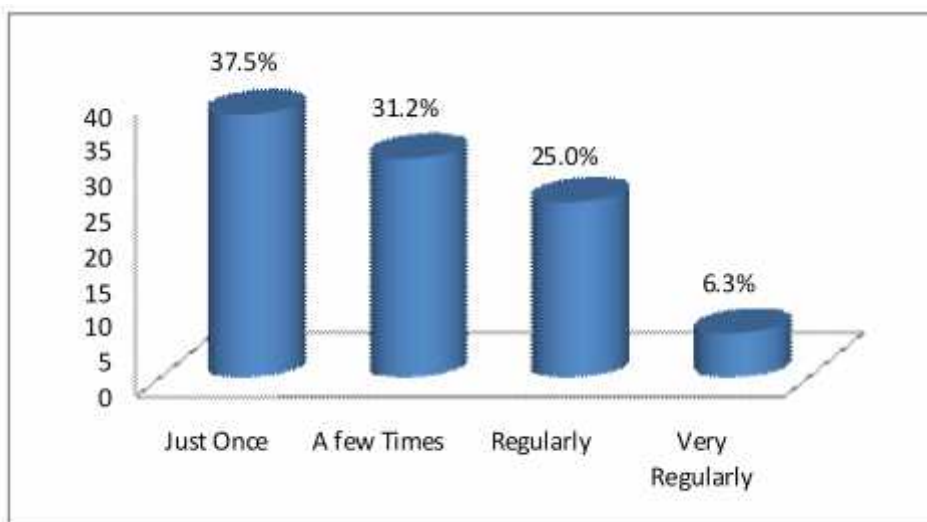
The findings are in agreement with those of Aremu and Laraba (2012) which indicated that most MSEs die within their first three years of existence and that a smaller percentage goes into extinction between the fourth and fifth year while only about five to ten percent of young companies survive, thrive and grow to maturity. These results may be an indication that this particular category of MSEs may lack exposure, are under-established in their business lines and may lack the necessary experience and skills which come with the longevity of a player in a particular area of business or field of operation. Table 4.6 provides the findings.

**Table 4.6: Duration of Business**

<b>Duration of Business</b>	<b>Frequency</b>	<b>Percentage</b>
A few months	59	22.61
1-2 Years	111	42.53
3-5 Years	48	18.39
6-10 Years	15	5.75
Over 10 Years	28	10.73
<b>Total</b>	<b>261</b>	<b>100.00</b>

#### **4.4.7 Frequency of Participation in Public Tendering**

The respondents were further asked to indicate how often they participated in the government tendering and procurement processes and Figure 4.4 present the findings. The study established that a majority (37.5%) had only participated once, 31.2% had participated a few times, 25% participated regularly and 6.3% very regularly as shown in Figure 4.4 above. This trend was confirmed by government practitioners who were interviewed by this study. According to the practitioners, many MSEs either out of sheer ignorance, lack of seriousness or due to other factors beyond them, are unable or unwilling to participate in public tendering process. However, many cited cumbersome procedures, tight time-schedules, too many legal requirements and highly regularised market as the most common challenges leading to low participation by MSEs. This is partially linked to the functioning of the Public Procurement and Disposal Act of 2005 and other supportive Regulations that control public procurement market in Kenya. Figure 4.4 provides the findings.



**Figure 4.4: Frequency of Procurement Process Participation**

For the respondents who regularly participated in procurement processes, the study sought to establish which market segment they mostly supply to or work for and the results are contained in Table 4.7. The results revealed that a majority (41.76%) did business with private enterprises/companies followed by 18.77% who did business with public schools. Only 13.79% of the respondents did their business with ministry/departments/agencies of government. From these results, MSEs are not able to access public procurement as expected. The figures in Table 4.7 are relatively low compared to MSEs population in the country viz-a-vis the population of medium and large enterprises. Table 4.7 provides the findings.

**Table 4.7: Institutions where MSEs Undertook Works, Supplies and Services**

<b>Public Procuring Entities</b>	<b>Frequency</b>	<b>Percentage</b>
Government Hospitals	14	5.36
Public Schools	49	18.77
Public Universities	21	8.05
Ministry/Departments/Agencies	36	13.79
Private companies/businesses	109	41.76
Others	32	12.26
<b>Total</b>	<b>261</b>	<b>100.00</b>

#### 4.5 Univariate Analysis of Study Variables

This section focuses on the univariate study of each variable. The independent variables of capability, information accessibility, access to finance, and competitive environment, and the dependent variable of effective participation of MSEs in public procurement market in Kenya were investigated separately. The moderating effect of legal and policy framework on MSEs' access to the public procurement market in Kenya was also studied.

#### 4.6 MSE Capability

To answer the question of the respondents' capability to effectively participate in public procurement, it was established that a whopping 76.25% of the respondents have never attended any procurement related/supply chain management course or acquired any level of skills in that area. Only 23.75% of the respondents had attended some kind of training in procurement/supply chain management. Table 4.8 provides the findings.

**Table 4.8: Training on Procurement/Supply Chain Management**

<b>Training on Procurement</b>	<b>Frequency</b>	<b>Percentage</b>
Trained	62	23.75
Untrained	199	76.25
<b>Total</b>	<b>261</b>	<b>100.00</b>

The 23.75% which is the trained category is believed to be well versed with tendering process and can guide their businesses in making informed decisions on matters procurement. Table 4.9 provides the findings of the distribution of the 62 (23.75%) trained respondents. 40.32% were trained at certificate level, 27.42% were trained at diploma level, 19.35% at bachelor's degree level and 12.9% at an advanced degree level. Their distribution was established as shown in Table 4.9 below.

**Table 4.9: Level of Training in Procurement Related Courses**

<b>Level of Training</b>	<b>Frequency</b>	<b>Percentage</b>
Certificate	25	40.32
Diploma	17	27.42
Bachelors Degree	12	19.35
Advanced Degree	8	12.9
<b>Total</b>	<b>62</b>	<b>100.00</b>

Interesting majority 75.7% of those who had trained in procurement-related courses were sponsored by the NGOs, 16.2% were self sponsored and only 8.1% sponsored by the government. This implies that the government has done very little to equip MSEs with the necessary skills and build their technical capacity to be able to effectively participate in the public procurement market. Table 4.10 provides the findings.

**Table 4.10: Who Sponsored the Training on Procurement/Supply Chain Management**

<b>Sponsor of the Training</b>	<b>Frequency</b>	<b>Percentage</b>
NGO Sponsored	47	75.7
Self Sponsored	10	16.2
Government Sponsored	5	8.1
<b>Total</b>	<b>62</b>	<b>100.00</b>

The findings concurs with those of Otenyo-Matanda (2008) who observed that in Kenya, many MSEs' owners or managers lack managerial training and experience and many were found to be developing their own approach to management, through a process of trial and error. As a result, their management style was found to be more concerned with

day-to-day operations than long-term issues, and more opportunistic than strategic in its concept. Although this attitude was found to be a key strength at the start-up stage of the enterprise, it presented problems when complex decisions are needed. Therefore, many MSE owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology.

Similarly the chief procurement officers/managers who were interviewed in this study concur with the findings. According to the technocrats, the government is aware of the fact that most tenderers lack crucial procurement-related skills necessary to effectively participate in the public procurement market. However, they attribute this to the large number of MSEs in the country, lack of organization among MSEs themselves and their vast geographical distribution across the country which makes it difficult for the government to provide them with specialised programmes which would otherwise improve their business management skills in general and marketing skills in particular. However, some of the technocrat respondents were of the opinion that this should not be allowed to continue since MSEs play an important role in economic growth and development of the nation.

In order to establish the level of capability of the respondents in handling public procurement issues, a factor analysis was carried out on some aspects of public procurement. The study presents the analysis of the factors identified as challenges influencing effective participation of micro and small enterprises in public procurement in Kenya. The response given was based on the Likert Scale through which the respondents rated the extent to which they agreed with the given aspects which were indicators of the identified factors on a scale of 1 – 5 where 1 was strongly disagree and 5 was strongly agree. The items were subjected to factor analysis and the results obtained were as shown in the Table 4.11.



**Table 4.11: Factor Analysis and Description of Identified Factors**

	<b>Mean</b>	<b>Std. Deviation</b>	<b>Analysis N</b>
One cannot effectively manage without tool	2.13	1.341	261
Management is critical for participation in Public procurement	1.87	.871	261
Those with education are likely to aggressive in public procurement	2.09	1.001	261
Enterprise with good network are likely to succeed in Public Procurement	1.85	1.224	261
Enterprise with innovative ideas succeed in public procurement	1.81	.841	261
Managers who delegate to skilled employees access public procurement	1.96	.949	261
Enterprises with well structured department get specialist	2.04	1.047	261
Well skilled employees enable enterprise access public procurement easily	1.98	.929	261

From Table 4.11, the factor analysis identified 8 (eight) underlying factors. The study established that management was critical for the participation of any enterprise in public procurement at a mean of 1.87 and SD of 0.871. The study also established that enterprises with innovative ideas also succeed in public procurement at a mean of 1.81 and SD of 0.041. The respondents strongly agreed that managers who delegate their authority and responsibilities to skilled employees access public procurement as well at a mean of 1.96 and SD of 0.949. The respondents agreed that well skilled employees in procurement department enable enterprises access public procurement easily with a mean of 1.98 and SD of 0.929. All the factors mention above had a mean value of less than two and a standard deviation SD less than one; indicating that the study results are reliable

and an attempt to change the study units (sample) would result into no big difference in the findings from the current results.

The study also sought to investigate if the trainings which the respondents have attended on public procurement related courses have been beneficial to them and the results are provided in Table 4.12. A majority (93.55%) of the participants who have benefited from some form of training on procurement related course or supply chain management viewed such trainings as having greatly improved their abilities to effectively participate in public procurement. This was corroborated by the procurement officers interviewed who indicated that that public procurement market is a highly regulated market which needs some form of training or capacity building to be able to understand its functioning. Procurement-related training is therefore a necessary ingredient for effective participation on MSEs in public procurement.

The study also sought from the chief procurement officers interviewed on what the government is doing to ensure that the MSE effectively participate on the public procurement. The study learnt that the government has put up different workshops on entrepreneurial training to help in building capacity for the MSEs entrepreneurs to learn on how to carry out good management of their businesses. The study also learnt that computer skills are taught by public officers on how these MSEs can effectively participate due to the recent online procurement (E-procurement) practices.

**Table 4.12: Importance of these Trainings to Beneficiaries**

<b>Importance of Trainings</b>	<b>Frequency</b>	<b>Percentage</b>
Improved participation in public procurement	58	93.55
Not really	4	6.45
<b>Total</b>	<b>62</b>	<b>100.00</b>

#### 4.7 Information Accessibility

In a bid to establish how information accessibility hinders effective participation of MSEs in the public procurement market, the respondents were asked to rank the medium of communication from the most effective to the least in sale of their products and services. Table 4.13 presents the findings.

**Table 4.13: Medium of Communication**

Means of Communication	Frequency	Percentage
Newspaper Advertisement	24	9.20
Social Media	37	14.18
Radio Advertisement	19	7.28
Personal Referrals	73	27.97
Own Network	103	39.46
Television Advertisement	5	1.92
Total	261	100.00

As shown in Table 4.13, a majority (39.46%) used their own network to access information regarding tenders followed by 27.97% who used personal referrals and 14.18% used social media. 9.2% used newspaper adverts, 7.28% used radio and the least used medium of communication to access any product or services generally was television at 1.92% with the majority of respondents here relying on their own networks for information on government contracts. The findings concur with those of Moyi *et al.* (2006) who observed that MSEs have limited means in obtaining effective and relevant information on market availability to enable them market or sell their products. According to Moyi *et al.*, even though such information should be provided by centers that include Chambers of Commerce, MSE development agencies, and associations as

well as trade, industry and tourism bureaus, many of these are not within easy reach of most MSEs.

The respondents were further asked to state the most effect medium of communication in their respective enterprises and Table 4.14 presents the findings.

**Table 4.14: Medium of Communication in Enterprises**

<b>Medium of Communication</b>	<b>Frequency</b>	<b>Percentage</b>
Social Media	144	55.2
Newspaper Advertisement	41	15.7
Personal Referrals	189	72.4
Own Network	210	80.5
Television Advertisement	11	4.2
Radio Advertisement	4	1.5

Table 4.14 shows a slight difference in terms of medium of communication for personal enterprises. From this Table, majority of the respondents at 80.5% depend on own network for information accessibility, followed by 72.4% who used personal referrals, 55.2% used social media, 15.7% used newspaper advertisement, 4.2% used television advertisement while only 1.5% used radio advertisement. This study further revealed that a majority (70.7%) did not regularly get information about government tenders they are interested in. Table 4.15 shows the findings.

**Table 4.15: Access to Information**

<b>Access to Tender Info</b>	<b>Frequency</b>	<b>Percentage</b>
Regularly	76	29.3
Not really	185	70.7
<b>Total</b>	<b>261</b>	<b>100.00</b>

However, for those who regularly received information, Table 4.16 presents the most effective channel of access.

**Table 4.16: Medium of Access of Tender Information**

<b>Medium of Communication</b>	<b>Frequency</b>	<b>Percentage</b>
Newspaper Advertisement	121	46.36
Radio Advertisement	7	2.68
Internet Sources	34	13.03
Television Advertisement	4	1.53
Public Notice boards	50	19.16
Government Offices	29	11.11
Owner of another MSE	16	6.13
<b>Total</b>	<b>261</b>	<b>100.00</b>

For the respondents who regularly get information on government tenders, a majority (46.36%) indicated that they get them through newspapers, 19.16% got them through public notice boards, 13.03% got them through internet sources and 11.1% indicated that they got such information by visiting various public offices. A further 6.13% stated that they got information regarding government tenders through their colleagues, 2.68% through radio advertisement while the least medium of access was through television advertisement at 1.53%. This was confirmed by the senior procurement officers interviewed who indicated that the government prefers to use newspaper advertisements because it has wide circulation. They also indicated that, being a print media, it is convenient for use in tendering as suppliers can retain a copy for ease of reference.

The study results were also affirmed by the interviewees that the small businesses have faced challenges in the accessing of tender information as a result of government choice of media such as social media and other electronic media that pose a huge challenge to these small businesses who lacks infrastructure such as internet connection. This implies

that these small businesses lacks access to these tenders and are therefore locked out of the exercise and their counterparts who are big firm enjoys these opportunities.

Again, the above results corroborate the findings of an Economic Recovery Strategy Paper (2003) which identified poor infrastructure as a critical factor that constrains profitable business in Kenya. The strategy paper also identified the poor state of the country's road network, inaccessibility of print, electronic and other communication networks in rural areas, absence of power connections and other utilities as negatively affecting small businesses in the country. In conclusion, inadequacy of physical infrastructure is identified as a principal cause of low levels of investment and unsatisfactory performance of micro and small enterprises. However, it is notable that tremendous efforts have been made to improve infrastructure, particularly roads, electricity, and water supply in the last decade.

The respondents were asked to identify the reasons why they cannot easily access tender information from the public sector and the results were as presented in Table 4.17. The results shows that a majority (33.33%) of the respondents feel that the government does not publicize widely information about available tender opportunities in the public sector, followed by 26.44% who feel that the widely used medium of communication is inaccessible to many and another 19.92% encountered difficulties in understanding the information given by procuring entities as it was too technical. 15.71% indicated that the language of communication was difficult for many and 4.60% stated that the difficulties were due to other factors. Table 4.17 provides the findings.

**Table 4.17: Reasons of Difficulties in Accessing Tender Information**

Reasons for Inaccess to Tender Inf.	Frequency	Percentage
Government does not publicise widely	87	33.33
Information too technical	69	26.44
Medium used is inaccessible to many	52	19.92
Difficult communication language	41	15.71
Others	12	4.60
Total	261	100.00

#### 4.7.1 Mitigation Measures to Increase Flow of Information

The respondents were asked to give their views on the mitigation measures that should be undertaken to increase the flow of information on government tenders and Table 4.18 presents the findings. The results indicate that a majority (37.16%) of the respondents wants the government to intensify its publicity of procurement opportunities available in various public procuring entities, and 29.5% want the medium of advertising public tenders to be easily accessible to them. A further 18.01% would like the information provided by the public procuring entities to be simple and easy to understand and 15.33% want the language of the tender documents to be simple and easy to follow. Others feel that the government should use modern means of communication like social media and internet sources as opposed to the old, too formal and elitist newspaper sources. This confirms an assertion that a business like procurement is either instantaneous or impossible without government intervention, and that the context in which decisions are being made in such a market is crucial to the nature of the information at stake.

The interviews conducted provides similar solutions where they provide that the government has played in key role of ensuring business connectivity through provision of network such as cable fibre laying that would see all business from across the country having access to this information. The study also learnt from the interviewees that the government need to simplify the tendering exercise by having language that can be understood by small business owners who have little knowledge on business and procurement terminologies. Table 4.18 provides the findings.

**Table 4.18: Measures to Increase Flow of Information on Tenders.**

<b>Measures</b>	<b>Frequency</b>	<b>Percentage</b>
Government Intensify Publicity	97	37.16%%
Information should be simple	40	15.33%
Medium should be easily accessible	47	18.01%
Language should be simple	77	37.16%
<b>Total</b>	<b>261</b>	<b>100.00%</b>



## 4.8 Finance Accessibility

To establish the extent of financial accessibility to MSEs, the study sought to know how many MSEs have benefited from government funding and the results were as shown in table 4.19. The results show that only 26.1% of the respondents have ever accessed government funding to boost their businesses while a whopping 69.0% have never received any government funding to boost their businesses. However, 4.9% of the respondents did not indicate whether they have accessed any government funding or not.

The interviews conducted affirm that small businesses have faced a number of challenges in the accessing finance to effectively deliver on tenders won. The study learnt that at some point the MSEs had to leave the jobs to be done by other firms with financial capability. Delayed payments by the government were also mentioned to be a key cause of the financial challenge. Table 4.19 provides the findings.

**Table 4.19: Access to Government Funding**

<b>Governement Funding</b>	<b>Frequency</b>	<b>Percentage</b>
Those have accessed government funding	68	26.1
These haven't accessed government funding	180	69
Not sure	13	4.9
<b>Total</b>	<b>261</b>	<b>100</b>

### 4.8.1 Reasons for Failure to Access Funds

For those who were unable to access funding from the Government, they gave their reasons as presented in Table 4.20. The results indicate that a majority (44.83%) of the respondents view the conditions put by government agencies to be met by applicants before getting such funds are too stringent and out of reach for ordinary small-scale traders. The findings further show that 37.55% of the respondents view security to guarantee loan as a requirement by funding institutions as a major hindrance to MSEs' access to government funding. According to some of these respondents, many micro and

small scale traders are starters who may lack permanent assets like land, buildings, motor vehicles, mortgages, and similar assets which banks and similar institutions need for purposes of securing the loan facilities.

This finding is in agreement with the conclusions of another study by Mwanja, (2011) on the effect of *Biashara Boresha* Loan (BBL) on the performance of micro and small enterprises owned by Kenya Commercial Bank (KCB) Ruiru branch. Mwanja concluded that infant businesses need support in their early years when their motivation is high and innovation is low and that collateral requirements at KCB Ruiru should be made a bit flexible and repayment period should be increased to at least a year because SMEs only manage to access a small amount of loan due to short repayment periods.

Another 27.97% of those interviewed feel that there is a lot of corruption in giving out such funds. This is in agreement with an assertion made by Kidombo (2014) that government bodies are by far the largest conduits of corruption. Just as in the current study, Kidombo indicates that most of the big scandals we hear of originate from the government procurement related works. He states that, “we hear and see government projects, which in reality are *white elephants* because the funds were misused or diverted to personal use. We hear, see and read how chief officers in government have misused funds such as the Youth and Women Enterprise Development Fund, Fuel Levy Fund, Equalization Fund, Constituency Development Fund, County Development Fund and many other such funds causing many government projects to stall.” With high level corruption in public financial management system, deserving MSEs are and will continue to be deprived of the necessary capital to inject impetus into their businesses.

Further, 20.31% indicated that securing the funds involves a process that was too technical and hard to understand. Again, this is in agreement with the findings of Mwanja (2011) that the process of securing funds for MSEs is cumbersome. Some felt that after providing the necessary documentation, the time taken to approve such loans was unnecessarily long and anti-business. According to some of the respondents, while loan approval takes long, government tenders comes with very strict timelines which automatically leads to disqualification if not adhered to. When they receive such moneys after the expiry of a tender period, there is the likelihood that such moneys will be used

for other purposes other than the intended one and repayment becomes a challenge compounding the problem even further. Hence, if MSEs can't access funds in time, they can't do business with the government.

14.18% of the respondents feel that there are other reasons in addition to the ones stated above which hinder them from accessing such funds. They identified some of the reasons as: favouritism, nepotism, clanism, tribalism, and complicity among local leaders and fund officials who are tasked with the responsibility of vetting beneficiaries. Others indicated that they don't receive information about available funding opportunities in time and are usually locked out due to time limitations. Other reasons given include: long distances to service centres where funds are distributed, political differences where certain candidates perceived to be politically correct are given funds at the expense of those that are deemed to be opposed to influential political leaders in an area. Over and above, the findings have established that government funding opportunities are inaccessible to the majority of MSEs in Kenya. Table 4.20 provides the findings.

**Table 4.20: Reasons for Failure to Access Government Funding**

<b>Reasons for Failure to get Funds</b>	<b>Frequency</b>	<b>Percentage</b>
Conditions too stringent	117	44.83%
Require Security	98	37.55%
Corruption in giving out funds	73	27.97%
Process too technical	53	20.31%
Others	37	14.18%
<b>Total</b>	<b>261</b>	<b>100.00%</b>

#### **4.8.2 Source of Finance for Those Unable to Get Financing from Institutions**

The study also sought to determine sources of finance for those who fail to secure government funding and the results are presented in Table 4.21. The results show that

9.58% of the respondents accessed their finances from micro finance institutions, 8.05% from co-operative societies while 4.6% got funds from commercial banks. A majority (77.78%) indicated that they get their funds from other sources. The sources named included merry-go-rounds and local *chamas*, individual borrowing and personal sources among others. From these results, it is clear that only a small percentage of MSEs access financial services from government sources, banks and other financial institutions. Otherwise, majority of MSEs still depend on informal sources of finance which are inadequate and unreliable to finance government tenders which in most cases require huge capital investment. These findings agree with those of Mwanja (2011), Mugo (2012) and Kinyua (2014) that finance affects performance of SMEs since finance aspect is key in any business. Table 4.21 provides the findings.

**Table 4.21: Financial Institutions**

<b>Financial Institutions</b>	<b>Frequency</b>	<b>Percentage</b>
Micro Finance Institutions	25	9.58%
Commercial Banks	12	4.60%
Co-operative Societies	21	8.05%
Others	203	77.78%
Total	261	100.00%

The study also investigated the reasons why MSEs cannot easily access loans from financial institution and the results are presented in Table 4.22. It was revealed by 44.06% of the respondents that the conditions given by the banks are too tough for micro and small enterprises; 42.91% indicated that the process of securing the loans were too technical and out of reach of small business while 28.74% indicated that it was too procedural and unhealthy for small business. The study was further informed by 20.31% of the respondents that banks and micro-financial institutions have adopted policies which are unfavourable to micro and small businesses making it difficult for them to access loans. Another 8.05% had other reasons for not accessing loans which they

provided as follows: high interest rates charged by various banks and micro-finance institutions, fear of the punitive measures taken by banks in case one fails to repay the loan; inadequate information about products available in the market to fund MSE activities; and myths and misconceptions about borrowing from banks and other financial institutions. Table 4.22 provides the findings.

**Table 4.22: Reasons for not Accessing Loans**

<b>Reasons</b>	<b>Frequency</b>	<b>Percentage</b>
Tough conditions for small businesses	115	44.06%
Process too technical	112	42.91%
Too Procedural	75	28.74%
Unfavourable bank policy	53	20.31%
Other reasons	21	8.05%
<b>Total</b>	<b>261</b>	<b>100.00%</b>

Respondents were also asked if they would have a better chance of winning tenders if they applied for tenders together with other large enterprises and the results are presented in Table 4.23. The results show that a majority (83.5% or 218) feels they stand very little chance. Only 21 (8.0%) of the respondents feel that they stand a chance where large corporate organizations also tender for the same business opportunities. A further 22 or 8.4% of the respondents did not respond to the question of whether they stand a chance or not when placed together with large and established enterprises in a procurement process.

Again, the findings here simply amplify the fact that an affirmative action should be intensified when evaluating and awarding tenders to ensure that MSEs actually benefit from most of the available public tenders given that they are the majority in the enterprise sector in Kenya. Table 4.23 provides the findings.

**Table 4.23: Chances of MSEs Winning Tenders if Placed with Medium & Large Enterprises**

<b>Possibility of winning tenders by MSEs</b>	<b>Frequency</b>	<b>Percentage</b>
Little or no chance	218	83.5
Stand chance of winning	21	8.0
Did not respond	22	8.4
<b>Total</b>	<b>261</b>	<b>100.00</b>

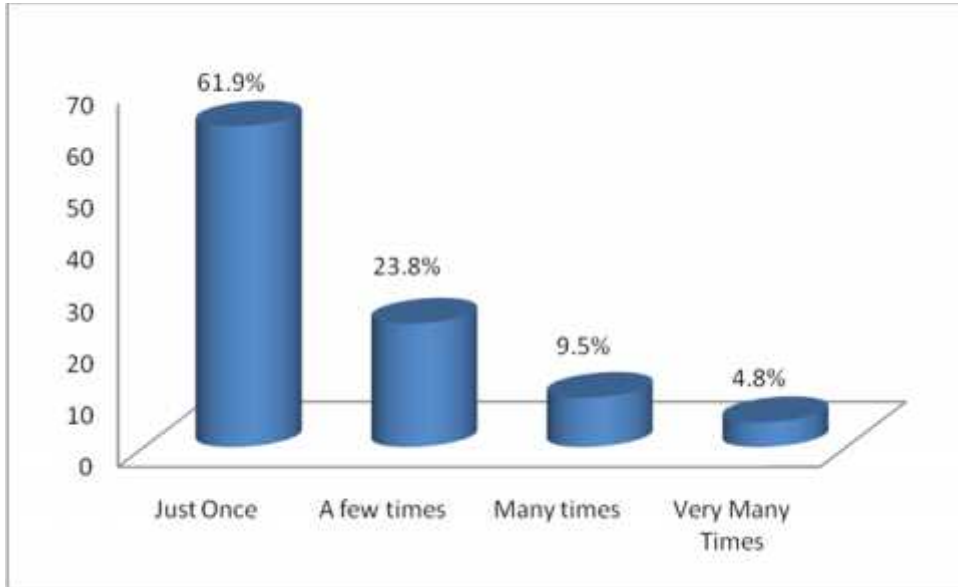
The study sought from the interviewees on the new measures that the government has put in place to ensure that the small business have access to finance in order to effectively participate in public procurement. Some of the ways identified included the government introducing public funds such as Uwezo fund, women and youth fund that have helped in increasing avenues for accessing funds among small and medium businesses. The government have also put in place policies that ensure that the businesses making supplies to the government including small businesses is done in timely manner. The other measure included having that the small businesses access funds through the use of local purchasing orders (LPO) in financial institutions.

#### **4.9 Competitive Environment**

In the context of competitive environment, majority 72.9% informed this study that they would be happy to engage in a competitive environment of similar type and 96.1% indicated that they could easily advice enterprises of their levels to try government tenders; however only 27.8% believed that the government is genuine in giving MSEs an advantage edge in its procurement policies.

Interestingly only 19.4% had heard of an MSE winning a Government tender in their respective areas and to that effect, majority 80.9% would take an offer if subcontracted to a tender by another enterprise. This was confirmed by 90.0% who informed this study

that given a chance, they would supply goods and services to a government sector. However, only 21.9% had ever won a government tender or any tender in the public sector and Figure 4.5 shows the frequency of tender awards.



**Figure 4.5: Frequency of Tender Awards in Public Sector**

The Figure 4.5 shows that majority 61.9% of the respondents had been awarded tenders just once, 23.8% a few times and 14.3% many times. For the respondents who were not able to win government tenders gave the reasons as presented in Table 4.24.

**Table 4.24: Reasons for not Winning Government Tenders**

<b>Reasons</b>	<b>Frequency</b>	<b>Percentage</b>
Corruption and favouritism	64	24.52%
Technical tender process	41	15.71%
Hard to get relevant information	48	18.39%
High standard quality of work	35	13.41%
Hard to get necessary financial support	53	20.31%
Others	20	7.66%
<b>Total</b>	<b>261</b>	<b>100.00%</b>

The study was informed that 24.52% of the respondents could not win government tenders due to corruption and favouritism in the process; 20.31% indicated that they lack the necessary financial strength to undertake such works, supplies or services for the government and 18.39% view the tendering process as too technical and hard to understand. Further 15.71% indicated that they fail to win government tenders because of too high standards set by the public procuring entities for quality of works, product and services which are usually beyond the level of their businesses.

The interviews conducted reveals that the MSEs have made supplies of substandard products that have made them loose on tenders; there have also been complaints of favouritism/corruption where only some firms win tenders. The interviewees also confirmed that there are instances where the exercise has not been fair whereby you get a firm winning a tender despite missing some documents.

These findings conform to other findings by CRED (2007) who established that greater efficiency in procurement may involve in some cases supply rationalization in order to reduce the costs of operating procurement processes. According to CRED, this would mean awarding larger contracts to a smaller number of businesses that have the capacity and expertise to manage larger projects. CRED indicates that this approach has concentrated public procurement within the confines of a few large companies and led to the loss of income for micro and small-sized firms, and organizations in the voluntary and community sectors.

Meanwhile, 43.3% of the respondents revealed that it is hard to get relevant information from procuring entities and 11.9% provided other reasons for not winning the tenders. These include: delays by banks and other financial institutions in releasing the necessary guarantees and tender security documents as required by procuring entities, bid rigging and underhand dealings, short time limitations to put bids, and too much discretion given to procuring entities vide Section 36(6) of the Public Procurement and Disposal Act of 2005 where a public procuring entity may at anytime discontinue the tender process without entering into a contract. Perhaps, this ties very well with CRED's assertion that in a tendering system which opens the market and favours competition, it is a challenge to maintain MSEs in such a market.



The study however revealed from interviewees that the government through e-procurement has helped in boosting transparency in tendering and therefore avoidance of corruption. The government has as well carried out training to the small businesses which has helped in building their capacity to provide superior/standard services that keep them competitive.

#### **4.10 Legal and Policy Framework**

In terms of legal framework and Government policy for public procurement processes in Kenya, majority 62.8% of the respondents ranked the Public Procurement and Disposal Act of 2005 as the best legal framework known to them; although 37.2% cited MSE Act 2012 as the best. Even though the government ministries and agencies were leading in procuring for their goods and services, only 31.1% of the respondents were aware of the government's willingness to offer most procurement to MSE. The respondents 70.9% however acknowledged that the government was willing to offer 30% of its tenders to youth and women, even though they had varied opinions on the rating of laws and policies public procurement in Kenya. The interviews conducted concurs with the study findings where the study learnt that there are a number of regulations that some MSEs are not conversant with such as Public Procurement and Disposal Act of 2005, which means that they cannot effectively participate in public procurement.

This concurs with a study by Moyi *et al.* (2006) who established that the role of government is one of providing an enabling business environment that ensures access to markets and reduces policy-induced biases against MSEs. However, more needs to be done to encourage MSEs to do business with the government especially after a study by USAID (1991) established that the national policy and regulatory environment have an important impact on technology and other important decisions made at the enterprise level.

**Table 4.25: Rating of Laws and Policies Governing Public Procurement**

<b>Statement</b>	<b>Frequency</b>	<b>Percentage</b>
Too technical and elitist	152	58.24%
Technical and elitist	53	20.31%
Easy to follow and implementable	35	13.41%
Very easy to follow and implementable	21	8.05%
<b>Total</b>	<b>261</b>	<b>100.00%</b>

As shown in Table 4.25, a majority (58.24%) of the respondents rated the laws and policies which govern public procurement in Kenya as technical and elitist while 20.31% regarded the laws as easy to follow and implementable and 8.05% very easy to follow and implementable. This was supported by the fact that only 13.41% indicated that the named laws and policies aided their chances of accessing public procurement and 8.05% not sure as presented in Table 4.25.

**Table 4.26: Extent of Laws and Policies Aiding Chance of Accessing Procurement**

<b>Statement</b>	<b>Frequency</b>	<b>Percentage</b>
Very Supportive	26	9.96%
Moderately Supporting	48	18.39%
Not Sure	63	24.14%
Has not improved chances at all	124	47.51%
<b>Total</b>	<b>261</b>	<b>100.00%</b>

As shown in Table 4.26 above, there were mixed opinions on the extent to which the named laws and policies aided the chances of MSEs in accessing the public procurement market. The study further revealed that even though there were mixed opinion on the extent to which the named laws and policies aided the chances of accessing public procurement, majority of the respondents 47.51% view the current laws as having failed to improve their chances of winning government tenders. Further, 18.39% of the respondents view the current laws and policies as moderately supportive while a small minority of 9.96% feels that they are very supportive of their quest to win government tenders. Otherwise those who disagreed with the current laws and policies are significantly high.

Similarly, six out of eight government practitioners/senior procurement officers interviewed felt that the Act is elitist and at times may be the cause of low participation of MSEs in public procurement market in this country. According to them, the Act lays too many procedures to be followed by public procuring entities when sourcing for works, goods or services from the market place. In their opinion, some of them may not be necessary to legislate on and should be the subject of individual discretion left to public officers who preside over the process. For example, some practitioners were of the opinion that there should be a different criteria for evaluating MSEs as opposed to the current situation where the rules of the game are the same for micro, small, medium and large enterprises.

Some of the government practitioners proposed that as representatives of the public procuring entities, the Act should give them some level of discretion to determine who should be given priorities under what circumstances. Currently, the Act only stipulates preferences applicable to the youth, women and persons with disabilities. They argued that this may not be the best criteria of preference that should be used if Kenya wants to include as many local industries in the process as envisaged under Section 2 of the Act. According to them, many of those MSEs seeking to do business with the government may not necessarily be youth, women or persons living with disabilities. A majority of those seeking to do business with the government are outside the three brackets of preferential treatment as contained in the Act. With a big chunk of eligible MSEs who can do business with the government left out, chances are that most business

opportunities in government will continue to go to the established large-scale industries. This again is a worrying trend given the importance of MSEs in economic growth and development of the nation. A lot needs to be done to encourage more MSEs to participate in government tendering.

#### **4.11 Effective Participation of MSES in public procurement**

##### **4.11.1 Successful rates of tenders**

The study sought to find out how MSEs have been participating in public procurement from year 2010 –2014. The study established that the MSEs had made a good number of applications of tenders with 29% of the applications being successfully won, with 25% of the tenders applied and awarded for being successfully completed/ delivered and only 3% of the tenders awarded were not successfully completed. The study results is an indication that MSEs are much determined to win these tenders from the high applications made only that few of them are successfully awarded. The study also indicated high completion rates on the tenders awarded with only very low rates of unsuccessful completion. The results are as shown in the table in Table 4.24

**Table 4.27: Successful Rates of Tenders**

Statement/ year	2014	Mean	2013 Total	Mean	2012 Total	Mean	2011 Total	Mean	2010 Total	Mean	Total	Mean	As a percent of tenders applied
How many tenders did your MSE apply?	4698	18	3915	15	2610	10	2349	9	1827	7	15399	59	100%
How many tenders did your MSE win?	1305	5	783	3	1044	4	783	3	522	2	4437	17	29%
What is number of tenders that were successfully completed/delivered?	1305	5	522	2	1044	4	522	2	522	2	3915	15	25%
What is the number of tenders that were not successfully completed?	0	0	261	1	0	0	261	1	0	0	522	2	3%

#### **4.11.2 Causes of failure to win tender**

This section of the study sought to find out the causes of failure to win tender among MSEs from year 2010-2014. The results of the study revealed that 42% of the respondents said that the entrepreneurs were not influential, 42% said that they lacked access of information with speed at a minimum cost; 43% said that they lacked network with the state agents; 36% of the respondents said that there was lack of political good will whereas only 26% of the respondents attributed their failure to a high level of competition. These results reveal that reasons behind their failure are either attributed to internal weakness or factors outside their control. The results are as shown in the table below.

**Table 4.28: Causes of Failure to Win Tender**

<b>Statement/ year</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>Mean</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
The entrepreneur behind the MSE is not influential	24%	37%	56%	42%	51%	42%
Lack of access to information with speed at a minimum cost	21%	27%	41%	56%	67%	42%
Lack of network with state agents	34%	39%	41%	47%	52%	43%
Lack of political good will	27%	32%	27%	42%	51%	36%
A high level of competition	43%	31%	27%	20%	11%	26%

#### **4.11.3 Areas improved to access tender**

This section of the study sought to find out the improvements that the MSEs have done to enable them access the tenders more. The results of the study revealed that: 36% of the respondents had increased procurement skills; 35% had improved networking; 36% had improved in the use of ICT to participate in tendering, 30% had improved their connection with the politicians whereas 44% of the respondents had started getting financial support from financial institutions and support programs. This result indicates that there have been efforts by MSEs to ensure that they effectively win the tenders. The results are as shown in the table below.

**Table 4.29: Areas improved to access tender**

<b>Statement /year</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>Mean</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Increase of procurement skills	67%	45%	43%	27%	13%	39%
Networking	54%	43%	32%	34%	14%	35%
Use of ICT	69%	47%	32%	18%	12%	36%
Being politically connected	47%	33%	27%	31%	14%	30%
Getting financial support from financial institutions and support programs	61%	52%	47%	32%	28%	44%

The study sought to find out reasons why MSEs were successful to winning tenders. The findings show that on average access to information was the most important factor for an MSE to win a tender as show by an average of 47%, however information access has been improving because the general trend is that in 2010 only 31% of MSEs had access to information, in 2011 this improved to 39%, in 2012 this improved to 57% and recently in 2014 information access is at 69%. The study results further show that having some inside information or good rapport with procurement department is a factor which had an average of 32%. The study got annual percentage of how networking aids MSEs to win tenders in 2010 good networking yielded 13% success of won tenders, in 2011 networking contributed 29%, in 2012 networking facilitated 37%, in 2013 networking was significant at 41% while in 2014 networking helped only 39% of MSEs to win tenders.

Prior information or awareness of the regulatory requirements in terms of access to facilitation as encompassed in MSE Act, 2012 and PPDA of 2005 facilitate winning of tenders. On average awareness to the regulatory requirements facilitated 25% of MSEs to win tenders. In 2010 awareness to regulatory framework facilitated 15 %, in 2011 at 17%, in 2012 at 21%, in 2013 at 39% and in 2014 at 41%.

MSEs Compliance with IFMIS requirements (different certifications e.g. YAGPO, NCA, Tax compliance, county council licenses, PIN certificate) on average facilitated 22% of MSEs to win tenders. In 2010 certificate compliance aided 12% of MSEs to secure tenders, in 2011 certification facilitated 15%, in 2012 certification aided 21%, in 2013 it helped at 23% while in 2014 it facilitated 37% of MSEs to win tenders.

**Table 4.30: Reasons MSEs were successful to winning tenders**

	2014	2013	2012	2011	2010	Averages
Accessing information of tenders in time	69%	57%	41%	39%	31%	47%
Good network with procurement department	39%	41%	37%	29%	13%	32%
MSE aware of regulatory framework(MSE Act, 2012) and PPDA	41%	39%	21%	17%	15%	27%
My MSEs is compliant with IFMIS requirements( different certifications)	37%	23%	21%	15%	12%	22%

The study sought to understand why MSEs were unsuccessful from wining tenders. The study findings show that two factors contributed highly to MSEs been unsuccessful in wining tenders that is Inappropriate quotations( unsuccessful quotations) and Bureaucracies' in tendering process (complex tendering process) which had an average of 70% each. The lack of appropriate certificates also lead to 68% of MSEs been unsuccessful. The study findings also show that due to technical hurdles e.g not signing business questionnaires 58% of MSEs were unsuccessful. Lack of timeliness in responding to tender applications resulted to 57% of the MSEs to be unsuccessful for tenders. Expired licenses (county council certificates, tax compliance certificates) accounted for 18% of MSEs been unsuccessful for tenders.



**Table 4.31: Reasons MSEs were unsuccessful to winning tenders**

	2014	2013	2012	2011	2010	Averages
Due to technical hurdles e.g. not signing business questionnaires,	45%	51%	61%	63%	71%	58%
Expired licenses( county council certificates, tax compliance certificates)	21%	19%	21%	17%	14%	18%
Not IFMIS compliant( missed YAGPO, NCA certificates)	41%	69%	73%	81%	78%	68%
Lack of timeliness in responding to tender applications	41%	43%	54%	68%	78%	57%
Bureaucracies' in tendering process (complex tendering process)	51%	69%	73%	77%	81%	70%
Inappropriate quotations( unsuccessful quotations)	61%	67%	71%	73%	78%	70%

## 4.12 Hypothesis Test

### 4.12.1 MSEs capability and MSEs' participation in public procurement market in Kenya

$H_0$ : There is no significant relationship between MSEs' capability and participation in public procurement market in Kenya

$H_A$ : There is a significant relationship between MSEs' capability and participation in public procurement market in Kenya.

**Table 4.32: Coefficient of MSEs capability against MSEs' participation in public procurement market in Kenya**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1(Const)	15.21	.841		14.654	.000
MSEs capability	.341	.070	.333	8.335	.000

In order to test for the direction of the influence regression coefficients were considered;

$H_0: \beta_1 > 0$

$H_1: \beta_1 > 0$  was tested

This entailed comparing the score of calculated t and the critical t. The calculated  $t=8.335$  and the critical  $t_{261-1}(0.05) = 2.653$  as indicated in table 4.32. The study therefore concluded that since the calculated t is greater than the critical, the study rejected  $H_0: \beta_1 = 0$  and therefore concluded that  $\beta_1 > 0$ . Therefore, MSEs capability positively and significantly influence MSEs' participation in public procurement market in Kenya.

#### **4.12.2 Information accessibility and MSEs' participation in public procurement market in Kenya**

$H_0$ : There is no significant relationship between information accessibility and participation in public procurement market in Kenya

$H_1$ : There is a significant relationship between information accessibility and participation in public procurement market in Kenya.

**Table 4.33: Coefficient of information accessibility against MSEs' participation in public procurement market in Kenya**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1(Const)	22.45	.678		22.876	.000
MSEs capability	.456	.078	.789	11.897	.000

In order to test for the direction of the influence regression coefficients were considered;

$H_0: \beta_1 > 0$

$H_1: \beta_1 > 0$  was tested

This entailed comparing the score of calculated t and the critical t. The calculated  $t=11.897$  and the critical  $t_{261-1}(0.05) = 3.765$  as indicated in table 4.33. The study therefore concluded that since the calculated t is greater than the critical, the study rejected  $H_0: \beta_1 = 0$  and therefore concluded that  $\beta_1 > 0$ . Therefore, information accessibility positively and significantly influence MSEs' participation in public procurement market in Kenya.

#### **4.12.3 Access to finance and MSEs' participation in public procurement market in Kenya**

$H_0$ : There is no significant relationship between access to finance and participation in public procurement market in Kenya

$H_1$ : There is a significant relationship between access to finance and participation in public procurement market in Kenya.

**Table 4.34: Coefficient of access to finance against MSEs' participation in public procurement market in Kenya**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1(Const)	24.65	.777		31.134	.000
MSEs Capability	.765	.008	.666	9.891	.000

In order to test for the direction of the influence regression coefficients were considered;

$H_0: \beta_1 > 0$

$H_1: \beta_1 > 0$  was tested

This entailed comparing the score of calculated t and the critical t. The calculated  $t=9.891$  and the critical  $t_{261-1}(0.05) = 4.645$  as indicated in table 4.34. The study therefore concluded that since the calculated t is greater than the critical, the study rejected  $H_0: \beta_1 =$

0 and therefore concluded that  $\beta_1 > 0$ . Therefore, access to finance positively and significantly influence MSEs' participation in public procurement market in Kenya.

#### 4.12.4 Competitive environment and MSEs' participation in public procurement market in Kenya

$H_0$ : There is no significant relationship between competitive environment and participation in public procurement market in Kenya

$H_1$ : There is a significant relationship between competitive environment and participation in public procurement market in Kenya.

**Table 4.35: Coefficient of competitive environment against MSEs' participation in public procurement market in Kenya**

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
1(Const)	11.567	.777		54.564	.000
MSEs Capability	.843	.008	.523	11.543	.000

In order to test for the direction of the influence regression coefficients were considered;

$H_0: \beta_1 > 0$

$H_1: \beta_1 > 0$  was tested

This entailed comparing the score of calculated t and the critical t. The calculated  $t=11.543$  and the critical  $t_{261-1}(0.05) = 8.765$  as indicated in table 4.35. The study therefore concluded that since the calculated t is greater than the critical, the study rejected  $H_0: \beta_1 = 0$  and therefore concluded that  $\beta_1 > 0$ . Therefore, competitive environment positively and significantly influence MSEs' participation in public procurement market in Kenya.

#### 4.12.5 Public Procurement Law mediates influence of study variables and MSEs' participation in public procurement market in Kenya

H<sub>0</sub>: The public procurement law does not mediate the influence of study variables and MSE participation in public procurement market in Kenya

H<sub>1</sub>: The public procurement law mediates the influence of study variables and MSE participation in public procurement market in Kenya.

**Table 4.36: Coefficient of Public Procurement Law mediates study variables influence and MSEs' participation in public procurement market in Kenya**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1(Const)	15.675	.567		24.657	.000
MSEs Capability	.456	.002	.444	10.986	.000

In order to test for the direction of the influence regression coefficients were considered;

H<sub>0</sub>:  $\beta_1 > 0$

H<sub>1</sub>:  $\beta_1 > 0$  was tested

This entailed comparing the score of calculated t and the critical t. The calculated  $t=10.986$  and the critical  $t_{261-1}(0.05) = 5.864$  as indicated in table 4.36. The study therefore concluded that since the calculated t is greater than the critical, the study rejected H<sub>0</sub>:  $\beta_1 = 0$  and therefore concluded that  $\beta_1 > 0$ . Therefore, Public procurement Law mediates influence of study variables and MSEs' participation in public procurement market in Kenya.

### 4.13 Regression Analysis

#### 4.13.1 Analysis of Variance

The probability value (p-value) of a statistical hypothesis test is the probability of getting a value of the test statistic as extreme as or more extreme than that observed by chance alone, if the null hypothesis H<sub>0</sub> is true. The p-value is compared with the actual

significance level of the test and, if it is smaller, the result is significant. The smaller it is the more convincing is the rejection of the null hypothesis.

ANOVA findings in table 4.37 shows that there is correlation between the predictors variables (capability, information accessibility, access to finance, and competitive environment) and response variable (number of MSEs who access government contracts) since P-value of 0.011 is less than 0.05.

**Table 4.37: Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std Error of the Estimate</b>
1	.853 <sup>a</sup>	.728	.691	.036

a. Predictors: (Constant), capability, information accessibility, access to finance, and competitive environment

The summary of the basic logic of ANOVA is the discussion of the purpose and analysis of the variance. The purpose of the analysis of the variance is to test differences in means (for groups or variables) for statistical significance. This was accomplished through analyzing the variance by partitioning the total variance into the component that is due to true random error and the components that are due to differences between means. The ANOVA analysis was intended to investigate whether the variation in the independent variables (capability, information accessibility, access to finance, and competitive environment) explain the observed variance in the outcome (number of MSEs who participate in government contracts). The ANOVA results indicate that the independent variables significantly ( $F=686.642$ ,  $p=0.011$ ) explain the variance in the number of MSEs who participate in government contracts. In this context, as have been presented in the table above, the dependent variable is effective participation of MSEs in the public procurement market in Kenya while the independent or the predictors, capability, information accessibility, access to finance, and competitive environment.

**Table 4.38: ANOVA**

<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	28374.648	6	5674.9296	686.642	.011 <sup>b</sup>
	Residual	5864.724	255	22.999		
<b>Total</b>		<b>34239.372</b>	<b>261</b>			

Where: df = degrees of freedom; F = Anova;  $\alpha$  = level of significance;  $F_o$  = calculated value of F;  $F_c$  = the critical value of F;  $t_o$  = calculate value of  $t$ ; and  $t_c$  = the critical value of  $t$ .

a. Dependent Variable: number of SMEs who access government contracts.

b. Predictors: (Constant), capability, information accessibility, access to finance, and competitive environment.

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variables, from the findings in the below table the value of adjusted  $(R)^2$  was 0.691 an indication that there was variation of 69.10% on the participation of MSEs due to changes in capability, information accessibility, access to finance, and competitive environment at 95% confidence interval. R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.853. On dependence and independent relationship, a moderate multiple regression analysis was used. The multiple regression analysis is mathematically expressed as shown below: a multivariate regression model was applied to determine the relative importance of each of the four variables with respect to the effective participation of MSEs in the public procurement market in Kenya.

The table below shows the determination of the coefficients for the regression equation.

**Table 4.39: Regression Coefficients (Holding moderating variable constant)**

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
1(Const)	.644	.884		2.729	.0034
Capability	.524	.010	.373	2.903	.0050
Info. Access	.535	.027	.216	4.317	.0020
Finance	.518	.882	.130	2.868	.0030
Comp envnt.	.527	.125	.069	3.825	.0040

The established multiple linear regression equation becomes:

$$Y = 0.644 + 0.524 X_1 + 0.535 X_2 + 0.518 X_3 + 0.527 X_4$$

**Where**

Constant = 0.644, shows that if capability, information accessibility, access to finance, and competitive environment were all rated as zero, participation of MSEs in public procurement market would be 0.644.

**4.13.2 The Mediating effect of Regulatory and Policy Framework between Independent Variable and Dependent Variable**

A regression analysis was done to determine the moderating effect of regulatory and policy framework on the participation of MSEs on public procurement market in Nairobi County. The study used the regression model  $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$ .

The moderating effect of the law was tested by calculating the change in  $R^2$  and the resulting P-value of the F-change. The p-value of change is 0.037 which is less than 0.05 implies that the moderating effect of the law and policy framework is significant at 0.05 level of significance.

**Table 4.40: Model summary (Moderating effect of Regulatory Framework MSE Access to Public Procurement)**

Model	R	R Square	Adjusted R Square	F Change	Sig. F Change
	.885	.784	.766	3.124	0.037



a. Predictors: (Constant), capability, information accessibility, access to finance, and competitive environment

Table 4.32 provides the information needed to predict how regulatory environment mediate between independent variables (capability, information accessibility, access to finance, and competitive environment) and the response/dependent variable (effective participation of MSEs in government contracts).

**Table 4.41: ANOVA**

<b>Model</b>	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	83.627	3	6993.48	2242.434	.000
Residual	804.622	258	3.1187		
<b>Total</b>	<b>888.249</b>	<b>261</b>			

From the findings shown in the table below there was a strong positive relationship between the study variables. On dependence and independent relationship, a moderate multiple regression analysis was used. The multiple regression analysis is mathematically expressed and a multivariate regression model was applied to determine the relative importance of each of the four independent variables as well as the moderating effect of regulatory framework with respect to the effective participation of MSEs in the public procurement market in Kenya. According to the findings, there was a strong combined effect between regulatory framework and the independent variables and therefore the participation of MSEs' in procurement markets is highly dependent on how well they understand interpret and put into practice the expectations per the regulations of both procurement and the MSEs'.

**Table 4.42: Regression Coefficients (with moderating variable)**

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
1(Const)	.634	.874		2.729	.0023
Capability	.535	.010	.273	2.903	.0040
Info. Access	.546	.037	.116	4.317	.0010
Finance	.529	.862	.130	2.868	.0020
Comp envnt.	.537	.115	.059	3.825	.0030
Regulatory Frmk.	.528	.116	.042	3.734	.0011

The established combined multiple linear regression equation becomes:

$$Y = 0.634 + 0.535 X_1 + 0.546 X_2 + 0.529 X_3 + 0.537 X_4 + 0.528 X_5$$

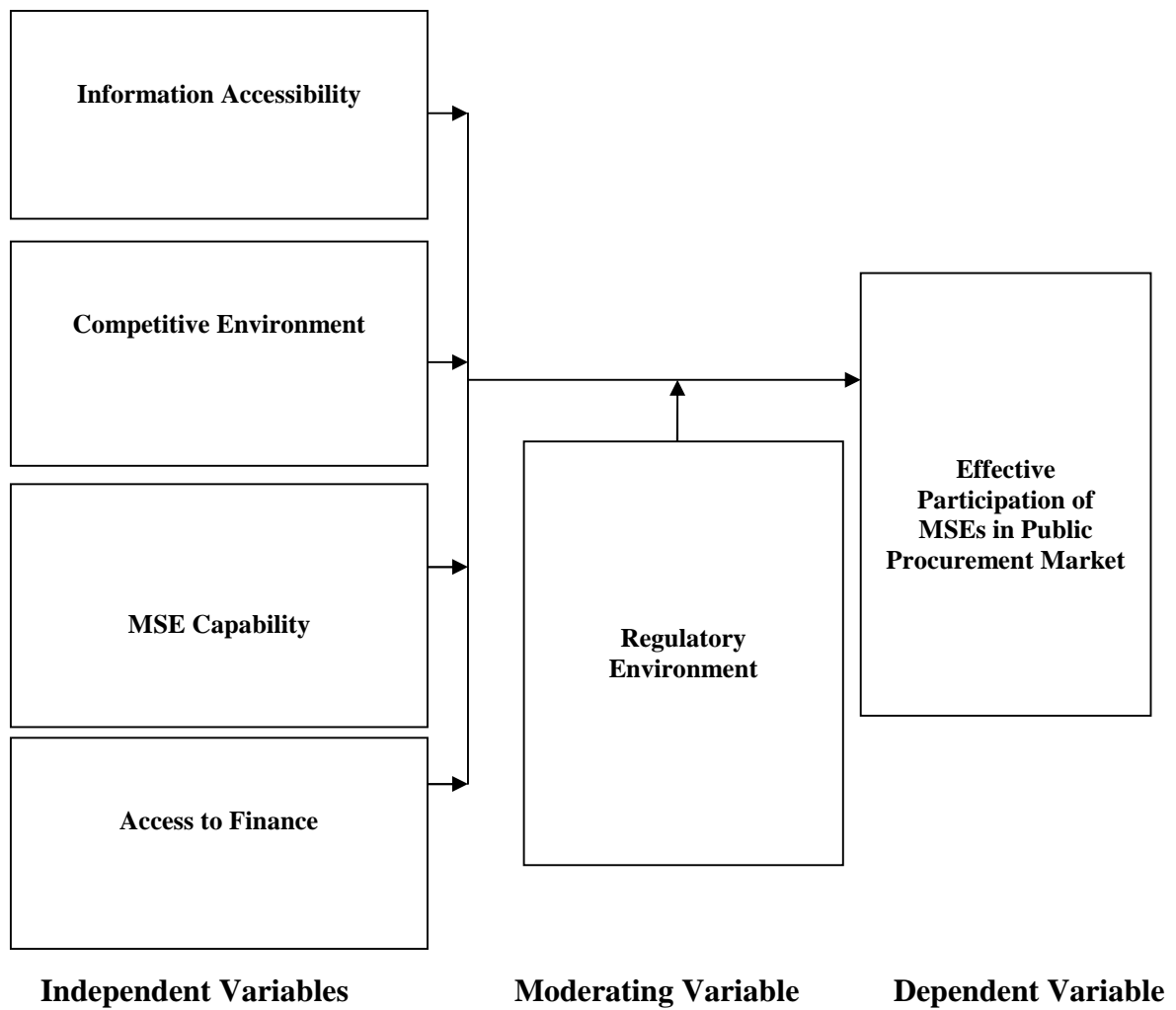
#### 4.14 Optimal Model

Model optimization

The model optimization was carried out based on the results of multiple regression for all variables against the dependent variable in order to guide in derivation of the final model (revised conceptual framework). The regression results in table 4.36 revealed that all variables were significant with a P- value of less than 0.005. In addition a circulation analysis was conducted to detect any instances of multicollinearity. All variable were found to have very low multicollinearity and we're all accepted.

The established combined multiple linear regression equation becomes:

$$Y = 0.634 + 0.535 X_1 + 0.546 X_2 + 0.529 X_3 + 0.537 X_4 + 0.528 X_5$$



**Figure 4.6: Revised Conceptual framework**

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

The current study sought to examine the challenges to effective participation of micro and small enterprises in public procurement market in Kenya. This chapter presents a brief summary, conclusion and recommendations of the study findings. The conclusion relates directly to the research hypotheses and the recommendations were derived from discussion of the study findings and conclusion. The chapter also presents suggested studies that could be carried out in future to extend knowledge in this particular area.

#### **5.2 Summary of the Major Findings**

The present study targeted owner-managers of various micro and small enterprises in Nairobi County, Kenya. Also targeted were chief procurement officers/managers of public procuring entities in Nairobi County. A total of 384 owner-managers of various categories of MSEs and 15 chief procurement officers/managers were sampled. The summary of the study findings presented herein followed the research hypotheses formulated in chapter one of the study.

##### **5.2.1 MSE Capability**

The study found out that a majority of the respondents have run their businesses for 3 years and below. They therefore have no vast experience in their lines of business operations. The study established that majority of the respondents have not attended any form of training in procurement/supply chain management. This in effect, impairs ability of MSEs to understand matters procurement and hinders their effective participation in any public tendering process. And even for those who have attended some form of training in procurement-related field, their level of training was found to be basic and may not guarantee a deeper understanding of complex issues that tenderers usually encounter while trying to source for government tenders.

Factor analysis also established that management knowledge was critical for the participation of any enterprise in public procurement and that enterprises with innovative ideas also succeed in public procurement. Enterprises whose owners or employees are

skilled in supply chain management were found to access public procurement more easily and stood high chances of winning tenders as compared to those that do not have such skills.

### **5.2.2 Information Accessibility**

The study established that majority of the respondents used newspapers to access information regarding tenders, followed by internet sources while television advertisement was the least used medium of communication to access any product or services generally. Even though, newspapers are the widely used medium of advertising public tenders, its accessibility to micro and small enterprises was found to be relatively low given that it costs money and its circulation in certain areas is also limited. Hence, it was established that not many respondents read newspapers daily. This created an informational gap which was found to have caused many respondents chances to tender for government procurement as they fail to see the advertisements placed on daily newspapers by various public procuring entities or saw them late when the tender period had expired. However, the most effective medium of communication according to this study was found to be the use of social media, followed by newspaper advertisement, personal referrals, own network and radio advertisement in a descending order.

The study also established that the majority of the respondents encountered difficulties in understanding the information given by procuring entities as it was too technical. Others were disadvantaged because of the inaccessible medium of communication used by the public procuring entities to advertise their tenders. A slightly smaller group of respondents viewed inadequate publicization of public tender information as a challenge. The study also found out that the language of communication was difficult to understand and this also leads to difficulty in participating in government tenders by MSEs.

### **5.2.3 Financial Accessibility**

The study established that only a small section of the respondents have ever accessed government funding to boost their businesses while a big majority have never received any government funding at all. It was further revealed that the few who have benefited from government funding got them through Youth and Women Enterprise Development

Fund and Uwezo Fund. Reasons advanced by respondents for being unable to access funding from the Government include: stringent conditions put by government agencies to be met by applicants before getting such funds, rampant corruption during vetting and disbursement of funds, security to guarantee loan as a requirement by funding institutions. Many micro and small scale traders were found to be starters who may lack permanent assets like land, buildings, motor vehicles, mortgages, insurance schemes and many others which banks need to guarantee unsecured loans.

The study also established that the process for securing the funds was too technical and hard to understand, and the time taken to approve such loans was unnecessarily long yet government tenders comes with very strict timelines which automatically leads to disqualification if not adhered to. It was also established that the process of approving funds is riddled with favouritism, nepotism, clanism, tribalism, and complicity among local leaders and fund officials. Many MSEs also fail to receive information about available funding opportunities in time. It was also established that long distances to service centres where funds are distributed and political differences negatively influences MSEs' chances of accessing financial support. Findings have established that both government funding and private funding opportunities are inaccessible to the majority of MSEs in Kenya.

#### **5.2.4 Competitive Environment**

The study established that only a handful of the MSE respondents have won government tenders in the past. However, many would be excited if given chance to do business with the government. It was further established that whereas many SMEs would be happy to engage in a competitive environment of similar type and majority feel that they can't compete favourably with medium and established multinational enterprises. It was established that many MSEs lack the necessary financial support to invest in modern technologies of production favoured by the procuring entities. Many MSEs were found to have brilliant business ideas but lack financial backup to implement such ideas. Many MSEs lack visibility and presence in the market place since they cannot afford to advertise their products and services in the mainstream media. This creates a lopsided competition as the dominant players rule the airwaves with their adverts. Again, because

many MSEs are unable to invest in modern technology, they fail to get the necessary information in good time and which is necessary to make informed business decisions.

The study also established that the quality of products, works or services demanded by the government is too high for many ordinary MSEs who depend on small-scale usually inferior means of production. Whereas many large scale businesses are organised and can present joint bids to enhance their chance of winning big tenders, MSEs are fragmented, disorganised and unable to form formidable consortia that can go for big tenders and win. MSEs were also found to control a small market share in the public procurement market. Hence, their products and services are unknown and hard to compete with known established brands of big multinational companies. They also lack the necessary change management skills to outmanoeuvre medium and large-scale players in the dynamic procurement market. Otherwise, the study also found out that many MSEs are still sceptical about the government's commitment to give MSEs an advantage edge in its procurement.

### **5.2.5 Regulatory and Policy Framework**

The study established that the Public Procurement and Disposal Act of 2005 is relatively well known by many respondents but its contents still remain unknown to many. The least known was MSE Act of 2012. Again it was established that many of the respondents were unaware of the government willingness to offer most procurement to MSEs although a good number were aware of the existence of preference for the youth, women and persons with disabilities. It was further established that the laws and policies which govern public procurement in Kenya are technical, elitist, hard to follow and difficult to implement. So majority of the respondents feel that the laws and policies governing public procurement don't help them access the market.

Government practitioners/senior procurement officers interviewed also confirmed that the Act is elitist and at times may be the cause of low participation of MSEs in public procurement market in this country. It was established that the Act lays too many procedures to be followed by public procuring entities when sourcing for works, goods or services from the market place. Preference accorded to youth, women and persons living with disability was found to be discriminative as many MSEs who don't fall in the said categories are left on their own.

### **5.3 Conclusion**

The study has established that majority of the respondents have not attended any form of training in procurement/supply chain management and are unable to effectively participate in public procurement market which is highly regulated and technical. Management knowledge was found to be critical for the participation of any enterprise in public procurement and enterprises with innovative ideas also succeed in public procurement. Enterprises whose owners or employees are skilled in supply chain management stand a better chance to access public procurement more easily and win tenders as compared to those that do not have such skills. The information accessibility affects MSEs' participation in public procurement market in Kenya. The majority of MSEs do not access newspapers on a daily basis thereby limiting their chances of participating in public tenders. The government does not widely publicize public tender information as major daily newspapers which contain the tender advertisements do not make it to very remote parts of the country due to rough geographical terrain and other challenges. The most effective medium of communication was use of social media, followed by newspaper advertisement, personal referrals, own network and radio advertisement in a descending order.

The financial accessibility affects MSEs' participation in public procurement market. The majority of respondents are unable to access funding from the government due to stringent conditions put by government agencies to be met by applicants before getting such funds, rampant corruption during vetting and disbursement of funds, security to guarantee loan as a requirement by funding institutions. The process for securing the funds was too technical and hard to understand, and the time taken to approve such loans was unnecessarily long yet government tenders comes with very strict timelines which automatically leads to the disqualification of MSEs who depend on such funds to show ability to finance tenders. The competitive environment does not enable MSEs compete favourably with medium and established multinational enterprises since many lack the necessary financial support to invest in modern technologies of production, and execute business ideas. Many MSEs lack visibility and presence in the market place since they cannot afford to advertise their products and services in the mainstream media leading to a lopsided competition in favour of the dominant players. Many products and services of



MSEs are unknown and hard to compete with known established brands of big multinational companies. Many MSEs also lack the necessary change management skills to outmanoeuvre medium and large-scale players in the dynamic procurement market. Many MSEs are sceptical about the government's commitment to give MSEs an advantage edge in its procurement and may not use such opportunities as the government would want.

The mediating effect of regulatory and policy environment on MSE access to public procurement market in Kenya and study concludes: many of the respondents were unaware of the government willingness to offer most procurement to MSEs although a good number were aware of the existence of preference for the youth, women and persons with disabilities. The laws and policies which govern public procurement in Kenya are technical, elitist, hard to follow and difficult to implement leading to low participation of MSEs in public procurement market in this country. The Act is too procedural to an extent that perhaps the country is losing out on a key objective of promoting local industries. Preference the Act accords to youth, women and persons living with disability is deemed discriminative as many MSEs who don't fall in the said categories are left on their own.

#### **5.4 Recommendations of the Study**

Arising from the study conclusions, the research recommends as follows:

##### **5.4.1 MSE Capability**

The government should work together with other stakeholders to ensure that MSEs are trained in procurement/supply chain management to enable them effectively participate in public procurement market. MSEs should also work to acquire management skills to enable them effectively participate in public procurement. MSEs should also enhance their product research, market research, customer care services and relations to be able to offer state-of-the-art services to their clients.

##### **5.4.2 Information Accessibility**

From the conclusions on how information accessibility affects MSEs' participation in public procurement market in Kenya, the study recommends that the public procuring

entities should use a medium of communication which is highly accessible to majority of the MSEs to advertise the tender opportunities in their organizations. The government should widely publicize public tender information so as to reach as many prospective tenderers as possible. Public procuring entities should enhance the use of e-procurement and modern means of communication like the internet and social media to increase access and participation by a wide margin of interested entrepreneurs. MSEs should also intensify use of personal referrals and own networks as they have also been proved to be popular and effective in information dissemination. Procuring entities should consider translating tender documents into the national language of Kiswahili to assist those who are not conversant with English to understand the contents of tender documents as required by law which guarantees every citizen a right to information in a fair manner.

### **5.4.3 Access to Finance**

Following the conclusions drawn from a determination of how financial accessibility affects MSEs' participation in public procurement market, this study recommends that the government should increase its funding opportunities to MSEs to boost their business activities. Government agencies charged with the responsibility of funding MSEs, commercial banks and other financial institutions should relax their lending conditions to enable many MSEs who lack some of the requirements like securities, guarantors, years of experience, operational bank accounts and many more access those funds. The government should rein in on its officers who are accused of rampant corruption during vetting and disbursement of funds to ensure that deserving MSEs access those funds without hindrance. Rid the process off favouritism, nepotism, clanism, tribalism, and complicity. The government and other stakeholders should simplify the process of securing funds to assist many MSEs to access business finance. Those charged with the responsibilities to disburse funds should expeditiously process them once an application is made to help MSEs meet strict tender deadlines. The government should widely publicise the available funding opportunities in time and bring them closer to the MSEs. All stakeholders should delink politics from the serious business of funding MSEs in this country if we are to help develop our local industries. Both government and private financial institutions should increase funding opportunities and ensure that they are accessible to the majority of MSEs in Kenya.

#### **5.4.4 Competitive Environment**

Stemming from the conclusions on how competitive environment affects MSEs' participation in public procurement market, this study recommends that the government should encourage the growth of local industries by encouraging their participation in government tendering. The government should strictly enforce the provision of Section 2(6) of the PPDA, 2005 which guarantees an affirmative action towards local industries when awarding tenders and contracts to assist in laying the playing field. MSEs should work hard to invest in modern technologies of production; advertise their products and services in the mainstream media; and improve the quality of their products, works or services so as to meet the government standards. MSEs should organize themselves into strong business/trading blocs capable of presenting joint bids which can win big government tenders. MSEs should strive to acquire change management skills to outmanoeuvre medium and large-scale players in the dynamic procurement market. The government should commit to give MSEs an advantage edge in its procurement opportunities and MSEs should also be ready to fight for such opportunities once they arise.

#### **5.4.5 Public Procurement Law**

The study investigated and concluded on the intervening effect of public procurement law and recommends that the government should educate the MSEs about the existing legal and policy framework that control and direct the management of public procurement and MSEs operations in this country. The government should strictly implement the provisions of the Public Procurement and Disposal Act (PPDA) of 2005 and MSE Act of 2012 to ensure MSEs benefit from preferential treatment envisaged in Section 2 of the PPDA. The government should think of revising the laws and policies which govern public procurement in Kenya to remove unnecessary procedures in public procurement process and make the laws easy to understand and operationalize. Preference as an affirmative action provided for in the PPDA should be extended to all MSEs in the country and not only limited to the youth, women and persons living with disability. The requirement by various public procuring entities that all participants in a tender process should have a minimum of a certain number of years of experience in their lines of business operations should be abolished in order to level the playing field for all players who want to participate in any government contract.

### **5.5 Areas for Further Research**

This study suggests that any future study should try to investigate how linkages, consortia and partnerships among MSEs can increase their chances of accessing public procurement in the country. This is after it emerged from the present study that the size, resources, and capabilities of the MSEs affect their participation in the public procurement market.

The study looked at the challenges to effective participation of MSEs in the public procurement market in Kenya. The study recommends a similar study on medium enterprises for which data can be available for comparability of the two categories of entrepreneurs. Otherwise literature reviewed herein indicates that even medium enterprises have no significant advantage over small enterprises when seeking government tenders. Further research can reveal if the challenges are common to both the two categories of entrepreneurs or if they are varied in some ways.

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## APPENDICES

### APPENDIX I: LETTER OF INTRODUCTION

Njuguna Humphrey Kimani,  
Jomo-Kenyatta University of Agric. & Technology  
P.O Box 62000-00200,  
Nairobi.  
May, 2015.

Dear Respondent,

#### **RE: RESEARCH STUDY**

I am a Doctor of Philosophy student at Jomo-Kenyatta University of Agriculture and Technology presently carrying out a study on the topic **‘Challenges to Effective Participation of Micro and Small Enterprises in Public Procurement Market in Kenya’**.

It’s my humble request that you assist me in this research by responding to the interview questions or filling in the questionnaire as correctly and honestly as possible. Please be assured that the response from this survey will be treated with utmost confidentiality and will be used for academic purposes only.

Thanking you in advance for taking your time to participate in this study.

Yours Sincerely,

H.N. Kimani

HD 413-C004-2577/2010



**APPENDIX II: QUESTIONNAIRE FOR MSE OWNER-MANAGERS**  
**QUESTIONNAIRE FOR MSE OWNER-MANAGERS**

**Instructions**

The information required herein will be treated with confidentiality and will only be used for the purpose of this study only. Do not indicate your name or any other personal detail anywhere in the questionnaire. Tick [ ] where appropriate and for any explanation please, be brief please.

**SECTION ONE: BACKGROUND INFORMATION**

1. Gender: Male [ ] Female [ ]

2. Age: 18-35 Years [ ] Above 35 Years [ ]

3. Level of formal education attained:

KCPE/CPE [ ] KCSE/ O- level [ ] A-level [ ] Certificate [ ] Diploma [ ]  
Bachelor Degree [ ] Masters [ ] Phd [ ]

4. Nature of Business (tick as appropriate)

Services [ ] Trade [ ] Manufacturing [ ]

Others (specify).....

5. Number of employees in the business:

Owner-manager/self [ ] 1-4 Employees [ ] 5-10 Employees [ ] 11-50 [ ]

6. Age of the business:

a) Below one year [ ]

b) 1-2 years [ ]

c) 3-5 years [ ]

d) 6-10 years [ ]

e) Over 10 years [ ]

7. How often do you participate in public tendering? (tick as appropriate)

- a) Just once [ ]
- b) A few times [ ]
- c) Regularly [ ]
- d) Very regularly [ ]

**SECTION TWO: MSE CAPABILITY**

8. How do entrepreneurial skills affect participation of your M.S.E in public procurement?

- a) Increases the number of tenders applied
- b) Increases the number of tenders won
- c) Lead to successful delivery of goods and services
- d) Any other (specify).....

9. How do management skills affect participation of your M.S.E in public procurement?

- a) Increases the number of tenders applied
- b) Increases the number of tenders won
- c) Lead to successful delivery of goods and services
- d) Any other (specify).....

10. How do procurement skills affect participation of your M.S.E in public procurement?

- a) Increases the number of tenders applied
- b) Increases the number of tenders won
- c) Lead to successful delivery of goods and services
- d) Any other (specify).....

11. Which among the following professional training/course have you attend

Course	Short course	Certificate	Diploma	Degree
Procurement				
Clearing and forwarding				
Accounting				
Management				
Community Service				
Any other (specify)				

12. Which one of the following management issues affect the tendering of SMEs department within the procurement office will be affected by the variables (Tick of fill appropriately please).

Variables	Purchase Orders	Develop Terms for Contract	Acquire Supplies	Approve Tenders	Sign Contract
Management skill in tendering process is important in					
Management is critical for participation in Public procurement mostly in					
Those with education are likely to be aggressive in public procurement in					

Enterprises with good network are likely to succeed in Public Procurement.					
Enterprise with innovative ideas succeeds in public procurement.					
Managers who delegate to skilled employees access public procurement.					
Enterprises with well structured department get specialist.					
Well skilled employees enable enterprise access public procurement easily.					

### SECTION THREE: INFORMATION ACCESSIBILITY

13. How does ICT usage affect participation of your MSE in public procurement?

- a) Increases the number of tenders applied [ ]
- b) Increases the number of tenders won [ ]
- c) Lead to successful delivery of goods and services [ ]
- d) Any other (specify).....

14. How does tendering process affect participation of your M.S.E in public procurement?

- a) Increases the number of tenders applied [ ]
- b) Increases the number of tenders won [ ]
- c) Lead to successful delivery of goods and services [ ]
- d) Any other (specify).....

15. How does networking with the procurement department affect participation of your M.S.E in public procurement?

- a) Increases the number of tenders applied [ ]
- b) Increases the number of tenders won [ ]
- c) Lead to successful delivery of goods and services [ ]
- d) Any other (specify).....

16. How do you normally get information on public tenders?

- a) Newspaper Advertisements [ ]
- b) Social media [ ]
- c) Radio Advertisement [ ]
- d) Personal Referrals [ ]
- e) Own Network [ ]
- f) Television Network [ ]

17. Which among the following do you use most? Tick all that apply.

<b>Means of Communication</b>	<b>Response</b>
Newspaper Advertisement	
Social Media	
Radio Advertisement	
Personal Referrals	
Own Network	
Television Advertisement	

18. Tick or fill appropriately. Respondents are requested to provide the media they use to access tender information

- a) Newspaper Advertisement [ ]
- b) Radio Advertisement [ ]
- c) Internet Sources [ ]
- d) Television Advertisement [ ]
- e) Public Notice boards [ ]
- f) Government Offices [ ]
- g) Owner of another MSE [ ]

19. Tick or fill appropriately. Respondents are requested to provide reasons why they cannot easily access information on government tendering

- a) Government does not publicise widely [ ]
- b) Information too technical [ ]
- c) Medium used is inaccessible to many [ ]
- d) Difficult communication language [ ]
- e) Others (specify).....

20. Tick or fill appropriately. Respondents are requested to provide mitigation measures which can be undertaken to increase the flow of information on government tenders.

- a) Government Intensify Publicity [ ]
- b) Information should be simple [ ]
- c) Medium should be easily accessible [ ]
- d) Language should be simple [ ]

e) Any other (specify).....

**SECTION FOUR: FINANCE ACCESSIBILITY**

21. How does cost of capital affect participation of your M.S.E in public procurement?

- a) Increases the number of tenders applied [ ]
- b) Increases the number of tenders won [ ]
- c) Lead to successful delivery of goods and services [ ]
- d) Any other (specify).....

22. How does collateral availability affect participation of your M.S.E in public procurement?

- a) Increases the number of tenders applied [ ]
- b) Increases the number of tenders won [ ]
- c) Lead to successful delivery of goods and services [ ]
- d) Any other (specify).....

23. How does access to financial medium (financial facilitation) affect participation of your M.S.E in public procurement?

- a) Increases the number of tenders applied [ ]
- b) Increases the number of tenders won [ ]
- c) Lead to successful delivery of goods and services [ ]
- d) Any other (specify).....

24. Tick or fill appropriately. Access to government funding.

- a) Those have accessed government funding [ ]
- b) These haven't accessed government funding [ ]
- c) Not sure [ ]

25. Which one of the following is the reason SMEs do not access funding from the government? (Tick or fill appropriately.)

- a) Conditions are too stringent [ ]
- b) Require Security [ ]
- c) Corruption in giving out funds [ ]
- d) Process too technical [ ]
- e) Others (Specify).....

26. Tick or fill appropriately. Alternative financial institutions where you access funds

- a) Micro finance institution [ ]
- b) Commercial Banks [ ]
- c) Co-operative Societies [ ]
- d) Others (specify).....

27. Tick or fill appropriately. For MSEs who are unable to access funds from the alternative financial institutions, provide the reasons.

- a) Tough conditions for small businesses [ ]
- b) Process too technical [ ]
- c) Process too Procedural [ ]
- d) Unfavourable bank policy [ ]
- e) Others (Specify).....

**SECTION FIVE: COMPETITIVE ENVIRONMENT**

28. How does product differentiation affect participation of your MSE in public procurement?

- a) Increases the number of tenders applied [ ]
- b) Increases the number of tenders won [ ]



- c) Lead to successful delivery of goods and services
- d) Any other (specify).....

29. How does competition disadvantage edge affect participation of your MSE in public procurement?

- a) Increases the number of tenders applied
- b) Increases the number of tenders won
- c) Lead to successful delivery of goods and services
- d) Any other (specify).....

30. How does shape fair play brought about by competition affect participation of your M.S.E in public procurement?

- a) Increases the number of tenders applied
- b) Increases the number of tenders won
- c) Lead to successful delivery of goods and services
- d) Any other (specify).....

31. Which one of the following product differentiation strategy do you use in your MSE?

- a) Incorporation of attributes (quality or price)
- b) Brand identification
- c) Price differentiation
- d) Niche-offers

32. Tick or fill appropriately. Tick all that apply

- a) I am happy to engage in a competitive environment
- b) I can easily advice enterprises of their levels to try government tenders
- c) The government is genuine in giving MSEs an advantage edge in its procurement policies

33. Statements relating to not winning government tenders. Tick or fill appropriately

- a) Corruption and favouritism
- b) Technical tender process
- c) Hard to get relevant information

- d) High standard quality of work
  - e) Hard to get necessary financial support
34. Which one of the following has resulted from competition within the industry of your MSE?
- a) Accountability
  - b) Transparency
  - c) High quality products and services
35. How is your MSE looking to increase the competitive gap?
- a) By adding greater value through innovation
  - b) By making the process of visiting a competitor routine and controlled
  - c) By enhancing the overall in-house experience.
36. How has competition affected the way procurement is done?
- a) Greater selection of products
  - b) Lower prices
  - c) Greater range of services
  - d) More advertisement
  - e) Greater emphasis on customer satisfaction

**SECTION SIX: REGULATORY ENVIRONMENT**

37. How does awareness to procurement policies affect participation of your M.S.E in public procurement?
- e) Increases the number of tenders applied
  - f) Increases the number of tenders won
  - g) Lead to successful delivery of goods and services
  - h) Any other (specify).....
38. How does knowledge of the regulatory framework affect participation of your M.S.E in public procurement?
- a) Increases the number of tenders applied
  - b) Increases the number of tenders won
  - c) Lead to successful delivery of goods and services

d) Any other (specify).....

39. How does law enforcement affect participation of your M.S.E in public procurement?

- a) Increases the number of tenders applied
- b) Increases the number of tenders won
- c) Lead to successful delivery of goods and services
- d) Any other (specify).....

40. How do market standards affect participation of your M.S.E in public procurement?

- a) Increases the number of tenders applied
- b) Increases the number of tenders won
- c) Lead to successful delivery of goods and services
- d) Any other (specify).....

41. Which one of the following regulatory policies are you aware of?

- a) MSE Act (2012)
- b) PPDA act (2005)
- c) Sessional Paper No. 2 (2005)

42. How has law enforcement facilitated tendering process

- a) Smooth negotiations
- b) Formation of consortiums
- c) Formation of partnerships
- d) Any other (specify).....

43. How has regulatory environment facilitated business transactions

- a) Reduced search costs
- b) Reduced interest rates
- c) Reduced insurance premiums
- d) Any other (specify).....

44. Which of the following standard regulator are you aware of?

- a) Competition authority of Kenya [ ]
- b) Kenya bureau of standards [ ]
- c) International Standards Organization (ISO) certification Kenya [ ]

45. How has the regulatory environment influenced the payment processing for tenders

- a) Reduced periods
- b) Guaranteed payment as long as goods and services are derived
- c) Predictable payment dates
- d) Any other (specify).....

**SECTION SEVEN: EFFECTIVE PARTICIPATION OF MSEs’ IN PUBLIC PROCUREMENT**

46. In relation to the total tenders participated and approved as per PPOA, how many tenders were successful as a result of the following improvements

	2010	2011	2012	2013	2014
Accessing information of tenders in time					
Good network with procurement department					
MSE aware of regulatory framework(MSE Act, 2012) and PPDA					
Meeting their different requirements (terms of references)					
Compliant with IFMIS requirements(different certifications e.g YAGPO, NCA, Tax compliance, county council licenses, PIN certificate)					

47. In relation to the total tenders participated and approved as per PPOA requirements, show the number of tenders that were unsuccessful due to the following?

	2010	2011	2012	2013	2014
Due to technical hurdles e.g not signing business questionnaires,					
Expired licenses( county council certificates, tax compliance certificates)					
Not IFMIS compliant( missed YAGPO, NCA certificates)					
Lack of timeliness in responding to tender applications					
Bureaucracies' in tendering process					
Inappropriate quotations (unsuccessful quotations)					

48. What is the amount of goods supplied under each of the following tenders per year approved by PPOA through the tendering process

	2010	2011	2012	2013	2014
Number of tenders participated					
Number of successful won tenders					

## **APPENDIX III: INTERVIEW SCHEDULE FOR GOVERNMENT PRACTITIONERS**

### **Instructions**

The information required herein will be treated with confidentiality and will only be used for the purpose of this study only. You are therefore, requested to respond to the questions more honestly and without any fear or favor.

### **Section I General Information**

1. Tell me more about yourself in terms in regards to the position you hold (*let the interviewee explain him/herself on job responsibilities*)

### **Section II Capability**

2. Are there tendering requirements by the government that you feel have implications on tenderers in terms of their capital/resource requirements? If yes please identify these requirements and their implications tender awards? (*let the interviewee give you capacity challenges*)
3. What is the government doing to address these challenges and ensure an all tenders inclusions exercise(*let the interviewee give you ongoing policy measures*)

### **Section II Regulatory Policies**

4. Do you think that the government has put in place regulatory measures that have bad implications to MSE tenders to government procurements? If yes which are they (*probe so that the interviewee can give more of these regulations issues and the challenges they have posed to the MSE tenderers*)
5. What are the measures which have been put in place by the government to address the challenges witnessed?

### **Section III: Information Accessibility**

6. Do you think that the different means used by the government in relaying information on procurement has been a challenge to MSEs with accessing information on public procurements? If yes please how has it been a challenge for MSEs in terms of effectively participating in public procurements? (*let the interviewee tell you more on different means used and how they are a challenge to MSEs*)
7. What are the measures which have been put in place by the government to address the challenges identified? (*are there ongoing measure redress of the challenge*)

### **Section IV: Finance Accessibility**

8. From previous procurements have you had MSEs Tenderers complain on lack of funds as a cause of them not participating in public procurement? (*let the interviewee cite a story on an incident that happened*)
9. Are there measures which have been put in place by the government to address the challenges witnessed? If yes to what extent have the measures increased uptake of available financing opportunities by the MSEs?

### **Section V: Competitive Environment**

1. Are there challenges encountered by MSEs in terms of lack of fairness or inferiority of services that affect their effective participation in public procurement?
2. Do you think the government is doing enough to support MSEs to give them advantage edge in government procurement? If yes which are the ongoing policies to address these challenges?

*Thank you for your time and Cooperation*

### **APPENDIX IV: SAMPLE FRAME**



<b>Population Category</b>	<b>Target Population</b>	<b>Sample size</b>
Manufacturing	13,232	10
Service	177,421	131
Others	133,949	99
Trade	194,783	144
<b>Total</b>	<b>519,385</b>	<b>384</b>