Challenges of Micro and Small Enterprises’ (MSEs) Capability on Participation in Public Procurement Market

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ABSTRACT
This study sought to investigate the challenges of micro and small enterprises (MSEs) capacity on participation in public procurement market in Kenya. The study was guided by Schumpeter’s Theory of Innovation, Theory of Social Change, Sociological Theories, Family Orientation Theory, Hayekian Knowledge Problem (HKP), Resource Based Theory, Theory of Perfect Competition, Decision Theory, and Contingency Theory. This study was a descriptive survey design with a population of about 519,385 MSEs in Nairobi County. The owner-managers of MSEs were the unit of analysis and were targeted for information because they are likely to be the decision makers in these businesses and are actively involved in their day to day operations. The study established that most MSEs have no experience in their lines of business and it is difficult for them to win tenders that require experience. Majority of MSE owners are not trained in procurement/supply chain management making it hard for them to do business in highly regulated and technical market like public procurement. The study established that majority of MSEs cannot compete favourably with established enterprises since many lack the necessary capacity and MSEs should enhance their business adequately in order to cope with many underlying challenges in the competitive markets.

Key words: Entrepreneurs, Capacity, Procurement, Market, Participation

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

The emergence of lively future empirical research developed by Hébert & Link (2008), Bruyat and Julien (2000), Casson (2003), Shane (2004), Blanchflower (2007), Jungwirth (2007), and Parker (2005, 2006, 2007), stresses the need for developing eclectic approaches aiming to allow us to gauge the entrepreneurship-firm size relationship. In this framework, aspects of human behavior, such as the leadership and psychology of an entrepreneur, and the organizational networks deserve further research. Although it has previously been pointed out that firms with higher level of human capital tend to have improved financial performance (Youndt et al., 2004) there is a caveat on the literature about the association between human capital and non-economic performance of firms. Baumol (2002) writes that the entrepreneur has the specific capability of creating a new market, by carrying out some test marketing or test ballooning, in order to learn about the characteristics of the market and to reveal consumers’ preferences. That is an example of how an entrepreneurial activity may transform uncertainty into risk, and that is the way Individual Entrepreneurship Capacity becomes seen in the market.
In this framework, organizational entrepreneurship capacity corresponds to the organizational factors that catalyze the combination of factors of production and result in the creation of sources of capital in the pursuit of entrepreneurial activities within a single firm or a single unit of the firm, that embrace multiple levels of Individual Entrepreneurship Capacity (Audretsch & Monsen, 2008). Chung and Gibbons (2007) stress the importance of two basic aspects of organizational culture: (i) the superstructure, and (ii) the socio-structure. The former is concerned with the ideology that is represented through the core beliefs, values, and dominant assumptions of the organization. The later includes the social capital whose constitution includes learning, information exchange, norms and sanctions. The proposal of Chung & Gibbons (2007) is the basis of the current proposal for a conceptual model, since we consider that basic aspects of organizational culture, along with human capital, play an influential role in determining Individual Entrepreneurship Capacity. Under a managerial and organizational framework, and linking different dimensions of human capital and organizational capital in our revisited conception of Individual Entrepreneurship Capacity within an SME, we propose to explore the relationships established between the dimensions of these types of capital, and the levels of non-economic and economic performance. This is particularly innovative since it is more usual to find examples of studies focused on economic performance in the existing literature on entrepreneurship. Therefore, this paper is a first attempt to identify the significant dimensions and variables of individual entrepreneurship capital that impact both on economic and non-economic performance of an SME. Micro and small enterprises cut across all sectors of the Kenya’s economy and provide one of the most prolific sources of employment not to mention the breeding ground for medium and large industries, which are critical for industrialization (RoK, 2005). According to the 2014 Economic survey, employment within the MSE sector accounts for 74.8% of the total person engaged in employment. This sector contributes up to 18.4% of the country’s GDP. MSES Sector is therefore not only a provider of goods and services but also a driver in promoting competition and innovation and enhancing the enterprise culture which is necessary for private sector development and industrialization (Republic of Kenya, 2014b). This means that MSEs’ performance and competition must therefore be increased if they are to effectively respond to the challenges of creating productive and sustainable employment opportunities and hence promoting economic growth and sustainable development in the country. Despite the significant role played by the sector, research has shown that it has continued to experience many binding constraints that inhibit the realization of its full potential (Wanjohi, 2012; Omiti et al., 2004; Ibeh 2004; Halloway & Ehui, 2002; Lapar et al., 2002). For example three out of five businesses fail within the first few months of their establishment (Kenya Bureau of statistics, 2007). Bowen, et al. (2009) observed that in Kenya 65.1% of the small enterprises fail within their first year of their operation. The failure of the MSES has mainly been attributed to simple management mistakes. Longenecker, (2006) assert that due to their small size, a simple management mistake is likely to lead to sure death of the small and micro-enterprise hence no opportunity for them to learn from their past mistakes. Otenyo-Matanda (2008) observes that in Kenya, many MSEs’ owners or managers lack managerial training and experience. The typical owner or managers of these businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept. Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. In lieu of this, a consequence of poor managerial ability is that MSE owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology. Further, studies carried out in Kenya by Mitullah (2008) and King & McGrath (2010) showed that majority of those who run MSES are ordinary lot whose educational background is lacking. Hence they may not be well equipped to carry out managerial routines for their enterprises. Although it might not be fully true that educational level of an individual entrepreneur will determine the level of entrepreneurial
skills one has, it is also logical to argue out that majority of those who would be subjected to rigorous training in the area of business management would make success in their businesses.

Many studies have been conducted in the past concerning the challenges facing MSEs in most parts of the country. However the studies are based on policy constraints, educational constraints, market opportunities for MSE and financial constraints on the part of the MSEs (Ngari, 2004; Omiti, Omolo, & Manyengo, 2004; and Matanda, 2008). However, there is no known study which has looked at the element of MSE capability vis-à-vis their participation in public procurement market in the country. This, therefore, calls for more research to be conducted in the area which the present study seeks to fill.

THEORETICAL REVIEW OF CAPACITY OF MSEs ON PARTICIPATION ON PROCUREMENT MARKETS

Schumpeter’s Theory of Innovation

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

In Bull et al (1995) perception, Schumpeterian model of the theory of entrepreneurship makes no attempt to deduce what the innovating entrepreneur does or how he or she can do better, neither does it make any pretence of constituting a piece of theoretical reasoning. Theoretical analysis only enters the discussion when Schumpeter turns the enhancement of profits made possible by innovation, which in turn, stimulates imitation that finally brings the flow of innovator’s profits to an end. The model shows why innovators must search constantly for yet further novelties in flow of profits. The innovator therefore introduces new products, introduce new production methods, open up new markets, discover new source of supply of raw materials and come up with new organizations. Much of the academic debate on entrepreneurship over the last quarter of a century or more has concerned itself with entrepreneurial, behavioral and personal traits (McClelland (2001); McClelland & Winter (2009); Fraboni & Saltstone (2010) and Gibb (2011). 

Theory of Social Change

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

SMEs’ Capability and Procurement Markets

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

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

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

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

RESEARCH METHODOLOGY
This study was a descriptive survey designed to establish the challenges of micro and small enterprises’ capacity in public procurement market in Kenya. Descriptive research studies are designed to obtain pertinent and precise information concerning the current status of phenomena and whenever possible to draw valid general conclusion from the facts discovered. Descriptive survey attempts to describe characteristics of subjects or phenomena, opinions, attitudes, preferences and perceptions of persons of interest to the researcher.

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

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

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

To answer the question of the respondents’ capability to effective participate in public procurement, it was established that a whopping 81.6% of the respondents have never attended any procurement related/supply chain management course or acquired any level of skills in that area. Only 18.4% of the respondents had attended some kind of training in procurement. For those who said they have been trained, their distribution was established as shown in Table 1 below.

Table 1: Level of Training in Procurement Related Courses

<table>
<thead>
<tr>
<th>Level of Training</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Certificate</td>
<td>17</td>
<td>8.2</td>
</tr>
<tr>
<td>Diploma</td>
<td>7</td>
<td>3.4</td>
</tr>
<tr>
<td>Bachelors Degree</td>
<td>5</td>
<td>2.4</td>
</tr>
<tr>
<td>Advanced Degree</td>
<td>9</td>
<td>4.3</td>
</tr>
<tr>
<td>No training</td>
<td>169</td>
<td>81.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>207</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The results in Table 1 indicate that a majority (81.6%) had no training at all in any procurement related area. Only 18.4% had some level of training. From the statistics, only 10.1% had at least some good level of professional qualifications on matters procurement. This is the only category that is believed to be well versed with tendering process and can guide their businesses in making informed decisions on matters procurement. Interesting majority 75.7% of those who had trained in procurement-related courses were sponsored by the NGOs, 16.2% were self sponsored and only 8.1% sponsored by the government. This implies that the government has done very little to equip MSEs with the necessary skills and build their technical capacity to be able to effectively participate in the public procurement market.

The findings concurs with those of Otenyo-Matanda (2008) who observed that in Kenya, many MSEs’ owners or managers lack managerial training and experience and many were found to be developing their own approach to management, through a process of trial and error. As a result, their management style was found to be more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept. Although this attitude was found to be a key strength at the start-up stage of the enterprise, it presented problems when complex decisions are needed. Therefore, many MSE owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology.

Similarly, 6 out of 8 chief procurement officers/managers who were interviewed in this study concur with the findings. According to the technocrats, the government is aware of the fact that most tenderers lack crucial procurement-related skills necessary to effectively participate in the public procurement market. However, they attribute this to the large number of MSEs in the country, lack of organization among MSEs themselves and their vast geographical distribution across the country which makes it difficult for the government to provide them with specialised programmes which would otherwise improve their business management skills in general and marketing skills in particular. However, some of the technocrat respondents were of the opinion that this should not be allowed to continue since MSEs play an important role in economic growth and development of the nation.

In order to establish the level of capability of the respondents in handling public procurement issues, a factor analysis was carried out on some aspects of public procurement. The study presents the analysis of the factors identified as challenges influencing effective participation of micro and small enterprises in public procurement in Kenya. The response given was based on the Likert Scale through which the respondents rated the extent to which they agreed with the given aspects which were indicators of the identified factors on a scale of 1 – 5 where 1 was strongly disagree and 5 was strongly agree. The items were subjected to factor analysis and the results obtained were as shown in the Table 2.
Table 2: Factor Analysis and Descriptive of identified factors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Analysis N</th>
</tr>
</thead>
<tbody>
<tr>
<td>One cannot effectively manage without tool</td>
<td>2.13</td>
<td>1.341</td>
<td>203</td>
</tr>
<tr>
<td>Management is critical for participation in Public procurement</td>
<td>1.87</td>
<td>.871</td>
<td>203</td>
</tr>
<tr>
<td>Those with education are likely to aggressive in public procurement</td>
<td>2.09</td>
<td>1.001</td>
<td>203</td>
</tr>
<tr>
<td>Enterprise with good network are likely to succeed in Public Procurement</td>
<td>1.85</td>
<td>1.224</td>
<td>203</td>
</tr>
<tr>
<td>Enterprise with innovative ideas succeed in public procurement</td>
<td>1.81</td>
<td>.841</td>
<td>203</td>
</tr>
<tr>
<td>Managers who delegate to skilled employees access public procurement</td>
<td>1.96</td>
<td>.949</td>
<td>203</td>
</tr>
<tr>
<td>Enterprises with well structured department get specialist</td>
<td>2.04</td>
<td>1.047</td>
<td>203</td>
</tr>
<tr>
<td>Well skilled employees enable enterprise access public procurement easily</td>
<td>1.98</td>
<td>.929</td>
<td>203</td>
</tr>
</tbody>
</table>

From Table 2, the factor analysis identified 8 (eight) underlying factors. The study established that management was critical for the participation of any enterprise in public procurement at a mean of 1.87 and SD of 0.871. The study also established that enterprises with innovative ideas also succeed in public procurement at a mean of 1.81 and SD of 0.041. The respondents strongly agreed that managers who delegate their authority and responsibilities to skilled employees access public procurement as well at a mean of 1.96 and SD of 0.949. The respondents agreed that well skilled employees in procurement department enable enterprises access public procurement easily with a mean of 1.98 and SD of 0.929. All the factors mention above had a mean value of less than two and a standard deviation SD less than one; indicating that the study results are reliable and an attempt to change the study units (sample) would result into no big difference in the findings from the current results.

Further, a majority (94.3%) of the participants who have benefited from some form of training on procurement related course or supply chain management viewed such trainings as having greatly improved their abilities to effectively participate in public procurement. This was corroborated by the procurement officers interviewed who indicated that that public procurement market is a highly regulated market which needs some form of training or capacity building to be able to understand its functioning. Procurement-related training is therefore a necessary ingredient for effective participation on MSEs in public procurement.

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

Factor analysis also established that management knowledge was critical for the participation of any enterprise in public procurement and that enterprises with innovative ideas also succeed in public procurement. Enterprises whose owners or employees are skilled in supply chain management were found to access public procurement more easily and stood high chances of winning tenders as compared to those that do not have such skills.

CONCLUSION
The study has established how MSEs’ capability hinders them from accessing government contracts in Kenya and draws conclusions as follows: most MSEs have no experience in their lines of business operations and hence it is difficult for them to win tenders that require many years of experience. Majority of the respondents have not attended any form of training in procurement/supply chain management and are unable to effectively participate in public procurement market which is highly regulated and technical. Management knowledge was found to be critical for the participation of any enterprise in public procurement and enterprises with innovative ideas also succeed in public procurement. Enterprises whose owners or employees are skilled in supply chain management stand a better chance to access public procurement more easily and win tenders as compared to those that do not have such skills. From the regression analysis, the study was able to prove that MSEs’ capability hinders them from accessing government contracts in Kenya.

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