

Constraints to Small and Micro Enterprises' Participation in Public Procurement in Kenya: A Case of Cleaning Services Industry in Nairobi Central Business 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 Micro Enterprises. However, Small and Micro Enterprises are sidelined from participating in public procurement despite their qualifications, sizes and level of production and despite this preferential treatment of Small and Micro Enterprises, comparative tallies of public contracts secured by Small and Micro Enterprises in Nairobi Central Business District against those secured by large enterprises are still very small. The study examined the constraints to Small and Micro Enterprises participation in public procurement. The study was guided by the following specific objectives: To assess the extent to which legal/regulatory framework constraints affect participation in public procurement by Small and Micro Enterprises in the cleaning industry in Kenya; To evaluate the extent which ethics affect participation in public procurement by Small and Micro Enterprises in the cleaning industry in Kenya; To examine the extent to which financial requirements constraints affect participation in public procurement by Small and Micro Enterprises in the cleaning industry in Kenya; and To investigate the extent to which information access constraints affect participation in public procurement Small and Micro Enterprises in the cleaning industry 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. The conditions for tendering are not the same for each tenderer and there are ethical malpractices sighted during the process. Small and Micro Enterprises 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. The research concluded that the existence of the legal framework makes it difficult for upcoming Small and Micro Enterprises to compete with the established players thus discouraging their participation. Ethical aspect hinders the Small and Micro Enterprises 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 Small and Micro Enterprises thus poor access to the little information availed to them.

Keywords: Public Procurement, Bidding, Small and Medium Enterprises, Tender, Corrupt and Fraudulent practices, Cleaning services.

ACRONYMS AND ABBREVIATIONS

CBS	Central Bureau of Statistics
CPAR	Country Procurement Assessment Review
GDP	Gross Domestic Product
GoK	Government of Kenya
ICT	Information and Communication Technology
ILO	International Labour Organization
IPR	Independent Procurement Review
IPV	Independent Private Value
LDCs	Less Developed Countries
MLHRD	Ministry of Labour and Human Resource Development
PPD	Public Procurement Directorate
PPDA, 2005	Public Procurement and Disposal Act, 2005
PPDGM	Public Procurement and Disposal General Manual
PPDR, 2006	Public Procurement and Disposal Regulations, 2006
PPOA	Public Procurement Oversight Authority
SME	Small and micro enterprises
SPSS	Statistical Package for Social Scientists

DEFINITION OF TERMS

The following term used in this study are defined as follows:

Central Government: Central Government refers to the entity that uses public resources to execute its service delivery to its citizens (Republic of Kenya, 1964)

Jua Kali: The term Jua Kali, literally means “hot sun” in Kiswahili referring to enterprises which carry out their businesses under the hot sun without adequate shelter or workshop space. In fact, even fully formalized small-scale firms, with substantial employment, refer to themselves as Jua Kali

Small and Micro Enterprises: Definition of Small and Micro Enterprises varies by country and is usually based on the number of employees, the value of assets and turnover. Generally, Small and Micro Enterprises in Kenya are defined using employment (paid and unpaid workers) as the basis. Micro enterprises have no more than 10 employees; a small enterprise with 11-50 employees and medium/large enterprises more than 50 employees (CBS *et al*, 1999) Thus this study adopts and SME definition that encompasses both formal and informal enterprises, employing 1-50 employees (Republic of Kenya, 2005)

Procurement: Procurement is defined as the process of acquiring goods, services or works, starting from needs identification to contract management and evaluation (Wittig, 1998). It may include rental, licenses, hire purchase, franchise and even tenancy by any contractual means. This definition of procurement includes acquisition activities as well as those activities before actual purchasing takes place as well as those activities after a purchase has occurred. In addition, procurement includes all logistical activities relating to the movement and control of goods and services through an organization as well as developing and evaluating bids, negotiation proposals, and presenting findings to elected officials (McCue & Gianakis, 2001)

Public Funds: The monetary resources that has been mobilized, accumulated and distributed through a budgetary process or any other extra budgetary funds including aid, taxes, credits and other revenues at the disposal of the central government (Republic of Kenya, 2001)

Public Procurement: Public procurement refers to acquisition of goods, services or works from suppliers to execute operations of the government (Republic of Kenya, 2005)

Supplier: Suppliers refers to that person or entity that has been contracted by the government to offer or supply a particular good, service or works (Republic of Kenya, 2005).

1.0 INTRODUCTION

1.1 Background of the Study

The importance of Small and Micro Enterprises (SMEs) sector as a potential supply market for public sector and national economy at large cannot be overemphasized. It has been generally recognized that SMEs play important roles in supporting national economic development. Such important roles of SMEs can be observed in a number of aspects including labour absorption, income generation and distribution, poverty alleviation, training ground for the development and upgrading entrepreneurship skills, and important vehicles for promoting forward and backward linkages in geographically and economically diverse sectors of the economy in many countries.

The importance and contribution made by small firms in an economy has attracted widespread attention from researchers from the time small business research gained significant momentum in the early 1970's (Rutherford & Weller, 2002). Work undertaken by Birch (1979) and Storey (1994), which gathered together the evidence from a wide range of studies has provided policy makers and commentators with evidence of the contribution that small firms make, the difficulties they experience and various attempts and reasoning for government intervention in the sector. The most frequent argument for small firms is that they are a source job creation (Storey, 1994). The particular presence or qualities of small firms makes them a chosen vehicle in a number of policy fields. For example, their flexibility has placed them at the centre of labour market and employment policy. They also make a major contribution to regional development and particularly, at local level, they may play a significant role in service provision enabling others to participate in the workforce (Hanley and O’Gorman, 2004). SMEs can broadly be defined as businesses in both formal and informal sectors, classified into farm and non-farm categories employing 1-50 workers. (Republic of Kenya, 2005). It is now widely recognized that SMEs have an important role to play in the growth and development of countries through job creation and distribution of the benefits of economic development (Central Bureau of Statistics, 1999). Even more importantly the sector can help boost productivity by increasing competitive pressure within the economy.

SME participation in public procurement has been used in several countries to create markets for their goods and services. However their participation is often plagued by a myriad of constraints including: competition from large firms, constraints in accessing information, low quality service and products due to financial constraints and finally, interference from scrupulous middle-men to then sub-contract to SMEs (Odhiambo & Kamau, 2003).

1.1.1 Public Procurement

Public procurement is broadly defined as the purchasing, hiring or obtaining by any contractual means of goods and services by the public sector (Odhiambo & Kamau, 2003). Other definitions have simply put it as “procurement by a procuring entity using public funds” (World Bank, 1995). In public procurement, economic results are measured against a more complex and long-term criteria, and must be transacted with other

considerations in mind such as integrity, accountability, transparency, national interest and effectiveness (Odhiambo & Kamau, 2003).

Public sector procurement can be broken down into two categories, namely project specific procurement and general consumable procurement. In project specific procurement, goods, works or services are sought for a particular initiative (e.g. a new road, a hospital, plant and equipment), whereas general consumable procurement relates to items that are required for a ministry or authority to perform its duties (e.g. fuel, stationery, vehicle parts, road maintenance, and security). The focus of the study was on general consumable procurement, as this is the area in which most SMEs are active. It is difficult to estimate the volumes and values of procured goods. It is understood that the Government of Kenya (GoK) procured about KSh. 300 billion worth of goods and services in the 2006 financial year. It is not clear if this includes parastatal and local authority procurement, as they are dependent in part on their own revenue streams. Interviews at district and local authority levels indicate that larger town/district procurement ranges from between KSh. 100 million to KSh. 500 million annually.

In its own way the current system is working. It is working broadly along prescribed formats, but in an inefficient manner. The public sector is engaging and procuring from SMEs and is receiving the sought-after goods, works and services. On a positive note, it appears that much of the general consumable procurement is done with the SMEs sector. If one were to look at the total number of transactions in a fiscal year, it is estimated that about 90% are with the SME sector. This will not apply to the total value of the transactions, as many large value infrastructural procurements distort the picture. An estimate of the value of transactions with SMEs could not however be made. If one considers procurement patterns on the provincial, district and local authority levels, it appears that about 55% of the value of the procurement is project specific procurement (i.e. larger procurements probably not with SMEs, and the balance is with the SMEs sector. If this pattern is repeated across public procurement, it suggests that at least KSh. 135 billion worth of goods, services and works are being procured from the SME sector.

The study divides the public procurement process into three phases: (i) planning and preparation; (ii) competitive tendering; and contract implementation and follow-up. The critical factors affecting the formation of a contractual relationship in each phase of the process are investigated as illustrated in figure 1.1 below. Thus, the final goal is a successful relationship during the contract implementation and follow-up phase but, in order to achieve it, success in all three phases is needed.

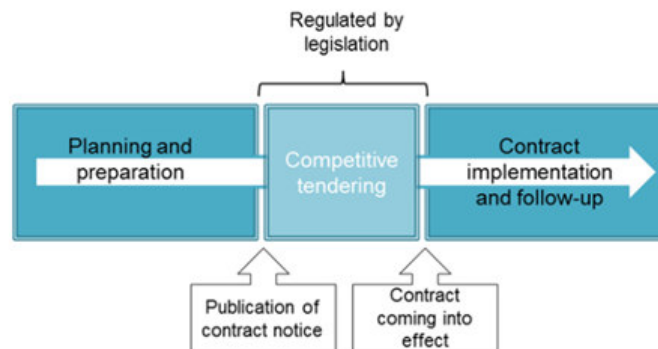


Figure 1.1: Three phases of the public procurement process

Source: Koskelainen *et al.* 2002

To begin with, small businesses have to be willing to take part in public tendering (*planning and preparation phase*). In this phase, the objective is to find out which factors make public tendering attractive in the first place or why small businesses decide not to participate. In the next phase (*competitive tendering*), the aim is to recognize the reasons behind small businesses' successes or failures in competitive tendering. Finally, factors that affect the performance and success of small businesses during the actual contractual relationship (*contract implementation and follow-up*) are investigated.

1.1.2 Small and Micro Enterprises

SMEs have been defined in various ways, but the most commonly used criterion is the number of employees in the enterprise. In Kenya, SMEs 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. 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.

The importance and contribution made by small firms in an economy has attracted widespread attention from researchers from the time small business research gained significant momentum in the early 1970's (Rutherford & Weller, 2002).

"Small businesses are the heart of the American economy. They're responsible for half of all private sector jobs – and they created roughly 70 percent of all new jobs in the past decade. So small businesses are not only job generators, they're also at the heart of the American Dream" (President Barack Obama, 2009).

In Kenya, the SME sector is considered as one of the major contributors to the economy by providing income and employment to a significant proportion of the population (Moyi *et al*, 2006). Early research treated small enterprises as peculiar and peripheral survival mechanisms whose development impact was marginal. At the time of independence economists generally saw small-scale producers as part of a traditional economy which would disappear with modernization, ousted by a more efficient formal industrial production. Small-sale traders were seldom discussed. However, this prophecy has generally not come true (Pederson, 2005). The famous International Labour Organization's report (ILO, 1972) however irrevocably altered this outlook and demonstrated the significant employment and wealth creation potential of the burgeoning small and often informal sector. Livingstone, quoted in Pederson (2005 p.6) states "the small-scale activities were generally seen as important for employment creation and income generation for poor people with no alternatives, but often as not having real importance for the economy at large".

To its credit, Kenya, unlike most developing countries, has in official development policies recognized informal enterprises as more than a residual employer for survival of poor households. Since Independence, the Government has recognized the potential of the SME sector in employment creation and poverty reduction in its numerous policy documents. The *Sessional Paper No. 1 of 1986 on Economic Management for renewed growth* was the first to give explicit recognition of the sector's role in economic growth and development. Its recommendations led to the publication of *Sessional Paper No. 2 of 1992, Small Enterprises and Jua Kali Development in Kenya*, that identified the small-scale and Jua Kali enterprise sector for support to assist it to "graduate into the formal sector" and to become a major player in the creation of new jobs and economic growth. This was followed by *Sessional Paper No. 2 of 2005 on Development of Small and micro enterprises for Wealth and Employment Creation for Poverty Reduction*. The Government through the Ministry of Labor is currently working on a SME Bill which is expected to be presented in parliament soon.

According to the Economic survey 2005, employment within the SME sector increased from 4.2 million persons in 2000 to 5.5 million persons in 2003 accounting to 75.3 percent of the total persons engaged in 2003. The sector contributes up to 18.4 per cent of the country's Gross Domestic Production (Central Bureau of Statistics (CBS, 1999)). The SME sector should therefore not only be seen as a provider of goods and services, but also as a driver of competition and innovation, enhancing the enterprise culture which is necessary for private sector development and industrialization (Republic of Kenya, 2005).

1.1.3 SMEs participation in public procurement in Kenya

Governments all over the world have got specific mandate to provide among other things, food, security, education and infrastructure to enable a conducive environment for economic growth. In order to offer these services effectively, the government has to outsource some of them from the outside market different from the system. This basically means that the government has to do business with the private entrepreneurs which then give rise to the need of allowing all and sundry to participate in the public procurement process. Value for money is the core principle governing public procurement, and is supported by the underpinning principles of efficiency and effectiveness, competition, accountability and transparency, ethics and industry development. (Commonwealth Procurement Guidelines, 2005).

Although estimation of public procurement size has proven to be difficult due to lack of data and the secrecy surrounding it, there have been some recent attempts to estimate it. According to OECD/World Bank (2004) report, public procurement constitutes about 15 per cent of the World's Gross Domestic Product. In developing economies, public procurement offers a large domestic market given that over 70% of developing countries budgetary resources are channelled through this system. Elsewhere the International Trade Centre data show that public procurement requirements account for about 50 – 70 per cent of their developing countries imports. These figures indicate that public procurement is important for every developing economy and Kenya is not left behind hence our intention to conduct this research.

The centrality of public procurement in a country's economic growth cannot be gainsaid. A casual look at the relationship between the procurement system and overall economic performance will boost our appreciation of this centrality. The total value of Public Procurement in Kenya is currently estimated at 10% of the GDP. In 2006, Kenya's GDP was estimated at Kshs. 1,234.69 billion putting the total expenditure on

procurement by the Government at around Kshs.124 billion annually. One can therefore conveniently argue that even a 10% savings due to improvements in procurement practices and controls would mean a yearly gain to the exchequer of about Kshs.12.4 billion. A streamlined procurement system will allow the Government to invest more resources in other needy areas such as the health and education of its citizens and offer better salaries to its employees, a venture that has the potential of greatly improving productivity and service delivery by public entities. Similarly, a modernized procurement system will ensure fairness and competition among suppliers of goods, works and services to the Government. This increased competition will not only raise the confidence of Kenyans in the public procurement process but will also ensure the Government gets value for its money and encourage participation of SMEs in public procurement. Overall, a reformed Public Procurement System will be a vehicle for delivering to the Kenyan people such benefits as economic growth and poverty reduction, optimized resource application, commitment control, timely delivery of services and reduction of fiduciary risks to acceptable levels, among others (Kimunya, 2008).

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

Public procurement in Kenya is currently regulated under the Public Procurement and Disposal Act, 2005 and Public Procurement and Disposal Regulations, 2006. One of the objectives the Act is intended to achieve as stipulated in section 2(f) is to facilitate the promotion of local industry and economic development. This can be done by encouraging participation of SMEs in public procurement. Section 39 deals with participation of SMES in public procurement. Further, Section 39(2) of the Act allows the Minister of Finance, in consideration of economic and social development factors, to prescribe preferences and or reservations in public procurement and disposal which, pursuant to Section 39(3) shall be non-discriminatory in respect of the targeted groups; allow competition amongst the eligible; and be monitored and evaluated. As provided under Section 39(4), the preferences and reservations shall apply to, candidates such as disadvantaged groups, micro, small and medium enterprises; works, services and goods, or any combination thereof; identified regions; and such other categories as may be prescribed. Section 5 compels procuring entities, when processing procurement; comply with the provisions of this Act and the regulations in respect of preferences and regulations. Section 39(8)(a) provides that in applying the preferences and reservations, exclusive preference shall be given to citizens of Kenya where the funding is 100% from the Government of Kenya or a Kenyan body; and the amounts are below the prescribed threshold. Regulation 28(1) of the Public Procurement and Disposal Regulations, 2006 prescribes the threshold below which exclusive preferences shall be given to Kenya as fifty million shillings for procurements in respect of goods and services and two million shillings for procurements in respect of works.

Though the PPDA, 2005 and PPDR, 2006 have tried to address participation of SMEs in public procurement, they still face challenges and their participation is very minimal. In Kenya, SMEs (34.1 per cent) cite market constraints and inability to sell their products and services as one of the most serious obstacles to starting a business and sustaining its growth beyond the subsistence level (McCormick *et al*, 1997; CBS *et al*, 1999). Opportunities in public procurement can help overcome this constraint. Thus access to markets is a key factor that will determine the long-term success for the sector. As trade liberalization and globalization increases competitive pressure and reduces the direct subsidies which governments can offer to SMEs, there has been a new focus on policies to support SMEs development (Moyi *et al*, 2006). These policies include encouraging SME to participate in public procurement.

1.1.4 Characteristics of cleaning firms

The cleaning industry in Kenya is a service industry which is currently undergoing major challenges in scope and complexity. As is the case with many other operational services, the industry has in the past been deemed unworthy of attention. The industry is experiencing a radical transformation which is marked by devising and provision of new services, some of which display a considerable degree of complexity. Cleaning is a service industry whose final outcome is the removal of dirt and grime from the medium in which the service is delivered (buildings etc). This definition is restrictive and does not cover all the services provided by cleaning firms. The action of cleaning consists in transforming or improving the state (of cleanliness) of a given medium, which in this case is a tangible good (a piece of equipment, an office). Apart from this type of 'straightforward' service, cleaning firms especially in the developed world also offer 'complex products', operating as they do in more

complex environments of which the most representative are the following:

The car industry, in which it is, for example, essential to avoid the risk of having deposits of debris on the coachwork; the food-processing industry, where for reasons of health and public hygiene the cleaning process is entirely integrated into the manufacturing process (e.g. bacteriological controls); hospitals and more widely, all types of health establishments, where some cleaning firms have specialized in biological cleaning. This new type of service has necessitated a broader range of competences and has therefore caused the industry to become more professionalized; transport industry, where contractors do not restrict their activities to the cleaning of premises, but also cover rolling stock and other 'moving' machinery; and Information technology, for which certain cleaning firms have specialized in niches such as cleaning of personal computers. This new type of service, which is delivered in an unusual medium for contract cleaners (strategic equipment), has required many changes that have involved the putting in place of a new set of characteristics and competences: recruitment and training of technical staff (well-qualified professionals with good communications skills) and the adjustment of work schedules.

The cleaning industry in Kenya currently involves little innovation and employees virtually exclusively unskilled or low skilled labour. The operations carried out by cleaners require little contact and hardly any processing of information. The product merely consists in its material logistical component, in which the main medium continues to be a tangible good (cleaning of equipment, of premises, etc). This component alone is sufficient to define the output of the cleaning business in Kenya. It is important to emphasize that the methods applied to perform these operations differ from firm to firm. Some firms continue to use manual methods, such as sweeping and mopping, whereas others rely on less sophisticated technological innovations. This distinction based on the working method used is essential as it has implications on their employment structure.

The cleaning services industry may encompass interior building cleaning; exterior building cleaning; swimming pool cleaning and maintenance; restoration and remediation services; and other specialized services. This research will dwell SMEs carrying out interior building cleaning. Barriers to entry into the industry are low, with most segments being highly labour-intensive and requiring little fixed investment. The interior building segment often requires little more than transportation and basic cleaning supplies. This creates a large number of industry participants, many of whom primarily compete on the basis of price. The cleaning industry in Kenya is also currently un-regulated and un-structured. Most cleaning firms have limited financial resources. Majority are owned by individuals who double up as the managers.

1.1.6 Cleaning Services firms' participation in public procurement in Kenya

According to the *1999 SME baseline survey*, out of the 1.3 million enterprises 14.8% were in the service sector and this is where the cleaning service industry fall. Before the late 1990s and early 2000, services like cleaning and security in the Government were provided by employees. Cleaning of offices was basically done by subordinate staff. Restructuring in the Government of Kenya in the late 1990s and early 2000 led to retrenchments and early voluntary retirements which greatly affected the lower cadre in the civil service where those who cleaned the offices belonged. It therefore became necessary to outsource cleaning services and this created an opportunity for SMEs that offer the services to participate in public procurement especially in Nairobi.

Outsourcing developed as a reaction to the over diversification of the 1970s and early 1980s. This led many enterprises to review their core activities and concentrate on their core competence - what the organization believe that they do best. Outsourcing can be defined as a management strategy by which non-core functions are transferred to specialist, efficient external providers (Lysons & Farrington, 2005). Outsourcing is the act of moving some of the firm's internal activities and decision responsibilities to outside providers. Governments face a set of challenges that are growing more complex each day. Limited resources and budget constraints demand that you find more effective and efficient ways to achieve policy outcomes and deliver citizen-centric services (HP Development Company, 2009). The global market for outsourcing of government services is growing faster than in any commercial segment (Wait, 2002). Governments would benefit most from outsourcing if they use it to transform operations.

Most Government buildings in Nairobi nowadays outsource cleaning services. Apart from enhancing cleanliness standards in the buildings since cleaning is their core activity, this has also spurred economic growth by creating employment. The cleaning service industry is generally labour intensive. Capital investment is basically limited to cleaning equipment. There are a host of possible challenges faced by the industry in participating in public procurement suggested by rather broader small business literature. Because of the Competition policy in public procurement, contracts are usually not long term and are more often than not for one year before being subjected to competition again. Firms in the cleaning industry therefore employ relatively more casual employees than permanent ones.

1.2 Statement of the Problem

In 2006, Kenya's Gross Domestic Product (GDP) was estimated at Kshs. 1,234.69 billion, putting the total spend

on procurement by the Government at around Kshs.124 billion annually. This is the market available for SMEs to access and exploit especially in the service sector where there are a lot of opportunities as the government is now outsourcing services like cleaning, security and transportation as it tries to reduce the ratio of its wage bill to the GDP to conform to international standards (Kimunya, 2008).

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.

Despite the fact that efforts to empower SMEs through framework contract arrangement have been, they still face various constraints in their bid to effectively participate in public procurement. Nairobi Central Business District (Nairobi CBD) is one of the areas where this scenario applies. This study, therefore, sought to explore the constraints in the public procurement processes that SMEs within the cleaning services industry in Nairobi CBD have to overcome in order to have an equal footing in this process.

1.3 Purpose of the Study

The study sought to assess the constraints faced by SMEs in the cleaning service industry in participating in public procurement in Kenya.

1.4 Objectives of the Study

The study was guided by the following specific objectives:

- (i) To assess the extent to which legal/regulatory framework constraints affect participation in public procurement by SMEs in the cleaning industry in Kenya.
- (ii) To evaluate the extent which ethics affect participation in public procurement by SMEs in the cleaning industry in Kenya
- (iii) To examine the extent to which financial requirements constraints affect participation in public procurement by SMEs in the cleaning industry in Kenya.
- (iv) To investigate the extent to which information access constraints affect participation in public procurement by SMEs in the cleaning industry in Kenya.

1.5 Significance of the Study

This study will be an important resource for practitioners in cleaning services sector and at the same time guide those who formulate policies in ensuring that SMEs' are encouraged and given a conducive environment to exercise their trade in public procurement in Kenya (Makau, 1990). This research has also provide information to entities in the private sector which include hotels, hospitals, learning institutions etc and encourage them to outsource cleaning services from SMEs'. Policy makers in the Government and procurement practitioners will also use this study to formulate and find the best possible way to incorporate SMEs providing cleaning services in the public procurement. To the government this study has provided a road map on how to improve participation and service delivery by SMEs' and fast track the vision 2030, goals.

1.6 Scope of the Study

The research element of this paper included reviewing existing procurement legislation and practices in order to identify SME bottlenecks, generating strategic options for a SME support programme. Specific issues that have been factored into the research are: Analytical work to review existing procurement legislation and practices, identify SME bottlenecks, generate strategic options for a SME support programme, and develop the training materials and other supporting documents. Consultations with SMEs through their relevant business groups took place to ensure that their views are accommodated and acted on. Consultations with SMEs managers and owners to ensure that public procurement related issues are adequately dealt with and the specific challenges are incorporated in all outputs.

The focus of the study focused on small and micro-sized service providers. This focus was chosen since knowledge related to small businesses' involvement in public procurement is limited despite their great

economic impact. The study focused on small and micro-sized companies with less than 50 employees. The study focuses on procurement of cleaning services which differs from purchasing of goods. Features of goods can often be found in services but, in addition, services have their own characteristics not found in goods. The contents and the quality of intangible services may sometimes be difficult to define, making them a more interesting research object. Service delivery is also a continuous process, meaning that the role of a contractual relationship is emphasized.

1.7 Limitations of the study

Some limitations must be taken into account. Both theoretical and empirical parts of the study include some limitations and they are next discussed.

Financial limitations: Today, SMEs' are found in every corner of Kenya and have a great potential for creating a variety of jobs, while generating widespread economic benefit. The greatest constraint in carrying out the study was the financial resources. This made it difficult to study all SMEs. The study thus limited itself to findings from exploratory study carried within the City of Nairobi. Due to these limitations, the study might not give a true picture on the situation in other parts of the country. Comparatively, Nairobi also had - better infrastructure and other essential services like banking, trainings which in a way or another influences the overall performance of businesses. Because of this, there was a likelihood of incompatibility when the study is extended to other parts of the country.

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature related to the purpose of the study. The chapter is organized according to the specific objectives in order to ensure relevance to the research problem. 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.

The objectives of the literature review were to clarify the context of the study and to find out what has been studied earlier. In order to consider a broad range of literature, no limitations for example to the journals selected were done. According to Eisenhardt (1989) the comparison of the emergent theory with the extant literature is essential in theory building and in research in general. Ignoring previous conflicting research reduces the confidence in findings. Conflicting literature may also encourage more creative thinking and reasoning. Literature discussing similar findings is important as well because it ties together underlying similarities in phenomena normally not associated with each other. The result may be a theory with stronger validity, wider generalizability, and higher conceptual level. (Eisenhardt, 1989).

Both conflicting and supporting material with the empirical findings was found. Some of the barriers identified in previous research were confirmed in this study and in addition new barriers and enablers were found. Both conflicting and supporting material related to the success of a relationship was also found. The literature review was conducted after the majority of data was gathered and analyzed and, therefore, previous findings did not affect the progress of empirical research. The progress of literature review is discussed more specifically in the beginning of part three.

2.2 Public procurement evolution in Kenya

The Public Procurement System in Kenya has been improved from a crude system with no regulations in the 1960s, through a system regulated by Treasury Circulars in the 1970s, 80s and 90s (Public Procurement Oversight Authority (PPOA, 2009)). The public procurement system in Kenya has been undergoing reforms consistent with the global trend since the mid 1990s. Most notable reforms in this area took place within the period covering 1997-2001 and 2005 (Country Procurement Assessment Review (CPAR, 1997)). During the period preceding the reforms, the legal framework governing public procurement was very amorphous, providing a conducive environment for the perpetration of various malpractices in public procurement, notable being the endemic corruption that characterized the system. As a result, service delivery was compromised and the government development priorities were unfulfilled as a proper functioning procurement system to translate budgets into services was not in place (CPAR, 1997).

Lack of a clear legal framework meant that there was no uniform application of the law by different procuring entities. After carrying out a Country Procurement Assessment Review (CPAR) in 1997 funded by the World Bank through the Public Procurement Assessment Reform and Enhanced Capacity Project, it was indeed ascertained that there were serious shortcomings in the public procurement system. The study unearthed the centrality of public procurement in the economy and laid ground for Public Procurement Reforms launched on 25th November, 1998 and which is guided by the values of Transparency, Accountability and Value for money. With the official launch of Public Procurement Reforms, the country had been set on the reform mode in the area of public procurement. First on the agenda was to put in place a unified legal and regulatory framework to guide

the reforms. Secondly, on the institutional front, there was need to have in place an institution to oversee development and implementation of the public procurement policy in Kenya and improve transparency. The first agenda was attained through the development of the Exchequer and Audit Act (Public Procurement), Regulations, 2001 which harmonized all the Treasury circulars and manuals governing procurement in the public sector. The latter was realized through the creation of the Public Procurement Directorate (PPD) and within it the Public Procurement Complaints, Review and Appeals Board (Government of Kenya, 2005)

Despite this being a huge stride forward in the reforms, more was needed in terms of entrenching the reforms being undertaken and giving autonomy to the institutions that had been created by the 2001 Regulations. The urgency to do this became even more apparent after an Independent Procurement Review (IPR) of our procurement system carried out in 2005 pinpointed various weaknesses. For example, it was identified that there were fundamental procurement principles in the procurement process that needed to be anchored in an Act of Parliament rather than being relegated to Regulations. There were still weaknesses in the institutional arrangements established under the 2001 Regulations. The office of Director of Public Procurement which was established as a department under the Ministry of Finance was reporting administratively to the Permanent Secretary, Treasury. This created the perception that the office was not independent. Thus, migration to greater independence, as part of the evolution of public procurement, was considered the ideal and eventual objective.

There was another shortcoming relating to the scope of application of the Regulations. Although the Regulations were to apply to all public entities utilizing public funds, some of them such as the Local Authorities and State Corporations which were established through Acts of Parliament had provisions on how they were supposed to undertake procurement activities. This presented grounds on which they could challenge the application of the Regulations by them. Thus it was necessary to deepen the procurement reform process and have a sound legal framework through an Act of Parliament to allow for proper enforcement and remedy the issues arising from the IPR report.

The landmark in the reforms was in 2005 when the Public Procurement and Disposal Act, 2005 was enacted by Parliament. Among other things, the Act established a semi-autonomous oversight body, the Public Procurement Oversight Authority (PPOA), Public Procurement Oversight Advisory Board and the Public Procurement Administrative Review Board. It amended all other laws relating to procurement in public entities ensuring that all of it is done under the umbrella of the Act thus widening the scope of application of the law and providing a proper basis for enforcement. With the gazettment of the Public Procurement and Disposal Regulations 2006, the law became operational on 1st January, 2007 and established the PPOA.

An important objective of this law is to transform the way the procurement practice is carried out in Kenya. The law, among other objectives: (i) establishes the rules and procedures for management of procurement; (ii) sets the institutional framework for the management of procurement; (iii) sets out mechanisms for enforcement of the law and (iv) ensures that capacity for management of procurement is enhanced.

2.3 SMEs participation in public procurement

SMEs play an important economic role in many industrial countries and their limited market access in public procurement is a recognized issue (Walker & Preuss, 2008). Encouraging SMEs' participation in public procurement could generate a mutually beneficial situation for both procurers and SMEs, as well as for other stakeholders (Fee et al. 2002). By contracting with SMEs public organizations may, for example, foster innovativeness, encourage entrepreneurship, and contribute to job creation and economic development (Reed *et al.*, 2004; Walker & Preuss 2008). SMEs, in turn, could invest and expand their operations while relying

Virtually every Government building and those of other public institutions in Nairobi provide a ready market to SMEs in the cleaning industry. Comparatively, SMEs' generally employ more labour than capital as compared to large enterprises. The sector has created employment opportunities and enhanced economic growth hence they help to alleviate poverty, increased crime, enhanced community stability and increased efficiency to every establishment that have embraced their services. There is huge potential of SMEs in the cleaning industry participating in public procurement because of the ready market. Entry in the industry is also less expensive as it is labour intensive and require very little capital as compared to other services like security where investments in expensive communication gadgets is required. It also does not require any technical skills. The Kenya government through several agencies and various funds has provided financial support and other incentives to enterprising persons which SMEs in the cleaning services can take advantage of. It is worth recognizing that creation of ministries such as that of the Youth, Women and Gender, and Special Programmes are positive steps towards motivating more players in the SMEs' sector participation in the public procurement. These Ministries have been charged with managing funds such as the Youth Fund, Women Fund and many others.

Other desirable support that the government has made available and which is crucial to the survival of SMEs' is accessibility of affordable credits and training. In Kenya, financial institutions like Equity Bank, Family Finance, K-Rep and many more have come up with specially tailored products to aid the SMEs' start up and participate in public procurement. For SME's to thrive, there's need to ensure that there is adequate markets,

which public procurement can provide, for products and services they produce. According to (Makau, 1990) sub-contracting is also a means of increasing marketing opportunities for the SMEs'. This occurs when large firms sub-contract to SMEs and thus provide ready and steady markets.

2.3.1 Benefits of derived from SMEs participation in public procurement

Public entities, including municipalities, have a duty to produce certain services regardless of for example economic conditions, which makes them stable partners (Purchase *et al.*, 2009). Collaboration with the public sector may also be an important reference for future. Loader (2005) also recognized certainty of payment, speedier payment, and security over long term as benefits to SMEs supplying public sector organizations. Public organizations, too, may benefit from contracting with SMEs. SMEs are expected to be more innovative and more flexible than larger companies, and to respond more quickly to changes. SMEs are argued to have a better client focus, meaning customized solutions and better quality. Because of lower hierarchy, personnel and management of SMEs are usually more accessible compared to large organizations, which makes communication easier. Active participation of SMEs also increases competition and guarantees that the procurer will not be dependent on a few large companies only (Reed *et al.* 2004; Blomqvist *et al.* 2005; Loader 2005; Karjalainen & Kempainen, 2008; Walker & Preuss, 2008).

Access to the government procurement opportunities can provide stability and encourage growth of businesses. This can increase market competition which helps to drive better value-for-money outcomes and cost savings for government. Procurement also provides a lever for achieving broader government objectives, such as promoting local content, encouraging regional sourcing, improving small business development and increasing local employment opportunities. Other benefits of derived from SMEs participation in public procurement are summarised and presented in table 2.1 below.

Table 2.1: Benefits of derived from SMEs participation in public procurement

Benefit	Detail
Better value for money	Bringing in more suppliers will often bring greater competition to the market place, so reducing the costs of procurement from all suppliers. SMEs have lower administrative overheads and management costs than larger firms, depending on the nature of the procurement; this can result in lower prices.
Bringing greater competition to the market place	This helps to drive down costs
Lowering costs	Lower administrative overheads and management costs than larger firms. Potential for lower prices, depending on the nature of the procurement.
Innovation	SMEs can deliver innovative solutions. For example: early exploitation of new technology; providing products or services in new or underdeveloped markets; and using innovation to differentiate themselves from established market players.
Responsiveness	Shorter management chains and approval routes-quicker response to changing requirements; and Focus on niche market sectors-more responsive to changes in those markets.
Flexibility	Government contracts can be more important to SMEs due to the associated financial stability. They may be more willing to tailor a product or service to meet specific customer needs than a large firm selling established offerings.
Specialist services	Many SMEs supply higher quality specialist products or services than large suppliers, either because large suppliers are discouraged by the limited demand, or because the SME has greater skills, originality and commitment in that field than their large company competitors.
Better quality of service	SMEs have short management chains and approval routes, so they can respond quickly to changing requirements. SMEs may also be highly focused on particular markets making them particularly responsive to changes in those markets; SMEs are often better able to offer a more personal, level of service, developing bespoke products and services or tailoring existing ones to meet specific customer needs and develop sound long-lasting relationships with their customers; SMEs may also be better able to supply higher quality specialist products or services than their larger competitors, either because larger suppliers are discouraged by the limited demand, or because by concentrating on niche markets; SMEs can retain skills, originality and commitment in that field that are greater than those found in larger competitors; and Being a large customer of a small business can result in more personal levels of service and a better relationship with the supplier.

Therefore, looking at the complete picture, there are many benefits associated with using SMEs: lower lifecycle costs of goods or services; Increased performance in relation to corporate social responsibility, which can directly help to secure more contracts in the future; greater innovation and creativity; possible reduction in transport and logistics costs, in turn increasing sustainability; greater degree of flexibility; better risk management; compliance with legislation; opportunity to build relations with communities within which you operate; opportunity to contribute to local strategic objectives; potential to strengthen the economy; potential to generate stakeholder goodwill; opportunity to develop new products and services for an increasingly, culturally diverse marketplace; and new solutions to your challenges may be found by widening your applicant pool.

2.3.2 Constraints to SMEs participation in public procurement

Many potential suppliers, including small and micro firms, may be discouraged from tendering for public sector contracts because of a number of perceived or real barriers. These include: Not being able to source information about opportunities, including subcontracting opportunities; A belief that the processes involved in bidding are unnecessarily complex and costly; Not understanding the requirements fully; Even if they do bid SMEs do not always get through the initial selection stage and public sector purchasers sometimes perceive a risk of contracting with small and micro businesses and social enterprises, where their value can be misunderstood and overlooked; Current trends in government procurement towards larger and longer term contracts, and rationalising the number of suppliers, means that smaller businesses often find the resulting contracts too large for them; A belief that framework arrangements have the effect of locking suppliers out of tender opportunities for up to 4 years at a time and depriving small and new businesses of the opportunity to gain experience; Cash flow can prevent a small business tendering for public sector contracts for fear that they may have to wait long periods for payment; Not receiving feedback when unsuccessful and so preventing them from improving the quality of future tenders; Large size of contracts; Lack of knowledge about tender procedures; Difficulties in obtaining information; Too short span to prepare the tender; Cost of preparing the tender; Too high administrative burdens; Unclear jargon used; High qualification levels and required certification; and Financial guarantees required (Rutherford & Weller, 2002). Most of the constraints are at least partly resource related, and the large size of the contracts is widely seen as the most important barrier to SMEs' access to public procurement.

2.4 Empirical Review

Work undertaken by Birch (1979) and Storey (1994), which gathered together the evidence from a wide range of studies have provided policy makers and commentators with evidence of the contribution that small firms make, the difficulties they experience and various attempts and reasoning for government intervention in the sector. The most frequent argument for small firms is that they are a source job creation (Storey, 1994). The particular presence or qualities of small firms makes them a chosen vehicle in a number of policy fields. For example, their flexibility has placed them at the centre of labour market and employment policy. They also make a major contribution to regional development and particularly, at local level, they may play a significant role in service provision enabling others to participate in the workforce (Hanley & O'Gorman, 2004). However, according to research findings, SMEs have high mortality rates with most of them not surviving to see beyond their third anniversaries. This phenomenon has made it difficult for SMEs to graduate into medium and large-scale enterprises, thus the "missing middle". This has resulted in a weak base for industrial take-off and sustainable development (Republic of Kenya, 2005).

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 favours 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 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.

Memba, Gakure & Karanja (2012), argued that 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. 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 & Kamau, 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 & Rios (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).

Within the independent private value (IPV) paradigm, as the number of potential bidders increases, bidders equilibrium bidding behaviour 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 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.

2.5 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. Figure 2.2 below illustrates the conceptual framework for the study.

Independent Variables

Dependent Variable

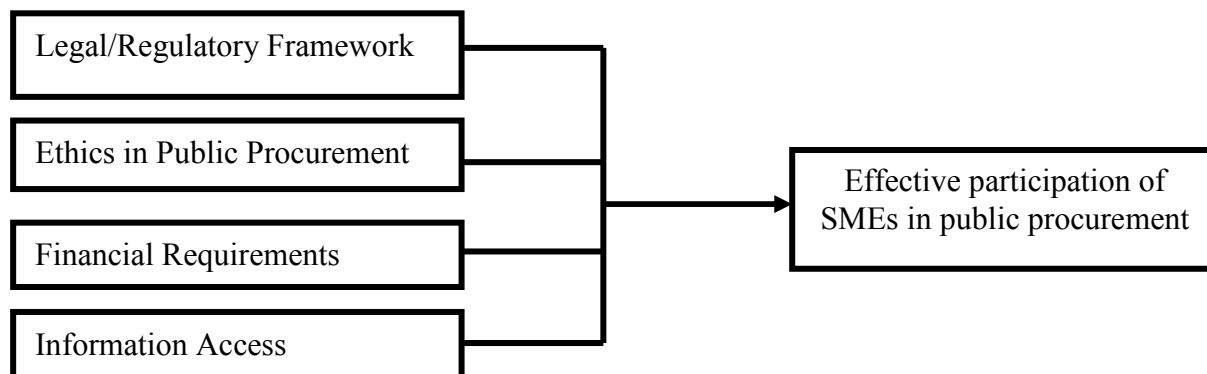


Figure 2.2: Conceptual Framework
Source: Author (2014).

2.5.1 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 & Kaspar (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 & Kaspar further argued 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 & Kaspar (2012) posit 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.

A well defined legal framework is instrumental for implementation of public procurement policies as it sets key parameters for government purchasing including procurement methods, tender information publication, tender security, tender payments (Eagan, 2005). These key parameters and others have implications for SMEs participation levels. Some of the existing legal framework as per the Public Procurement and Disposal act 2005, which would impact on participation of SMEs in public procurement as identified by Moyi *et al*, 2006, include:

- i) Sec. 39 which provides for opportunities for micro, small and medium enterprises to participate in public procurement through preferences and reservations. These are prescribed by the Minister of Finance in the Public Procurement and Disposal Regulations, 2006 (reg. 28). It would be more effective for participation of SMEs to be explicitly provided for in the Act for certainty and avoid the discretion of the Minister. Definitions of micro, small and medium disadvantaged groups remain ambiguous and could be subject to abuse.
- ii) Sec. 30 prohibits splitting of contracts to avoid a procurement procedure and this is likely to act as an incentive for contracts bundling which acts as barriers for SMEs participation.

- iii) Sec. 31 provides for qualification criteria for participation in public procurements. Some of these like past experience and capability are subjective and have been used as barriers to SMEs participation. The requirement of legal capacity also acts as barriers to SMEs since most are informal and thus unregistered.
- iv) Sec. 48 provides for delayed payments at prevailing market rates. It is more feasible to give a rate above a given percentage of prevailing banking rate and fix a maximum number of days within which payment must be made for various categories of contracts to ensure fairness across the board.
- v) Sec. 54(2) provides for advertisements in a newspaper of wide circulation and on the procuring entities website. Newspapers are rarely the main source of information for SMEs and the low internet penetration makes internet a less effective instrument for public tender information.
- vi) Sec. 56(2) allows procuring entities to charge fees for tender documents which also act as a barrier to SME participation.
- vii) Sec. 57 allows procuring entities to require tender security and decide form of the security. SMEs are rarely able to obtain such securities from financial institutions.

The Administrative Review Board is a tribunal established under Sec. 93 of the PPDA, 2005 which charges a fee to listen to aggrieved parties. The fee is a minimum of about Kshs. 30,000 which most SMEs cannot afford. The Board currently sits only in Nairobi making it more expensive for SMEs located outside Nairobi to appeal against flawed tender processes.

2.5.2 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 & Kaspar, 2012).

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 & Kaspar, (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 & Kaspar, (2012), continue 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 & Kaspar, (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.

2.5.3 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 Less Developed Countries (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.

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, 2012).

2.5.4 Information 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 (Eagan, 2005). Eagan further argued that SMEs need to have access to adequate information to enhance productivity and to facilitate market access. According to Strong, Lee & Wang (1997), poor information quality can create chaos. Unless its root cause is diagnosed, efforts to address it can be worthless. Lee and Wang also assert that 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, therefore, hampered by an "information-poor" environment. To achieve quality within the information rich environment, some notable challenges need to be handled head on. According to Obanda (2011), ensuring easy access to all relevant information on business opportunities in public procurement is of key importance for SMEs. 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.

2.6 Effective participation of SMEs in public procurement

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. Lysons & Farrington (2005), asserted 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. Lysons & Farrington further argued that 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.

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, 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. Table 2.2 below presents a summary of the practical
Table 2.2: Practical ways to improve SME engagement

Action	Detail
Procurement process	(i) Explain the process, and what will be required from suppliers at the outset. Early and broad market engagement is a key activity in investigating options for innovation; (ii) Ensure the process is appropriate to the size and complexity of the procurement (simplify electronic tools/transparency/shorter documentation); (iii) Set a realistic and transparent response timetable. Keep suppliers informed of any changes to timeframe (consider that suppliers new to government business need time to respond).
Visibility of opportunities/risks and transparency	(i) Use your departmental website to provide information for suppliers. Consider including a document on how procurement works in your department; (ii) Publish contact details for both general procurement questions and specific opportunities; (iii) Know your target market. Through market analysis, understand the suppliers that are capable of bidding for your contract, whether there are SMEs in the marketplace and how to best inform/engage with them; and (iv) When engaging SMEs, consider all associated risks including financial, capability and resource stability.
Large contracts	(i) Consider defining the procurement need into smaller parcels manageable by SMEs as there are still opportunities through aggregated purchasing or large contracts to involve SMEs as part of the primary supply chain; (ii) Reduce the administrative burden on SMEs by simplifying pre-qualification forms when running a competitive procurement for low-value procurement activities; and (iii) It is important to select suppliers that are financially sound and capable of delivering solutions. However, this does not necessarily mean selecting the largest suppliers with the most extensive track record.
Managing the supply chain	(i) Where appropriate, ask your principal suppliers to indicate how SMES gain access to their subcontracting opportunities; (ii) Be open to consortia bids from SMEs as this is one way in which small businesses can tackle large procurements; and (iii) Ensure visibility of types of suppliers involved in the supply chain.
Specifications	(i) Make requirements clear and unambiguous, and avoid jargon; (ii) Avoid over-specifying the requirement. (i.e., insurance/indemnity requirements do not inadvertently exclude SMEs from the process); (iii) Only specify industry standards where necessary; and (iv) Ensure suppliers are aware of the evaluation criteria, weighting methodology and selection process and keep them informed of any changes.
Public tenders	(i) Public tendering is considered to be an onerous process by SMES. This must be taken into consideration when approaching the market; (ii) Avoid unnecessary financial, legal and/or administrative requirements that might exclude SME participation; and (iii) make all tender requirements and instructions clear including indication of anticipated timeframes for completing various tender process stages.
Performance management	Monitor and report on the department's actions in engaging with the SME sector.

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This section 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.

3.2 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 respondents. 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.

3.3 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 SMEs providing cleaning services in Nairobi CBD who participated in public procurement.

3.4 Sample and Sampling Technique

This section presents the sampling techniques used in the study.

3.4.1 Sample

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.

3.4.2 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 SMEs that not only provided cleaning services, but also participated in public procurement. These firms were obtained from suppliers' lists of various ministries and other public bodies where a pre-qualification process has been undertaken. Where open tendering has been used, a list of those who bought the tender documents and those who actually returned the tender documents thus positively responding to the tender was obtained. The researcher targeted to obtain the lists from small ministries and other small independent public institutions. From preliminary survey, the lists obtained in five (5) ministries have been observed to contain between 10 and 20 cleaning firms and largely depend on the procurement method used between open and restrictive tendering. The researcher targeted firms awarded the cleaning contract and the subsequent 3 lowest evaluated bidders in each public institution targeted. A manager in the SMEs was picked for the research. Since the researcher was targeting SMEs, the managers were most likely the owners/proprietors of the firm.

3.4.3 Sample size

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 2000 SMEs in Nairobi CBD, a sample size of 10% was obtained using stratified random technique. This was because the subject within the sample was divided into four strata 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. Computation of the sample size is illustrated in table 3.1 below.

Table 3.1: Years of operation of the SMEs in Nairobi CBD

Stratum	Population	Sampling ratio	Sample size
SMEs in operation from 0 – 3 years	440	0.1	44
SMEs in operation from 3 – 6 years	560	0.1	56
SMEs in operation from 6 – 9 years	630	0.1	63
SMEs in operation from 9 years and above	370	0.1	37
Total	2,000	10	200

3.5 Data collection

This section discusses the data collection procedures and tools that were used in the study.

3.5.1 Data Collection Procedures

The researcher adopted self administered questionnaires which were dropped at the respondents' offices/business premises and picked up once completed. This was done after making appointments and the respondents were given adequate time to complete the questionnaires.

3.5.2 Data Collection Instruments

The study used descriptive survey and collected primary data using a semi structured questionnaire that captured the various variables under study. 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 questionnaires contained both open and closed ended questions which were administered to the

participants. 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. The questionnaire had two sections: Section A: demographic and profile of respondents and their respective organizations; and Section B: objectives of the study. All the answers to the questions were treated confidentially for purposes of encouraging more participation and openness by the participants.

3.7 Data Analysis

Data collected was quantitative and was analyzed by use of descriptive statistics. Descriptive statistics are used to describe the basic features of the data in a study. They provide simple summaries about the sample and measures. Together with simple graphics analysis, they form the basis for virtually every quantitative analysis of data. Data analysis involved preparation of the collected data - coding, editing and cleaning of data so that it could be processed using SPSS package. The coded data was keyed into the SPSS program where it was developed into a database and hence analyzed. The findings of the study were presented in the form of percentages, frequency table and mean scores.

4.0 DATA ANALYSIS, FINDINGS AND DISCUSSIONS

This section presents the data analysis, the findings and discussions.

4.1 Introduction

The current study sought to examine the constraints to SMEs in the cleaning service industry's participation in public procurement. A combination of both quantitative and qualitative techniques was used in data collection. Out of the 200 questionnaires that were sent out, 153 of them were returned completed (76.5%) response rate. The high response rate could be attributed to the personal efforts of the researcher, who made a follow up of every questionnaire sent out. The data pertaining to the profile of respondents was analyzed by employing content analysis while descriptive statistics were used to analyze data pertaining to the objectives of the study. Computation of frequencies and percentages, standard deviations and were used in data presentation. The data collected was analyzed both quantitatively and qualitatively, guided by the objectives of the study.

4.2 Findings related to objectives of the study

4.2.1 *Effect of a Legal/ Regulatory framework on participation of SMEs in the cleaning industry in public procurement*

The researcher sought to understand how a legal framework may affect the award of tenders to SMEs and the following information was given. 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. Findings indicate that 60 % of SME's in Nairobi CBD concur 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.

4.2.2 *Effect of Ethics on participation of SMEs in the cleaning industry 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. Findings indicate that 67 % of the SMEs in the cleaning services industry in Nairobi CBD 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 Nairobi CBD 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.

4.2.3 *Effect of financial requirements for SMEs in the cleaning services industry on their participation in public procurement*

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. Findings indicate that 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.

4.2.4 *Effect of information access for SMEs in the cleaning services industry on their participation in public procurement*

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 utilization 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. The rating of factors that affect effectiveness of SMEs participation in public procurement.

Table 4.2: Rating of factors that affect effectiveness of SMEs participation in public procurement

Factor	Mean
Legal/Regulatory Framework	3.35
Ethics in public procurement and tendering	2.09
Financial Requirements	3.79
Limited information	1.99
N = 153	

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.

4.2.5 *SMEs effective participation in public procurement*

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 researcher went ahead to analyze 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 response from the respondents rated is shown in table 4.3 below.

Table 4.3: Factors contributing to SMEs' effective participation in public procurement

Factors contributing to SMEs' effective participation in public procurement (Statement)	Mean
With strong financial base, SMEs are likely to effectively participate in public procurement	4.12
Proper access to procurement information is a determinant to effective participation in public procurement by SMEs	4.12
Non-prohibitive procedures give hope to SMEs	2.79
Adherence to code of ethics makes the procurement process more favourable to SMEs	4.12
N = 153	

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.

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section draws together summary of the key findings, conclusions and recommendations from all elements of the research report and presents a number of possible approaches which build upon what has been achieved thus far.

5.2 Summary of the Findings

This report and the recommendations contained herein are based on the findings of a number of inputs: a literature review, consultation meetings with various stakeholders and a questionnaire circulated to public procurement officials on existing procurement practices. Key findings that emerged are as follows:

General Information: 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 Nairobi CBD 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

5.3 Conclusions

In view of the findings of the study, the following conclusions are drawn:

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.

The findings also indicate that the ethical aspect in procurement hinders the SMEs from participating in tendering as there is lack of transparency in the process. The shortage of finances for SMEs is also a hindrance to them when participating in public procurement. 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.

5.4 RECOMMENDATIONS

In order to enhance the effective participation of SMEs in public procurement, the following measures are recommended:

5.4.1 Recommendations for policy and practice

In view of the key factors that affect SMEs in Nairobi CBD 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:

Legal/Regulatory framework: 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 favour 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.

Ethics in public procurement: 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.

Financial requirements: The government should provide channels that the SMEs can access loans of low interests.

Access to information: 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.

5.4.2 Recommendations for future research

The findings of this study, it is hoped, will contribute to the existing body of knowledge and form basis for future researches in the area of SMEs participation in public procurement. The following areas of further research are thus suggested: The following areas of further researcher are thus suggested:

Further studies can be done on the impact of the Kenyan Government directive that 10% of tenders be reserved for youth and SMEs; (ii) Study on how ethics in public procurement influences the process of tendering and award of tenders to the SMEs is encouraged; (iii) Whereas the current study focused on responses from the management of the SMEs, future studies should focus on responses from the persons in charge of the procurement function in the various ministries; (iv) Future studies should determine the critical success factors to effective participation of SMEs in public procurement; and (v) future studies should be replicated to SMEs in other sectors of the economy.

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