

Challenges faced by Small and Medium Enterprise Suppliers when bidding for tenders. A case of Thika District

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Abstract

The Public procurement market in Kenya like other countries worldwide deal with a wide range of supplies. Though these contracts vary mainly in size, some are clearly within the capabilities of Small and Medium size Enterprises (SMEs). However, SMEs are sidelined from participating in public procurement despite their qualifications, sizes and level of production and despite this preferential treatment of SMEs, comparative tallies of public contracts secured by SMEs in Thika District against those secured by large enterprises are still very small. The study examined the challenges that the SMEs in Thika District face when bidding for tenders and it seeks to determine why they risk losing tenders. The research design used was descriptive and exploratory. The study established that there is a clear Legal/Regulatory framework established in the country to knob public procurement though these guidelines are not open to public scrutiny. The conditions for tendering are not the same for each tenderer and there are ethical malpractices sighted during the process. SMEs encounter financial challenges which include financial regulations and shortage of own financial resources. Information on public procurement and tendering to the SMEs is not adequately available as most respondents were not aware of its existence.

The research concluded that the existence of the legal framework makes it difficult for upcoming SMEs to compete with the established players thus discouraging their participation. Ethical aspect hinders the SMEs from participating in tendering due to in-transparency in the process. Financial requirement is a hindrance. Information on public procurement and tendering is not adequately available to the SMEs thus poor access to the little information availed to them.

Key Words: Public Procurement, Bidding, Small and Medium Enterprises, Tender, Corrupt and Fraudulent practices.

Introduction

In business, bidding is a recognized way of competing with other businesses for a project contract. The hiring company examines and compares bid proposals from the different businesses to choose the firm with the best overall proposal. Bidding is used for many types of business work and supplies that range from construction projects to medical equipment. Companies inviting bids from contractors or suppliers usually specify how the winning bid will be chosen, *Public Procurement Rules, 2004*. The public procurement and disposal act, (PPDA), 2005 states that if a company is only interested in a low price for products or services, it will often ask for *competitive bidding*. This term indicates that the winning bid will be selected on the lowest price quote only.

Bid procurement is often handled by the purchasing agent for the company seeking a product or service. This person has the authority to award contracts to suppliers of the winning bid. The Public procurement contracts in Kenya like other countries worldwide covers a wide range of supplies, services and works required by governments, local authorities and public organisations, utilities and agencies. Whilst these contracts vary hugely in size, some are clearly within the capabilities of Small and Medium size Enterprises (SMEs). The basic procurement principles should be applied in order to achieve sound procurement practices to enable an increase of trade and foster economic growth. The Kenyan government through its Private Sector Development Strategy is seeking ways to promote competition, innovation and Value For Money (VFM) in the delivery of public services (MOTI, 2007). According to Simbiri (2012) improving procurement process through enhancement of the participation of SMEs in the public procurement market is one way of achieving this. Much could be gained by enabling more SMEs to compete. The benefits to the public sector can include better levels of service, innovative business solutions and increased competitiveness in the longer-term. In return SMEs could gain by having access to a large and stable market. SMEs may offer better value for money than larger suppliers by bringing greater competition to the marketplace, lower costs and innovation.

Small and Medium Enterprises (SMEs)

Small and Medium Enterprises have been defined in various ways, but the most commonly used criterion is the number of employees in the enterprise (Kayanula & Quartey 2000). In Kenya, Small and medium enterprises or small and medium-sized enterprises are companies whose personnel numbers, working capital and assets, annual turnover fall below certain limits. The definitions used to describe the SMEs in Kenya are based on employment size. According to the *National Baseline Survey, 1999* a micro-enterprise is defined as having more than 10 employees; a small enterprise with 11-50 employees and a medium/large enterprise with more than 50 employees. Small and Medium Enterprises are small in nature - either in terms of number of (a) employees (b) capital and assets - limited working capital and assets and (c) turnover - the overall turnover of the enterprise is small, compared to larger businesses. Most SMEs have a single owner who could also be the sole employee. The 'single' also refers to single products produced or service provided. SMEs are essentially local in nature - their market is usually localized to the area where they are located (same city, district or state); or may be 'local' in the sense that they operate from a place of residence.

According to Kenya's economic blue print, the Economic Recovery Strategy for Wealth and Employment Creation, the country's government has recognized that high cost of engaging in productive activities, high cost of capital, lack of support services and weak institutions hinder the growth of SMEs. Thus, the term small and micro enterprise covers the range of establishments, including informal economy activities that include one or more persons and enterprises in the formal economy employing up to 50 persons. The Ministry of Labour and Human Resource Development (MLHRD), which is the lead government agency for the SME sector, makes provision for both formal and informal enterprises employing 1-50 employees. Always, starting and operating a business entails taking a great risk and therefore a possibility of success as well as failure. Moreover, due to the small size of medium enterprises, a simple management mistake may likely lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. Poor management, lack of planning and improper financing have been posed as the main causes of failure of small enterprises (Bowen, 2009). Lack of credit has also been identified as one of the most serious constraints facing SMEs and hindering their development (Oketch, 2000; Tomecko & Dondo, 1992; Kiiru, 1991).

The SMEs have the potential to grow into large companies that support the Growth Domestic Product (GDP) growth and check unemployment if they are encouraged by the government policy or public procurement authority. According to (King, 2002) education is one of the factors that impact positively on growth of firms. The entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King & McGrath, 1998). Infrastructure which relates to provision of accessible roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs which depend largely on the state of the infrastructure (Bokea, Dondo & Mutiso, 1999).

Problem Statement

The government of Kenya's initiative to help small and medium-sized enterprises through the public procurement process has uncovered a range of problems including administrative issues with e-procurement systems, cancelled tenders and exclusive contract conditions. The *Vision 2030*, the blueprint of the country's development, has clearly articulated the need to support SMEs which account for 20% of the country's GDP (GOK, 2011). The Ministry of Trade in Kenya under whose SMEs operates, has been mandated with the task of advocacy support to these SMEs. The retired President of Kenya, Mwai Kibaki in one of his speeches issued a decree requiring the government to set aside at least one in every 10 State tenders for the youth and SMEs who control a huge chunk of Kenya's small businesses effectively giving traders access to a critical market (Ng'ang'a, 2011).

However, the SMEs have continued to be sidelined from participating in public procurement considering their qualifications, sizes and levels of production. Many government institutions have been identified as being conservative in their approach to procurement largely because of their policies and processes. The perceived complexity of the process, therefore, combined with government regulation issues leads to many SMEs either ignoring the market of government contracts or submitting poorly researched applications. Thika is one of the districts where this scenario applies and it is a fast growing industrial town not forgetting the proximity of the town to the researcher. The research, therefore, sought to explore the challenges in the procurement processes that SME suppliers in Thika had to overcome in

order to have an equal footing in this process. The study would contribute to filling up the informational gap.

Research Objectives

General Objective

The broad objective of this study was to investigate the challenges faced by SME suppliers in Thika District when bidding for tenders which result to them bidding losing tenders.

Specific Objectives

- i.To assess how the establishment of a Legal/Regulatory framework affects the award of tenders to Small and Medium Enterprise suppliers in Thika District.
- ii.To find out how ethics in public procurement affect the tendering outcome for the Small and Medium Enterprise suppliers in Thika District.
- iii.To determine how financial requirements in tendering affect the Small and Medium Enterprise suppliers in Thika District when bidding for tenders.
- iv.To determine how Information Access on procurement and tendering affect Small and Medium Enterprise suppliers in Thika District when bidding for tenders.

Key Research Questions

- i.How does the establishment of a Legal/Regulatory framework affect the award of tenders to Small and Medium Enterprise suppliers in Thika District?
- ii.What role do ethics play in public procurement that may affect the tendering outcome for the Small and Medium Enterprise suppliers in Thika District?
- iii.What effect do financial requirements in tendering have on Small and Medium Enterprise suppliers in Thika District when bidding for tenders?
- iv.How does Access of public procurement and tendering Information affect the Small and Medium Enterprise suppliers in Thika District when bidding for tenders?

LITERATURE REVIEW

This chapter reviews literature that is relevant to the study. The purpose of reviewing the literature is to explore research works and other relevant secondary data which are useful to the study. It also provides a basis for an appropriate conceptual framework for the study.

Empirical Review

Bidding is a process in public procurement in which if not keenly administered can result to disappointments to the bidders. Public procurement can be defined as the supply chain system for the acquisition of all necessary goods, works and services by the state and its organs when acting in pursuit of public interest (Bovis, 1998). SMEs need to have access to, and the opportunity to win, government contracts. What must not happen is that the process unintentionally favors large firms in some way and discourages small firms. It should be noted that, it is not about giving preferential treatment to SMEs but about facilitating a more level playing field. The PPOA states that the tendering/bidding process should be fair and transparent for all candidates. The contribution of small and medium enterprises (SMEs) to employment, growth and sustainable development is widely acknowledged. However, the SMEs who contribute a great percentage to the economy today have been the victims to unfair and corrupt public procurement practices and even have been barred from accessing the public procurement market. According to Vincze (2010), improved access for SMEs results

in more competition, and is as one can expect likely to lead to better value for money for procurers, thus for the society. Small and Medium Family Enterprises plays important roles in Kenya economy.

According to a 2009 Economic Survey Report, the sector contributed over 50% of job creations in the year 2008 (Memba, Gakure & Karanja, 2012). Public procurement has important economic and political implications, and ensuring that the process is economical and efficient is crucial. This requires in part that the whole procurement process should be well understood by the actors: government, the procuring entities and the business community/suppliers and other stakeholders, including professional associations, academic entities and the general public (Odhiambo,2003). Badenhorst-Weiss (2012), highlights that public procurement is increasingly recognized as a profession that plays a key role in the successful management of public resources, and a number of countries have become increasingly aware of the significance of procurement as an area vulnerable to mismanagement and corruption and have thus made an effort to integrate procurement into a more strategic view of government efforts. According to the *PPOA's Public Procurement and Disposal General Manual*, (PPDGM) the legal framework of Kenya's public procurement system was strengthened with the enactment of the public procurement and disposal Act 2005 which came to operation on 1st January 2007 with the publication of the *Public Procurement and Disposal Regulations, 2006*. Public Procurement system in Kenya evolved from a crude system with no regulations to an orderly legally regulated procurement system. In the past decades, the public procurement system in Kenya has undergone significant developments. From being a system with no regulations in the 1960s, and a system regulated by Treasury Circulars in the 1970s, 1980s and 1990s, the introduction of *Public Procurement and Disposal Act (PPDA),2005* and the *Procurement Regulations of 2006* has introduced new standards for public procurement in Kenya. The PPDA (2005) clearly establishes the procurement methods to be applied, advertising rules and time limits, the content of tender documents and technical specifications, tender evaluation and award criteria, procedures for submission, receipt and opening of tenders, and the complaints system structure and sequence.

According to *Public Procurement and Disposal General Manual* (2009), in a developing country like Kenya, the public procurement sector is often the largest domestic market since the public procurement system is the bridge between public procurements and private sector providers. Hyytinen (2005) states that in the recent models of procurement bidding/auctions it is typically assumed i) that the object of bidding is very complex, ii) that there are at least potentially major quality differences in the bids, iii) that these qualities of bids are initially the bidders' private information, and iv) that delegation is inevitable. Indicative bidding is a practice commonly used in sales of complex and very expensive assets That is, the most qualified bidders will not be reliably selected to be on the short list competing in the second-stage bidding. Given the widespread use of indicative bidding and the billions of dollars involved, this efficiency loss could be substantial.

According to Ruggeri (2004) increasing competition in the current economy is forcing companies to formally evaluate the risks of participating in bidding in order to avoid undercapitalisation. Scientists at the University Rey Juan Carlos, Madrid, have developed a general framework for addressing the issue of bid formulation in procurement auctions. The goal of this project is to improve their current approach to bid formulation by considering all

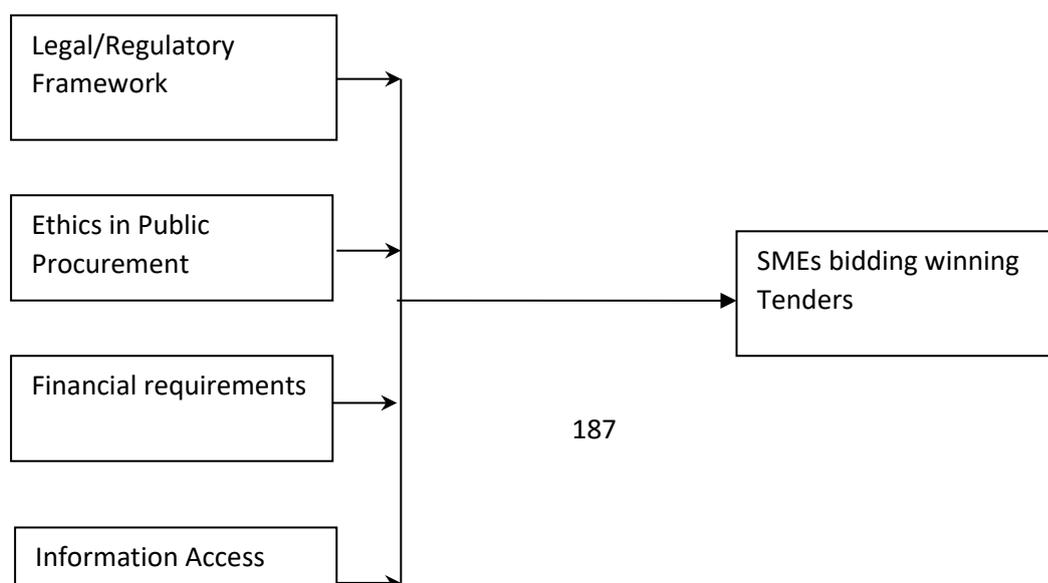
the inherent uncertainties in the process. Among other things, this involves providing models for internal risks (cost uncertainty), external risks (abnormal unforeseen events) and economic risks (uncertainty regarding winning the auction). Bids have become the most common market mechanism for allocating contracts in the modern economy and are seen as more democratic, and as such are particularly desirable for the dispersion of public contracts, and are also seen as more efficient, in the sense that the contract will be awarded to the company that values the contract most (Palomo, Rios & Ruggeri 2004).

Within the independent private value (IPV) paradigm, as the number of potential bidders increases, bidders equilibrium bidding behavior can become less aggressive (Zheng, 2007). Thus, increasing competition may not be always desirable for the government, meaning that our result, while somewhat counter intuitive and surprising because of the pure IPV paradigm under consideration, can have important policy implications. This result can also be used to test empirically whether entry is an important part of the decision making process. According to Li and Zheng (2007) the result is driven by the interaction of two opposite effects: the competition effect and the entry effect. They continue to add that while the competition effect is always negative as usual, the entry effect is always positive and therefore this positive entry effect suggests to a winning bidder that may have overestimated the intensity of entry.

Conceptual Framework

According to Kothari (2004), a concept which can take on different qualities of qualitative values is called a variable. If one variable depends on or is a consequence of another variable, it is dependent variable. The variable that is antecedent to the dependent or that makes it to change is called an independent variable. A conceptual framework consists of independent variables which cause changes in the dependent variable. The independent variables in this case are: Legal/Regulatory framework, Ethics in public procurement, Financial Requirements and Limited Information which affect the dependent variable namely; successful bidding/SMEs bidding successfully.

This is illustrated in Figure 1.



Independent variables**Dependent variable****Figure 1: Conceptual Framework****Legal/Regulatory Framework**

The legal and regulatory framework establishes the rules within which all the financial institutions, instruments, and markets operate in a given country. According to Thai (2001) apart from public procurement regulations and rules, the legal environment refers to a broad legal framework that governs all business activities including research and development (regulations dealing with safety and health of new products), manufacturing (safety and health regulations at workplace and pollution control), finance (regulations dealing with disclosure of information), marketing (regulations dealing with deceptive advertising, disclosure of product characteristics), personnel (regulations dealing with equal opportunity for women and minorities), and contracts. He continues to add that in developing and particularly transitional countries, where legal systems are not comprehensive, government contracts may need detailed provisions.

According to Puddephatt and March (2012) a weak national regulatory framework is often the root of challenges facing SMEs in public procurement. In general, a strong legal framework establishes the basis for competitive and transparent public procurement process, which is relevant for large and small business alike. This makes clear and comprehensive regulation essential in enabling fair participation in public procurement for all bidders, including SMEs. Puddephatt continues to add that public procurement rules will be implemented in a country's legislation in form of a statute or code. Sometimes, provisions will be included in the country's constitution. He goes on to say that in South Africa, the country's constitution writes that its system of contracts must be "fair, equitable, transparent, competitive and cost-effective". In relation to small business, countries may specify legal quotas for public procurement suppliers and establish internal caps for SMEs.

In Kenya, for example, the proportion of government contracts awarded to SMEs according to the president's directive should be 10 per cent. Puddephatt continues to add that abuse of public procurement systems arises largely due to weak or inconsistent enforcement of the rules. In this respect, there is still a considerable gap between the regulatory framework and its effective implementation in Kenya and what is more is that, laws tend to be manipulated for the benefit of the minority. On the other hand, Perry (2011) states that procurement frameworks are thought to have a number of advantages, including value for money through centralisation, reductions in bureaucracy and the establishment of beneficial long-term relationships with suppliers. However, it has been suggested that frameworks can have a negative impact on SMEs in tendering for and delivering contracts.

Ethics in Public Procurement

According to Kenneth (1989), ethics is discussed from a very narrow perspective as being primarily concerned with such issues as bribes and confidentiality. He continues to add that ethics is concerned with the philosophical study of morality as guide by internal conviction against what is wrong and right. According to (*Public Procurement and Disposal Act, 2005*) it is very important that the public procurement function is discharged with probity, transparency and accountability in a manner that secures best value for public money. Puddephatt and March, (2012) In their journal '*Benefits of Transparency in Public Procurement for SMEs*' says that many barriers facing SMEs in public procurement are related to the lack of transparency in the procurement process. They continue to indicate that this manifests itself in form of obscure tenders and decision-making processes, and is bolstered by a culture of corruption – typically with weak accountability mechanisms and lack of scrutiny over allocation of public funds. Probity requires the purchasing process to be conducted ethically; honestly; and with fairness to all participants. According to Economic Recovery Strategy for Wealth and Employment Creation, (2003), in all government activities, public procurement is most vulnerable to corruption and fraudulent practice.

According to Puddephatt and March (2012) one way for governments to assist SMEs in achieving their full potential is through their public procurement system. However, SMEs' entry into this potentially lucrative market is often hindered by challenges such as corruption, red tape and lack of transparency in tendering, to name but a few. Puddephatt (2012) continues to add that in Egypt, where public procurement makes up a significant portion of the economy and has the potential to play a major role in incentivizing SME growth, collusive tendering (bid rigging) corruption and in - transparency remain serious obstacles for SMEs.

Beside its direct hindrances on access to the public procurement market, lack of ethics is harmful because it enables a culture in which there are no checks on corruption. The journal on the Benefits of Transparency in Public Procurement for SMEs states that corruption is the abuse of public office for private gain which is inevitably harmful for the overall economy and SMEs in particular. Transparency International's handbook on curbing corruption in public procurement highlights that each phase of the procurement process is vulnerable to corruption. According to Puddephatt and March (2012) in developing countries where corruption is still a pervasive issue, transparency initiatives are key to unlock many challenges facing SMEs in benefitting from the public procurement market. He continues to add that through active disclosure of documentation and creation of a level playing field for SMEs in public procurement, these initiatives can maximise SME growth, and indirectly contribute to overall economic development and post-recession recovery.

Financial Requirements

According to Ganbold (2008), the ability of SMEs to grow depends highly on their potential to invest in restricting, innovation and qualification.

All of these investments need capital and therefore access to finance. Ganbold highlights that the consistently repeated complaint of SME about their problems regarding access to finance is a highly relevant constraint that endangers the economic growth of the countries.

According to *International Finance Corporation (2011)*, SMEs play a key role in economic development and make an important contribution to employment and GDP. Financial access is critical for SMEs' growth and development. In their early stages of development, SMEs rely on internal sources of funding, including the owner's savings, retained earnings, or funding through the sale of assets. According to this report, access to finance remains a key constraint to SME development, especially in emerging economies. The report continues to add that access to finance is disproportionately difficult for SMEs in LDCs, with 41 percent of SMEs in LDCs reporting access to finance as a major constraint to their growth and development, as compared with 30 percent in middle-income countries, and only 15 percent in high-income countries. Banks are wary of lending to SMEs. Loans have to be heavily securitized with personal assets, and start-ups are normally excluded from credit. Interest rates are hardly affordable. The majority of enterprises are too small for VCs to consider, and the sector is largely viewed as immature and scarcely profitable for the moment.

According to Wanjohi (2012), lack of access to credit is almost universally indicated as a key problem for SME's. This affects technology choice by limiting the number of alternatives that can be considered. Many SME's may use an inappropriate technology because it is the only one they can afford. In some cases, even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan. Wanjohi continues to add that financial constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Commercial banks' lending activities have traditionally concentrated on large enterprises and consumer credit, with very little involvement in SME financing.

Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance. There are various other financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees.

The scenario witnessed in Kenya particularly during the climaxing period of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes came up, promising hope among the 'little investors,' that they can make it to the financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits. Financial constraint remains a major challenge facing SME's in Kenya (Wanjohi & Mugure, 2008).

Information Access

According to Matovu and Obura (2011), SMEs need to have access to adequate information to enhance productivity and to facilitate market access. The establishment of an active SMEs sector and the effective utilisation of quality business information - has been identified as crucial in attaining long-term and sustainable economic growth for developed and developing countries, alike Corps (2005). According to Strong, Lee and Wang (1997), poor information quality can create chaos. Unless its root cause is diagnosed, efforts to address it can be worthless. According to Ladzani (2001), the priority ranking of the SMEs needs, clearly puts information provision at the top of the list of services to be provided. The SMEs development is hampered by an "information-poor" environment (Matovu & Obura, 2011).

In most developing countries, market signals on business opportunities, customer trends, methods of organisation, etc., are not communicated, effectively, to the SMEs (Ladzani 2001; Okello-Obura ... *et al* 2008). The SMEs perform better in information-rich environments (Moyi 2000 & Ladzani 2001). To achieve quality within the information rich environment, some notable challenges need to be handled head on. Small and Medium Enterprises (SMEs) in Uganda face the following difficulties identified by the Commonwealth Secretariat (2010): insufficient knowledge of the formal tendering process; no feedback was made available about previous unsuccessful tenders (Obanda, 2011). According to Obanda ensuring easy access to all relevant information on business opportunities in public procurement is of key importance for SMEs. He states that in Uganda, it is apparent that after newspapers, established relationships are very important in terms of accessing contracts and opines that the Commonwealth (2010), findings show that 38% of the respondents stated that opportunities were communicated through either direct invitation from the buyer or through some form of personal contact.

Logically, established relationships represent a barrier for those SMEs who are not currently engaged with the public sector. The increased use of Information and Communication Technology (ICT) is vital given that the whole country is covered by the mobile telecommunication network and hence has internet accessibility. Particularly develop websites that may be helpful to SMEs by enabling cheap and quick communication, for example, downloading the contract documents and any supplementary documents without incurring copying or mailing costs. Adopting this would enable publication of public procurement notices online; multi-functional search engines; direct downloading of contract notices and accompanying documentation; electronic tendering facility enabling local governments to receive bids electronically in conformity with the PPDA regulations. Obanda insists that Procurement and Disposal Units (PDUs) should be the local desks that help SMEs to increase their involvement in public procurement contracts and they should help SMEs familiarize themselves with their respective websites. He continues to add that training of the relevant stakeholders will also stimulate an increase in the number of SMEs' accessing and winning contracts as more tenders will become SME compliant. An increased involvement of SMEs into public procurement will result into higher competition for public contracts, leading to better value for money.

SMEs Bidding Winning Tenders

Measurement of successful bidding entails various factors that need to be put in place so as to be sure that the bidder wins the tender each and every time he/she bids. Jonathan Farrington (2012) insists that some of the important factors that constitute successful bidding are; Perceived quality of a company's products/services, Relationships with existing or potential customers, Position of the company in its market place, The company's overall image and finally The company's track record in similar projects. According to Farrington, there are as well issues that suppliers have to consider in order to complete successful bid negotiations and these issues include guaranteeing quality, delivery dates and after sale services, preparing a detailed bid documentation, developing a clear objective for the negotiation and making the first formal presentation of the bid.

Jonathan Farrington (2012) tries to ask the question of why is it that some companies grow prosperous on the fruits of their success at winning major bids while others think themselves lucky to garner a few crumbs from the feast. The most effective bid winners prefer to draw a

veil over those factors that make them successful. Bidding is important and according to Rothkopf and Harstad (1994), bidding is fair and, equally important such that it may make legitimate a transfer that would otherwise be suspect.

However, the bidding process can be a minefield of potential litigation, with bidders complaining of the lack of a fair and consistent approach to tendering and accusations of favoritism and corruption.

Public procurement can be defined as the supply chain system for the acquisition of all necessary goods, works and services by the state and its organs when acting in pursuit of public interest (Bovis, 1998). Best practice guidance for successful SME engagement handbook states that policy makers and politicians believe that procuring more from SMEs will: strengthen the economy, regenerate local communities, generate stakeholder goodwill. This is so because studies indicate that in both advanced economies and developing countries SMEs contribute on average 60% of total employment (Ayyagari, Beck & Demirgüç, 2007).

According to this handbook, when large organisations make the conscious decision to diversify their supply chains and to include more SMEs, there are normally many positive outcomes. SMEs generally are more innovative, more flexible, can offer higher levels of customer service and can contribute to their client's wider organisational objectives in relation to sustainability. The organisation gains a more flexible, nimble and diverse supply chain where risk is spread and hopefully a lower lifecycle cost is achieved. The EU Code of Best Practices for SME access to procurement introduced in 2008 stated that increased involvement of SMEs in public procurement would result in higher competition for public contracts, leading to better value for money for contracting authorities.

The document also suggests that more competitive and transparent procurement practices will have a positive impact on the European economy by unlocking the growth and innovation potential of SMEs. According to an OECD report, successful bidding will depend on many other things in the procurement process amongst them well established procurement patterns that do not allow room for collusive tendering (bid-rigging) and so transparency in the procurement process is key for a bid to win.

RESEARCH METHODOLOGY

This chapter presents the methodology that was used in data collection and analysis. It describes the research design, population, sample and sampling technique, data collection procedure, data processing and analysis.

Research Design

A research design is a presentation of the plan, the structure and strategy of investigation, which seeks to obtain or answer various questions. It is a detailed plan for how research study will be conducted according to the data required in order to investigate the research questions in an economical manner. It is the framework that will guide the collection and analysis of the data. The research design used was descriptive and exploratory. Exploratory research is the discovery of ideas and insights (Kothari, 2004). This design was more preferred as it minimizes bias and allows maximum reliability of information from the project officials. Further, the descriptive approach was chosen for it attempts to describe characteristics of an event, situation, a group of people, community or a population. It describes a given state of affairs as fully and as carefully as possible (Fraenkel, 2000). The information was analyzed at qualitative and quantitative levels. At the quantitative level, data was summarized using

descriptive statistics. The statistical methods were among them tables, bar graphs and pie charts.

At qualitative levels, the researcher obtained a detailed information about the phenomenon being studied, and then tried to establish patterns, trends and relationships from the information gathered.

Target Population

Target population refers to the larger population to which the researcher ultimately would like to generalize the results of the study (Berg, 2001). It is therefore the entire group of individuals, events or objects having a common observable characteristic. The target population for this study was a selected group of SME suppliers in Thika District.

Sampling frame

A sampling frame is a list of all items where a representative sample is drawn for the purpose of research. In this study, the sampling frame was a list of all SME suppliers in Thika District.

Sample and Sampling Technique

A sample is a portion of the population of interest. The purpose of sampling is to gain an understanding about some features or attributes of the whole population based on the characteristics of the sample, (Mugenda & Mugenda, 2003).

The researcher carried out stratified random sampling where the subjects were selected in such a way that the existing subgroups in the populations were more or less reproduced in the sample.

According to Kothari (2004), a population is stratified based on different features of the population and a random sample is picked from each stratum. According to Kull (1984), sampling is the process by which a relatively small number of individual object or event is selected and analyzed. The study adopted a stratified random sampling approach. This is because with the stratified random sample, there is an equal chance (probability) of selecting each unit from within a particular stratum (group) of the population when creating the sample.

From the target population of 1500 SMEs in Thika District, a sample size of 10% was obtained using stratified random technique. This was because the subject within the sample was divided into four stratas which were the years in which the SMEs have been in operation. Thereafter the subject was sampled randomly and the individuals were chosen in such a way that each had an equal chance of being selected and each choice was independent of any other choice.

Stratum	Population	Sampling Ratio	Sample Size
SMEs in operation from 0-3 years	250	0.1	25
SMEs in operation from 3-6 years	500	0.1	50

SMEs in operation from 6-9 years	250	0.1	25
SMEs in operation from 9 years and above	500	0.1	50
Total	1500	10	150

Table 1: Years of Operation for SMEs in question

Data Collection Instruments

The researcher developed a standardized questionnaire that captured the various variables under study (Appendix 2). A questionnaire is a research instrument that gathers data over a large sample and its objective is to translate the research objectives into specific questions, and answers for each question to provide the data for hypothesis testing. The advantage of a questionnaire over other instruments include the fact that questionnaires are: Practical and large amounts of information can be collected from a large number of people in a short period of time and in a relatively cost effective way, they can be carried out by the researcher or by any number of people with limited affect to its validity and reliability and the results of the questionnaires can be quickly and easily quantified by either a researcher or through the use of a software package. The questionnaire was divided into two sections. Part A was the identification section where all parties involved would identify themselves; Age, gender and job status. Part B asks the respondents to provide information concerning the major areas of this study.

The questionnaire contained both closed and open-ended questions. The closed ended questions were aimed at giving information which minimize information bias and facilitate data analysis, while the open-ended questions give respondents freedom to express themselves.

RESEARCH FINDINGS AND DISCUSSION

In this chapter the researcher presents the findings from the field. Data that was obtained from the questionnaires responses are presented, analyzed and the results interpreted. The sample group that was administered with questionnaires by the researcher consisted of 200 SMEs from Thika District and 153 questionnaires were returned representing 76.5% response rate. Of this 153 questionnaires,30 represents the suppliers of computer hardware and software which was 19.6%,30 questionnaires represents the suppliers of office furniture which was a 19.6% representation, another 50 questionnaires represented suppliers of office stationery, a 32.6% representation, another 20 questionnaires represented the suppliers of toners and cartridges which is a 13% representation and 13 questionnaires represented the suppliers of groceries which was an 8.4% representation and finally 10 questionnaires were for the suppliers of milk and dairy products which was a 6.5% representation. The data collected was analyzed both quantitatively and qualitatively, guided by the objectives of the study.

Response Rate

The response rate was done to get a clear view of how many questionnaires were issued out and how many were filled with the information that the researcher wanted.

Table 2: Response Rate

Questionnaires Issued to Suppliers of:	Number of questionnaires Issued	of	Number of questionnaires returned	Response Rate in percentage
Computer Hardware and Software	40		30	75%
Office Furniture	40		30	75%
Office Stationery	60		50	83.3%
Toners & Cartridges	30		20	66.6%
Groceries	15		13	86.6%
Milk & Dairy Products	15		10	66.6%
Total	200		153	76.5%

The response as shown on Table 2 was 76.5 % which was a good response.

The questionnaires were issued to the various suppliers of Computer Hardware and Software, Office Furniture, Office Stationery, Toners and Cartridges, Groceries and Milk and Dairy Products and the response was as shown in Table 2.

Gender Response and Analysis

The researcher did a gender analysis in which the following information was derived.

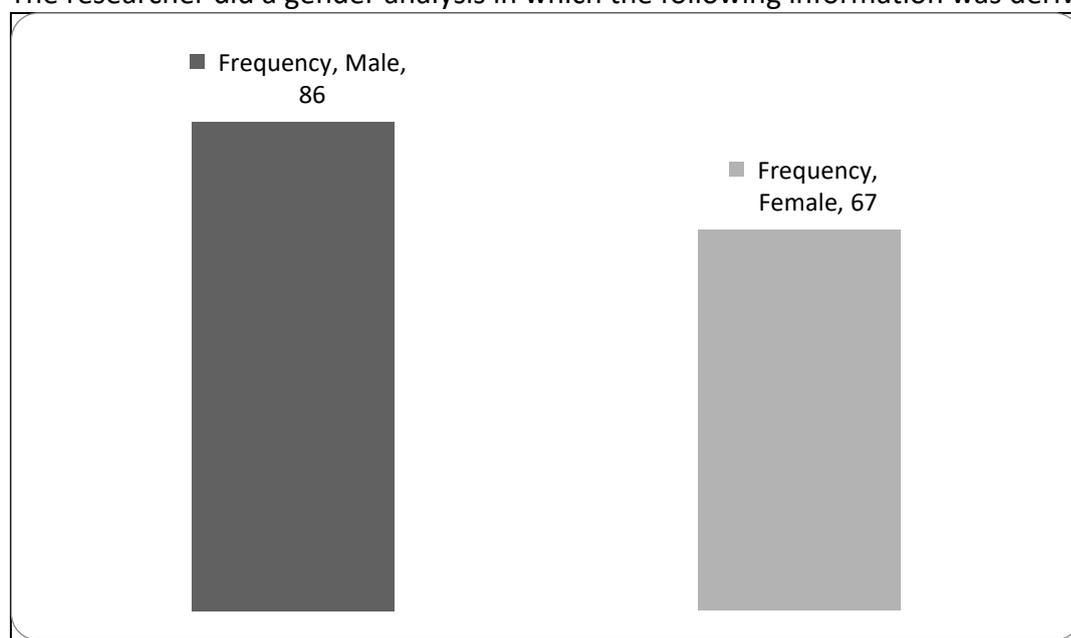


Figure 2: Gender Response and Analysis.

Out of the 153 respondents 86 were male who represented 56 % while 67 were female who represented 44 % an indication that the male gender is still a very aggressive gender when it comes to business. This can also be an indication that there are businesses which are still known to be male dominated in our society. Being an African society, this also indicates that

the male gender is the breadwinner in the family and that most of the women are at home

Gender Age Respondent

The researcher also compared the ages of the two genders and the cross tabulation revealed the following results

The researcher care givers.

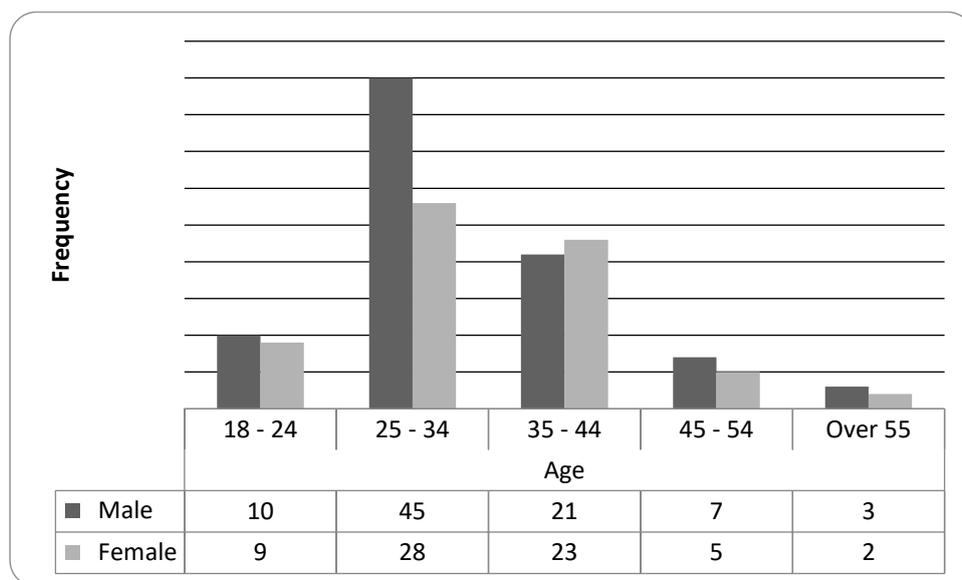


Figure 3: Gender Age Respondents.

Most of the SME’s suppliers in Thika district lie between the age of 25 - 34 years, then closely followed by 35 – 44 years. However, it is clear that the number of the SME’s is reducing from 35 – 44 to Over 55 an indication that some SME’s evolve from being small and medium entrepreneurs to potential entrepreneurs. Most of the respondents who were over 55 years of age acknowledged the fact that they have participated in tendering at one point and have been awarded tenders an indication that at one point they were able to meet the various requirements by the Public Procurement Market in Kenya. However, approximately 60 % of the respondents were between the age of 18 to 34 years, only 40 % of the respondents were above 35 years.

This is an indication that the most of the SMEs suppliers in Thika district are youths who form the productive population and are aware of the tendering and procurement processes in Kenya as shown in figure 2. Thika District is also an upcoming entrepreneurial town which serves as a motivation to Small and Medium Enterprises.

Period of Operation

The researcher also conducted an analysis of the number of years the SMEs have been in operation. The analysis gave the following results.

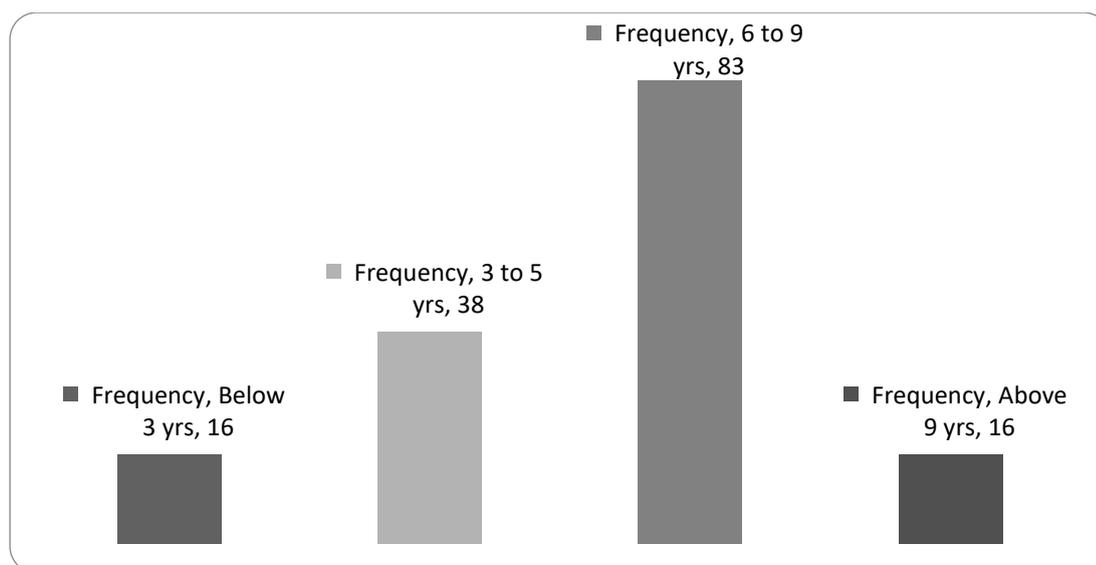


Figure 4: Period of Operation

Most of the SME’s have been in operational for 6 to 9 years. This indicates that these SMEs have been involved in the tendering process for quite some time and they have the required experience in procurement and they are well informed of this whole process. They are also the perfect candidates for the researcher since they are able to provide the information required without any bias. It is also clear that the SMEs in Thika District who have been able to participate fully in public procurement as they feel that they have a lot to learn in the market.

How a Legal/Regulatory framework affect the award of tenders to SMEs Thika District

The researcher sought to understand how a legal framework may affect the award of tenders to SMEs and the following information was given.

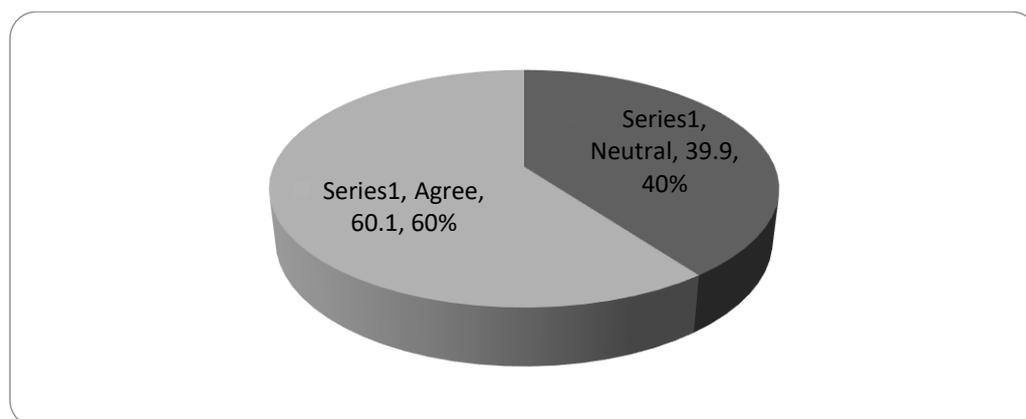


Figure 5: Effect of a legal/regulatory framework

Procurement regulations are rules that local, state, and federal governments must follow when they award contracts for services to private companies. The purpose behind procurement oversight is to ensure that governments act in a fair and cost-efficient manner in awarding these often lucrative contracts. Public procurement regulations operate to avoid the perception of any impropriety in awarding government contracts and to make certain the government is wisely spending taxpayer funds. For example, there is a regulation that for a

supplier to be able to participate in tendering, he/she must be able to raise a certain amount of bid bond to be able to handle a certain tender.

Figure 4 shows that 60 % of SME’s in Thika district concurs that legal/regulatory framework affect the award of tenders. Some of the SME’s established that guidelines are open to public scrutiny and adequate enforcement mechanisms are in place for them in case legal matters are concern. However, they approved that the regulatory framework is not clear and obscure bidding procedures shielded by vested interests discourage them. They also established that the rationale for award of tenders is based on defined set of selection interests and that preference for larger bidders’ hinder them from winning tenders.

Ethics in Public Procurement and Tendering

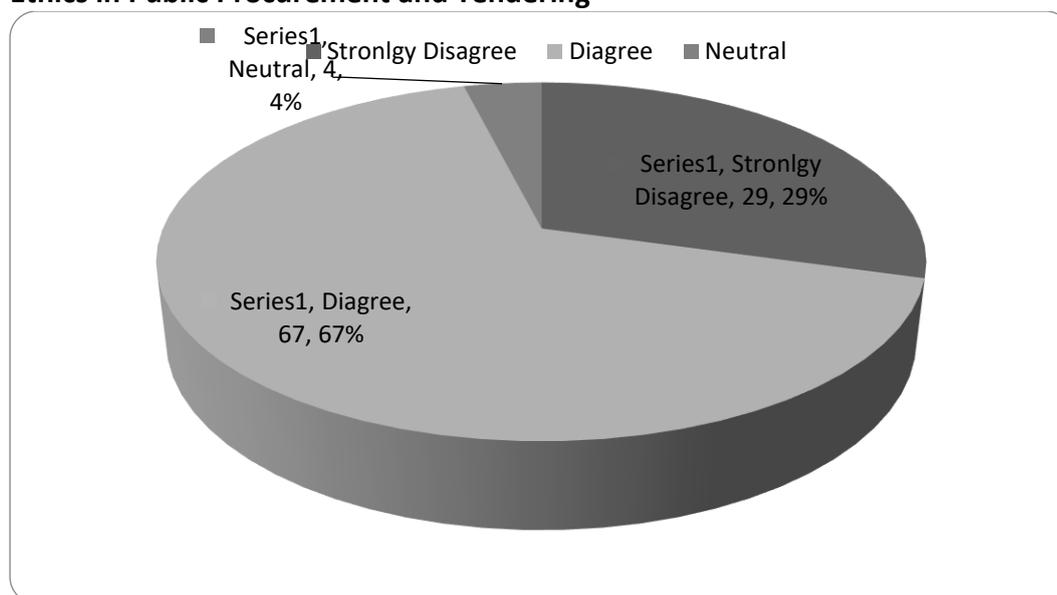


Figure 6: Ethics in Public Procurement

Public procurement is based on Principles, the Government Rules of Sourcing and good practice guidance. Collectively these provide a broad framework that supports accountability, sound practice and successful procurement results. Ethics is a very key issue in procurement and every procurement practice need to key in the ethics factor for an accountable and transparent process.

Most procurement processes in Kenya today lack the ethics factor whereby there are a lot of corrupt practices involved thus making the whole process to be flawed. Figure 6 shows that 67 % of the SME suppliers in Thika District strongly oppose the devotion of ethics in public procurement and tendering and 29% of these people also think that ethics is lacking in public procurement in Kenya today. However, 4 % of the SMEs in Thika are on the fence concerning the same issue. The study revealed that tendering is not conducted honestly and fairly at all levels to all parties for the respondents argued that conditions for tendering are not the same for all applicants and that some parties engage in practices such as collusion on tenders and inflation of prices to compensate unsuccessful applicants.

Financial Requirements for SMEs

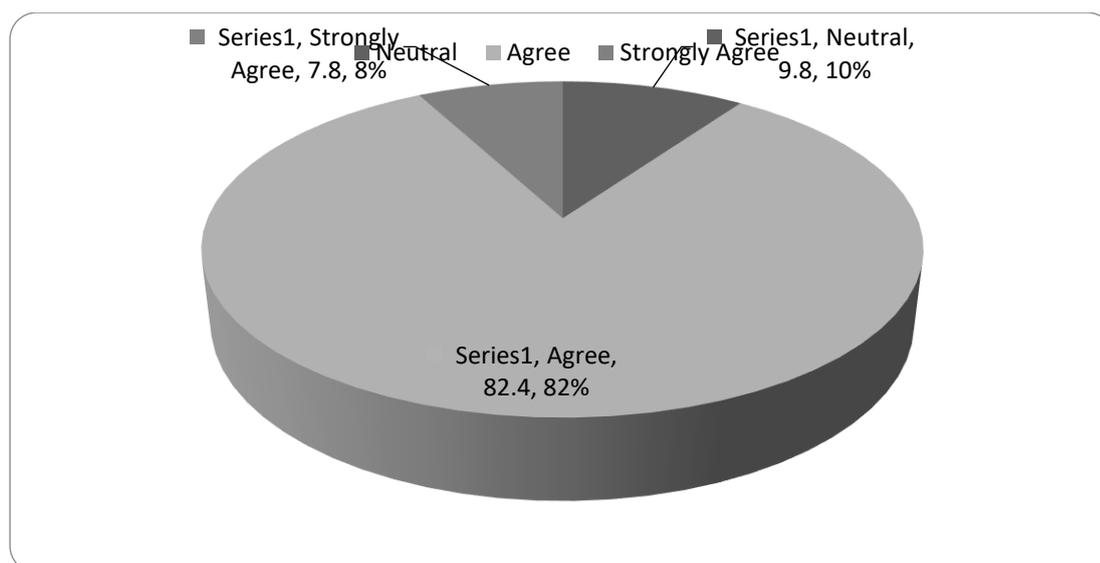


Figure 7: Financial Requirement for SMEs

Financial access is critical for SMEs’ growth and development. In their early stages of development, SMEs rely on internal sources of funding, including the owner’s savings, retained earnings, or funding through the sale of assets.

Figure 7 shows that 10% of the respondents are unbiased on the fact that financial requirements affect procurement and tendering of SME’s suppliers, while 90 % approved that financial regulation is a big obstruction which makes them not participate in tendering and those who have participated argued that, it is one of the reasons why they do not win tenders. Conversely, they approved that its risky to rely on SME’s to supply various items given their weak financial base and lack of access to long term credit services. According to this study, access to finance remains a key constraint to SME development, especially in emerging economies.

Information Access of Public Procurement and Tendering

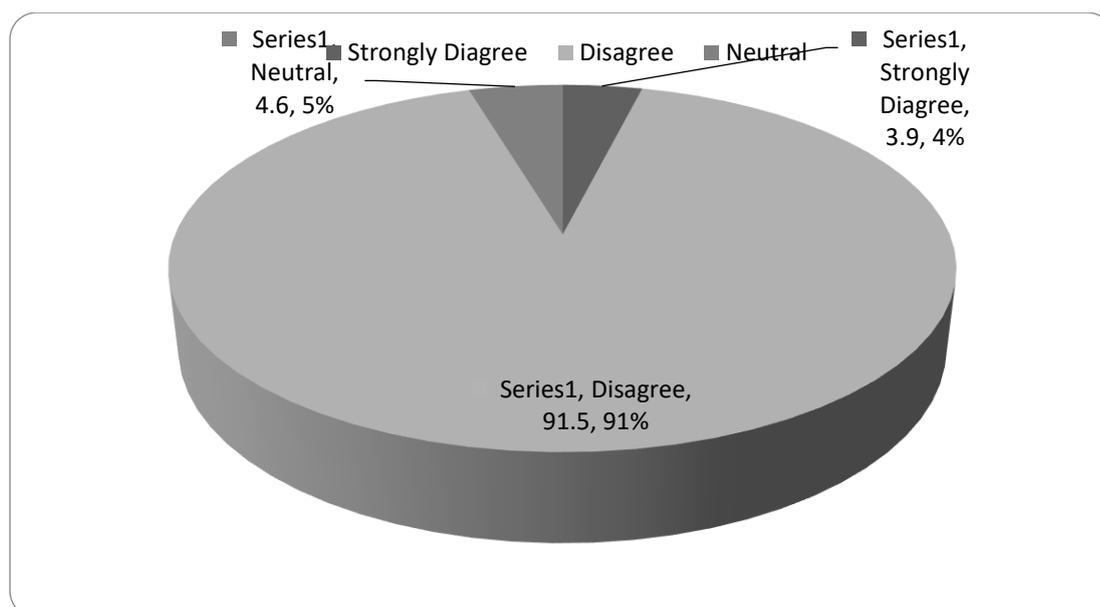


Figure 8: Information Access for SMEs

SMEs need to have access to adequate information to enhance productivity and to facilitate market access. The establishment of an active SMEs sector and the effective utilisation of quality business information - has been identified as crucial in attaining long-term and sustainable economic growth for developed and developing countries. This study revealed that there is limited access to information of procurement and tendering to SME’s suppliers. This is backed by a 95% response that showed that the SMEs are not aware of the existence of information on procurement thus leading to poor access to information. All the same, 5% respondents were disinterested to there being constant dialogue between SME’s and buyers and the existence of websites where SME’s can access information. The findings of the study also revealed that, the SME’s are not mentored by buyers and refuted the existence of an e-procurement platform whereby there is free information on tendering which is accessible to them.

Rating of factors that affect SMEs bidding for tenders

Table 2

Factor	N	Mean
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Legal/Regulatory Framework	153	3.53
Ethics in Public Procurement and Tendering	153	2.09
Financial Requirements	153	3.79
Limited Information	153	1.99

Financial requirements had the highest mean of 3.79 on the scale of 1 to 5, where 1 is strongly disagreeing and 5 strongly agree. This indicates that financial requirement for public procurement and tendering affect the winning of tenders by the SMEs suppliers. Legal/Regulatory framework has the second highest mean of 3.53 an indication that the legal/regulatory framework pertaining public procurement and tendering adversely affect bidding of tenders by SMEs suppliers. Ethics in public procurement and tendering has a mean of 2.09 an indication that the respondents disagree that ethics is strictly adhered to during public procurement and tendering. Finally, limited information has a mean of 1.99 which implies that respondents felt that information on public procurement and tendering is not fully available to SMEs suppliers.

SMEs bidding winning tenders

Further research needed to be carried out on public procurement and tendering to determine how SMEs suppliers could win tenders. The statements were derived from the study variables. From the statements directed to the SMEs, the researcher established a mean which was used to help her understand which variable had the most effect to the SMEs not winning tenders in public procurement. The variable (s) with the highest mean was considered the one that the respondents thought to have the most hindrance to the not bidding successful tenders. The response from the respondents rated is shown in Table 4.4

Bidding

The researcher went ahead to analyse and compare the variables to find out which of the four variables were most likely to affect the winning of tenders by the SMEs. The following information was given.

Table 3: Bidding

Statement	N	Mean
With strong financial base SME are likely to win tenders	153	4.12
Proper access to procurement information is a determinant to winning of tenders by SMEs	153	4.12
Non-prohibitive legal procedures give hope to SMEs	153	2.79
Adherence to code of ethics makes the procurement process more favorable to SMEs	153	4.12

A strong financial base, proper access to procurement information and adherence to code of ethics were rated strongly with mean of 4.12 each on a scale of 1 to 5, where 1 is strongly disagree and 5 strongly agree. This indicates that an SME supplier with strong financial bases, proper access to public procurement and tendering information; and if ethics was strictly adhered to during procurement and tendering process h/she has high chances of winning tenders. Nevertheless, the respondents were impartial to non-prohibitive legal procedures which give hope to SMEs.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter presents the summary, recommendations and conclusions of the research study.

Summary of the Findings

General Information

The majority of the SMEs were relatively young (25-34 years) an indication that the Kenyan youth are more into self – employment than being employed maybe due to the high rate of unemployment. The results also revealed that majority of the SMEs were male while women constituted a small percentage. It was established that majority of the SMEs have been in business for a long time (6-9 years) and that most of them have been involved in procurement process at one time or another.

Legal/Regulatory Framework

The findings of the study indicate that there is a clear Legal/Regulatory framework established in the country to deal with public procurement. An example of this regulatory framework is

that for a supplier to be able to participate in tendering, he/she must be able to raise a certain amount of bid bond to be able to handle a certain tender. From the findings the researcher is able to establish that these guidelines are not open to public scrutiny. It is also evident from the SMEs suppliers that obscure bidding procedures shielded by vested interests discourage SMEs from participating in public procurement.

These procedures as they said for example include obtaining tax compliance certificates from the Kenya Revenue Authority and also needed maybe to provide audited accounts for the last three years.

Ethics in Public Procurement

The findings of this study also revealed that the conditions of tendering are not the same for each tenderer. Some of the ethical malpractices sighted during this process are that conditions are not the same for all parties and practices like canvassing are practiced and the process is not carried out in a fair and honest manner. It is also clear that ethics in public procurement and tendering is not adhered to strictly, a factor that also contributed to them not winning tenders.

Financial Requirements

This study also found out that the key financial requirements that the SMEs encounter include financial regulations and shortage of own financial resources for innovation. It was agreed that financial regulation is a big obstruction which makes them not participate in tendering and those who have participated argued that, it is one of the reasons why they do not win tenders.

Access to Information

The study revealed that there is limited access to information of procurement and tendering to SME's suppliers. Most of the upcoming SMEs in Thika district are not aware of the existence of information on procurement thus leading to poor access to information. The findings of the study also revealed that, the SME's are not mentored by buyers and refuted the existence of an e-procurement platform whereby there is free information on tendering accessible to them.

CONCLUSIONS

- i. From the findings above, it is clear that the existence of the legal framework makes it difficult for upcoming SMEs to compete with the established players in this sector thus discouraging their participation. Procurement regulations still tend to be fairly burdensome for private companies, especially for those companies that have never before bid on government contracts and thus call for public revision and scrutiny.
- ii. From the findings of this study it is also evident that the ethical aspect in procurement hinders the SMEs from participating in tendering as there is lack of transparency in the process.
- iii. The shortage of finances for SMEs is also a hindrance to them when participating in public procurement.
- iv. The poor access to information has led many SMEs to be in the dark concerning public procurement and tendering and thus leading to their inability to bid winning tenders and therefore poor participation in public procurement and tendering.

RECOMMENDATIONS

In view of the key factors that affect SMEs in Thika district in public procurement and tendering and putting into consideration that most of the SMEs are youths, the following were the recommendations given by the researcher:

- i. The government should recognize SMEs fully so that proper channels are established for them to access legal advice when need be. However, during the formulation of the Legal/Regulatory framework the SMEs should be involved so that these regulations do not favor only the “big players” in public procurement and tendering. In addition, the SMEs should form an umbrella body that will act as a highway to air their grievances to the government as well offer legal advice to its members.
- ii. There should be more open and strict measures in place to ensure that ethics is adhered to and culprits strictly punished to curb the vice.
- iii. The government should provide channels that the SMEs can access loans of low interests.
- iv. Poor access to information on public procurement and tendering is to some extent a show of ignorance on the part of SMEs and so the government should come up with measures to ensure that all SMEs are on the know when it comes to tendering. Most of the information is available on line and some of the SMEs are computer illiterate which makes them not access this limited information. In addition, the government and non-governmental organizations should organize workshops and seminars for the SMEs to educate them on public procurement and tendering.
This will also go a long way in creating links with the buyers who in return will unveil what they require from those show interest in tendering process. The recent advancement in technology creates conducive environment for e-procurement through development of websites and mobile phone applications that facilitate public procurement via the internet.

Recommendations for future Research

Further studies can be done on the impact of the Kenyan Government directive that 10% of tenders be reserved for youth and SMEs. A study on how ethics in public procurement influences the process of tendering and award of tenders to the SMEs is encouraged.

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