

**CONTRIBUTION OF PUBLIC PROCUREMENT ACCESS ON THE
FINANCIAL PERFORMANCE OF SMALL AND MICRO ENTERPRISES
IN HOMA BAY COUNTY, KENYA**

BY

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**A RESEARCH REPORT SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION**

DEPARTMENT OF MANAGEMENT SCIENCE

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DECLARATION

I declare that this research report is my original work and that it has not been presented in any other University or institution for academic credits.

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This research proposal has been submitted for examination with my approval as the University Supervisor.

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My acknowledgement goes to my supervisor Dr. Johnmark Obura for his invaluable comments and guidance towards the success of this report. Above all, I thank our Almighty God for enabling me to overcome all the challenges up to the completion of this report.

DEDICATION

I dedicate this report to my family for their encouragement, patience, moral and financial support, which they have always accorded me throughout the period of this research report.

ABSTRACT

The small and micro enterprises (SMEs) have to date remained the driving engines of several countries including those in the European Union (EU), where they make up 57.4% of value added in the non-financial sector. In South Africa, they contribute over 36% to the country's Gross Domestic Product (GDP). Locally, these establishments account for 92.2% of employment in Kenya. In spite of this, performance of the SMEs in a majority of the counties have not been that robust with over 71% of them closing down in their third anniversaries. This has led to several interventions from state and non state actors including their preferential treatment in public procurement activities. However, there is little information on success of these interventions on the performance of the SMEs in the country. Hence, the purpose of this study was to assess the contribution of public procurement access on the financial performance of small and micro enterprises in Homa Bay County, Kenya. Specific objectives were to; establish the extent to which tendering costs; winning a tender and public procurement regulations contribute to the financial performance of SMEs in the CBD of Homa Bay Town. The study was anchored on the contingency theory and adopted a descriptive survey design. Target population was 350 SMEs in the CBD of Homa Bay Town. Sample size was 187 and a total of 191 questionnaires were received back. Primary data was obtained through structured questionnaires. Reliability test was ascertained through Cronbach's Alpha determination at a coefficient of 0.7 and above. Face, construct and content validity tests were done using expert reviewers. Descriptive analysis revealed that mean for amount incurred and if the amount was justified were found to be 4.0681 and 3.8586 respectively meaning that majority of the respondents agreed that tendering costs contribute to the financial performance to a high extent. Contract value=4.1047 and Number of contracts= 3.6911 implying that majority of the respondents felt that winning a tender contribute to the financial performance to a high extent. Public Procurement Regulations contribute to the financial performance to a little extent (no bribery mean=2.2304, justified pay period mean=1.8848). Based on conclusion that tendering costs and winning a tender contribute to the financial performance to a high extent, the study recommends that devolved units should give tendering costs prominence since they contribute highly to financial performance. The study recommends that devolved units should give winning a tender due consideration since it contributes highly to financial performance. The study recommends that devolved units should work on ways of adjusting public procurement regulations since it contributes to their financial performance to a little extent. The study would be of great significance to devolved governments since they would know the extent of implanting tendering costs, winning tenders and public procurement regulations in order to improve on their financial performance.

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LIST OF ABBREVIATIONS

CBD	Central Business District
EU	European Union
GDP	Gross Domestic Product
KNBS	Kenya National Bureau of Statistics
OECD	Organization for Economic Cooperation and Development
SMEs	Small and Micro Enterprises

OPERATIONAL DEFINATION OF TERMS

Contracts Won	:This refers to the number and values of contracts awarded to the small and micro-enterprises (SMEs)
Financial Performance	: Financial performance refers to the monetary measure of an organization's operations and achievements
Micro Enterprises	:These refer to non-subsidiary, independent firms that have at most 10, or in some cases, 5 employees
Public Procurement Access	:This will be conceptualized in terms of contracts won, Tendering Costs and Public Procurement Regulations
Public Procurement Regulations	: These refer to the basic principles that guide procurement practice in a country
Small Enterprises	: Refer to non-subsidiary, independent firms with fewer than 50 employees
Tendering Costs	: This refers to the costs SMEs incurs when in the process of bidding for tenders and contracts in public entities

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CHAPTER ONE

INTRODUCTION

This chapter presents the background of the study, statement of the problem, objectives of the study, research questions, scope of the study, justification of the study, and the conceptual framework.

1.1 Background of the Study

Small enterprises refer to non-subsidary, independent firms with fewer than 50 employees while micro enterprises are non-subsidary, independent firms that have at most 10, or in some cases, 5 employees (OECD, 2005). Despite this, the Small and Micro Enterprises (SMEs) have to date remained the driving engines of several economies across the globe. On the same note, and in a number of countries in the European Union (EU), SMEs make up 99.8% of all enterprises, 57.4% of value added, and 66.8 % of employment in the non-financial sector (Muller, Devnani, Julius, Gagliardi, & Marzocchi, 2016). In South Africa, they contribute 36% to the country's Gross Domestic Product (GDP) (GERA, 2017). Locally, and according to KNBS (2017), micro establishments account for 92.2% of employment in Kenya.

In spite of the aforementioned, the financial performance of SMEs in a majority of the counties in Kenya including those in the central business district of Homa Bay Town, Homa Bay County have not been that robust. This is according to the Kenya National Bureau of Statistics 2017 report, in which 71% of the SMEs close shop in their third anniversaries due to shortage of operating funds among other factors. This has led to several calls from both the state and none state actors on the need to improve on their performance through a number of interventions including their preferential treatment in public procurement for the benefit of the country's general economy at large.

On the same note, a number of studies including Afande (2015) and Nduta, Ayuma, langat, and Yego (2015) exist on SME access to public procurement opportunities in Kenya. Moreover and in their study, Gitari and Kabare (2014) established that lower competency level of the tender committee members, weak enforcement of procurement laws and costs incurred during tendering and execution of the contracts discourage the SMEs from participating in public procurement. However, and to the best of the researcher's knowledge, there is no study that has evaluated the contribution of tendering costs on the financial performance of SMEs in Kenya.

Empirical literature also exists on the contribution of public procurement to the success of small and medium enterprises. Huka (2016) assessed SMEs' awareness and participation in public procurement opportunities, the extent of SMEs participation, winning rate and its awareness on public procurement opportunities and whether technical condition, financial conditions and evaluation criteria are fair for SMEs to participate in public procurement and win tenders. On the other hand, Ferraz, Finan, and Szerman (2015) tested if the added demand from government improved the performance of winning firms in Brazil. Results indicated that winning a contract increased firm growth (as measured by size) by 2.2%, and that 93% of subsequent new hires had not been formally employed previously. However, it is still unknown the contribution of winning a tender on the profit levels of SMEs in Kenya.

Studies have also been conducted on the influence of government policies on the performance and growth of SMEs. Afande (2015) in his study observed that the existing procurement regulations in Kenya make it difficult for upcoming SMEs to compete with the established players in public procurement. This corroborates with the findings of Gitari and Kabare (2014). Further, Nduta et al. (2015) found a negative correlation between regulatory requirements and youth participation in public procurement. On the other hand, Dut (2015) in his study established that promotion policies of local government for private firms are among the factors that affect the SME's performance. Nonetheless, empirical literature is scanty on the contribution of public procurement regulations on the financial performance of small and micro enterprises in Kenya.

It is against this background that the proposed study intends to establish the contribution of public procurement access on financial performance in the context of the SMEs in the central business district (CBD) of Homa Bay Town, Homa Bay County, Kenya. Homa Bay County provides a good case for this research study as its trade and economic agenda has mainly been driven by the SMEs, which continue to employ a vast majority of the youth and the disadvantaged groups. Thus, an evaluation of the financial performance of small and micro enterprises including the role of the various government interventions in boosting their soundness was critical not only for their own survival but was also important to the well-being of the country's economic growth in general and Homa Bay County in particular.

1.2 Statement of the Problem

The small and micro enterprises (SMEs) have to date remained the driving engines of several countries including those in the European Union (EU), where they make up 57.4% of value added in the non-financial sector. In South Africa, they contribute over 36% to the country's Gross Domestic Product (GDP). Locally, these establishments account for 92.2% of employment in Kenya. In spite of the aforementioned, the performance of the SMEs in a majority of the counties in the country including those in the central business district (CBD) of Homa Bay Town, Homa Bay County have not been that robust with over 71% of them closing down in their third anniversaries. This has led to several interventions from both the state and none state actors including their preferential treatment in public procurement activities. However, there is little information on the success of these interventions on the performance of the SMEs in the country. It is on this basis that this study intended to fill this information gap through an empirical assessment of the contribution of public procurement access on the financial performance of small and micro enterprises in Homa Bay County, Kenya.

1.3 Objectives of the Study

The study sought to establish the contribution of public procurement access on the financial performance of SMEs in Homa Bay County, Kenya. Specific objectives were to:

1. Establish the extent to which tendering costs contribute to the financial performance of SMEs in the CBD of Homa Bay Town.
2. Determine the extent to which winning a tender contribute to the financial performance of SMEs in the CBD of Homa Bay Town.
3. Determine the extent to which public procurement regulations contribute to the financial performance of SMEs in the CBD of Homa Bay Town.

1.4 Research Questions

The study was guided by the following research questions:

1. To what extent does tendering costs contribute to the financial performance of SMEs in the CBD of Homa Bay Town?
2. To what extent does winning a tender contribute to the financial performance of SMEs in the CBD of Homa Bay Town?

3. To what extent do public procurement regulations contribute to the financial performance of SMEs in the CBD of Homa Bay Town?

1.5 Scope of the Study

The study relates to Small and Micro Enterprises. It was limited to the contribution of public procurement access on the financial performance of the small and micro enterprises in Kenya. The study will be undertaken in the context of SMEs in the Central Business District (CBD) of Homa Bay County, Kenya. Homa Bay County provides a good case for this research study as its trade and economic agenda has mainly been driven by the SMEs, which continue to employ a vast majority of the youth and the disadvantaged groups.

1.6 Justification of the Study

This study is justified on the need to assess empirically the success of the various government efforts in improving the financial performance of the SME sub-sector in the country. Further, there is scarcity of empirical literature on the contribution of public procurement access including tendering costs, winning of a tender and public procurement regulations on the financial performance of SMEs in Homa Bay County, Kenya.

1.7 Conceptual Framework

In the study, public procurement access as the independent variable was conceptualized in terms of the tendering costs, contracts won and public procurement regulations. On the other hand, the SMEs financial performance was the dependent variable measured in terms of profit levels of the SMEs. On the same note, it is posited that the public procurement access factors have a significant contribution on the SMEs financial performance in line with the contingency theory of organizational structure. This relationship is presented as follows:

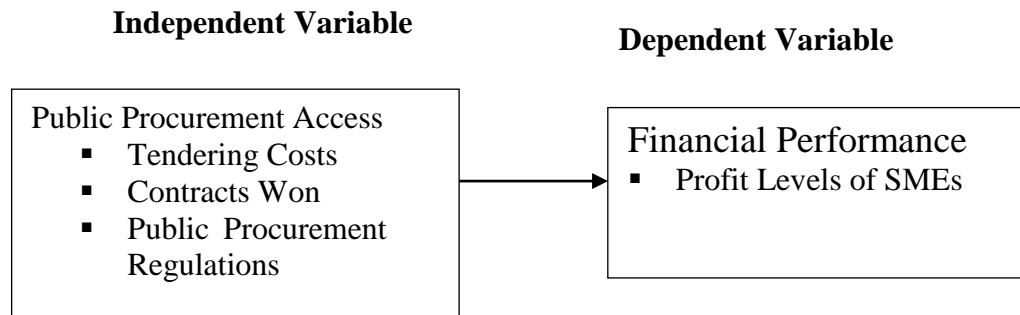


Figure 1.1: Public Procurement Access and SMEs Financial Performance Relationship

Source: self-conceptualization

CHAPTER TWO

LITERATURE REVIEW

This chapter focuses on the theory on which the study is built on, the study concepts and the comparative empirical literature which helps to explain the study gaps.

2.1 The Theoretical Framework

2.1.1 The Contingency Theory

The contingency theory, as originated by such theorists as Burns and Stalker (1961), Lawrence and Lorsch (1967), Perrow (1970) and Galbraith (1973) is based on the premise that there is no universally appropriate organizational structure that applies equally to all organisations. This is due to a number of contextual factors including technological adoption and the surrounding environment. This in turn explains the differences in the performance from one organization to another.

Thus, this theory provides a basis for linking public procurement access factors such as tendering costs, winning a contract and public procurement regulations with the financial performance of the Small and Micro Enterprises (SMEs) in Kenya. The aforementioned factors will be taken as the contextual factors affecting the structure of the SMEs and hence, their profit levels.

2.1.2 Tendering Cost

Tendering costs refers to the costs SMEs incurs when in the process of bidding for tenders and contracts in public entities. They include cost associated with bid preparation and proposal costs where the bid bond is set as 2% of the estimated value of contract. These costs are always largely fixed in nature as they do not change much with the value of the contracts. Due to them being fixed in nature, the tendering costs do pose greater burdens on SMEs (Gitari & Kabare, 2014) and thus might affect their financial performance. In addition, the tender payment period might also affect the cash flows of the small and micro-enterprises.

2.1.3 Contracts Won

The number and value of contracts won by the SMEs might also impact on their cash flow positions. On one hand, some contracts might require a lot of resources on the part of the SMEs in order to fully comply and or put them into implementation. This in turn will be at a cost since the SMEs are always not financially stable and thus

might force them to borrow from the banks and micro finance institutions at higher interest rates. On the other hand, the contract awarded might not require a lot of cash commitments by the SMEs and in turn might have higher pay off thus positively influencing on their financial performance. In their study, Ferraz et al. (2015) found that winning a contract increased SMEs growth (as measured by size) by 2.2 percentage points.

2.1.4 Public Procurement Regulations

These refer to the basic principles that guide procurement practice in a country. They include the requirements needed by the SMEs to participate in public procurement in terms of necessary qualifications capability, experience, resources, equipment and facilities to provide what is being procured; the person should have the legal capacity to enter into a contract for procurement; and the person shouldn't be insolvent, in receivership, bankrupt or in the process of being wound up and is not the subject of legal proceedings relating to the foregoing. Regulations guard against abuse of government resources, however, they may act as barriers to the SMEs. In addition, and according Afande (2015), a weak public procurement 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.

2.1.5 Financial Performance

Financial performance refers to the monetary measure of an organization's operations and achievements. In most cases it is always measured in terms of the profits made or losses incurred by a firm over a given trading period. Accordingly, the theory of the firm argues that the sustainability of each and every commercial organization is largely dependent on their level of profitability. In addition, profits are an important contributor to the economic development of a country through taxation and employment and thus the need for business enterprises to be profitable, sound and stable at all times. This is indeed true for the small and micro enterprises (SMEs). However, the profit levels of organizations vary across the globe due to several contextual factors that might influence on their structures and thus their financial performance. It is on this basis that this study intends to assess the contribution of

public procurement access on the financial performance of SMEs in Homa Bay County, Kenya.

2.2 Empirical Literature

2.2.1 Tendering costs and financial performance

Nduta et al. (2015) assessed the factors affecting youth participation in public procurement. Descriptive and inferential statistics were used. A population of 345 youth owned enterprises operating within Mombasa County were used with a sample size of 135 enterprises. The study adopted stratified and systematic random sampling as well as snowballing data collection techniques. Questionnaires were used to obtain data from the select sample from which 95 responses were obtained. Pearson's correlation between youth participation with awareness and finances was .600 and .510 respectively. Whereas Patronage perception and Regulatory requirements had a negative correlation of - .445 and -.260 respectively with youth participation. Multiple linear regression was used to analyse the relations between the variables at a 0.05 significance level. The model suggested that 77.7% of youth participation could be explained by the combination of the four selected independent variables.

Afande (2015) examined the constraints to small and micro enterprises participation in public procurement in Kenya. 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. In addition, the framework makes it difficult for upcoming SMEs to compete with the established players thus discouraging their participation. The conditions for tendering are also not the same for each tenderer and there are ethical malpractices sighted during the process. Further, SMEs encounter financial challenges which include financial regulations and shortage of own financial resources. Information on public procurement and tendering to the Small and Micro Enterprises is not adequately available as most respondents were not aware of its existence.

Gitari and Kabare (2014) sought to investigate the factors affecting access to public procurement opportunities by SMEs in public secondary schools in Limuru Sub-County, Kenya. The study used survey design. The target population was 189 tender

committee members in 21 public secondary schools. Stratified random technique was used to sample the schools. Simple random technique was used to select 65 respondents, 55 of whom returned the questionnaires. The quantitative data was analysed by use of descriptive and inferential statistics. The study used Pearson's correlation test (r) and alpha value p to establish the relationship between the dependant and the independent variables. The study established that competence level of tender committee members is too low and is a big challenge during award of tenders to suppliers, there is weak enforcement of procurement laws in public secondary schools and costs incurred during tendering and execution of the contracts discourage the SMEs from participating in procurement opportunities in public secondary schools.

In review of the above literature, a number of studies including Afande (2015) and Nduta et al. (2015) exist on SME access to public procurement opportunities in Kenya. Moreover and in their study, Gitari and Kabare (2014) established that lower competency level of the tender committee members, weak enforcement of procurement laws and costs incurred during tendering and execution of the contracts discourage the SMEs from participating in public procurement. However, and to the best of the researcher's knowledge, there is no study that has evaluated the contribution of tendering costs on the financial performance of small and micro-enterprises in Homa Bay County, Kenya. Hence, this research study will be undertaken to fill the gap.

2.2.2 Winning a tender and financial performance

Huka (2016) examined the contribution of public procurement on SMEs development in Tanzania. Cross sectional research design was used. Purposive sampling technique was used to pick a sample of 50 SMEs owners in Moshi Municipality. Data were analyzed through applying interpretive and reflexive qualitative approaches while quantitative techniques involved utilization of descriptive statistics. The findings indicate that, SMEs owners are aware of public procurement opportunities and they also participate in applying for these opportunities despite the fact that the winning rate is very low. It was argued that the low winning rate was due to unfavourable technical conditions, unfavourable financial conditions, as well as unfair evaluation criteria demanded by the Tanzanian Public Procurement Act 2011.

Ferraz et al. (2015) examined the effects of public procurement on the growth of small and medium enterprises in Brazil. The study uses procurement auctions by Brazil's federal government to test if the added demand from government improved the performance of winning firms. Results indicated that winning a contract increased firm growth (as measured by size) by 2.2 percentage points in that quarter, and that 93 percent of subsequent new hires had not been formally employed previously. These growth effects persisted beyond the length of the government contracts.

In summary, empirical literature including Huka (2016) exist on the assessment of SMEs' awareness and participation in public procurement opportunities, the extent of SMEs participation, winning rate and its awareness on public procurement opportunities and whether technical condition, financial conditions and evaluation criteria are fair for SMEs to participate in public procurement and win tenders. In addition, Ferraz et al. (2015) has tested empirically if the added demand from government improved the performance of winning firms in Brazil. Results indicated that winning a contract increased firm growth (as measured by size) by 2.2%, and that 93% of subsequent new hires had not been formally employed previously. However, it is still unknown empirically, the contribution of winning a tender on the profit levels of SMEs in Homa Bay County, Kenya and thus the basis of this research.

2.2.3 Public procurement regulations and financial performance

Dut (2015) investigated how SME's local business environment in Vietnam affects its performance. They used a survey data from 63 manufacturing and service SMEs located in three provinces of the Mekong Delta within the period of 2011 and 2012. Using fixed effect and random effect models, the empirical results revealed that local government's favour policies for private firms and labour force have positive effects on SMEs' performance. The results revealed that although bribery is positively related to SME's performance, this relation becomes negatively when the level of bribe is high.

Afande (2015) examined the constraints to small and micro enterprises participation in public procurement in Kenya. 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. In addition, the framework makes it difficult for upcoming SMEs to compete with the established players thus discouraging their participation. The conditions for tendering are also not the same for each tenderer and there are ethical malpractices sighted during the process. Further, SMEs encounter financial challenges which include financial regulations and shortage of own financial resources. Information on public procurement and tendering to the Small and Micro Enterprises is not adequately available as most respondents were not aware of its existence.

Nduta et al. (2015) assessed the factors affecting youth participation in public procurement. Descriptive and inferential statistics were used. A population of 345 youth owned enterprises operating within Mombasa County was used with a sample size of 135 enterprises. The study adopted stratified and systematic random sampling as well as snowballing data collection techniques. Questionnaires were used to obtain data from the select sample from whom 95 responses were obtained. Pearson's correlation between youth participation with awareness and finances was .600 and .510 respectively. Whereas Patronage perception and Regulatory requirements had a negative correlation of - .445 and -.260 respectively with youth participation. Multiple linear regression was used to analyse the relations between the variables at a 0.05 significance level. The model suggested that 77.7% of youth participation could be explained by the combination of the four selected independent variables.

Gitari and Kabare (2014) sought to investigate the factors affecting access to public procurement opportunities by SMEs in public secondary schools in Limuru Sub-County, Kenya. The study used survey design. The target population was 189 tender committee members in 21 public secondary schools. Stratified random technique was used to sample the schools. Simple random technique was used to select 65 respondents, 55 of whom returned the questionnaires. The quantitative data was analysed by use of descriptive and inferential statistics. The study used Pearson's correlation test (r) and alpha value p to establish the relationship between the dependant and the independent variables. The study established that competence level of tender committee members is too low and is a big challenge during award of tenders to suppliers, there is weak enforcement of procurement laws in public secondary schools and costs incurred during tendering and execution of the contracts

discourage the SMEs from participating in procurement opportunities in public secondary schools.

The empirical studies above have been conducted on government policies and SMEs. In addition, Afande (2015) in his study observed that the existing procurement regulations in Kenya make it difficult for upcoming SMEs to compete with the established players in public procurement. This corroborates with the findings of Gitari and Kabare (2014). Further, Nduta et al. (2015) found a negative correlation between regulatory requirements and youth participation in public procurement. On the other hand, Dut (2015) in his study established that promotion policies of local government for private firms are among the factors that affect the SME's performance. Nonetheless, empirical literature is scanty on the contribution of public procurement regulations on the performance of SMEs in Homa Bay County, Kenya and thus the basis of this research.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter presents the research design, data, data collection methods and analysis techniques to be applied in the proposed research.

3.1 Research Design

This research used descriptive survey design. According to Sekaran and Bougie (2013), descriptive study design helps to ascertain and describe the characteristics of the study variables as they exist. This research design is chosen as it will be helpful in gathering information and data on opinions of SMEs through administering pre-set questions or questionnaire to a selected group of individuals called participants in line with the observations of Orodho (2003).

3.2 The Study Area

The study was conducted in the central business district (CBD) of Homa Bay Town, Homa Bay County. Homa Bay County lies between latitude 0o15' South and 0o52' South, and between longitudes 34o East and 35o East. The county covers an area of 4,267.1 Km² inclusive of the water surface which on its own covers an area of 1,227 km². The county is located in South Western Kenya along Lake Victoria where it borders Kisumu and Siaya counties to the North, Kisii and Nyamira counties to the East, Migori County to the South and Lake Victoria and the Republic of Uganda to the West.

3.3 Target Population

The population of the study comprised of all the 350 owners of SMEs registered by the County Government of Homa Bay and conducting business in the CBD as per record in Department of trade Homa Bay County.

3.4 Sample Size and Sampling Technique

The study used Yamane formula to determine a representative sample. This is because the formula is ideal for sample size determination in situations where the target population is either large or small because it gives a representative sample size at a reliability of 95% confidence level (Ngechu, 2004). The Yamane formula adopted is as stated below;

$$n = \frac{N}{[1 + N(\epsilon)^2]}$$

Where n = sample size; N = population size; and ϵ = allowable error. Ngechu (2004), considers confidence level at 95% with 5% as allowable error. When using total population of 350 and allowable error of 5%, the sample size was calculated as follows:

$$n = \frac{350}{[1 + 350(0.05)^2]} = 187$$

Hence, the sample size was 187 respondents.

3.5 Data Type and Source

The study used primary data. The data was collected using structured questionnaires which was administered to the respondents (see Appendix V).

3.5.1 Instrument Validation and Reliability Test

Expert opinion was sought on the data collection instrument. This was through the researcher's supervisor. This in turn helped in checking face, construct and content validity. Data collection instrument was also pretested on 10 conveniently chosen respondents to check for reliability. Reliability was then ascertained through Cronbach's Alpha determination at a coefficient of 0.7 and above.

3.6 Data Analysis and Presentation

Descriptive statistics such as the mean, percentages, standard deviation and frequencies was used to analyse the study objectives. Results were then presented in tables and graphs.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

This chapter presents the descriptive statistics, results and discussions on each of the study objectives

4.1 Descriptive Statistics

The study sought to establish the contribution of public procurement access on the financial performance of SMEs in Homa Bay County, Kenya. The independent variable were tendering costs contribution, winning a tender contribution and public procurement regulations contribution; to the financial performance of SMEs in the CBD of Homa Bay Town. The descriptive results were presented in table 4.1 below:

Table 4.1: Descriptive Statistics on contribution of public procurement access on the financial performance

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
Tendering costs	191	4.00	1.00	5.00	3.9634	.64377	.414
Winning Tender	191	4.00	1.00	5.00	3.8979	.67184	.451
Public Procurement Regulations	191	4.00	1.00	5.00	2.0576	.91008	.828
ValidN (listwise)	191						

Source: Research Data

From table 4.1 above, it is clear that tendering costs contribute to financial performance to a high extent (mean=3.9634) with small variance of 0.414 and range being high extent (range=4.00). Winning a tender contribute to financial performance to a high extent (mean=3.8979) with small variance of 0.451 and the range being high extent (range=4.00). Public procurement regulations contribute to financial performance to a little extent (mean=2.0576) with slightly higher variance of 0.828 and the range being high extent (range=4.00).

4.2 The extent to which tendering costs contribute to the financial performance

Objective one sought to establish the extent to which tendering costs contribute to the financial performance of SMEs in the CBD of Homa Bay Town.

To actualize the objective, the researcher posed the following statements to the respondents to rank their level of extent to which they contribute to financial

performance on a 5-point likert scale i.e **Key:** 5- Very High Extent 4- High Extent 3- Moderate Extent 2- Little Extent 1- Very Little Extent:

There was an amount incurred by the business in tendering for goods and or services in government institutions and if the amount incurred in tendering for goods and or services was justified based on the business profits.

The results on whether tendering costs contribute to the financial performance were presented in table 4.2 below:

Table 4.2: The extent to which tendering costs contribute to the financial performance

		Amount Incurred	Justified Amount
N	Valid	191	191
	Missing	0	0
Mean		4.0681	3.8586
Std. Deviation		.71124	.77861
Variance		.506	.606
Skewness		-1.163	-1.168
Std. Error of Skewness		.176	.176
Kurtosis		3.485	2.074
Std. Error of Kurtosis		.350	.350
Range		4.00	4.00

Source: Research Data

From table 4.2 above, it is clear that for mean for the amount incurred and if the amount was justified were found to be 4.0681 and 3.8586 respectively meaning that majority of the respondents agreed that tendering costs contribute to the financial performance to a high extent. Moreover, the variance was found to be 0.71124 and 0.77861 respectively implying that the deviations among the responses were very minimal. The distributions of the responses were negatively skewed implying that most of the responses were higher than the mean response for both cases.

The findings contradicts Afande (2015) who 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. In addition, the framework makes it difficult for upcoming SMEs to compete with the established players thus discouraging their participation. It further disagrees with Gitari and Kabare (2014)

who established that competence level of tender committee members is too low and is a big challenge during award of tenders to suppliers, there is weak enforcement of procurement laws in public secondary schools and costs incurred during tendering and execution of the contracts discourage the SMEs from participating in procurement opportunities in public secondary schools.

4.3 The extent to which winning a tender contribute to the financial performance

Objective two sought to determine the extent to which winning a tender contribute to the financial performance of SMEs in the CBD of Homa Bay Town. To actualize the objective, the researcher posed the following statements to the respondents to rank their level of extent to which they contribute to financial performance on a 5-point likert scale i.e **Key:** 5- Very High Extent 4- High Extent 3-Moderate Extent 2- Little Extent 1- Very Little Extent:

The value of the contract won had an influence on the business profits and the number of contracts awarded had an influence on the business profits.

The descriptive results on the extent to which winning a tender contribute to the financial performance were presented in table 4.3 below:

Table 4.3: The extent to which winning Tender contributes to the Financial Performance

	N	Mean	Variance	Skewness	Kurtosis			
	Statistic	Statistic	Std. Error	Statistic	Statistic	Std. Error	Statistic	Std. Error
Contract Value	191	4.1047	.04130	.326	-.848	.176	4.951	.350
Number of Contracts	191	3.6911	.07548	1.088	-1.208	.176	1.036	.350
Valid N (listwise)	191							

Source: Research Data

From table 4.3 above, it is clear that out of the 191 responses received, the mean for contract value was 4.1047 and the mean for number of contracts was 3.6911 implying that majority of the respondents felt that winning a tender contribute to the financial performance to a high extent for both contract value and number of contracts. Moreover, the variance was very minimal, the distributions were both negatively skewed ($SK_1=-0.848$, $SK_2=-1.208$) implying that most of the responses were higher than the mean response for both cases. However contract value was platykurtic ($K=4.951$) while number of contracts were mesokurtic ($K1.036$).

The finding that winning a tender contribute to financial performance to a high extent contradicts the findings of Huka (2016) who examined the contribution of public procurement on SMEs development in Tanzania. The findings indicate that, SMEs owners are aware of public procurement opportunities and they also participate in applying for these opportunities despite the fact that the winning rate is very low. It was argued that the low winning rate was due to unfavourable technical conditions, unfavourable financial conditions, as well as unfair evaluation criteria demanded by the Tanzanian Public Procurement Act 2011. The findings support those of Ferraz et al. (2015) who examined the effects of public procurement on the growth of small and medium enterprises in Brazil. Results indicated that winning a contract increased firm growth (as measured by size) by 2.2 percentage points in that quarter, and that 93 percent of subsequent new hires had not been formally employed previously. These growth effects persisted beyond the length of the government contracts.

4.4. The Extent to which public procurement regulations contribute to the financial performance

Objective three sought to determine the extent to which public procurement regulations contribute to the financial performance of SMEs in the CBD of Homa Bay Town. To actualize the objective, the researcher posed the following statements to the respondents to rank their level of extent to which they contribute to financial performance on a 5-point likert scale i.e **Key:** 5- Very High Extent 4- High Extent 3- Moderate Extent 2- Little Extent 1- Very Little Extent:

There were no kick-backs in relation to winning the tender or getting paid on time and The payment period as per the contract was justified based on the business profit levels. The results were presented in table 4.4 below:

Table 4.4: The extent to which public procurement regulations contribute to the financial performance

	N	Mean	Std. Deviation	Variance	Skewness	Kurtosis		
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
No Bribery	191	2.2304	1.02048	1.041	.875	.176	.415	.350
Justified Pay Period	191	1.8848	.98265	.966	1.243	.176	1.202	.350
Valid N (listwise)	191							

Source: Research Data

From the results above, it is clear that Public Procurement Regulations contribute to the financial performance to a little extent (no bribery mean = 2.2304, justified pay period mean = 1.8848). To add, the variance was slightly higher (no bribery variance = 1.041, justified pay period variance = 0.966), indicating that there was slightly higher dispersion among the responses. The distributions were positively skewed with no bribery being leptokurtic while justified pay period being mesokurtic.

The findings that Public Procurement Regulations contribute to the financial performance to a little extent contradicts those of Dut (2015) who investigated how SME's local business environment in Vietnam affects its performance. The results revealed that although bribery is positively related to SME's performance, this relation becomes negative when the level of bribe is high. It further disagrees with Afande (2015) who examined the constraints to small and micro enterprises participation in public procurement in Kenya. They assert that information on public procurement and tendering to the Small and Micro Enterprises is not adequately available as most respondents were not aware of its existence. The results further disagree with Nduta et al. (2015) who assessed the factors affecting youth participation in public procurement. Whereas Patronage perception and Regulatory requirements had a negative correlation of - .445 and -.260 respectively with youth participation. Multiple linear regression was used to analyse the relations between the variables at a 0.05 significance level. The model suggested that 77.7% of youth participation could be explained by the combination of the four selected independent variables.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

This chapter provides a summary of research findings, their conclusions and recommendations.

5.1 Summary of Findings.

Objective one sought to establish the extent to which tendering costs contribute to the financial performance of SMEs in the CBD of Homa Bay Town. The research established that tendering costs contribute to the financial performance of SMEs in the CBD of Homa Bay Town to a high extent.

Objective two sought to determine the extent to which winning a tender contribute to the financial performance of SMEs in the CBD of Homa Bay Town. The study found that winning a tender contribute to financial performance to a high extent.

Objective three sought to determine the extent to which public procurement regulations contribute to the financial performance of SMEs in the CBD of Homa Bay Town. The study established that public procurement regulations contribute to the financial performance of SMEs in the CBD of Homa Bay Town to a little extent.

5.2 Conclusion of the study

Based on the summary that tendering costs contribute to the financial performance of SMEs in the CBD of Homa Bay Town to a high extent, the study concludes that tendering costs contribute to the financial performance to a high extent.

Based on summary of objective two that winning a tender contribute to financial performance to a high extent, the study concludes that winning a tender contribute to the financial performance to a high extent.

Based on the summary of objective three that public procurement regulations contribute to the financial performance of SMEs in the CBD of Homa Bay Town to a little extent, the study concludes that public procurement regulations contribute to the financial performance to a little extent.

5.3 Recommendations of the Study

Based on the conclusion that tendering costs contribute to the financial performance to a higher extent, the study recommends that devolved units should give a favourable tendering cost so that the SMEs should not find it as a financial burden.

Based on the study conclusion that winning a tender contributes to financial performance to a high extent, the study recommends that devolved units should ensure that SMEs are given considerations through reservation schemes so that they are able to win tenders which in return will boost their financial performance when they make profits.

5.4 Limitations of the Study

Many business owners have a negative attitude towards government tenders due to delayed payments. This made the researcher to encounter resistance and unwillingness to provide information by respondents during data collection. The researcher had to spend more time and money to collect data.

5.5 Suggestions for Further Research

The researcher suggested for further study because business is seasonal in nature and other respondents may have different opinions.

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APPENDICES

Appendix I: Letter of Introduction for Data Collection

C/O Department of Management Sciences
School of Business and Economics
Maseno University

Date.....

TO WHOM IT MAY CONCERN

Dear Sir/ Madam,

RE: ACADEMIC RESEARCH

I am a student at Maseno University, pursuing Master of Business Administration, Supply Chain Management option. As part of the requirements, I am carrying out this research entitled, “Contribution of Public Procurement Access on the Financial Performance of Small and Micro Enterprises (SMEs) in Homa Bay County, Kenya.” Please assist to answer the questions provided in the questionnaire. Your identity is not required and the information you provide will be treated in strict confidence.

Thank You.

Yours faithfully,

.....

Elizabeth Mbula Omusula
MBA/BE/6008/2016.

RESEARCH SUPERVISOR

Dr. John Mark Obura
Maseno University

Appendix II: Questionnaire for Respondents

Part A: Introduction and background

This questionnaire is intended to collect information on the contribution of public procurement access on the financial performance of small and micro enterprises (SMEs) in Homa Bay County, Kenya for which you are part of the sample. Please indicate your response by filling in the blank spaces or ticking (✓) where appropriate. The information given will be treated with confidence and will only be used for the purpose of this study

Part B: Demographic Information

1. **Gender:** Male Female
2. **Age:** Below 18 years Between 18-25 years
Between 25-36 years Between 36-45 years
Between 46-55 years Above 55 years
3. **Nature of business involved in:** Trade Service Manufacturing
4. **Number of years the business has been in operation:**
Less than 2 years 2-4 years 5-8 years
8-10 years More than 10 years
5. **Current position in the business:**
Owner Partners Manager
6. **Number of employees in the business:**
Less than 5 5-10 11-25 26-36
37-50 More than 50
7. **Profit level of the business:**
Very High High Moderate Low Very Low
8. **Academic qualification:**
KCSE Certificate Diploma
Bachelors Masters PhD

Part C: Participation in Public Procurement

1. Have you in any way tendered as a supplier for goods and or services either to the National Government or County Government? Yes No
2. If yes, have you ever been selected to supply goods and or services either to the National Government or County Government? Yes No
3. If yes, proceed to part D, E and F

Part D: Contribution of Tendering Costs on Financial Performance

Kindly rate the extent to which you agree with the following statements.

Interest Area	5	4	3	2	1
There was an amount incurred by the business in tendering for goods and or services in government institutions					
The amount incurred in tendering for goods and or services was justified based on the business profits					

Key: 5- Very High Extent 4- High Extent 3- Moderate Extent 2- Little Extent 1- Very Little Extent

Part E: Contribution of Winning a Tender on Financial Performance

Kindly rate the extent to which you agree with the following statements.

Interest Area	5	4	3	2	1
The value of the contract won had an influence on the business profits					
The number of contracts awarded had an influence on the business profits					

Key: 5- Very High Extent 4- High Extent 3- Moderate Extent 2- Little Extent 1- Very Little Extent

Part F: Contribution of Public Procurement Regulations on Financial Performance

Kindly rate the extent to which you agree with the following statements.

Interest Area	5	4	3	2	1
There were no kick-backs in relation to winning the tender or getting paid on time					
The payment period as per the contract was justified based on the business profit levels					

Key: 5- Very High Extent 4- High Extent 3- Moderate Extent 2- Little Extent 1- Very Little Extent

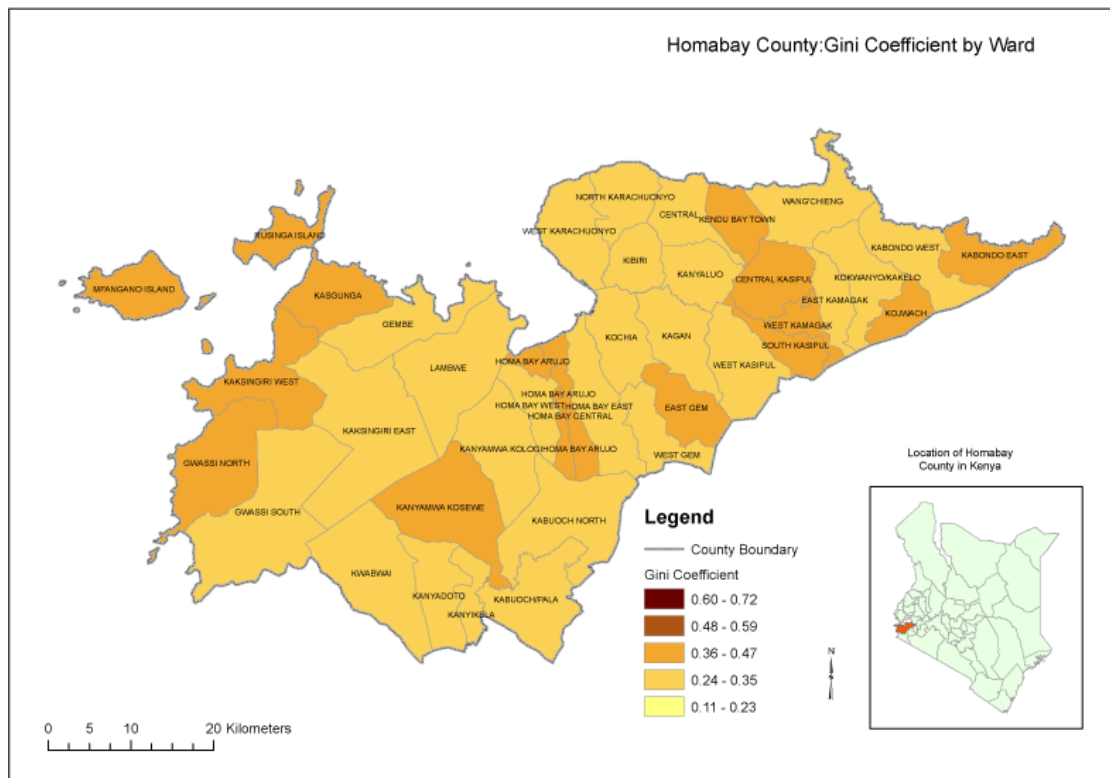
Appendix III: Proposed Budget

Particulars	Cost (KSH)
Stationery	6,000
Literature review and proposal writing	8,000
Data Collection	15,000
Data Analysis	10,000
Printing	6,000
TOTAL	45,000

Appendix IV: Work Schedule

PLANNED ACTIVITY	MONTH/ YEAR					
	ONE	TWO	THREE	FOUR	FIVE	SIX
Problem Identification						
Literature Review						
Proposal writing						
Proposal Presentation						
Data Collection and Entry						
Data Analysis						
Draft Project Presentation						
Final Project Presentation						
Submission of Project for Examination						

Appendix V: Map of Homa Bay County



Source: Homa Bay County Trade Office 2018