**CHAPTER ONE**

**INTRODUCTION**

**1.1: Overview**

This chapter outlines the background of the study and highlights the problem that prompted the research to be carried out. Besides, the chapter indicates the objectives that were to be achieved in the research and the hypothesis that was formulated and tested for the research work. Also included are the significance of the study, scope of the study, assumptions of the study and the variables of the study. The chapter also indicates operational terms, organization of the study and the conceptual framework.

* 1. **Background of the Study**

All over the world, Micro, Small and Medium Enterprises (MSMEs) constitute the largest part of the business community with specific reference to their numbers and employment figures. For instance, in 2004, it was estimated that 99.8% of all companies in the European Union (EU) were MSMEs which accounted for 56% of gross value added (GVA), 67% of employees within the business sector (excluding agriculture, fisheries and financial services) and 58% of combined company turnover (GHK and Technopolis, 2004).Between 2002 and 2010 MSMEs were responsible for creating 85% of all new jobs in Europe, with micro-enterprises alone responsible for 58% of the total net employment growth (EU Commission Report, 2011).

MSME sector has been recognized worldwide for its role in wealth generation, employment creation, and poverty reduction. The sector plays a critical role in easing foreign exchange constraint, penetrating new markets, and stimulating growth and development particularly in the rural areas. The sector also acts as the seed bed for entrepreneurial pursuits and complements the process of adjustment in large enterprises by bringing backward and forward linkages for products and services previously not available in the market.

Over the past decades, economic planners have realized the importance of the small enterprise sector in achieving economic development. Many governments and development organizations have focused mostly on the promotion of Micro and Small Enterprises (MSEs) as a way of encouraging their participation in the economic activities of both the private and public sectors. In Africa, 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 the continent.

Studies indicate that MSEs are the main source of employment in developed and developing countries alike, comprising over 90% of African business operations and contributing to over 50% of African employment and GDP (Okafor, 2006). According to Rowe (2008) MSEs are the backbone of the British economy. The writer explains that in terms of United Kingdom (UK) turnover and Gross Domestic Product (GDP), MSEs account for 1.48trillion sterling pounds. Large UK Corporations of 250employees and over account for 52% of employment only and less than 50.8% of UK turnover, thus the UK economy is mainly supported by MSEs, and improving their performance will have a substantially positive effect on the entire UK economy.

In Kenya, MSEs play an important role in the Economy since they contribute significantly to the national GDP and to employment, estimated at 18% and 72% respectively (ERSWEC 2003-2007).The employment trend of the small enterprise sector in Kenya between 2000 and 2003 is noticeable. Employment in the informal sector increased from 3.7 million employees in 1999 to 5.1 million in 2002, while the formal sector employment increased only from 1.74 million to 1.76 million over the same period, while in 2003, total employment was estimated at 6.4 million persons(Economic Survey, 2003).

This growth in employment was almost entirely attributable to the increase in employment in the small firms whose growth rose from 3.3 million in 2000 to 4.6 million in 2003 (GOK [Government of Kenya], 2004b). According to the Economic Survey (2006), the sector contributed to over 50% of new jobs created in the year 2005. Development of MSEs had been identified as one of the strategies for industrialization, employment generation and poverty reduction. These development objectives had been comprehensively outlined in the Kenya’s policy documents such as the Sessional Paper No.2 of 1996 on Industrial Transformation to the year 2020, Sessional Paper No.2 of 2005 on the Development of MSEs for Employment and Health Creation (Republic of Kenya 1996, 2005)

Many writers do agree on certain criteria for defining small enterprises and say they may include turnover, assets, employment numbers, and management characteristics. However, definitions of a micro and a small enterprise vary from country to country and from sector to sector, Borgarello *et al.,* (2004) and Malhotra *et al.,* (2006). Some writers consider a small enterprise as a firm with 10-50 employees while they believe that a microenterprise is a firm with less than 10 employees (European Commission, 2005).In Zimbabwe, a micro enterprise refers to an enterprise with less than 10employees while a small enterprise refers to an enterprise with between 10 and 50 employees, Chigumira and Masiyandima, (2003).

According to the MSE Baseline Survey (1999) which highlights regional distribution of enterprises in Kenya (see table 1.1), 56% of formal businesses are located in the Nairobi region. Almost two-thirds of all MSEs are located in the rural areas and only one-third are found in urban areas, even when urban areas are defined to include small rural towns. Other major towns account for 10.9 % of the total SMEs in Kenya. On the other hand, informal sector enterprises are more widely distributed, with the majority found in the rural areas.

**Table 1.1: Informal, Micro and Small Enterprises**

|  |  |  |
| --- | --- | --- |
| **Region**  | **No. of Enterprises** | **Percentage %** |
| Nairobi and Mombasa | 223,668 | 13.3 |
| Other major towns | 183,144 | 10.9 |
| Rural town  | 95,720 | 5.7 |
| Rural Areas | 1,177,476 | 70.1 |
| **Total**  | **1,679,858** | **100** |

Source: National MSE Baseline Survey 1999, CBS, K-Rep and ICEG Extrapolated to 2005.

On the other hand, the value of government procurement market globally had been estimated at over $2 000 billion (OECD, 2001). This was equivalent to 7% of world Gross Domestic Products (GDP) and 30% of world merchandise trade. In the EU, the public procurement market was estimated to be worth around one-sixth of total GDP. In some literatures, it is indicated that the size of public procurement varies between 5% and 8% of GDP in most industrialized countries, Trionfetti, (2000).For the Middle East and Africa, the magnitude of central government purchases ranges between 9% and 13% (OECD, 2001).

These figures indicate that public procurement is important in the economies of both developed and developing countries and MSEs can get reasonable share in such ready markets. Nevertheless, many barriers exist which discourage MSEs from responding to business opportunities like government contracts or even lead them to avoid such opportunities altogether. These include among other factors: difficulties in obtaining information; the large size of the government contracts; cost of preparing contract proposals; too high administrative burdens; unclear jargon used; high qualification levels required; certification and financial guarantees required (Republic of Uganda, 2002).

As a policy initiative by the government of Kenya to address unemployment, poverty and inequality problems, the Public Procurement and Disposal Act, 2005 made provision for preferences and reservations targeting disadvantaged groups including micro and small enterprises (Republic of Kenya, 2005).The MSE sector is being considered the largest employer in the country while the government is the largest spender in terms of public procurement. In this context, the government through public procurement could give a great boost to the MSEs if they were facilitated to tap into this expenditure.

According to Kenya’s blue print and strategy for development known as Vision 2030 that aims towards making Kenya a newly-industrializing middle-income country capable of providing a high quality of life for all its citizens by the year 2030, Kenya’s competitive advantage lies in agro-industrial exports. For superior performance of the manufacturing sector, one strategy includes strengthening MSEs to become the key industries of tomorrow. This, according to Kenya’s Vision 2030, can be accomplished by improving their (MSE) productivity and innovation. Vision 2030 therefore recommends a need to boost science, technology and innovation in the sector by increasing investment in research and development.

The Government of Kenya, in collaboration with Development Partners had been spending substantial amounts of money on programs aimed at promoting the development of the small business sector. The anticipated benefits include creation of demand as well as supply for the domestic commodities; increased participation by local entrepreneurs in commercial activities; increased savings and investments; and better utilization of local resources (Gok, 1992). The Government had mainly concentrated in improving infrastructural facilities in order to create enabling environment for business startup and growth (Gok, 1997).

On their part, MSEs had been expected to exploit the existing opportunities to promote their own interests. Vision 2030 considers the development of SME Parks as oneof the key strategies to development of MSEs in Kenya. In this regard, the government needs to establish at least five (5) SME Industrial parks. The Government has stated its commitment to reversing the economic decline, mismanagement, contraction in per capita income and numbers living below the poverty line. The Economic Recovery Strategy (ERS) for Wealth and Employment Creation, 2003 - 2007, is the blue print towards achieving this end. In the document, is a recovery outline centered on a re-energized private sector activity and investment and specifically MSMEs development feature prominently in the Government’s strategy for raising incomes and employment.

Despite their significance, past statistics indicate that three out of five SME businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). Besides, potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Often larger companies are selected and given business for their clout in the industry and name recognition alone. One of the most significant challenges is the negative perception towards SMEs, Amyx, (2005). This research study was motivated by the increasing importance of MSEs and the continuing constraints they face in their activities despite a number of ongoing initiatives by the governments in collaboration with their respective development partners, targeting MSEs either directly or indirectly.

**1.3. Statement of the Problem**

For a long time, there had been growing interest in developing micro and small enterprises (MSEs) in Kenya. In many instances, the Government of Kenya (Gok) with the help of some development partners had been working on a number of promotional programs aimed at increasing the participation of local people in commercial activities. Specifically, inter-firm linkages in terms of sub-contracting had been encouraged to stimulate supply and demand of the locally produced commodities. It had been widely expected that the local entrepreneurs would take up the opportunities to graduate into competitive suppliers of commodities to all potential customers.

The MSEs have actually made contribution to the economy of Kenya in terms of poverty reduction, employment generation and wealth creation. However, the greater contribution of MSEs to the economy does not necessarily reflect growth and high productivity of the enterprise itself as the number of informal sector companies grew largely because of the depressed formal economy and underemployment in the formal sector. Besides, the MSEs do not get reasonable share in such ready markets as government procurement and there is a perceived weak links between the MSEs and all potential customers except individual consumers and fellow MSEs, indicating a continued marginalization of entrepreneurs in the rapidly expanding local market.

The inherent weaknesses of the small business sector in terms of inadequate market access, inadequate finance, outdated business management skills and inappropriate technologies may have contributed to the continued marginalization of MSEs. Large enterprises continue to dominate the expanded local markets as significant sources of supply for large-scale consumers including public institutions. Besides, many potential customers continue doubting whether MSE sources of supply have the required capacity and appropriate technology to make them compete favorably with large-scale sources of supply. This is the gap in knowledge which this study seeks to fill so that the findings and recommendations may assist in addressing the teething problems associated with continued marginalization of MSEs.

**1.4 Objectives**

The research study scrutinized the performance of MSEs with a view to ascertaining their capability in supplying goods or providing services to public institutions which generally consume large quantities of goods, works and services.

**1.4.1 General Objective**

The research was intended to establish the extent to which micro and small enterprises were meeting the needs of customers as the sources of supply for the requirements.

* + 1. **Specific Objectives**

This study was guided by the following specific objectives:

1. To find out the effectiveness of MSEs as the sources of supply for materials used in public institutions;
2. To identify the competitive business attribute for the MSE sources of supply;
3. To determine the influence of business attribute on performance of MSEs as the sources of supply for materials used in public institutions.

**1.5. Research Questions**

This research study sought to answer the following research questions:

1. Are the MSEs Meeting the procurement needs of public institutions?
2. What are the competitive business attribute for the MSE sources of supply?
3. How does the competitive business attribute influence performance of MSE sources of supply?

**1.6. Research Hypothesis**

In addressing the research objectives, the researcher tested the hypothesis that: *H0*“there is no relationship between competitive business attributes and performance of MSEs Sources of Supply”

**1.7. Definition of Significant terms**

**Micro and Small Enterprises:** Firms with between 1-50 employees

**Business Attributes**: Qualities which make firms competitive in business undertakings

**Public procurement**: Acquisition of goods, works and services by public institutions

**Sources of Supply**: Firms which supply goods or provide services to public institutions

**Procurement objectives**: key performance outcome in public procurement

**1.8. Organization of the Study**

This research report is organized into five chapters: Chapter one is the introductory which deals with the background information, problem statement, purpose of the study, objectives of the study, the research questions, the study hypotheses, significance of the study, limitations of the study, basic assumptions of the study, definition of significant terms, the organization of the study and the conceptual framework. Chapter two contains theoretical framework and the review of related literature which is presented in five main themes: description of micro and small enterprises, performance of MSEs in government procurement, business attributes that make MSEs competitive sources of supply, the impact of business attributes on performance of MSEs and the challenges facing MSEs in Government procurement. Chapter three contains the methodology that was used to address the research questions and subsequently meet the research objectives. Chapter four deals with data analysis and discussion of results while chapter five gives the summery of research findings, conclusions and the recommendations made.

**1.9. Justification of the Research**

While a lot of attention has been directed toward developing micro and small enterprises (MSEs), little has been done to ascertain their level of performance in such ready market as government procurement. This study was intended to assess the extent to which the MSE sources of supply meet the procurement needs of public institutions. The findings of the research study may be useful to the buyers in public institutions who will benefit from the enhanced competition in the expanded supplier base.

On the other hand, the findings of the study may be useful to the entrepreneurs who are likely to get ready market for their goods and services. Increasing supply base to incorporate micro and small enterprises in public procurement would make local entrepreneurs to obtain more shares of business in the expanded local markets. This implies creation of wealth and eradication of poverty for sizeable number of people in the country. It implies further, a reduced level of capital flight through such activities as transfer pricing and profit repatriation by foreign investors.

**1.10. Scope of the study**

A number of factors do influence the startup, growth and development of business establishments. In this research study, the focus was on shares of business received by local micro and small enterprises since survival of any business greatly depends on volumes of sales made in a given time frame. In this context, shares of business received by micro and small enterprises were viewed as the key variable that could influence business growth in the small business sector. To this end, public institutions which use goods, services and works in large quantities were identified as the key customers in the local market and could influence volume of purchases from the small business sector.

To establish the participation of MSEs in commercial activities, the study was based on the analysis of data obtained from public institutions that engaged MSEs as their sources of supply. In this regard, the target population comprised supply chain managers in the public institutions and the owner/managers of MSEs. However, the accessible population included supply chain managers of public institutions and owner/managers of MSEs in Baringo County of Rift Valley Province in Kenya.

**1.11. Assumptions of the study**

There were assumptions made in favour of the study, which included the following:

1. That procurement of commodities in public institutions was being carried out uniformly, guided by similar procedures and regulations;
2. That the enterprises engaged by public institutions were subjected to similar conditions that allowed fairness while competing for businesses;
3. That only enterprise with the most competitive terms was selected by public institutions as the right source of required items.

**1.12. Conceptual Framework**

According to Mugenda & Mugenda, (2003) a conceptual framework refers to conceptualization of the relationship between variables in the study and it is shown diagrammatically. In this research work, apart from showing the course of the study through the conceptual framework, the researcher was able to show the relationship between different concepts that were being investigated.

In the study, two sets of variables were examined: the dependent variables that comprised quality, quantity, price, delivery and service, which make up the procurement objectives to be achieved by public institutions with the help of the right sources of supply; the independent variables comprised resources, skills, and location that influenced performance by the sources of supply, making them capable of assisting public institutions in meeting the procurement objectives. The intervening variable was the ethical climate that prevails within the areas of operations

Figure1 illustrates the relationship between the variables i.e. how quality, quantity, price, delivery and service that reflect performance by sources of supply were influenced by the competitive business attributes such as skills, resources and geographical location.

 **Independent Dependent**

**Variables Intervening Variables**

**QUALITY**

**QUANTITY**

**PRICE**

**DELIVERY TIME**

**SERVICE**

 **Variable**

**SKILLS**

**ETHICAL**

**CLIMATE**

**RESOURCES**

**LOCATION**

*Fig.1: Dependent and independent variables*

**CHAPTER TWO**

**LITERATURE REVIEW**

**2.1. Overview**

This chapter outlines the theoretical framework, description of Micro and Small enterprises, Role of the MSE sub-sector in the economy,Challenges facing MSEs in playing their roles, Competitive business attribute for the MSEs in Government Procurement, procurement objectives that may be achieved through MSEs, impact of competitive business attributes on performance of MSEs in Government procurement, Obstacles facing MSEs in Accessing Government Procurement and Summary of Literature and the Research Gaps.

**2.2. Theoretical Framework**

According to Mentzer *et al*., (2008) a good research should be based on theory. This study was guided by institutional theory and socio-economic theory. Obanda, (2010) asserted that the institutional theory referred to the traditional approaches used to examine elements of public procurement. Scott, (2004) explained that institutions are composed of cultural-cognitive and regulative elements that, together with associated activities and resources give meaning to life. Hui *et al*, (2011) indicated that socio-economic theory focuses on the relationship and interaction between an organization and the society providing a sufficient and superior lens for understanding government procurement system. On the basis of these theories, buyers ‘perception of the MSE sources of supply for materials used in public institutions was examined.

According to Leenders & Fearon (2002), buyers generally categorize sources of supply as unacceptable, mere acceptable, good, preferred and exceptionally good. The writers explain that buyers’ perception of the ability of a source of supply to meet satisfactorily the quality, quantity, price, delivery time and customer care service objectives generally governs the choice of the preferred sources of supply. They explained further that business dealings with unacceptable sources of supply would result in extra costs due to unsatisfactory performance in terms of poor quality, inappropriate quantity, unreasonable price, poor delivery and poor customer care service.

According to Wilbur (1967) a good source of supply is one which at all times portrays honesty and fairness in dealings with customers and employees; has adequate resources and skills; provides materials that meet specifications; is alert to the need for continued improvement in both products and processes; realizes that self-interest is best served when customers are satisfied. Leenders & Fearon (2002) asserted that the preferred sources of supply would meet all the operational and some strategic needs of the buyers.

The literatures indicated further that exceptionally good sources of supply would anticipate the operational and strategic needs of customers and then react faster to the unforeseen needs such as sudden accelerated or decelerated volumes of business or changes in specifications and any other legitimate requests made by customers, Leenders & Fearon (2002). The writers explained that such sources of supply would provide technical assistance and other expertise services when requested or when they believed it would assist the customer better. They explained further that these sources of supply would warn ahead of time, of any material shortages, industrial strikes or anything else that may affect the operations of customers.

From the explanations above, it may be understood clearly that changing a source of supply from mere acceptable through to exceptionally good is a process that require both buyers’ and entrepreneurs’ effort to obtain rewards of mutual break through. As observed by Leenders & Fearon (2002), most MSE suppliers would be viewed as mere acceptable sources of supply that provide levels of performance that may be matched easily and have no strong basis for competitive edge. Other literatures indicate that MSE sources of supply could be moved from mere acceptable to good suppliers through a public-private partnership (PPP) move (PPOA, 2006).

*REWARDOBTAINED*

 ***Mutual Break* EXCEPTIONAL**

 **Through SOURCES**

 ***Mutual* PREFERRED**

 ***Improvement* SOURCES**

 ***Loyal* GOOD**

 **SOURCES**

 ***Sale ACCEPTABLE***

 ***Only* SOURCES**

 **UNACCEPTABLE *Product Focus Product and Focus on Continuous***

 ***SOURCES Service Focus Process /System Improvement***

*Investment Required*

*Fig.2 Categories of Sources of Supply (Leenders, Fearon, 2002)*

Figure 2 illustrates the various categories of sources of supply, ranging from unacceptable, merely acceptable, good and preferred to exceptionally good sources.

**2.3. Description of Micro and Small Enterprises**

As explained in the National MSE baseline Survey (1999) the terms enterprise, business, establishments and firms are used interchangeable when referring to the economic units which produce or supply goods or provide services. The baseline survey explained further that the term micro and small enterprise (MSE) covers a wide range of definitions and measurers varying from country to country. According to Fearon *et al*, (2002) MSEs can be described as small, often rural based firms characterized with family ownership, independence, labour intensive with low-level technologies, mostly rely on low cost raw materials, low energy costs, low labour costs, standing alone and producing for a well-defined market.

MSEs incorporate firms in both the formal and informal sectors andthe small firms do not fit in any particular generalization since the small business sector consists of exceptionally mixed bag of businesses engaged in a wider range of activities whose managers often have little in common with each other. According to Charmes (1997) informal sector firms are characterized by: ease of entry; small scale of activity; self-employment with a high proportion of family labour; little capital and equipment; labour intensive technologies; low skills; low level of organization with little access to organized markets, informal credit, education and training or services and amenities; cheap provision of goods and services or provision of goods and services otherwise unavailable; low productivity and low incomes.

According to Bigsten *et al*., (1999) three criteria are mainly used in literature to define Micro and Small scale Enterprises.The writers explained first criterion that is based on number of employees to define MSEs as those enterprises below a certain number of workers that can range from less than 10 to less than 50 employees. They indicated that the second criterion concerns the degree of legal formality and is mainly used to distinguish between the formal and informal sectors. According to this criterion, MSEs are those enterprises that are not registered and do not comply with the legal obligations concerning safety, taxes and labour laws. The writers asserted that the third criterion defines MSEs by their limited amounts of capital and skills per worker. The degree of informality and size of employment have perhaps been the two most readily accepted criteria on which classification of MSEs is based.

According to Borgarello *et al.,* (2004) and Malhotra *et al.,* (2006) definition of a micro and a small enterprise vary from country to country and from sector to sector. The writers also agree on the criteria to define small enterprises to include turnover, assets, employment numbers, and management characteristics. As explained by the European Commission (2005), a small enterprise is a firm with 10-50 employees and a micro enterprise is one with less than 10 employees. According to Chigumira and Masiyandima (2003), in Zimbabwe, a micro enterprise refers to an enterprise with less than 10 employees and a small enterprise refers to an enterprise with between 10 and 50 employees.

**Table 2.1: Criteria for Classifying Enterprise**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Types of Enterprise** | **No. of Employees** | **Annual Turnover Limit** | **Investment in plant/Machinery** | **Registered Capital**  |
| **Micro** **Enterprises** | Less than 10 | Not Exceeding Ksh. 500,000 | Not Exceeding Ksh. 1M | Not Exceeding Ksh. 5M |
| **Small** **Enterprises** | More than 10 but less than 50 | Between Ksh.500,000 & 5M | Exceeding 10M but Less than 50M | More than Ksh5M but less than 20M |
| **Medium Enterprises** | more than 50 but less than 100 | Between Ksh 5M &Ksh. 800M | Not specified in the Bill | Not specified in the Bill |

*Source: Kenya Association of Manufacturers*

Table 2.1 illustrates some of the commonly used criteria for defining Micro, Small and Medium Enterprise (MSME) as outlined in the Micro, Small and Medium Enterprise Bill of 2009 in Kenya. These include number of employees, annual turnover, investment in plant and machineries and registered capital

According to Fafchamps (1999) in developing countries like Kenya, the number of employees and size of assets or turnover for MSMEs tend to be much smaller compared to their counterparts in developed countries due to their relative small size of business entities and economies. Republic of Kenya (2009) the Micro, Small and Medium Enterprise Bill of 2009 used mainly two criteria to define MSMEs in general i.e. number of employees and annual turnover.

**2.4. The Role of the MSE sub-sector in the economy**

Entrepreneurship all over the world is emerging today as an avenue for gainful employment and a way of improving both economic and social status of citizens. The available evidence implies that MSEs have played a major role in the growth and development of leading economies in Asia, OECD-DAC (2005). Karekezi & Majoro, (2002) held that in Kenya, this sector accounted for 20% of the GDP and 64% of the urban employment by 2002. Ikiara et al, (2002) affirmed that many MSEs in Kenya are owned by indigenous entrepreneurs, while the share of African owned enterprises fall sharply when moving up the scale of enterprise size.

 According to the ASEAN Secretariat (2000) MSEs have become the important source of social and regional stability in terms of overall job creation and employment opportunities for women, youth and those with limited skills and capital. Cook & Nixson (2000) held that many governments and researchers have undertaken the initiatives to stimulate the growth of MSEs because they view it as the basis for the achievement of wider economic and socio-economic goals, including poverty alleviation. Newberry (2006) proclaims that historical experience of economic growth and developments in different countries indicate positive impact and contributions of MSEs in industrial developments as well as in technological innovations.

Onugu (2005) and Newberry (2006) held that in most developed countries, over 90% of all enterprises are within the MSE sub-sector while 80% of the total industrial labour force in Japan, 50% in Germany, and 46% in USA are in the MSEs. According to the WBCSD (2007), in the OECD economies, MSEs account for over 95% of firms, 60-70% of employment and 55% of GDP. It further indicates that in Morocco, 93% of industrial firms are MSEs and account for 10 8% of production, 33% of investment, 30% of exports and 46% of employment. It was observed in the same that although it is difficult to obtain exact and comparable figures on MSEs for developing countries, it is obvious that the role of MSEs is equally important in the economies of developing and developed countries alike.

Lam (1999) held that the small business sector is bound to feature more prominently in patterns of economic growth and restructuring, with the coming years of the millennium likely to be for micro, small and medium scale firms. Pelham (2000) said that MSEs are hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development. Reinecke (2002) indicated that MSEs tend to be large in number, accounting for about 90% of all enterprises in many African countries and over 80% of new jobs in a given country. Loader (2007) held that MSEs have been described as the ‘engine of the economy’ and there has long been recognition of the small business sector’s contribution to a competitive economy.

**2.5. Challenges faced by Micro and Small Enterprises while playing their Roles**

It is important to recognize and appreciate the numerous challenges that face the MSEs while playing their roles in economic development. The findings of various studies had documented the challenges of MSEs. Amyx, (2005) stated that the challenges facing the small business sector include identification of business opportunities and negative view of MSEs. Chong, (2008) explained that lack of information and communication technology can lower customer satisfaction and seriously limit growth in small businesses. Abor & Quartey, (2010) observed that MSEs face enormous challenges in attracting investors and accessing modern technology. Naidu and Chand, (2012) emphasized that in terms of technology, MSEs often have difficulties in gaining access to appropriate technologies and information on available techniques. In the developing countries, the small business sector is often faced with additional challenges that include:

**2.5.1. Poor infrastructure**

Ejembi and Ogiji, (2007) have found that poor infrastructure hampers small business growth. Poor infrastructure includes bad roads, inadequate water supplies and erratic electricity supply. Bowen *et al,* (2009) agree that infrastructure, as it relates to the provision of access roads, adequate power, water, sewerage and telecommunication services, poses a serious challenge to small businesses. Mbonyane and Ladzani, (2011) found out that MSEs had to contend with potholes, dust and sewerage close to their businesses or on their business premises and that the entrepreneurs are not informed about disruptions in electricity or water supply.

**2.5.2. Insecurity**

According to Longenecker, *et al*., (2006) insecurity, finance and lack of managerial skills, equipment and technology pose challenge to MSEs. Asa *et al* (2006, p. 1867), asserted that crime hampers the development of small businesses. Losses incurred by small businesses include the cost of improving security or repairing damage and loss of items (goods). Mbonyane and Ladzani, (2011) affirmed that crime is a serious threat to most micro-enterprises and small businesses.

**2.5.3 Competition**

PPOA, (2006) asserted that effective competition takes place when potential sources of supply compete for fair and open business offers by public institutions, in which case the value of vendor services can be clearly and openly judged. Aryeetey *et al*., (1994) as quoted by Wanjohi, (2010) asserted that limited international marketing experience, poor quality control and product standardization, and little access to international partners, continue to impede MSEs‟ expansion into international markets. Onugu, (2005) held that MSEs need to expand market share to avoid overreliance on local markets. According to the finding by Fumo and Jabbuor (2011), competition is ranked highest by entrepreneurs. This finding further identifies three forms of competition as: the informal, competition from other enterprises in the same line and competition from foreign enterprises. Owino (2008) and Karanja (2008) said that competition is a major problem encountered by MSE operators.

**2.5.4. Legal and Licensing Procedures**

According to Eagan (2005), Odhiambo and Kamau, (2003), legal and regulatory system that calls for complex registration and licensing requirements and demands tedious as well as costly reporting practices impose heavy costs on MSEs. Kauffmann, (2005) indicated that regulatory constraints also pose serious challenges to MSEs development. Wanjohi and Mugure, (2008) asserted that licensing and registration requirements, as well as high cost of settling legal claims, and excessive delays in court proceedings adversely affect MSEs operations.

COMESA, (2003) indicates that the UNCITRAL Model law has been considered and applied by Common Market for Eastern and Southern Africa (COMESA) member states including Kenya, Ethiopia, Malawi, Namibia, Rwanda, Uganda, and Zimbabwe. Republic of Kenya, (2005) indicates that Kenya has now strengthened her legal profile and enforceability of procurement principles, procedures and regulations by enacting a Law in public procurement based on the UNCITRAL Model Law. PPOA, (2007) asserts that the introduction of the Public Procurement and Disposal Act (PPDA) of 2005 and Public Procurement and Disposal Regulations (PPDR) of 2006 brought about new standards for the supply and/or provision of services to public institutions in Kenya.

**2.5.5. Financing problems**

According to Ejembi and Ogiji (2007), it can become problematic to run a business if the finances are not available or not managed and the business owners cannot make projections. According to Wanjohi (2010), there is limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development. Mbonyane and Ladzani, (2011) confirmed that MSEs struggled to obtain loans from financial institutions. Naidu and Chand, (2012) held that the challenges facing MSEs include inability to obtain external and internal financing, insufficient working capital, high start-up costs, high interest rates on loans and inability to meet financial obligation.

 **2.6. MSEs as Potential Suppliers/Service Providers in Government Procurement**

Because MSEs make a large part of national economies worldwide, supporting them is crucial in the attempt to promote economic growth, job creation and economic and social cohesion. OECD-UNIDO, (2004) held that government procurement is one of the critical areas for the development of micro and small businesses. The literatures emphasize that integrating MSEs in public procurement provides clear market opportunities for the entrepreneurs who otherwise are likely to be excluded from public procurement because of rigid administrative requirements for bidding processes and their inadequate capacity to deliver. Leenders et al, (2002) asserted that MSEs have shown loyalty and service demand deemed impossible by large enterprises that dominate government procurements.

Kipchilat (2006) quoting a COMESA report (2004) noted that procurement absorbs 60 percent of government expenditure. According to Roodhooft and Abbeele (2006), public bodies have always been big purchasers, dealing with huge budgets. In this context, MSEs are potential sources of supply in government procurement. Wynarczyk *et al*, (1997) indicated that MSEs are potential suppliers of commodities to the organizations because of their uncertainty, innovativeness and constant evolution. The writers explained that uncertainty makes MSEs to have small customer base and low levels of capital investments leading to high levels of flexibility. They also indicate that innovation of new products is important to the success of new enterprise whereas evolution makes MSEs to be unique suppliers with shorter response time to needs of customers.

OECD National Accounts Database and Eurostat (2011) purported that in the developed world, government procurement makes for an average 12% of GDP in OECD countries, and most industrialized countries spend at least 10% of their GDP on public procurement. According to Trionfetti, (2000), quoted in Agaba and Shipman (2006) these figures are at approximately 15-20% of GDP and the public procurement sector is often the largest domestic market in developing countries. Wittig (1999) stated that in Sub-Saharan Africa, for instance, the procurement market could be worth between US$ 30 to US$ 43 billion.

Basheka and Bisangabasaija (2010) said that in developing countries, public procurement is increasingly being recognized as vital in service delivery and it accounts for a high proportion of total expenditure. For instance, public procurement accounts for 60% in Kenya, Akech (2005), 58% in Angola, 40% in Malawi and 70% of Uganda’s public spending Wittig, (1999); Government of Uganda, (2006) as cited in Basheka and Bisangabasaija (2010). In this context, formal procurement is an ideal vehicle for developing growth strategies for the MSEs since it ensures the existence of an established market for defined products.

Procurement involves the process of acquiring goods, works and services, covering acquisition from both third parties and from in-house providers. Government procurement, also known as public procurement is explained in the Public Procurement and Disposal Act, 2005 as the acquisition by purchase, rental, lease, hire purchase, license, tenancy franchise or any other contractual means of goods or services by the government, Republic of Kenya, (2005). It involves the use of public funds to acquire goods, works and services. According to the PPOA (2007), public sector procurement can be broken down into two categories, namely project specific procurement and general consumable procurement. In the project specific procurement, goods, works or services are sought for a particular initiative (e.g. a new road, a hospital, plant and equipment). General consumable procurement relates to items that are required for a public institution to perform its duties (e.g. fuel, stationery, vehicle parts, road maintenance, and security).

Ngogo (2008) held that thinking about procurement, there are two sides, the demand side i.e. where there are users of products who have needs to procure and the supply-side which does the production and provision of goods and services to be supplied. In this context, the MSEs as potential sources of supply would fall in the supply-side which does the production and provision of goods and services to be supplied to public institutions. Leenders and Fearon (2002) asserted that MSEs as suppliers in public procurement are expected to improve productivity and quality, speed up response times, reduce costs and improve overall efficiency of government projects. They observed that, this will in turn, maximizes the economic, financial and social benefits of government procurement.

Baily, *et al,* (2008) held that public expenditure is generally on a vast range of items such as weapon systems, stationary and printed forms, food, furniture, uniforms, services and capital projects, construction works and management of facilities. Since governments are the largest spender in terms of procurement, they can provide ready market for MSEs’ products and services. The volume of public sector procurement of goods and services from third parties offers considerable opportunities for MSEs as government suppliers or service providers. In this context, there is certainly a strong case to be made for MSEs as potential suppliers/service providers in government procurement.

Studies indicate that how public funds are managed affects different elements of the society. Wittig (1999) held that it affects the business community of actual or potential suppliers to satisfy the government’s identified requirements. The writer explained that it also affects the citizens who need material support that is provided through public projects such as roads, hospitals, desks and other educational supplies. In this context, government procurement which involves the acquisition of goods, services and works for governments and public service has effects in different elements of the society. Government procurement is normally carried out through the institutions established to provide essential services to members of the public.

According to Trionfetti (2000), the estimation of the size of public institutions in most countries encounters a number of conceptual as well as technical problems. Trionfetti asserted that conceptually, the composition of the entity called “public” poses a problem: while in some countries, the term refers to the central and local governments only, it extends in others to include government owned enterprises providing public services. He explained that technically, problems arise due to lack of data and sometimes the manner in which such data are kept and reported. The writer explained further that in the absence of data, procurement undertaken in public institutions can be indirectly estimated by using public expenditure figures.

In Kenya, public institutions include Central Government Ministries and Departments, County Governments, State Corporations, Central Bank of Kenya, Co-operative Societies, Public Colleges, Public Universities, and all institutions established under voluntary contributions for the general welfare of public community (GoK, 2002). In Kenya, like in many countries in the world, MSEs can benefit from government procurement because they are among the potential sources of supply from which public institutions can procure goods, works or services to meet their operational needs.UK Better Regulation Task Force and Small Business Council (2003) asserted that in developed countries, MSEs are generally considered to have the edge over their medium and larger competitors in terms of innovative solutions, better customer care and after-sales service, as well as a more flexible and responsive approach to changing needs of customers.

**2.7. Obstacles faced by MSEs in Accessing Government Procurement**

According to Odhiambo and Kamau, (2003), some of the common barriers in participating in government procurement that have been continuously noted by MSEs across a range of countries are found at the pre-bidding phase, when finding out about contract opportunities, when applying for contract opportunities, winning contracts and post-bidding/ review of awards and appeals The writers explained that many barriers facing MSEs in public procurement are related to the lack of transparency in the procurement process.

Lack of transparency manifests itself in form of unclear tenders and decision-making processes, and is strengthened by a culture of corruption – typically with weak accountability mechanisms and lack of scrutiny over allocation of public funds. Hunja, (2003) indicated that abuse of public procurement systems arises largely due to weak or inconsistent enforcement of the rules. According to Transparency International, (2006), each phase of the procurement process is vulnerable to corruption, from advertising bids to the selection process. The writers indicated that, put in other words, “the best procurement law is the one that is effectively applied”. According to OECD, (2012) the abuse of public office for private gain is inevitably harmful for the overall economy and SMEs in particular.

Wittig, (1999) affirmed that Sometimes, legal provisions are included in the country’s constitution, for instance, in South Africa; the country’s constitution writes that its system of contracts must be “fair, equitable, transparent, competitive and cost-effective”. MacManus, (1991), quoted in Shapper, Veiga Malta and Gilbert, (2006) explained that the problem with excessive documentation and bureaucratic procedures reflects the assertion that “competitive bidding exercises by government are generally expensive and time-consuming for business: for MSEs, these costs can be prohibitive, effectively barring them from competing even though they might otherwise be highly competitive”

OECD, (2004) affirms that smaller businesses generally face substantial obstacles 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. Odhiambo and Kamau (2003) said that methods used to procure public goods, works and services, have a significant impact on the participation of newer or smaller businesses and in most cases they are so punitive to majority of MSEs. PPOA (2007) indicates that in Kenya, MSEs are confronted by a number of challenges in order to compete in government procurement markets. OECD, (2012) indicates that statistics from the US federal public procurement markets shows that small businesses received almost 40% of US subcontracting value in 2006, although the total value of contracts directly awarded to them by the Federal agencies was only 23%.

A framework for evaluating procurement systems in the developing countries has been devised by the Development Assistant Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) together with the World Bank at a series of Round Table conferences of developing counties and bilateral and multilateral donors (OECD-DAC, 2005). The aim has been to develop an integrated set of tools and good practices to improve procurement systems and the outcomes they produce and to assist in the periodical assessments of the domestic legislation.

**2.8: Procurement Objectives that Public Institution may achieve through MSEs**

Herald *et al*, (1993) asserted that the fundamental objective of procurement function in the organizations is to identify the right sources of supply from which the requirements can be obtained as economically as possible within the accepted standard of quality. Leenders *et al*, (2002) indicated that as in the case of industrial procurement, the aim of government procurement is to assure continuity of supply to meet the service needs; avoid duplication and waste; maintain and improve quality in goods and services acquired; develop a cooperation relationship with suppliers and users; obtain maximum savings through innovative supply and application of value analysis techniques.

According to Leenders and Fearon (2002), the decision to place a certain volume of business with particular sources of supply would depend upon reasonable criteria that reflect buyers’ perception of suppliers’ ability to meet satisfactory quality, quantity, delivery, price and service objectives of procurement. The writers explained that in many organizations, only certified suppliers/service providers are considered for future businesses and extensive evaluation on quality and other dimensions of performance are carried out accordingly.

Lyons, & Farrington, (2006) asserted that rating the performance of sources of supply should be effectively carried out to evaluate performance in respect of price, quality, quantity, delivery time and customer care service. The writers explained that most formal supplier/service provider rating schemes track performance on quality, price, and delivery time and customer care services. ODPP, (2003) indicated that the realization of public procurement goals in the organizations rest on five procurement pillars of value for money; open and effective competition; ethics and fairness, accountability; transparency and reporting; and equity.

According to PPOA, (2005) value for money is an essential test in which public institutions must justify procurement outcome. The literatures explain that value for money means going beyond the price to get the best available outcome when all relevant costs and benefits in procurement operations are considered. It explains further that price alone is not a sound indicator and the institutions cannot necessarily get best value for money by accepting the lowest price. Miller & Miller, (2003) clarified that value-based procurement perspective usually lead to the observation that for value to remain relevant, quality must increase in proportion to cost and if costs are reduced value can increase if quality is held constant.

PPOA, (2006) asserted that each of the procurement goals is necessary but not sufficient to generate and maintain fair competition between MSEs and larger enterprises. The literatures explained that effective competition takes place when MSEs and other potential sources of supply compete for fair and open business offers, in which case the value of vendor services can be clearly and openly judged. From the reviewed literatures it is clear that price alone is not a sound indicator for a sound performance by the sources of supply and the institutions cannot necessarily get best value for money by accepting the lowest price. Value for money means going beyond the price to get the best available outcome when all relevant costs and benefits in purchasing and supply operations are considered.

**2.9. Competitive business attribute for the MSEs in Government Procurement**

According to Thitapha (2002), the current business environment is typified by fierce global competition and rivalries, more sophisticated and ever-changing production technologies and supply organization. In this context, identifying and selecting the right source of supply requires rigorous sourcing and evaluation of both the actual and potential sources of supply. Lysons & Farrington (2006) explained that sourcing and evaluation in the organizations include processes and procedures by which buyers search, survey and evaluate sources of supply, and determine policies relating to those which can suitably meet the requirement of the buying organizations.

According to Leenders and Fearon (2002), the units which make supplier selection decision in the organizations comprise the buyers, users, influencers, gatekeepers, and chief decision makers whose decisions should fit the risks profile of the organization concerned. Baily, *et al* (2008) indicated that tracking new sources of supply requires adequate market research, which can be done informally as part of routine procurement activities involving discussions with sales representatives, visiting exhibitions, reading trade journals, or investigating a market before placing orders. The writer explained that market research can as well be done through specialized departments or units in the organizations.

According to Baily, *et al,*(2008), depending on the purpose of the items, the information to be requested as evidence of suppliers capability include education and professional qualifications of workers; description of technical facilities; measures for ensuring qualities; and research facilities that are used from time to time. The writers identified the other basic factors to be considered for screening potential suppliers to include legality of the source to operate as a supplier; minimum economic and financial standing; and technical capacity to perform supply function. Keswick (2006) indicated that MSEs are more dependable for customer-made unique requirements that may be needed for specific purposes in the organizations.

Stokes *et al,* (2006) claimed that majority of MSEs operate in the service sector where they have competitive edge due to personalized tailor made activities suited to their flexibility and responsiveness. Since most services involve consumption at the point of purchase, MSEs as local suppliers usually respond more positively to the unique demand of public institutions. Leenders’ et al, (2002) asserted that overwhelming majority of services in the organizations is delivered through third parties, in particular, through suppliers, contractors and consultants. The writers indicated that MSEs have shown loyalty and service demand deemed impossible by large enterprises that dominate procurement in public institutions.

 **2.10**. **Impact of Business Attributes on MSEs Performance**

Gray (2006); Shiu & Walker (2007) asserted that MSEs readiness and capacity to develop innovative products and services is generally impeded by a common lack of financial strength as well as technical and managerial skills. According to the Kenya National Bureau of Statistics (2007), statistics illustrate that3 out of 5 MSEs in Kenya fail within the first few months of operation. According to Bowen *et al*, (2009), starting and operating a small business include a possibility of success as well as failure.

According to Bloom & Van Reenen, (2010), MSEs’ productivity remains low and their sizes remain small. Wanjohi (2010) asserted that while MSEs’ low performances may be attributed to the unfavorable circumstances surrounding them recent empirical studies have identified problems within firms. Kiraka (2009) identified a number of interventions that can support MSE growth and development. The writer indicated that at the macro level, emphasis needs to be put on addressing weaknesses in local business environments, supporting infrastructural development, providing market access to MSEs’ products and supporting human capital development – vocational and tertiary education with emphasis on science and technology. World Bank (2004) indicates that the Governments that adapt the right reforms in this area can spark considerable new entrepreneurial activity.

**2.10.1. Impact of skills on MSEs’ Performance**

According to Kayanula & Quartey, (2000), despite the numerous institutions providing training and advisory services, there is still a skills gap in the MSE sector as a whole. King & Mc Grath, (2002) explained that entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency. Cheung, (2008), small business owners often lacks experience and training in management of their businesses.

According to Ihua, (2009), one of the serious constraints on small business growth is lack of management skills, which results in the poor management actions taken by small business owners. Ahmad, (2009) indicated that the factors which impede MSEs’ growth include lack of abilities and skills. According to Wawire and Nafukho (2010), poor management is the second most cause of MSEs’ failure after lack of enough funds. Mbonyane and Ladzani, (2011) confirmed that almost no training was being provided for MSE staff.

**2.10.2. Impact of Resources on MSEs’ Performance**

Regnier, (2000) said that aspirations and demands for improved public facilities and services are on the rise in an environment of dwindling resources at the disposal of a “leaner” and “meaner” government or a downsized public sector virtually across the developing world. UNCTAD, (2001) explained that sub-contracting relationship between MSEs and large enterprises has attracted renewed attention because it is an important short cut to leapfrog over the traditional barriers and constraints on MSEs and their domestic as well as external competitiveness.

According to Tambunan, (2006), through subcontracting arrangement, large enterprises can often become valuable sources of capital and quality collateral in the form of secure production subcontracts given to MSE partners. The writer explained that inter-firm sub-contracting is one of the arrangements that offer a ready short cut to enhancing productivity and other non-price competitiveness of suppliers. However, according to Okech, Mitullah and Atieno, (2002), research on business systems shows that while linkages do provide advantages, firms with limited resources, such as MSEs, may also be discouraged from joining or establishing contact because of the associated costs.

ASEA Secretariat, (2000) advised that the governments of the developing economies should focus on providing support to the MSEs in the top layer of efficiency, innovation and growth-oriented entrepreneurship which generally constitute a tiny minority in the small business sector. The writers indicate that by focusing on the limited segment of MSEs, the chances of success are much greater in creating and nurturing small but efficient and innovative successful SMEs. They explain that over time, this core may gain a sufficient mass or may replicate and multiply across industries and sectors, therefore raising the level of competitiveness and dynamisms of all enterprises, especially in the small business sector.

Through the reviewed literatures, it is clearly demonstrated that appropriate inter-firm linkages can enable MSEs to be facilitated to tap into public expenditure to promote economic growth and development in the country. COMESA, (2003) held that public-private partnership (PPP) which involves a contract between public sector authority and a private party is among the schemes being increasingly adopted by public procurement systems to involve MSE suppliers and minimize the perceived risks. In this context, the private parties assume substantial financial, technical and operational risks. However, risks of dealing with unknown suppliers may be drastically minimized through competition.

**2.10.3. Impact of Location of the Business on its Performance**

Vaessen and Keeble (1995) asserted that while SMEs located in peripheral (and rural) areas may encounter greater resource constraints than urban SMEs, this environmental resource scarcity, in fact stimulates them to exhibit greater proactive entrepreneurial behaviour. According to Tustin, (2000) as quoted in Thapa et al (2008), SME success depends on neighbourhood appearance and continued or maintained future business operations in that location. The writers explained that geographic location has its implications for access to markets and other resources like finance, skilled labour, subcontractors, infrastructure, distribution and transport logistics and other facilities.

Keeble, (1997) said that SMEs located in urban areas typically have a relative ease of access to customers and the inputs required (i.e. finance, premises, technology, etc.) to produce goods or services. Malmberg *et al.*, (2000); Parr, (2002) indicated that SMEs located in urban areas may benefit from “agglomeration economies” and spatial externalities (i.e. specialized infrastructures, information, network of suppliers, specialized labour, specialized knowledge, concentration of existing exporters, etc.)

Chevassus-Lozza and Galliano (2003) detected that urban firms benefiting from external agglomeration economies were more likely than rural firms to be exporters. However, the costs associated with most inputs are generally higher in urban areas, which may constrain SME development. North and Smallbone (2000) found that firms in remote rural areas were less active on various dimensions of innovation. This may be influenced by the fact that most rural areas have less well developed financial and business service sectors than urban areas.

**2.11. Summary of Literature and Research Gaps**

The previous studies recognized the significant contributions of MSEs to the economies in terms of poverty reduction, wealth creation and employment generation. The previous studies similarly recognized that government procurement provides clear market opportunities for the entrepreneurs. Studies also revealed that participation of MSEs in Government procurement is greatly challenged but it may be enhanced by such actions as inter-firm linkages through subcontracting arrangements that increase the capacity of MSEs. However, many studies failed to scrutinize the performance of MSEs’ in government procurement with a view to ascertaining the efficiency and effectiveness of the entrepreneurs as the sources of supply that can compete with large scale enterprises.

**CHAPTER THREE**

**RESEARCH DESIGN AND METHODOLOGY**

**3.1: Overview**

This section deals with the geographical location of the study, research design, target population, sample and sampling procedures, data collection instruments, validity and reliability of the instruments, procedure for data collection , and data analysis techniques.

**3.2: Geographical Location of the Study**

The study was carried out in Baringo County in the Rift-Valley region within Kenya. The County borders Turkana County to the North; Laikipia County to the East; Nakuru County to the South and Keiyo/Marakwet County to the West. It covers approximately 8,655 Square Kilometers with an extensive road network, mostly gravel and earth surface, stretching approximately 861.7 kilometers (Gok, 1988). It has adequate electric power supply covering nearly all the commercial centers.

Most parts of the County can be accessible by roads during the dry seasons and it has high potential for growth in commercial activities. However, some parts would become impassible during the rainy seasons when sections of the roads are swept away by the existing seasonal rivers. Baringo is strategically located closer to major towns like Nakuru, Iten and Eldoret, all of which were hosting a number of enterprises with greater potential to supply requirements to public institutions. The County had a growing demand for basic services like education, security, health care, etc. provided by public institutions (Gok, 1997).

**3.3: Research Design**

Research design refers to the master plan that will be used in the study in order to answer the research questions. This was a descriptive survey that was concerned with probing the performance of MSEs in Baringo County. According to Kerlinger (1986) survey is a method that studies large population (Universe) by selecting and studying the sample from the population to discover the relative incidence, distribution and interrelation of sociological and psychological variables. Mugenda, & Mugenda, (2003) explained that a descriptive survey is an attempt to collect data from members of a population in order to determine the current status of that population with respect to one or more variables.

Since a descriptive survey research design establishes the associations between variables, it was considered the most ideal research design for the study (Kothari, 2003). Besides, the design was considered suitable for the research study since it takes into account issues such as economy, flexibility and rapid turnaround in data collection, making it most appropriate for such an extensive research work. The design examined the competitive business attribute that influenced the performance of enterprises which participated in public procurement in Baringo County.

**3.4**. **Target population**

Target population refers to the individuals to be studied in a research project (Mugenda & Mugenda, 1999). This research study involved supply chain management (SMC) employees of public institutions and the owners or managers of firms that participated in government procurement. It included a total of 1600 SCM employees of public institutions and 1200 owners or managers of firms that participated in government procurement in Baringo County.

**3.5. Sampling Frame**

The study was based on two sets of population necessitating development of two sets of sampling frames. The first one included a list of 1600supply chain management personnel employed in the public institutions while the other one encompassed the list of1200 owners/managers of firms that participated in government procurement in the within Baringo County..

**3.6. Sample Size and Sample Techniques**

In this study, stratified random sampling technique was employed. Mugenda and Mugenda, (1999) asserted that stratified random sampling technique is suitable for a highly concentrated geographical area where face to face contact is required and also where the population can be divided into two secure sub units based on certain internal characteristics. According to Saunders, et. al., (2007), stratified random sampling is a modification of random sampling in which the population is divided into two or more relevant and significant strata based on one or more qualities.

According to Best & Kaln, (1998), the ideal sample should be large enough to serve as adequate representatives of the population and small enough to be selected economically, that is, in terms of subject availability. Kothari, (2004) indicated that Random sampling is accurate, easily accessible, and divisible into relevant strata and it enhances better comparison, hence representation across strata. The literatures explained that the significant advantage of stratified random sampling is its ability to ensure inclusion of sub-groups, which would otherwise be omitted entirely by other sampling methods because of their small number in the population.

Sekaran, (2003) recommended that a sample size of more than 30 and less than 500 is appropriate for any social research. In general, the size of the sample in each stratum is taken in proportion to the size of the stratum i.e. proportional allocation. In this research study, the first sample was selected from a population of 1600 supply chain management personnel in the various public institutions within Baringo County. Public institutions were stratified into five strata, namely State Corporations with 80 Supply Chain Management (SCM) employees, Cooperative Societies with 160 SCM employees, Colleges and Schools with 800 SCM employees, the Government of Baringo County with 160 SCM employees and National Government Departments in the County with 400 SCM employees.

**Table 3.1: Sub-Population of SCM Personnel in the Public Institutions**

|  |  |
| --- | --- |
| **Type of Public Institutions** | **No. of SCM personnel** |
| State CorporationsCooperative SocietiesColleges and SchoolsLocal AuthoritiesGovernment Departments | 80160800160 400 |
| **Total Population (N)** |  **1600** |

*SOURCE: Author* (From Survey Data

**Key:**

N = Total population

Table 3.1 illustrates the sub-populations or strata that were formed on the basis of common characteristics of different types of public institutions.

From a pilot survey conducted, it was established that 40% of the public institutions in Baringo County were benefiting from the services of MSEs. According to Mugenda & Mugenda, (2003), the required sample size can be calculated using the formula:

n = p% x q% x (z/e %) 2. In the formula:

n - --the minimum sample size required.

p% --- the proportion in the specified category.

q% ---the proportion in the unspecified category.

z ---the z value corresponding to level of confidence.

e ---the margin of error.

At 95% level of confidence, z value is always 1.96, hence.

 n = 40 x 60 x (1.96/5)2

= 2400 x (0.392)2

= 2400 x 0.154

= 369.6

The above calculation established that the minimum sample size could be 370. According to Mugenda & Mugenda, (2003),if the total number of population is below 10, 000, the following formula can be employed to calculate an adjusted minimum sample size:

n’ =\_\_\_n\_\_

 (1 + n/N)

In the formula:

n’ --- the adjusted minimum sample size;

n ---the minimum sample size;

N ---the total population.

n’ = \_\_369.6\_\_\_\_\_\_\_

 1 + (369.6/1600)

 = 369.6/1+0.231

 = 300.24

Because of the small total population, a minimum sample of 300 was used with the anticipated 100% response rate. This was considered appropriate for the heterogeneous population of SCM employees in the public institutions so as to minimize the discrepancy between sample characteristic and population characteristic (Kothari, 2003).

Proportional Allocation Method was used in selecting sample size for the SCM employees in the public institutions. According to Kothari, (2003), the Proportional Allocation Method is suitable since there it permits none serious difference in within stratum variance. Sampling was simply to estimate the number of SCM employees in the public institutions which benefited from the services of the firms.

**Table 3.2: Stratified Sample Sizes for SCM personnel of public institutions**

|  |  |
| --- | --- |
| **Type of Institution** | **No. of SCM personnel** |
| State CorporationsCooperative SocietiesColleges and SchoolsLocal AuthoritiesCentral Government Department | 15301503075 |
| **Sample of Total Population (n)** |  **300** |

*SOURCE: Author* (From Survey Data)

Table 3.2 illustrates sample sizes of SCM employees in the different categories of public institutions which comprised State Corporations-15, Cooperative Societies-30, Colleges and Schools-150, Local Authorities-30, and Central Government Department-75 making a sample size of 300 respondents.

The second set of sample was selected from a population of 1200 owners or managers of enterprises that were potential participants in government procurement in the County. Stratified random sampling was used to stratify the enterprises in the county into four strata, namely Micro Enterprises with a population of 660 entrepreneurs who were either the owners or managers of the firms; Small Enterprises with a population of 540owners /managers. Based on the number of employees criteria, none of the enterprises in the county employed more than 50 worker. In this regard the medium and large enterprises categories registered zero (0) workers each.

**Table 3.3: Stratified Random Samples of Owners /Managers of Different Types of Enterprises**

|  |  |
| --- | --- |
| **Type of Enterprise** | **No. Business Owners or Managers** |
| Micro Enterprises | 660 |
| Small Enterprises | 540 |
| Medium Enterprises | 0 |
| Large Enterprises |  0 |
| **Total No. of Enterprises (N)** | **1200** |

*Source: Author* (From Survey Data)

**Key:**

N = Total population

Table 3.3 illustrates stratified random samples of different types of enterprises that participated in government procurement in Baringo County.

Simple random sampling was used to select 10% of the business owners or managers in each of the four firms: Micro Enterprises-66, Small Enterprises-54, Medium Enterprises-0 and Large Enterprises-0, making a sample size of 120 respondents. This sample sizes were considered appropriate because a sample of 10% of the large population is considered minimum while a sample of 20% may be required for smaller populations (Gay, 1992).

**3.7: Data Collection Instruments**

Warwick et al, (1975) asserted that the methods chosen for data collection should provide high accuracy and convenience of obtaining data from the respondents. The study employed questionnaires as the data collection instruments. According to Wass and Wells, (1994), the use questionnaire in collecting data is more convenient when the number of respondents exceeds thirty.

**3.7.1 Questionnaires**

Descriptive data are usually collected using questionnaires (Gay, 1996). Mugenda& Mugenda, (1999) asserted that the use of questionnaires is appropriate to collect written information from respondents, who are literate and quite able to answer items adequately. Self-administered questionnaires were delivered to the widely spread respondents whose responses were collected immediately in order to avoid contamination of answers through group discussion.

**3.7.2: Validity of the Instruments**

Borg & Gall, (1989) explained that validity is the degree to which a test measures what it purports to measure. To enhance validity, the researcher exposed the instruments to experts in research for judgment. The comments and suggestions made by my supervisors who were lecturers from Moi University assisted in validating the contents of data collection instrument used in the research study. Through their comments on the suitability of research questions, the contents of questionnaires were validated. They also made suitable suggestions of the structures of questionnaires that assisted in establishing content validity and enabled making appropriate amendments before pilot testing the instruments.

**3.7.3: Reliability of Instruments**

Mugenda and Mugenda, (1999) explained that reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. The literatures explained that reliability in research is influenced by random error, of which if it is high, reliability is low.

Prior to using the questionnaires in collecting data, the instruments were pilot tested. The procurement agents who were participating in a workshop at the Government Training Institute (GTI) Baringo were identified for the exercise. Further assessment of the reliability of the instruments involved test-retest technique in which the instruments were presented to the selected entrepreneurs in Eldoret town for the pilot study.

The results were recorded, the same instruments were presented to the same groups after sufficient period of time and the results for both tests were correlated. The scores from the two testing periods were correlated and a reliability index was found to be 0.891. Borg &Gall, (1989) said that reliability index above 0.8 generally indicates good consistency.

**3.8: Data Collection Procedure**

With the expressed permission of relevant authorities (see Appendix IV), both public institutions and business premises were visited to collect the requisite data. Data used in this research was obtained using well laid out, clearly worded, pilot-tested and appropriately amended questionnaires. Use of questionnaires in data collection proved cheap and economical since relatively small amount of money was spent on preparation, delivery and collection of completed questionnaires.

Data required was obtained without hired enumerators that could have increased the cost. The exercise took relatively shorter duration since within a period of one month, all the respondents had been reached despite their widely spread geographical locations. Prior to delivering questionnaires, pre- survey contacts were made by telephone calls, advising the sample supply management employees in the public institutions and the entrepreneurs to expect the questionnaires on specified dates.

The questionnaires were hand delivered on the promised dates accompanied by covering letters that explained the purpose of the survey and assured respondents of confidentiality for the information sought. Besides the covering letter, first page of each questionnaire had instructions advising respondents to answer questions independently and deposit completed questionnaires in collection boxes ready for collection on the same day.

**3.9: Data Processing and Analysis presentation**

The data was analyzed by using quantitative approach using descriptive statistics. The responses that were received from the questionnaires were organized, tabulated and analyzed using simple frequencies and percentages. Data was presented in descriptive form supported by tables, frequency distributions and percentages. Researcher also used Likert scale as parameter to measure the variables. Care was taken by the researcher to note the number of times view was expressed and the number of respondents that expressed that view. This formed the basis for drawing conclusions.

**CHAPTER FOUR**

**DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

**4.1: Overview**

This section presents analysis done in relation to the study objectives. It also indicates the interpretations given on the research findings.

**4.2: Response Rates**

The researcher prepared a total of 420 copies of questionnaires for this study. These were issued to 300 Supply Chain Management (SCM) employees in the public institutions and 120 owners/managers in the MSEs which participated in government procurement.

**Table 4.1: Response Rate of the SCM Employees in Public Institutions**

|  |  |  |
| --- | --- | --- |
| **Response** | **Frequency** | **Percentage (%)** |
| Actual Response | 198 | 66.7 |
| Non-response | 102 | 33.3 |
| **Total** | **300** | **100** |

Source: Author (Survey Data)

Table 4.1 indicates that the response rate was 66.67 %for the SCM employees in the public institutions.

**Table 4.2: Response Rate of Owners/Managers in the MSE Sources of Supply**

|  |  |  |
| --- | --- | --- |
| **Response** | **Frequency**  | **Percentage (%)**  |
| Actual Response | 100 | 100 |
| Non-response | 0 | 0 |
| **Total** | **120** | **100** |

Source: Author (Survey Data).

Table 4.2 indicates that the response rate was100% for the owners/managers of MSE sources of supply.

The response rates in both cases were considered appropriated and one could comfortably depend on them to make conclusions and recommendations. This agreed with the views of some authors that a researcher should strive to achieve a response rate of 50%, 60% or 75% (Hager *et al.,* 2003).

**4.3: Demographic Information**

The researcher used four demographic items in the questionnaires: Age, gender, educational qualification, and work experience.

**4.3.1: Supply Chain Management (SCM) Respondent’s Age Bracket**

Table 8 shows that most respondents were in the age group of 50-59 comprising 53.3% followed by age bracket of 40-49 making up 20 %, the age bracket 30-39 comprising 11.7% and 20-29 comprising 8.3%.

**Table 4.3: Age Brackets of SCM Employees in the Public Institutions**

|  |  |  |
| --- | --- | --- |
| **Age** | **Frequency** | **Percentage (%)** |
| 20-29 | 16 | 8.3 |
| 30-39 |  23 | 11.7 |
| 40-49 | 40 | 20 |
| 50-59 |  99 | 53.3 |
| 60-69 |  20 | 10 |
| **Total**  | **198** | **100** |

Source: Author (Survey Data)

The results indicate that majority of the SCM employees in public institutions were aged 50 years and above. This gave the implication that majority of the SCM employees in public institutions were mature people considered capable of making objective decisions, particularly when selecting the MSE sources of supply for the requirements of public institutions. This agreed with the views of some writers that the units which make supplier selection decision in the organizations comprise the buyers, users, influencers, gatekeepers, and chief decision makers whose decisions should fit the risks profile of the organization concerned (Leenders & Fearon, 2002).

**4.3.2 Supply Chain Management (SCM) Respondent’s Gender Composition**

Table 4.4 shows that majority of the respondents were male SCM employees, comprising 80% while females comprised 16.7 %of the SCM employees.

**Table 4.4: SCM Employees Respondent’s Composition According to Genders**

|  |  |  |
| --- | --- | --- |
| **Gender** | **Frequency** | **Percentage (%)** |
| Male | 158 | 80 |
| Female | 33 | 16.7 |
| No response | 7 | 3.3 |
| **Total**  | **198** | **100** |

Source: Author (Survey Data

The results showed that the population of SCM employees in the public institutions was dominated by male workers. This gave the implication that there could be unfair gender representation when important procurement decisions such as source of supply selection decisions were being made in the institutions. It is feared that this trend could reflect biasness in source selection.

**4.3.3: SCM Employees Respondent’s Work Experience**

Table 4.5 shows the number of years the respondents have worked for the public institutions: 51.7% of the respondents indicated that they had worked in public institutions for a period of between 30-39 years; 16.7% had10-19 years of service; 15% had 20-29 years of service; 8.3% had 40-49 years of service; and another 8.3% had 0-9 years of service.

**Table 4.5: Supply Chain Management (SCM) Respondent’s Work Experience**

|  |  |  |
| --- | --- | --- |
| **No. of Years Worked** | **Frequency** | **Percentage (%)** |
| 0-09 | 16 | 8.3% |
| 10-19 | 33 | 16.7% |
| 20-29 | 30 | 15% |
| 30-39 | 103 | 51.7% |
| 40-49 | 16 | 8.3% |
| **Total** | **198** | **100** |

Source: Author (Survey Data)

The results indicated that majority of the SCM employees of the public institutions had adequate experience in government procurement, and were in better positions to select the right MSE sources of supply that would assist the institutions to achieve the desired procurement objectives.

 **4.3.4: SCM Respondent’s Educational Qualifications**

Table 4.6 shows that 67.5 % of the respondents had secondary education as their highest qualifications; 21.7 % had professional qualifications; 9.2% had university education; and 1.7%had primary education as highest qualifications.

**Table 4.6: Supply Chain Managers Respondent’s Educational Qualifications**

|  |  |  |  |
| --- | --- | --- | --- |
|

|  |
| --- |
| **Education Level** |

 | **Frequency** | **Percentage (%)** |
| Primary education | 3 | 1.7% |
| Secondary education | 134 | 67.5 % |
| University education | 18 | 9.2% |
| Professional training | 43 | 21.7 % |
| **Total**  | **198** | **100** |

Source: Author (Survey Data)

.

The findings indicate that relatively low proportion of the SCM employees in public institutions had professional qualifications. The results gave the implications that majority of SCM employees were not adequately trained and may not be able to develop appropriate criteria for supplier performance rating. This relates to the observations by Leenders *et al*, (2002) that the decision to place a certain volume of business with particular sources of supply depends upon reasonable criteria that reflect buyers’ perception of suppliers’ ability to meet satisfactory quality, quantity, delivery, price and service objectives of procurement.

**4.3.5: The Age Brackets of Business Owners / Managers**

The findings indicate that majority of the entrepreneurs were aged between 20-40 years.

Table 4.7 illustrates that 76% of the owners/managers respondents indicated they were aged 20-40years; 15% were aged 40-60years; 5% were aged 60-80years; while 4% of the respondents indicated they were aged 0-20years.

**Table 4.7: Business Owners or Managers Respondents Age Bracket**

|  |  |  |
| --- | --- | --- |
| **Age** | **Frequency** | **Percentage (%)** |
| 0-20 | 5 | 4% |
| 20-40 | 91 | 76% |
| 40-60 | 18 | 15% |
| 60 -80 | 6 | 5% |
| **Total** | **120** | **100** |

Source: Author (Survey Data)

The findings gave the implication that majority of the entrepreneurs were aged between 20 and 40 years. The results relate to a study by Simon (1998) which found that actual and perceived entrepreneurial skills are acquired overtime and consequently age has an impact on entrepreneurship. Zimmerrer and Scarborough (1998) point out that most of entrepreneurs in the United States start business during their 30s and 40s, many researchers found that there is no limit of age for their entrepreneurial aspirations.

Staw (1991) also notes that age is related to business success if it includes both chronological age and entrepreneurial age. This means that the older an entrepreneur is, the more experiences in business he has. However, according to Longenecker *et al*, (2006) there are no hard and fast rules concerning the right age for starting a business**.** According to Bonte et al, (2009) Empirical studies based on individual data have found an inverse U-shaped relationship between age and the decision to start a business, using change in the age distribution of the population of western German regions over time, they found—in accordance with micro level analyses—an inverse U-shaped relationship between the regional

**4.3.6: Business Owners/Managers Respondents Gender Composition**

Table 4.8 illustrates that 68% of the respondents indicated that they were males; 26% indicated they were females while 6% of the entrepreneurs did not respond.

**Table 4.8: Business Owners/Managers Compositions according to Gender**

|  |  |  |
| --- | --- | --- |
| **Gender** | **Frequency** | **Percentage (%)** |
| Male | 82 | 68% |
| Female | 31 | 26% |
| No Response | 07 | 6% |
| **Total** | **120** | **100** |

Source: Author (Survey Data)

The findings revealed that majority of the owners / managers of MSE sources of supply were males.This concurred with the MSME Baseline Survey conducted in Kenya in 1999, which indicated that women tended to operate smaller MSEs than men and made less income. The SMEs sector, therefore, holds more promise for women in providing and accessing employment opportunities.

**4.3.7: Business Owners/Managers Respondents Educational Qualifications**

Table 4.9 illustrates that 52% of the respondents indicated they had secondary education as the highest qualifications, 21% had primary education; 19% had university education while only 8% of the respondents indicated they had professional qualifications.

**Table 4.9: Business Owners/Managers Qualifications**

|  |  |  |
| --- | --- | --- |
| **Qualifications** | **Frequency** | **Percentage (%)** |
| Primary Education | 25 | 21% |
| Secondary Education | 62 | 52% |
| University Education | 23 | 19% |
| Professional Qualification | 10 | 8% |
| **Total** | **120** | **100** |

Source: Author (Survey Data)

The results indicated that majority of the entrepreneurs had attained secondary level of education, considered to be the basic qualifications for participating in government procurement as the sources of supply. The results agreed with King and McGrath, (2002), who in their study, suggested that those entrepreneurs with more education and training are more likely to be successful in the SME sector.the results also agreed with explanations by Baily, *et al,* (2008) that depending on the purpose of the items, the information to be requested as evidence of suppliers’ capability include education and professional qualifications of workers; description of technical facilities; measures for ensuring qualities; and research facilities that are used from time to time.

**4.4. Performance of MSE sources of supply**

The respondents were asked to answer questions on performance of MSEs as the sources of supply using 3 items in the questionnaire as shown below.

**4.4.1: Findings on the participation of MSEs in government procurement as sources of supply for the materials used in public institutions**.

The results indicate that firms with 0-49 workers participated in the government procurement as sources of supply for the materials used in public organizations

*Fig.3: Bar-Graphs Showing Responses on No. of Workers Employed by the Firms*

Figure 3 illustrates that 20% of the SCM respondents recognized the firms that employed 0-10 workers as sources of supply for materials used in public institutions; 33.3% recognized those with 10-20 workers; 15% recognized those with 20-30 workers; 8.3% recognized the firms with 30-40 workers; 5% identified the firms with 40-50 workers.

The results indicate that firms with 0-49 workers participated in the government procurement as sources of supply for the materials used in public organizations. This gave the implication that MSEs were participating in public procurement as the sources of supply. The results agreed withsome studies that recognized three criteria used to define Micro and Small scale Enterprises (Bigsten et al., 1999). The writer explained that the first criterions based on number of employees and defines MSEs as those enterprises below a certain number of workers that can range from less than 10 to less than 50 employees. The second criterion concerns the degree of legal formality and is mainly used to distinguish between the formal and informal sectors. The third criterion defines MSEs by their limited amounts of capital and skills per worker.

The results concur with the MSME classification criteria used in the Micro, Small and Medium Enterprise Bill of 2009, which categorized Micro Enterprises as firms with less than 10 workers; Small Enterprises as firms with more than 10 but less than 50 workers; and Medium enterprises as firms with more than 50 but less than 100 workers (Republic of Kenya, 2009). The results also agreed with some studies which indicated that the terms enterprise, business, establishments and firms are used interchangeably when referring to economic units which produce or supply goods or provide services (National MSE baseline Survey, 1999).

As shown by the findings of this study, the micro and small enterprises recognized by the respondents either supplied materials or provided services to public institutions. These findings agreed with some studies that government procurement, also known as public procurement is the acquisition by purchase, rental, lease, hire purchase, license, tenancy franchise or any other contractual means of goods or services by the government, Republic of Kenya, (2005). The findings also agreed with the studies that the procurement of goods, services and works for governments and public service are normally carried out through the institutions established to provide essential services to members of the public, Trionfetti, (2000). The writer explained that public expenditure is generally on a vast range of items such as weapon systems, stationary and printed forms, food, furniture, uniforms, services and capital projects, construction works and management of facilities Baily, *et al,* (2008).

**4.4.2: Response on whether the MSE sources of supply assist public institutions to achieve procurement objectives.**

Table 4.10 illustrates that 8.7% of the respondents strongly agreed that MSE sources of supply assisted public institutions to achieve the procurement objectives, 15.3% agreed,

16.5% were not sure, 11.2% disagreed and 48.3% strongly disagreed.

**Table 4.10: Response on whether MSEs assisted public institutions to achieve procurement objectives**

|  |  |  |
| --- | --- | --- |
| **Response**  | **Frequency**  | **Percentage (%)** |
| Strongly agreed | 17 | 8.7 |
| Agreed  | 30 | 15.3 |
| Not sure | 33 | 16.5 |
| Disagreed  | 22 | 11.2 |
| Strongly disagreed | 96 | 48.3 |
| **Total** | **198** | **100** |

Source: Author (survey data)

The results revealed that majority of the respondents, 59.5% disagreed that MSEs assisted public institutions to achieve procurement objectives. This gave the implication that the respondents perceived MSEs as low performing sources of supply which failed to meet most of the procurement objectives of public institutions.The findings confirmed a study by Amyx, (2005) which indicated that one of the most significant challenges in the small business sector is the negative perception towards the MSEs.

The findings also agreed with the literatures that described the informal sector firms as those characterized by: ease of entry; small scale of activity; self-employment with a high proportion of family labour; little capital and equipment; labour intensive technologies; low skills; low level of organization with little access to organized markets, informal credit, education and training or services and amenities; cheap provision of goods and services or provision of goods and services otherwise unavailable; low productivity and low incomes (Charmes, 1997).

**4.4.3: Response on the procurement objectives that public institutions achieved with the assistance of MSE sources of supply.**

The results indicate that majority of the respondents 39.2% indicated that MSE sources of supply assisted public institutions to achieve price objective of procurement

*Fig. 4: Bar charts showing procurement objectives achieved by public institutions with the help of MSE sources of supply.*

Figure 4 indicates that 39.2% of the respondents indicated that MSE sources of supply assisted public institutions to achieve price objective of procurement; 21.7% identified quality; 15.8% recognized service; 15% pinpointed quantity; and 8.3% identified delivery time as the procurement objectives achieved by the institutions with the help of MSE sources of supply.

The results revealed that MSE sources of supply assisted public institutions to meet mostly price objective of procurement. However, the findings gave the implication that MSE sources of supply were capable of assisting public institutions to meet other procurement objectives such as quality, quantity, delivery and customer care service. This agreed with the literatures which showed that the buyers’ perception of the ability of a source of supply to meet the quality, quantity, price, delivery time and customer care service objectives generally governs the choice of the preferred source of supply (Leenders & Fearon, 2002).

Some studies indicate that most formal supplier rating schemes track supplier performance on quality, price, delivery time and customer care services (Baily, *et al,* 2008). Other studies indicated that like in the case of industrial procurement, the aim of government procurement is to assure continuity of supply to meet the service needs; avoid duplication and waste; maintain and improve quality in goods and services acquired; develop a cooperation relationship with suppliers and users; obtain maximum savings through innovative supply and application of value analysis techniques, Leenders *et al*, (2002).

The literatures explained that the realization of public procurement goals in public institutions rest on five procurement pillars of value for money; open and effective competition; ethics and fairness, accountability; transparency and reporting; and equity (ODPP, 2003). According to Miller & Miller, (2003) value-based procurement perspective usually lead to the observation that for value to remain relevant, quality must increase in proportion to cost and if costs are reduced value can increase if quality is held constant. The studies emphasized that value for money is an essential test in which public institutions must justify procurement outcome (PPOA, 2007).

**4.5. Influence of business attributes on performance of MSEs as the sources of supply for the materials used in public institutions.**

The respondents were asked to answer questions on the influence of business attributes on performance of MSEs using 3 items in the questionnaire.

**4.5.1. Findings on the business attribute that made MSEs competitive as the sources of supply for the materials used in public institutions**

The findings indicate that majority of the respondents, 37.5% identified location as the business attribute which made MSEs competitive sources of supply.

*Fig. 5: Bar-graphs showing the responses on attributes for the MSEs*

Figure 5 illustrates that 37.5% of the respondents identified location as the business attribute which made MSEs competitive sources of supply; 32.5% identified physical facilities; 20% identified technical skills; while10.8% identified business management skills.

According to the results, majority of the respondents recognized geographical location as the business attribute which made MSEs the competitive sources of supply for the materials used in public institutions.This agreed with the observations by Tustin, (2000) as quoted in Thapa et al (2008) that SMEs success also depends on neighbourhood appearance and continued or maintained future business operations in that location. The writers explained that geographic location has its implications for access to markets and other resources like finance, skilled labour, subcontractors, infrastructure, distribution and transport logistics and other facilities.

The results also gave the implication that resources and skills were among the business attributes that made MSEs competitive as the sources of supply for the materials used in public institutions. The results relates to the sentiments of Tambunan, (2006) that through subcontracting arrangement, large enterprises can often become valuable sources of capital and quality collateral in the form of secure production subcontracts given to MSE partners. The sentiment is shared with Ahmad (2009), who noted that the factors which impede MSEs’ growth include lack of abilities and skills.

The results also agreed with the earlier studies by Baily, *et al,* (2008) which indicated that the other basic factors to be considered for screening potential suppliers include legality of the source to operate as a supplier; minimum economic and financial standing; and technical capacity to perform supply function. The results relate to the observations made by Stokes *et al* (2006) that majority of MSEs operate in the service sector where they have competitive edge due to personalized tailor made activities suited to their flexibility and responsiveness The writer explained that since most services involve consumption at the point of purchase, MSEs as local suppliers usually respond more positively to the unique demand of public institutions. Wynarczyk *et al*, (1997) recognized that MSEs have small customer base and low levels of capital investments leading to high levels of flexibility.

**4.5.2. Responses on whether MSEs had adequate business attributes needed to be the competitive sources of supply for the materials used in public institutions**.

Majority of the respondents, 87.5% indicated that MSEs had no adequate business attributes needed by entrepreneurs to be the competitive sources of supply for the materials used in public institutions.

**Table 4.11: Responses on whether MSEs have the attributes needed by the performing sources of supply**

|  |  |  |
| --- | --- | --- |
| **Respondents**  | **Frequency**  | **Percentage (%)** |
| Yes  | 15 | 12.5 |
| No  | 105 | 87.5 |
| **Total**  | **120** | **100** |

Source: Author (Survey data

Table 4.11 illustrates that a small proportion of the respondents, 12.5 % indicated that MSEs had adequate business attribute needed by entrepreneurs to be the competitive sources of supply for the materials used in public institutions while 87.5 % indicated that they had inadequate business attributes.

The results indicates that majority of the respondents believed that MSEs had inadequate business attributes to make them competitive as the sources of materials used in public institutions. The results concurred with the opinions of Kayanula & Quartey (2000) that despite the numerous institutions providing training and advisory services, there is still a skills gap in the MSE sector as a whole. The results also relate to the sentiments of Fearon *et al*, (2002) that MSEs are small, often rural based firms characterized with family ownership, independence, labour intensive with low-level technologies, mostly relied on low cost raw materials, low energy costs, low labour costs, standing alone and producing for a well-defined market.

The findings bear resemblance with earlier studies as documented by ASEAN Secretariat, (2000) which pointed out the need for inter-firm networking arrangements that had been accorded a high priority under regional cooperation and integration efforts in many countries, especially with MSEs becoming sub-contractors. The writers explained that inter-firm sub-contracting is one of the arrangements that offer a ready short cut to enhancing productivity and other non-price competitiveness of MSE suppliers. The results also relate to the opinions held by Okech, Mitullah and Atieno, (2002), that while linkages do provide advantages, firms with limited resources, such as MSEs, may also be discouraged from joining or establishing contact because of the associated costs.

**4.6. Determining the influence of business attributes on the performance of MSEs as the competitive sources of supply for the materials used in public institutions**

The respondents were asked to answer questions on the influence of competitive attributes on the performance of MSEs as sources of supply for the materials used in public institutions using 2 items in the questionnaire as follows:

**4.6.1. Responses on whether inadequacy of the business attributes contributed to low performance by MSEs as the sources of supply.**

Majority of the respondents, 66.7% agreed that inadequacy of the business attributes contributed to low performance by MSEs as the sources of supply.

**Table 4.12: Response on whether inadequacy of attributes contribute to low performance of MSE Sources of Supply**

|  |  |  |
| --- | --- | --- |
| **Response**  | **Frequency**  | **Percentage (%)** |
| Strongly agree | 42 | 35 |
| Agree  | 38 | 31.7 |
| Undecided | 15 | 12.5 |
| Disagree | 18 | 15 |
| Strongly disagree | 07 | 25.8 |
| **Total**  | **120** | **100** |

 Source: Author (survey data)

Table 4.12 indicate that 35 % of the respondents strongly agreed that inadequacy of business attributes contribute to low performance of MSEs as the sources of supply for the materials used in public institutions, 31.7 % of the respondents agreed while 12.5 % were undecided, 15% disagreed and 25.8% of the respondents strongly disagreed.

According to the findings, majority of the respondents believed that inadequacy of business attributes contribute to low performance of MSEs as the sources of supply for the materials used in public institutions. The findings concurred with the sentiments of Wawire and Nafukho (2010), poor management is the second most cause of MSEs’ failure after lack of enough funds. The findings agreed with the opinions held by Ihua (2009), that one of the serious constraints on small business growth is lack of management skills, which results in the poor management actions taken by small business owners.

The results relate to the observations by ASEA Secretariat, (2000) that the small business sector has not developed or fostered to grow, in an effective, speedy, innovative and on sustained basis. The Secretariat advised that governments of the developing economies should focus on providing support to the MSEs in the top layer of efficiency, innovation and growth-oriented entrepreneurship which generally constitute a tiny minority in the small business sector. The results also concurred with some studies by APEC, (1997) which indicate that MSEs development issues are under policy focus among the developed and developing countries spanning Asia-Pacific Economic Cooperation.

The findings agreed with the studies by Tambunan, (2006) which recognized subcontracting arrangements in which large enterprises can become valuable sources of capital and quality collateral in the form of secure production subcontracts given to MSE partners. In the studies, the writers explained that through appropriate inter-firm linkages, MSEs may be facilitated to tap into public expenditure to promote economic growth and development in the country. Through inter-firm linkages, market access, marketing and distribution expertise are on tap to MSEs.

The findings also agreed with the opinions held by Shiu & Walker (2007)that with the large number of MSEs, come increased competition, continuous technological breakthrough and rapidly changing customer demand, all require strong market orientation if MSEs are to be successful. The results also concurred with the sentiments of Lysons, and Farrington, (2006) that sourcing and evaluation in public institutions should include processes and procedures by which buyers search, survey and evaluate sources of supply, and determine policies relating to those which can suitably meet the requirement of the buying organizations.

**4.6.2. Response on the particular business attributes that make MSEs competitive as the sources of supply for materials used in public institutions**

Majority of the respondents, 47% recognized geographical location as the business attribute which made MSEs competitive sources of supply.

**Table 4.13: Response on the specific business attribute that made MSEs to be competitive as the sources of supply**

|  |  |  |
| --- | --- | --- |
| **Business Attribute that make MSEs the Competitive Sources of Supply** | **Frequency**  | **Percentage (%)** |
| Resources | 23 | 19.2 |
| Technical Skills | 22 | 18.5 |
| Management Skills | 18 | 15.3 |
| Geographical Location | 57 | 47.0 |
| **Total** | **120** | **100** |

Source: Author (Survey Data)

Table 4.13 illustrates that19.2 % of the respondents believed that the MSEs which were more competitive as the sources of supply for the materials used in public institutions were better endowed with resources, 18.5% thought of they were better endowed with technical skills, 15.3 % thought of they were better endowed with business management skills while 47% thought of they were better endowed with geographical location.

According to the findings, majority of the respondents held that the MSEs which were more competitive as the sources of supply for the materials used in public institutions were better endowed with geographical location. The results relate to the opinion held by Tustin, (2000) and quoted in Thapa *et al* (2008), that SME success also depends on neighbourhood appearance and continued or maintained future business operations in that location. The writers explained that geographic location has its implications for access to markets and other resources like finance, skilled labour, subcontractors, infrastructure, distribution and transport logistics and other facilities.

The findings also concurred with the studies by Pelham, (2000) which indicate that MSEs are hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development. The results also agreed with the earlier studies by Stokes *et al,* (2006) which indicate that majority of MSEs operate in the service sector where they have competitive edge due to personalized tailor made activities suited to their flexibility and responsiveness. The writer explained that most services involve consumption at the point of purchase, and MSEs as local suppliers usually respond more positively to the unique demand of public institutions.

The results gave the implication that MSEs had other business attributes that influence their competitiveness as the sources of supply for the materials used in public institutions. This concurred with the opinions held by Wynarczyk *et al*, (1993) that MSEs are potential suppliers of commodities to the organizations because of their uncertainty, innovativeness and constant evolution. The writer explained that uncertainty makes MSEs to have small customer base and low levels of capital investments leading to high levels of flexibility. The writer explained further that Innovation of new products is important to the success of new enterprise whereas evolution makes MSEs to be unique suppliers with shorter response time to needs of customers.

The research findings indicate that not many respondents recognized the MSEs which were better endowed with resources and skills to make them competitive as the sources of supply for the materials used in public institutions. This gave the implication that there is stiff competition among the sources of supply for the materials used in the organizations. The results concurred with the sentiments of Reinbeck (2002) that MSEs tend to be large in number, accounting for about 90 percent of all enterprises in many African countries and over 80 percent of new jobs in a given country. The same sentiment is shared by Shiu & Walker (2007) who explained that with the large number of MSEs, come increased competition, continuous technological breakthrough and rapidly changing customer demand, all require strong market orientation if MSEs are to be successful.

**4.6.3: The Chi-Square (*X2*) Test to establish the significance of the influence of business attribute on performance of MSEs as the Sources of supply for materials used in public institutions.**

According to the null hypothesis: H0: “There is no relationship between business attributes and performance of MSEs as sources of supply for the materials used in public institutions”.

In the context of the given hypothesis, the probability of each business attribute i.e. resources, business management skills, technical skills and location not being identified by owner/manager (respondents) as contributing to the competitiveness of MSEs as the sources of supply for the materials used in public institutions is 1 out of 4 i.e. (¼). Therefore the expected frequency of particular business attribute not being identified by the respondents as not contributing to high performance by MSEs is 120 × ¼ = 30.

Table 4.14illustrates the observed frequencies of the business attributes that make MSEs competitive: 23 for resources, 22 for technical skills, 18 for business management skills and 57 for geographical location. These are replicated from the responses on the particular business attribute that influenced the competitiveness of MSEs as the sources of materials used in public institutions (See Table 4.13). Also indicated in table 1.14 are the expected frequencies for each of the business attributes contributing to the competitiveness of MSEs as the sources of supply. Additionally, table 4.14 illustrates the computation of the value of Chi-Square (*X2*), based on the observed and expected frequencies. As indicated in table, the Computed Value of the Chi-Square (*X2*) is greater than the Table Value of Chi-Square (*X2*) i.e. 32.86 > 5.991 for two degrees of freedom at 5% levels of significance.

**Table 4.14: Observed and Expected frequencies of Business Attributes that influenced Competitiveness of MSEs as the Sources of Supply**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Business Attributes that influence Competitiveness of MSEsas Sources of Supply | Observed Frequency**O1** | Expected Frequency**E1** | **O**1- **E**1 | (**O**1- **E**1)2 | (O1-E1 )2/E1 |
| Resources  | 23 | 30 | -7 | 49 | 49/30=1.6 |
| Technical Skills | 22 | 30 | -8 | 64 | 64/30=2.1 |
| Management Skills  | 18 | 30 | -12 | 144 | 144/30=4.8 |
| Geographical Location | 57 | 30 | +27 | 729 | 729/30=24.3 |
| ∑**(O1-E1 )2/E1** = 32.8 |

Source: Author (survey data).

As indicated by the computed value of the Chi-Square (*X2*), the relationship between the business attributes and competitive performance of MSE as source of supply for the materials used in public institutions is significant, real and not by chance.

The findings gave the implication that the business attributes significantly influence the competitiveness of MSEs as sources of supply. The results relate to the opinions of Malmberg *et al.*, (2000); Parr, (2002) that SMEs located in urban areas may benefit from “agglomeration economies” and spatial externalities i.e. specialized infrastructures, information, network of suppliers, specialized labour, specialized knowledge, concentration of existing exporters, etc.the results similarly agreed with the sentiments held by Ihua (2009) that one of the serious constraints on small business growth is lack of management skills, which results in the poor management actions taken by small business owners.

The findings bear close resemblances to the views held by Gray (2006); Shiu & Walker (2007) that MSEs readiness and capacity to develop innovative products and services is generally impeded by a common lack of financial strength as well as technical and managerial skills. On the same note, Wawire and Nafukho (2010) confirmed that poor management is the second most cause of MSEs’ failure after lack of enough funds (resources).Similar sentiments were expressed by Bloom & Van Reenen, (2010), who said that MSEs’ productivity remains low and their sizes remain small.

On the basis of research findings, backed by the views expressed by myriad writers in the reviewed literatures, the study failed to accept the null hypothesis and proceeded with the alternative hypothesis as follows:

*Ha*: “There is a relationship between the attributes and performance of MSEs as sources of supply for the materials used in public institutions.

CHAPTER FIVE

**SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

**5.1. Overview**

This chapter contains the summary of findings, conclusions drawn from the study and the recommendations for the MSEs performance as well as recommendations for further research. Under this section, the researcher summarizes the findings, concludes and recommends as per the study objectives and the research questions in chapter one.

**5.2 Summary**

The study was conducted to establish the performance of MSEs as sources of supply. The study involved 300 supply chain management employees of public institutions and 120entrepreneursinBaringo County. It study was guided by the following specific objectives;

1. To establish the performance of MSEs as sources of supply for large consumers of materials;
2. To identify the business attributes that can make MSEs competitive sources of supply for the materials used in public institutions;
3. To determine the influence of business attributes on performance of MSEs as sources of supply.

**5.2.1 Demographic Information**

The researcher used four demographic items; Age, gender, educational qualification, and work experience. The study revealed that majority of SCM employees in public institutions were mature, experienced and qualified workers, considered capable of making objective source of supply selection decisions. On gender analysis, it was found that males outweigh females both in the number of buyers in public institutions and owners/managers of firms which supplied goods or provided services to the institutions. General observations indicate that participation by women and men in many activities is skewed against women due mainly to cultural reasons and limited access to educational opportunities. The findings of this research indicate that majority of MSE owners/managers were youths, with appropriated education and professional qualifications that included information to be requested as evidence of capability to participate in government procurement as the sources of supply.

**5.2.3. The performance of MSEs as the Sources of Supply**

From the study, 76.6 % of the respondents indicated that firms with 0-40 workers participated in government procurement as sources of supply. This indicated that micro and small enterprises (MSEs) participated in the government procurement as the sources of supply for the materials used by public institutions in Baringo County. The results also revealed that MSEs were perceived as low performing sources of supply which failed to meet most of the procurement objectives of public institutions.

The research findings indicate that MSE sources of supply assisted public institutions in Baringo County to meet mostly price objective of procurement. Nevertheless, the findings gave the implication that MSE sources of supply were capable of assisting public institutions in the county to meet other procurement objectives. This was demonstrated by the proportion of respondents who confirmed that public institutions in Baringo County were assisted by MSE sources of supply to meet quality, quantity, delivery and customer care service procurement objectives.

**5.2.4. The competitive business attributes of MSEs as the Sources of Supply**

According to the results of the study, MSEs were better endowed with geographical location as the business attribute which made them competitive sources of supply for the materials used in public institutions in Baringo County. The result of the study gave the implication that MSEs had other business attributes which gave them competitive edge over their competitors. This was demonstrated by the proportion of respondents who identified other business attributes like business management skills, technical skills and resources that made MSEs competitive as sources of supply for the materials used by public institutions in Baringo County.

The results also indicated that MSEs suffered from inadequacy of significant business attributes, making them less competitive as the sources of materials used in public institutions. However, the results gave the implication that physical facilities, technical skills and business management skills were among the other business attributes that made MSEs competitive as the sources of supply for the materials used in public institutions.

**5.2.5. Influence of business attributes on performance of MSEs Sources of Supply**

The results revealed that inadequacy of business attributes contributed to low performance of MSE as the sources of supply for the materials used in public institutions in Baringo County. The findings indicate that inadequacy of business attributes contributed to less competitive performance by the MSEs. This was also confirmed by the computed value of the Chi-Square (X2)which happened to be greater than the table value for two degrees of freedom at five percent level of significant indicating that the influence of business attributes on performance of MSEs as the sources of supply was significant, real and not by chance.

**5.3 Conclusion**

From the findings of the study, it was concluded that MSEs have the opportunity to increase their market share in the expanding local markets through their participation in government procurement as the sources of supply for the requirements used in public institutions. The study acknowledges the importance of business attributes in improving the performance of MSE sources of supply. The MSEs have the potential to improve on their performance as the sources of supply that meet not only price objective of procurement but also the other objectives of procurement such as quality, quantity and customer care service. Besides geographical location, the entrepreneurs should make effort to enhance the acquisition of other competitive business attributes such as resources and skills to improve on their performance in the supply chain.

**5.4. Recommendation**

As a result of these study findings, the researcher put forward the following recommendations: It is important to build the capacity of local micro and small enterprises through effective buyer-supplier relationship based on mutual understanding. Public institutions should work in partnership with the local MSEs, giving them the opportunities to learn business management skills, and where possible involve business owners/managers in formal training. The PPDA should consistently evaluate and audit performance of MSEs so as to ensure purchases made are in compliance with the law of procurement.

**5.5 Areas for further research**

Further research should be undertaken on the following areas: A similar study could be carried out on other variables not included in this study. However, studies have been carried out in ways of improving the performance of MSEs through inter-firm linkages leaving a gap in the area of working with entrepreneurs as business partners of public institutions in government procurement.

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**APPENDIX I**

**RE: THE QUESTIONNAIRE**

Dear Respondent,

My name is Alfred Ogweyo and I am a student at Moi University undertaking a Masters of Philosophy in Entrepreneurship. I am undertaking a research study entitled:

**Performance of Micro and Small Enterprises Sources of Supply engaged by Public Institutions: The Case of Baringo County**

You have been selected to participate in this study to obtain your perceptions and views regarding various aspects of the SME sector. There are no good or wrong answers but your honest participation in answering the questions will assist in establishing the factors influencing performance of the small businesses in Baringo County. The information provided will be treated confidentially. Thank you in advance

Alfred Ogweyo ……………………… ……………………

M.Phil. student Signature dates

APPENDIX II

**QUESTIONNAIRE FOR THE SUPPLY CHAIN MANAGEMENT EMPLOYEES IN PUBLIC INSTITUTIONS**

This questionnaire is on the performance of enterprises that supply goods and/or provide services to large customers. It was designed to gather information needed in establishing the performance of MSEs as the sources of supply for materials used in the public institutions. Respondents are assured that all the information obtained will be treated with confidentiality and will only be used for academic purpose. The writer of this report is a scholar who pursues a course in entrepreneurship and intends to report on the efficiency and effectiveness of MSE sources of supply.

*Put a tick [√]in the box that matches your choice(s)for the correct response (s) to the questions below:*

**Part 1: Personal information:**

1. Gender:
	* 1. Female
		2. Male
2. Age bracket:
	* 1. 20-29
		2. 30-39
		3. 40-49
		4. 50-59
		5. 60-79
3. Number of years worked in purchasing and supply
	* 1. Below 3 years
		2. 4-6years
		3. 7-10years
		4. 11years and above
4. Highest qualifications attained
	* 1. Primary education
		2. Secondary education
		3. University education
		4. Professional qualification

**Part II: Information about the Sources of Supply**

1. What was the highest number of workers employed by the firms which supplied materials or provided services to your organization?
2. 0-9
3. 10-19
4. 20-29
5. 30-39
6. 40-49
7. Does the enterprise mentioned in Question No.1 above always assist your organizations to meet the procurement needs?
8. Strongly agree
9. Agree
10. Not sure
11. Disagree
12. Strongly disagree
13. Which one of the following is the procurement objective that your organization achieves best with the assistance of the enterprise mentioned in Question No. 1 above?
	1. Price
	2. Quality
	3. Quantity
	4. Delivery
	5. Service

**APPENDIX III**

**QUESTIONNAIRE FOR THE OWNERS/MANAGERS OF FIRMS THAT PARTICIPATED IN GOVERNMENT PROCUREMENT**

This questionnaire is on the performance of enterprises that supply goods and/or provide services to large customers. It was designed to gather information needed in establishing the performance of MSEs as the sources of supply for materials used in the public institutions. Respondents are assured that the information obtained will be treated with confidentiality and will only be used for academic purpose. The writer of this report is a scholar who pursues a course in entrepreneurship and intends to report on the efficiency and effectiveness of MSE sources of supply.

*Please complete the questionnaire as objectively as possible. Tick (√) the most suitable response (s) among the alternatives given):*

**Part 1: Personal information:**

1: Gender:

1. Female
2. Male

2: Age bracket:

1. 0-20
2. 20-40
3. 40-60
4. 60-80

3: Highest qualifications attained

1. Primary education
2. Secondary education
3. University education
4. Professional qualification

**Part II: Business information**

1. Which of the following is the most competitive attributes that may be associate with your enterprise?
	* 1. Physical facilities
		2. Technical skills
		3. Business management skills
		4. Geographical location
2. Does your enterprise have adequate competitive attributes to make it a high performer as the source of supply for materials used in public institutions?
	* 1. Yes
		2. No
3. Do you believe that inadequacy of competitive attributes contributes to low performance of your enterprise as a supplier for the materials used in public institutions
	* 1. Strongly agree
		2. Agree
		3. Not sure
		4. Disagree
		5. Strongly disagree

**APPENDIX IV**

**APPENDIX V**