

**ANALYSIS OF PROCUREMENT PRACTICES AND GROWTH OF SELECTED  
SMALL AND MEDIUM-SIZED ENTERPRISES IN IMENTI NORTH SUB-  
COUNTY MERU, KENYA**

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**A Thesis Submitted to the Department of Business Administration in Partial  
Fulfillment for the Requirements for the Conferment of Master Degree in  
Business Administration (Entrepreneurship Option) of Kenya Methodist  
University**

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## DECLARATION AND RECOMMENDATION

### Declaration

This thesis is my original work and has not been presented for the award of a degree or any other award in any other University.

Sign..... Date.....

Winnie Kathure Mutunga

Bus-3-0300-1/2014.

### Recommendation

We confirm that the work reported in this thesis was carried out by the candidate under our supervision.

Sign..... Date.....

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Sign..... Date.....

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Kenya Methodist University

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## **DEDICATION**

This research thesis is dedicated to my son Adiel Muthomi. Indeed, you have been a pillar of strength in my life.

## **ACKNOWLEDGEMENT**

I would like to thank God for enabling me complete this study in perfect health. I would also like to acknowledge my two supervisors Prof. Paul Gichohi, PhD and Mr. Abel Moguche for dedicating their time to guide me through my thesis writing process. Special regards to my colleagues at work for allowing me accomplish my academic endeavors in a peaceful environment. I would also like to acknowledge various participants that took part in data collection, your honest responses contributed a lot to this study. Last but not the least am grateful for Kenya Methodist University fraternity both students, lecturers, library staffs and other workers for ensuring that I am able to undertake my studies in a safe place where quality attention was accorded to me.

## ABSTRACT

The thrive of the economy of Kenya beyond the minimal ten percent threshold annual target of vision 2030 goals, depends on the drive to have as many small and medium-sized enterprises as possible. Small and medium-sized enterprises are a dynamic force for sustained economic growth and job creation. They stimulate private ownership and entrepreneurial skills; and they are flexible and can adapt quickly to changing market demand and supply conditions. However, there is low growth of small and medium-sized enterprises. This study analysed procurement practices and growth of small and medium-sized enterprises in Imenti North sub-county Meru, Kenya. The objectives of the study were to evaluate the influence of procurement stock sourcing, negotiations, bidding and inventory control on growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. The study was informed by two theories; resource-based view theory and game theory. Resource based view theory informed investigation of variables such as procurement stock sourcing and inventory control management while Game theory informed the procurement negotiations and procurement bidding constructs of this study. Descriptive survey research design was adopted in the study. The target population was ten sampled SMEs in Imenti North Sub-County that were in manufacturing sector. Closed-ended questionnaires were completed by 50 head of departments from sales and marketing, operations, compliance, finance and procurement. Pre-testing of questionnaire was conducted in KTDA in Igembe central sub-county in Meru County. The main data was collected, cleaned and coded using SPSS software version 25. Data was analysed and hypotheses were tested using regression analysis, descriptive statistics such as mean, percentage, frequency and standard deviation, and finally data presented using tables. The findings indicated that stock sourcing, procurement negotiation, and inventory control positively and statistically significantly influenced the growth of small and medium-sized enterprises in Imenti North Sub-County Meru, Kenya. However, bidding negatively and statistically significantly influenced the growth of small and medium-sized enterprises in Imenti North Sub-County Meru, Kenya. The study recommended that SMEs should hedge to protect themselves from any abrupt price risks through forward linkages and integration.

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## **ABBREVIATIONS AND ACRONYMS**

ADB	African Development Bank
AfCFTA	African Continental Free Trade Area
AGI	Africa Growth Initiative
CBK	Central Bank of Kenya
CRS	Congressional Research Services
DCED	Donor Committee for Enterprise Development
EU	European Commission
FIFO	First in First out
GDI	German Development Institute
GDP	Growth domestic product
GPA	Global Partners and Associates
GPO	Government Procurement Opportunities
ICN	International Competition Network
IGC	International Growth Center
ILO	International Labor Organization
ITC	International Trade Centre
KCB	Kenya Commercial Bank
LIFO	Last in first out
MMRE	Malaysian Micro Retailing Enterprises
MRF	Market Research Future
NCLR	National Council for Law Reporting
OECD	Organization for Economic Co-operation and Development
PPDR	Public Procurement and Disposal Regulations

PPOA	Public Procurement Oversight Authority
SMEs	Small and medium-sized enterprises
SPSS	Statistical Package for Social Sciences
UN	United Nations
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UP	University of Plymouth
WEF	World Economic Forum
WTO	World Trade Organization

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The thrive of the economy of Kenya beyond the minimal ten percent threshold annual target of vision 2030 goals, depended on the drive to have as many small and medium-sized enterprises (SMEs) as possible (International Trade Centre [ITC], 2019). This was because income generated by SMEs was circulated within the economy leading to improved Growth Domestic Product (GDP) in the country. In Europe, small and medium-sized enterprises (SMEs) were business entities whose personnel range above 50 to 249. They also had a turnover between 10 to 50 million euros (European Commission [EU], 2015). In Kenya, the micro and small enterprises act number 55 of 2012 defined a small enterprise as a firm or industry whose yearly turnover is between Kshs 500,000 to Kshs 5,000,000; had employees between 10 and 50, and machinery assets worth ten million and fifty million (incase in manufacturing industry). In case of service and farming enterprises, the equipment investment as well as registered capital of the enterprise was between five million and twenty million shillings. (National Council for Law Reporting [NCLR], 2012).

The definition of medium enterprises was guided by the MSE bill, the Sessional Paper No 2 of 2005 that they were firms that have 51-100 employees and a capital investment of not more than Kshs 30 million. Therefore, this study adopted the definition of SMEs as stipulated by micro and small enterprises act number 55 of 2012 and MSE bill, the Sessional Paper No 2 of 2005. That was, small and medium enterprise entailed firms that

had staff between 10-100, and a turnover of 500,000 to 30,000,000 to distinguish between SMEs and other types of businesses.

According to World Bank (WB, 2013), SMEs were a dynamic force for sustained economic growth and job creation. They were a valid crucial component of a vibrant industrial society. SMEs stimulated private ownership and entrepreneurial skills; they were flexible and could adapt quickly to changing market demand and supply conditions; they generated employment, helped diversify economic activities and made significant contribution to export and trade (Wittig, 2015). The Government of Kenya was currently promoting SMEs sector through reservation of 30% of government's procurement budget to marginalized groups (Munene, 2018). This led to the growth of new small and micro enterprises run by youths, women and persons with disability with the aim of creating new jobs.

This chapter therefore provided background information on how SMEs growth was affected by procurement practices. The chapter also discussed the statement of the problem and the specific questions that the research aimed to answer, the study hypothesis, the significance of the study as well as the scope, assumptions, limitations, delimitations and definitions of key terms as used in this study.

### **1.1.1 SMEs Growth**

Growth was defined as the increase of size in a business to a level where it had expanded and looked for alternatives to increase more income (Kim & Loayza, 2019). Wakkee et al. (2015) described growth as an improvement of measurements that were used in determining business achievement. Therefore, growth of SMEs in this study was defined as improvement of measures used for ascertaining business income. Growth was measured differently in various industries in the economy. For example, sales and gross income were

used in automotive industries (Gesicho, 2018) while net profit and return on equity were used in hospitality industry (Asdullah & Rehman, 2015). Banking industry used capital adequacy, return on equity and return on asset to measure growth (Central bank of Kenya [CBK], 2018). Growth in SMEs were measured by net profit, total sales, return on equity, return on assets and total expenses because they were recognized as performance measures of SMEs in Kenya (CBK, 2018; United Nations, 2017).

Globally, despite SMEs being the driving force behind every economic prosperity, there had been plentiful contests that had impeding their growth. In America, there were issues such as cyber-attacks, keeping up with technological advancement, future uncertainty, regulations and compliance challenges, vagueness in SMEs processes of enquiring for proposals, quotations and bid data from various stakeholders they interact with; poor precision of procurement information leading to uninformed buying; poor management of inventory control where there were inconsistencies in records of entry and exist of goods from stores to aid procurement practices such as first in first out (FIFO), last in first out (LIFO), changing customer service due to their change of tastes and preferences, negative affluence of presidential campaigns politics, poor financial management, lack of solid marketing tactics, rigid business model, poor business planning, inflation, employing and retaining skilled employees' challenges amongst others (Chan et al., 2017; Donor Committee for Enterprise Development, 2017; Organization for Economic Co-operation and Development[OECD], 2016, 2019; Ponemon Institute, 2018; Prasanna et al., 2019; World Economic Forum [WEF],2019).

In Europe, SMEs in countries like United Kingdom had been experiencing issues such as negative effects of Brexit which included low sales due to added sanctions, high



expenditure, cyber security, declined markets, inflation, changing customer preferences, saturation in the market, over valuation of businesses and high cost of doing business; poor quality products due to SMEs relying on only a single source of supply; few open tendering systems; delays on supply of goods and services due to poor negotiating skills (British Business Bank 2019; Congressional Research Services, 2016; Erixon, 2009;EU, 2019,2020;Hassan et al., 2019). Corona virus menace in Asia had negatively affected SMEs causing low sales, insufficient stock, few employees because some of them had died due to the virus. (Every et al, 2020; Internal Monetary Fund [IMF], 2019; Johnson & Palmer, 2020; Watts, 2020). Apart from that, SMEs in Asia that were engaged in international trading, had faced procurement practices issues such as tough extraneous laws and regulations, unstable currency rates, decision on global shipment techniques and language barrier; and unable to efficiently track cost incurred on poor supplier quality (United Nations [UN], 2019b).

In Africa, SMEs in a country like South Africa was experiencing low adoption of present purchasing strategies; inability to distinguish how first in first out (FIFO) and last in first out (LIFO) applied in their business due to poor record keeping of goods hence wastages; political instability, xenophobic effects, uncertainty over economic conditions; difficulties in securing finances for expansion and poor financial management (Farouk et al., 2019; Institute for Securities Studies, 2016; Menon, 2010; OECD,2018a). SMEs in north African countries like Egypt and Algeria faced outdated business procurement processes, lack of business plans, product supply quality issues, high taxes and operational costs (Africa Development Bank [ADB],2018; Global Partners and Associates, 2012; International Finance Corporation[IFC], 2017; WB, 2020). SMEs in West African nations like Ghana

and Nigeria had issues like cyber-crimes, insecurity issues, non-diversification of revenues to invest in other areas, lack of diversity of suppliers hence poor-quality products; poor financial management concerns (ADB, 2018; International Trade Center[ITC], 2016; Price Water house Coopers [PWC], 2019). SMEs in East African nations such as Rwanda, Uganda, Tanzania and Kenya faced low stocks due to close of exports by China which had been their sole source of supplies; political instability; inflation; unskilled local employees, marketing problems, unfavorable laws and regulations (ADB, 2018; Agyapong & Attram, 2019; Johnson & Palmer, 2020; Wolmarans & Meintjes, 2015).

In Kenya, SMEs were embattling unfavorable laws and regulations; poor financial management; limited market access; poor infrastructure; high business operational costs; political instability; poor leadership leading to corruption, inflation, and high taxes (Ngasongwa, 2014; Osano, 2019; United National Development Program, [UNDP], 2015). These concerns were forcing SMEs in Kenya to critically review their procurement practices to ensure that the growth was consistent. The ability to provide high levels of customer satisfaction was considered an essential ingredient of business success and in many organizations. Periodic increase of demands of customers' satisfaction led to a need for improvements in quality and service (Ellegaard, 2013). Such pressures forced many SMEs to review their approach to operations management and were being forced to examine the potential contribution procurement practices can make.

### **1.1.2 Procurement Practices**

Procurement was the procedure of tracing, approving, obtaining goods and services from a peripheral source regularly through a tender process (World Trade Organization [WTO],

2018). Therefore, procurement practices were approaches followed when making purchasing and selling decisions in SMEs. The main aspects of procurement practices considered in this study were the stocks sourcing, procurement negotiations, bidding and inventory control. This was because for an SME to have a successful and profitable long-term strategy that is cost-efficient, attainment of the essential materials from a list of competent sellers who would timely bring quality goods and follow by the procuring rules and processes were key (UN, 2019).

Stock sourcing comprised of decisions applied when tracing traders of the goods and services (Public Procurement Oversight Authority [PPOA], 2007). Procurement negotiations were expertise a business entrepreneur applied to ensure smooth flow of the procurement process and reap maximum benefits out of it (Okong'o & Muturi, 2017). Procurement bidding was the administration of the procurement plan, selection of a suitable external source and facilitate the payments to end the procurement process (Okong'o & Muturi, 2017). Procurement inventory control was the process of inspection of stock (PPOA, 2007).

The challenges faced by SMEs were specifically distressing their growth. Poor management that led to unrealistic premeditated objectives, reluctance to acclimatize to fast shifting technology, fiasco to pursue for guidance and dearth of commitment from business owners (Meyer et al., 2018). SMEs were exposed to negative encounters beginning from negotiation for supply agreements, purchases and transportation of goods till they are received in the business (OECD, 2013). Recently in most economies, SMEs were putting more devotion on what and how they procured and supplied goods because of brutal competition in the market. The principal strength of competition by SMEs

presenting same products and services was anchored on the supply chain end where competence and quality limited the succession probability of an SME (International Competition Network [ICN], 2015) .

Globally, nations were adopting procurement innovations and better ways of ensuring their procurement practices remained top notch. In first world nations, like America, procurement was being done in a crystal clear and unbiased way where open tendering procedures were applied to allot contracts; sourcing was limited to only accredited & certified suppliers; offshore sourcing had improved; enhancement of bilateral negotiations, leverage best practices to add more value to goods; openly publishing data that was related to duration issued for placing bids, procedural necessities, handling of proposals, awarding and conditions of paying; development of online purchasing systems that connected requisitions and purchasing decline of dead stock storage was being emphasized; and favorable laws had been enacted that prioritized SMEs belonging to women or socially underprivileged people (Altenburg & Lütkenhorst, 2015; Gregorio et al., 2009; International Growth Center [IGC], 2019; Noviland, 2019).

In Europe, there was shorter lead time when sourcing, improvement of purchasing markets; laws enacted to give the guidelines for negotiation and shield SMEs traders from exploitations; European union had been improving international markets by negotiating with other governments for effective trade; there had been vibrant description of the suitable magnitude of procurement tenders so as to enable participation of SMEs; there was emphasis to sub-divide tenders in small parts that can be issued so that SMEs did not lose out on the process; there had been normalizing of procurement procedures; e-procurement structures had been put into place which facilitate timely payments; enhancement of

automated inventory keeping method that best suited SMEs operations. (Arrigo, 2020; European Union [EU], 2020b; OECD, 2018b; Ferraz et al., 2015).

In Australia, SMEs were being issued almost one quarter of all tenders by value and three-fifths of all tenders published in Australia; there was also strategic sourcing emphasis, automated sourcing channels improvements; there had been negotiations to improve free trade agreement, shared commitment to open markets, free trade and the rules-based global trading system with other nations such as the European Union to drive Australian SMEs international markets growth; automated inventory control systems development (Australian Government 2020; Hoekman, 2018). Canada and Mexico were also emphasizing on sub-contracting by allotting extra points to proposals where principal contractors subcontract with SMEs (Nielsen, 2017). There had been laws enacted in Argentina of SMEs grant of a price partiality margin of 7%.

In developing nations such as in Brazil, any government procurements below the least threshold were being allotted to SMEs (Hoekman, 2018). Any public work of a value below 0.0007% of the total government budget was purposed be allocated to SMEs in Ecuador (Fadic, 2018). In South Africa, there was a law enacted that indicated, 30 percent of any contract that was above R30 million be allotted to SMEs or disabled groups of people; low-cost sourcing anchored on precise measures; there had been development of inventory software to aid inventory control; enhancement of having law governed contract system to improve the negotiation documentation; negotiation refresher training courses in South African institutions (Fadic, 2018; Ferraz et al., 2015; National Treasury of South Africa, 2015).

In Kenya, emphasis was put on giving SMEs owned by women and people living with disabilities special accordance to access tenders, establishment of e-procurement systems to aid in sourcing; priority put in technology and innovation as the foundation for growth of SMEs; there was a contract bound negotiation by many firms; warehouse management system practices; inventory control techniques improvements, inventory cycle counting was being done (Fadic, 2018; Ferraz et al., 2015; Kithae & Achuora, 2017). For effective development of Kenyan economy, SMEs management could not be taken for granted. The developments made in relation to Kenyan SMEs should had an impact in all SMEs currently operating in Kenya including Meru SMEs.

### **1.1.3 Imenti North Sub-County Meru**

Imenti North sub-county in Meru was one of the fastest growing sub-counties in Kenya (County government of Meru, 2020). It was the largest subcounty in Meru County and hosted the Meru County Headquarters (County government of Meru, 2020). It had the sixth largest urban center with an approximate population of 240,900 residents (County government of Meru, 2020). Imenti north sub-county was linked to Nairobi by a tarmac road named B6, from the south around the East side of Mount Kenya via Embu or from the North West around the west and north side of Mount Kenya, via Nanyuki and Timau (County government of Meru, 2020). An international Airport was situated at Isiolo, 35 kilometers away; via a new tarmac road through Ruiru. Meru County linked several reserves and conservancies like Samburu, Buffalo and Lewa. This gave opportunities for people to operate profitable SMEs in Meru.

The motivation for this study was the fact that SMEs in Imenti north sub-county continued to suffer in attempt to employ procurement practices and foster their growth hence there was need to identify the extent to which unprofessional procurement practices were contributing to a stunted growth of SMEs. SMEs in Imenti north sub-county faced a number of challenges which were likely to explain the performance of their procurement, survival and growth (Thuranira, 2017). Nyagah (2015) carried out a study on various challenges limiting the growth of SMEs and found out that very few SMEs survived beyond their first year of existence because of the numerous challenges that limited their competitiveness.

The above situation pin-pointed out the need to examine the influence of procurement practices such as the methods, skills, management and supplier relationship on growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya.

## **1.2 Statement of the Problem**

As a pre-requisite to systematic growth, a small and medium-sized enterprise was expected to have established systems of sales; hedging tactics; customer management; carry out research on competition; grasp opportunities when they showed up; initiate and pursue reliable partnership for networking purposes and had strategies for increasing market share (German Development Institute [GDI], 2014; International Labor Organization [ILO], 2016). This was expected to enable a small enterprise to continuously offer quality and innovative products and services that satisfied the needs of customers at a lower cost as compared to other competing firms (Martinez, 2015) hence achievement of the desired growth. To attain that, small and medium-sized enterprises were expected to procure goods and services from reliable sources having followed the procurement guidelines (United

Nations Environment Program [UNEP], 2016). It was undisputable that procurement optimization had nowadays become critical in fostering growth of a business firm (UN, 2019; WEF, 2017).

Notwithstanding this prospect, poor procurement activities had negatively impacted small and medium-sized enterprise growth and their ability to remain relevant in the Kenyan market (UNDP, 2015; Ntayi, 2014). The small and medium-sized enterprises in Kenya had not yet been able to efficaciously operationalize their procurement superlative practices since most of these businesses had been experiencing difficulties when participating in e-procurement practices hence unable to follow the bidding procedures effectively. Other detriments included poor delivery of goods and services due to overlying of one supplier; losses incurred from expiry of goods because of poor inventory control and being confined in few designated market areas due to poor skills of negotiation (Ferraz et al., 2015; Kithae & Achuora, 2017; Ouma, 2018). These poor procurement practices were likely to inhibit growth of small and medium-sized enterprises (Nyagah, 2015; Thuranira, 2017).

The pattern of losses in small and medium-sized enterprises when added other limiting factors such as high taxes, high operational costs, poor financial management and lack of business plan from small and medium-sized enterprises owners, could hurt the economy overall (ITC, 2019). Zurich Insider (2020) confirmed that if small and medium-sized enterprises happened to be deteriorating and unable to stay for many years, the whole economy of a country got affected.

Globally, previous studies such as Agyapong and Attram (2019); Farouk, Hassan et al. (2019); Prasanna et al. (2019); Ukeaja and Ishaka (2019); Wolmarans and Meintjes (2015), had all argued on the challenges such as low partaking of e-procurement systems, under



standard goods and services due to reliance on a single source of supply and limitations in the access of tendering structures that were facing small and medium-sized enterprises in different international nations. Locally few studies done on procurement practices such as Ntayi (2014); Nyagah (2015); Ouma (2018); Thurania (2017) identified that SMEs were struggling with insufficient financing due to lack of credit facilities; poor sourcing of markets, for example, by not tapping international markets; poor record keeping which hampers the inventory management and computer illiteracy hence unable to participate in bidding of tenders and contracts. This pointed out clear gaps hence the need to scrutinize the effects of procurement practices on the growth of small and medium-sized enterprises in Meru Town Kenya.

### **1.3 General Objective**

The general objective of this study was to analyse how the procurement practices influenced growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya.

### **1.4 Specific Objectives**

- i. To determine the influence of stocks sourcing on growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya.
- ii. To assess the influence of procurement negotiation on small and medium-sized enterprises in Imenti north sub-county Meru, Kenya.
- iii. To examine the influence of bidding on growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya.

- iv. To evaluate the influence of inventory control on growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya.

### **1.5 Research Hypothesis**

H<sub>0</sub>1: Stock sourcing did not significantly influence the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya.

H<sub>0</sub>2: Procurement negotiation did not significantly influence the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya.

H<sub>0</sub>3: Bidding did not significantly influence the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya.

H<sub>0</sub>4: Inventory control did not significantly influence the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya.

### **1.6 Significance of the Study**

The discoveries of this study would be of great significance to SME's in Imenti north sub-county Meru, Kenya. The findings would add new knowledge in addressing the need to set procurement policies on SME's. Owners of small businesses would get a guide of the best procedures in procurement adoption while scholars in procurement, entrepreneurship and other disciplines will gain knowledge on what has been done thus enriching their knowledge. This was because researcher established the gap in procurement practices and growth of SMEs and hence carried out further research. It would also enable SMEs owners to understand how different procurement practices employed influence the growth of their organizations and businesses. These owners would have a backing on why they should look for professional advice and specialized skills required on having top notch

procurement practices such as procurement methods, skills, management and enhanced supplier relationship.

By knowing the influence that procurement practices such as sourcing, negotiation, bidding and inventory control has on the growth of SMEs in Imenti north sub-county Meru, the county government of Meru would formulate favorable policies that support these SMEs. These formulated policies done through the department of enterprise development, would ease the external environmental factors of the SMEs to a point that their potential growth is reached and surpassed without struggle.

The national government would benefit by comprehending the specific kind of economic development struggles that SMEs in Meru Chambers of commerce face which are different from other towns in Kenya. For example, if Meru SMEs were found not to effectively source and supply goods and services in ease especially the national government tenders because of low literacy levels, the government could facilitate a training to curb that.

Since every person in a society has either an SME or knows someone who does, this study would be beneficial to them as well. The society would be able to understand the basics of procurement practices that are done globally, regionally and other parts of Kenya. This would sharpen them on their next course of action especially related to development of SMEs since they have been deemed as main support entities towards the national income and poverty reduction in Kenya. If there are procurement practices that have worked in other areas, then when adopted they could improve SMEs.

This study would add new knowledge in entrepreneurship field when the influence of procurement practices and growth of small and medium-sized enterprises in Meru town

Kenya was known. Future studies could utilize this study as a point of reference when considering the field of SMEs.

### **1.7 Scope of Study**

The study was undertaken in Imenti north sub-county Meru, Kenya. Information was collected from registered SMEs located in Imenti north sub-county Meru which were categorized into supermarkets, hotels and restaurants, manufacturing firms, assembly firms, whole sale and retail outlets, and processing firm. Specific information was sought on stocks sourcing, procurement negotiations, bidding, inventory control, and also on growth of SMEs. This study however did not cover the turnover aspect of measuring growth of SMEs such as return on asset and net interest margin.

### **1.8 Limitations of the Study**

There were some SMEs being operational in different odd periods. For example, SMEs being operational in the evening and at night. This study minimized this limitation by using convenience sampling technique whereby the SMEs operational during data collection time were considered. The other limitation was due to the tough economical situations in Kenya, most SMEs had not complied with the regulations such as paying taxes and having updated business permits, hence feared participating in the questionnaires. This study tried as much as possible being sensitive and avoided heading to these areas since they were not the major areas of study.

### **1.9 Assumptions of the Study**

The study assumed that accurate information would be issued because Imenti north sub-county Meru, had cultivated entrepreneurial philosophy that leads to improvement in the

private sector causing fiscal development hence lowering unemployment and poverty levels in the region. This study also assumed that SMEs in Meru understood and had embraced procurement procedures and processes.

## **1.10 Definition of Terms**

### **Procurement bidding**

This is the administration of the procurement plan, selection of a suitable external source and facilitate the payments to end the procurement process (Okong'o & Muturi, 2017).

### **Procurement inventory control**

This is the process of inspection of stock (PPOA, 2007).

### **Procurement negotiation**

This is the expertise a business entrepreneur applies to ensure smooth flow of the procurement process and reap maximum benefits out of it (Okong'o & Muturi, 2017).

### **Small and medium-sized enterprises (SMEs).**

Small and medium enterprise entails firms that have staff between 10-100 and a turnover of Kshs 500,000 to Kshs 30,000,000 to distinguish between SMEs and other types of businesses (PPOA, 2007).

### **Stock sourcing**

This is the decision applied when tracing traders of the goods and services. (PPOA, 2007).

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter examined the previous studies covering key constructs of the study. The constructs were derived from the research objectives. These included: procurement stock sourcing, procurement negotiation, procurement bidding and procurement inventory control. Theoretical and conceptual frameworks are specified trailed operational framework.

#### **2.2 Theoretical Framework**

The present study was informed by two theories; resource-based view theory and game theory. Resource based view theory informed the study into investing variables such as procurement stock sourcing and inventory control management. Game theory informed the procurement negotiations and procurement bidding constructs of this study.

##### **2.2.1 Resource Based View Theory**

Resource based view theory was brought up first by Wernerfelt in 1984. It stated that an organization's value was based on the readily available internal resources it possessed (Wernerfelt, 1984). That is, the resources that were readily available for use in an organization, would aid towards its objectives attainment of being uniquely competitive in the market (Wernerfelt, 1984). These resources could either be tangible or intangible. Stocks were tangible resources that an organization possesses. Intangible resources were

knowledge and skills used especially on conduct of proper inventory control in an organization.

Resource based view theory was used in this study because an SME operator strived to ensure that it had quality products and knew how and where to store them effectively so that they did not spoil, break and were easily accessible when need be (OECD, 2004). The value, to which an SME derived in its operations, was highly linked to both tangible and intangible resources it had. It was one thing to source for stocks and it was another thing to ensure that the personnel in SMEs had skills to ensure that the sourced stocks were properly stored for efficiency in sales. Customers got attracted to an SME that always had quality products that were well maintained and which were easily available for sales (Gurbuz, 2017). This theory was used by Hitt et al. (2015) who agreed that the theory was commonly and widely used in operations management of many firms. Procurement stock sourcing and inventory control management were operations that SMEs performed to acquire and maintain them in their stores for future sales.

Resource based view theory was criticized in that the position of product markets was lowly emphasized by Priem and Butler (2001). The theory did not seem to indicate how both the tangible and intangible resources added value to the organization when sold through the market. This critique did not affect this study because liquidity growth of SMEs was measured by total sales, net income and total expenses amongst other variables. That meant the market position influence in resources of SMEs was vital.



### **2.2.2 Game Theory**

Game theory was developed by John von Neuman in 1959 (Neumann, 1959). Game theory guided in unpacking and investigating both procurement negotiations and procurement bidding constructs of this study. The theory involved a set of decision-making approaches that parties used when competing with each other to achieve a goal. When two or more people had a common goal of being selected as the winners of a common goal, they would tend to think of ways they could use. Game theory worked under assumption that competing parties made rational decisions every time. The theory served two purposes of coming up with ways of competing and also make decisions based on the situations at hand. The decisions made were entirely based on someone's point of view but they affected the competing parties in one way or another.

Game theory was adopted in this study because, in negotiations and bidding procurement processes, parties had to think of various approaches that can be used to achieve their intended goals. When an SME was negotiating to procure a product, they weighed the situation and who they were negotiating with to adopt various strategies in winning a negotiation. They could use competitive, collaborative, compromising, accommodating or avoidance amongst other types of negotiations. If an SME operator was more focused on achieving short-term goals rather than having a shared valuable contract with the other party, they would use competitive negotiation (Chandhok, 2019). If all parties in a trade were able to achieve their intended goals according to the contract, they used collaborative negotiation (Jazbek, 2019). When an SME operator abandoned some terms in favor of gaining others, they used compromising negotiation (Shepherd & Patzelt, 2018). In case of an SME tended to build relationship and give in to the interests of the interest issuers,

they used accommodation negotiation (Garcia et al., 2019). Avoiding negotiation occurred when parties involved in procurement did not like conflicts hence tended to tune their negotiation towards being passive aggressors since the outcome affects both parties (Shepherd & Patzelt, 2018). All these types were strategies that SMEs used to gain the intended objective.

In the bidding process, bids showed the value or the cost involved. A value was derived to the bidders who were mostly buyers while the cost was incurred by the bid originator who was the seller. Therefore, both parties were tasked to ensure that they derived the best out the bidding process. On one hand, the buyer utilized negotiation strategies that would convince the bid originator that they were the best compared to other competing parties. On the other hand, the bid originator used various tactics such as tougher requirements to ensure that they got the best value in the lowest price possible. Game theory had been priority used in a study such as Kembowski et al. (2017) on its application in construction industry. The study indicated how it could be used in decision making relating to bidding process of contracts in the construction industry.

Game theory was criticized that it was highly unrealistic and has little practicability. An entrepreneur was not fully aware of the strategies available to him, much less those available to his rival. SMEs could only have a guess of his and his rival's strategies. This limitation did not affect this study because the strategies that a SME operator could use when negotiating and bidding were known and indicated at the operational framework.

### **2.2.3 Welfare Theory of Economics**

The theory of welfare economics began by Adam Smith in 1776 but later advanced by various authors such as Jules Dupuit (1844), Heinrich Gossen (1854) and Leon Walras (1874) (Arthmar & McLure, 2017). They came up with a general equilibrium system anchored on key ideologies of utility maximization, cost management and profit maximization. Pareto (1909) combined all these ideologies and indicated that welfare grows if some people gain and nobody loses and it deteriorates if some people lose and nobody gains. This advancement by Pareto (1909) brought the light on welfare theory of economics as stated by Arthmar and McLure (2017). The theory sought to explain how market systems and goods allocation governed the overall well-being of SMEs (Arthmar & McLure, 2017). That is, there ought to be control framework so as to establish openings and control any potential dangers and maximize opportunities by utilizing allocated goods through various market systems. This utility of goods had to some extent impacted SMEs to enhance their procurement activities so as to remain relevant to these markets.

## **2.3 Empirical Review**

The study examined various past studies that had been done related to stock sourcing, bidding, negotiation and inventory control management.

### **2.3.1 Procurement Stocks Sourcing and Growth of Small and Medium-Sized Enterprises**

Procurement stocks sourcing comprised of decisions applied when tracing traders of the goods and services (PPOA, 2007). That was to say, procurement sourcing entailed basically looking for suppliers who offer the goods or services that an SME would need in their operations. The types of stock sourcing were international, local, prime arrangement,

conventional agreements and captive service operations (Hirschheim & Dibbern, 2009; Osano, 2019). International stock sourcing was when an SME got their products from another country apart from their country of origin (Arrigo, 2020). Local stock sourcing was when an SMEs got their products within their country of origin (Congressional Research Services [CRS], 2016). Prime arrangement was when a SME worked directly or sub-contracted with a big outsourcing company to distribute and arrange for procurement on its behalf in another area (Fadic, 2018). Conventional agreement was when two SMEs created a simplified agreement to allow for maximum cost reduction through utilizing economies of scale and expertise during sourcing of stock. That was, outsourcing their stock as one entity (Gregorio et al., 2009).

The indicators of procurement stocks sourcing comprised of quality of products provided, pricing of products to be supplied by different suppliers, distribution lead times, communication time intervals, regularity of price volatilities, acquiescence with conveyed terms, replacements made, quantity of back orders (Gregorio, 2009; Hoekman, 2018; IGC, 2019). According to ILO, (2016) and ITO, (2016) an effective procurement stock sourcing was necessary, cost-effective and acquired from efficient suppliers who delivered quality goods on time within specified purchasing terms.

The global procurement outsourcing market was generally doing well and expected to grow by 15 percent worth 4.2 billion dollars within the next three years (Market Research Future [MRF], 2019). MRF (2019) measured the international procurement outsourcing market while majoring on corporates in Ireland, France, America, and Spain. The report indicated that procurement outsourcing growth causal aspects were the growth of acceptance for such amenities by SMEs for leveraging exterior sourcing skills and technological knowledge;

growth of prerequisite for driving competence and efficacy in the supply chain hence scaling of the global procurement sourcing market; development of necessity for following governing rules and warranting compliance. MRF (2019) showed that apprehensions such as poor data discretion and dishonesty in the procurement sourcing have been inhibiting full growth. MRF (2019) did not look at the global pricing of goods and services that would be supplied. Inflated pricing could be a reason why international outsourcing markets were underdeveloped.

Masroor and Asim (2019) reviewed the coping of SMEs in America, Finland, Sweden, China, France and Denmark in the contemporary period of universal competition. Masroor and Asim (2019) confirmed that developed firms were rigidly challenging SMEs towards partaking in global market share. The SMEs had been having a procurement sourcing disadvantage of being restricted by investments, hence, hard to remain competitively relevant in the market; low trade leverage; and poor practices on efficiency sourcing. These issues were slowly being eliminated by SMEs in developed nations who were pursuing growth in market share by improving their purchasing power parity. Though it was a comparative study which compared the SMEs with the large firms, Masroor and Asim (2019) only looked at four factors such as capital investment, excess funds and liquidity; strong research and development; trade leverage; cost efficiency. A factor such as government policies which greatly affects how businesses operate was not identified in that study. Therefore, the present study considered what impact had government policies had on SMEs growth in Meru town.

A new revelation by Zimon (2019) assessed how SMEs joined together and performed their purchasing functions as a group. Zimon indicated that when several business entities

joined hands and works as a group, not only did that improve their performance but also their market position. That was through collective bargaining when a supplier was identified. Using 32 trading companies located in Poland branch group purchasing organizations, Zimon (2019) analyzed their performance ratios to arrive at that conclusion. The study indicated SMEs that joined together and started operating as a group, liquidity growth and stability was evinced. However, the study used ratio results documented on performance reports but did not look at the effects of change in management of these SMEs. This therefore created a gap to identify the opinion of SMEs owners operating in Meru town felt about operating as a group and how that influenced their management functions.

United Nations-Women (2017) examined the determinants for growth of women possessed businesses especially in relation to procurement sourcing. The study reported that gender-responsive procurement function had a constructive influence on success and high revenue on business ventures. Other determinants noted were: effective procurement policies especially related to sourcing; diversification of suppliers' awareness among women possessed businesses; and enhanced discretionary spending on sourcing. Nevertheless, the worries facing women possessed business procurement sourcing were scarcity of funding; absence of access to collateral; inadequate access to social capital; poor networking skills relying on family networks and friends; poor management aptitudes; unfair socio-cultural outlooks; and truncated confidence to outsource leading to single sourcing (United Nations-Women, 2017).

According to ILO, (2016b) global supply chains were developing phenomenon being adopted by business enterprises universally. The global supply chains had enabled business create sourcing connections that facilitate more efficient prices of goods; liveness and

dependability of supply processes; improvement of the quality of goods, enhanced compliances with procurement sourcing frameworks, sub-contracting opportunities for SMEs; greater market accessibility to identify diverse suppliers; sharpened sourcing skills by entrepreneurs in SMEs (ILO, 2016b). The report further stipulated that global supply chains development have been hampered greatly by price volatility, huge expenses incurred in supply sourcing process; poor labor circumstances; low gender fairness; and poor revenue generation for SMEs workers.

In developing nations, Israel (2019) studied on the purpose of public procurement in improving development of SMEs in Mbeya Tanzania. While using a target population of seventy-two SMEs and thirty-seven procurement institutions, Israel discovered that forty three percent of respondents did not intend participate in public procurement. The reasons given were long administrative processes; biasness; lack of financing; poor policies; corruption; and ambiguous sourcing frameworks. This study used a purposive sampling method to sample SMEs owner based on their knowledge, experience, and judgement of running their SMEs amongst other consideration. Purposive sampling could not have been the best approach because acknowledging how knowledgeable an individual was, depended on how well-versed they were on a topic in view. Getting to know this kind of information, required interaction in terms of interviewing or a prior questionnaire to prove that one was knowledgeable before issuing them the main questionnaire for the study. However, the study did not explain how they verified SMEs owners were knowledgeable, validating a conclusion that the study was biased.

Mungai (2019) studied on how the performances of banks was affected when there was organized practices of acquiring goods and services. Mungai (2019) while using KCB

ascertained the supplier relationship administration, procurement information systems and planned sourcing. Mungai (2019) pinpointed that supplier relationship administration led to enhancement of the goods bought with proper evaluation of the suppliers before engaging the suppliers; procurement information systems aided in understanding the culture of suppliers towards having transparent purchases; planned sourcing enabled the banks have a flowing chain of suppliers who were willing to supply at any time without causing a hitch in the procurement process and compliance with the procurement laws. The study collected data from top management, middle management, low management and procurement officers who were 14,57,113 and 10 respectively. Procurement staff population being lowest limited the study on the quality of responses. This was because they were the most directly involved personnel in sourcing procurement practice.

Mueni (2018) engrossed on the influence of strategic sourcing practices such as planned outsourcing, converse logistics, and information administration on performance in Kenya Airport Authority. A noteworthy conclusion was that inventory management did not have a constructive importance on government entities in Kenya. Mueni (2018) concluded that planned outsourcing had a constructive importance on impact of performance of government entities in Kenya. This finding raised a need to know whether planned outsourcing had any impact on non-government entities such as SMEs in Meru town.

A study done by Munanu (2017) noted that vital sourcing improved cost productivity in police training college stores in Embakasi Nairobi. That was to say that when an organization entity took care on the sourcing function, there was a high likelihood that there were less expenses in knowing what, where, and how to outsource. A firm therefore ensured that they had well planned on the sourcing of products and services.



According to Nyakundi (2018), procurement best practices such as green procurement, supplier partnership, digitalization and ethics on purchasing, significantly influence and procurement performance of SMEs in Nairobi County. The study that was carried in 45 randomly selected SMEs. The results showed that decreasing information pursuit charges for suppliers, short lead time delivery of goods and professionalism in procurement of quality goods are some of the outcomes of procurement best practices. This study used 10 percent of the entire population. This showed that in as much as the 45 SMEs were above the 30 threshold of target population, it still did not fully represent the whole population exhaustively. This meant that the sampling method was not appropriate in this kind of study which had huge target population.

### **2.3.2 Procurement Negotiation and Small and Medium-Sized Enterprises**

Procurement negotiations were the expertise a business entrepreneur applied to ensure smooth flow of the procurement process and reap maximum benefits out of it (Okong'o & Muturi, 2017). The types of procurement negotiations were competitive negotiation, collaborative negotiation, compromise negotiation, accommodative negotiation, and avoidance negotiation (Chandhok, 2019; Jazbek, 2019). Competitive negotiation was a type where one party involved was more focused on achieving short-term goals rather than having a shared valuable contract with the other party (Chandhok, 2019). Collaborative negotiation was where all parties involved were able to achieve their intended goals according to the contract (Jazbek, 2019). Compromising negotiation was a type where an entrepreneur subsequently abandoned some terms in favor of gaining others (Shepherd & Patzelt, 2018).

Accommodating negotiation was a type where the entrepreneur tended to build relationship and give in to the interests of the interest issuers (Garcia et al., 2019). Avoiding negotiation occurs when parties involved in procurement did not like conflicts hence tend to tune their negotiation towards being passive aggressors since the outcome affects both parties (Shepherd & Patzelt, 2018). The indicators of procurement negotiations were delivery periods, payment standings or the quality of the goods supplied (UN, 2017). An effective procurement negotiation structure attained the maximum value of money spent on purchasing (Chandhok, 2019; UN, 2017).

Various studies were documented globally on negotiation aspect. In Europe, United Kingdom exit from European Union greatly affected business entities negotiation advantages (University of Plymouth [UP], 2019). The study conducted by University of Plymouth in England assessed how various relationships could be built since there was division in European Union due to failed negotiations. UP (2019) complained that the effects of Brexit have trickled down to business entities making them struggle a lot while negotiating deals with external parties in the international markets.

There were worries such as uncertainty on the future of economic growth; vagueness of business funding; poor guidance on policies to be applied by the UK government to SMEs; marginalized people who have SMEs, had no more access to financial back-up from the government; weak economic muscle to offer solid negotiation to internal clients by UK SMEs; and cultural differences. UP (2019) indicated that it interviewed 40 stakeholders but did not clearly state who these stakeholders were hence vagueness on the respondents. The present study used questionnaires to gather data on the challenges faced by SMEs in

Meru town as a result of failed prior negotiation skills by the identified business owners or the personnel that were present during the data collection period.

Valencik and Cervenka (2018) studied on negotiation in SMEs' environment analysis using the game theory approach. The study had built up an argument that comprehended the purpose of partiality in a negotiation permitted one to improve their negotiating skills and achieve greater reward for that. An entrepreneur prepared well and took advantage on the values entities expected to receive out of the negotiation (Valencik & Cervenka, 2018). The study applied Nash bargaining problem model in explaining this phenomenon. This model typically explained how two parties shared their mutual generated profits in considerable amounts looking for equilibrium points. Though this model was widely used, it proved to be a challenge where one entity was risk averse on the nature of business undertaken to generate profits. This made them invest a smaller amount. However, when the business ventures turned out to be profitable, they would suffer a greater loss of profits.

Lopez-Fresno et al. (2018) studied the purpose of trust in integrative negotiations. The study was driven by the fact that for negotiation to take place, trust has to be foundational since parties had to trust each other especially on the information and knowledge input. Lopez-Fresno et al. (2018) revealed that comprehending cultural, political, economic, technical know-how, communication aptitudes and language variances influenced the negotiation process. The study however applied auto-ethnography research method which involved a researcher sharing their own personal experiences and using the experiences to critique a cultural belief being investigated. Although this research method was appropriate for that study, it could not be applied to SMEs considering their diversity and numbers. The auto-ethnography works well where population is small. The current study considered

other research methods such as descriptive research design in identifying the influence of negotiation on SME's growth in Meru town.

According to Prado and Martinelli (2018), entrepreneurs always had a flexible mind since negotiation process could force them to change the approach used when negotiating. On their study on examination of negotiation approaches between people buying and selling, Prado and Martinelli (2018) used multiple case study technique in evaluating the negotiations that existed between suppliers of inputs and rural producers located in Brazil (50 percent) and the other 50 percent in America. The key results indicated that due to the worth of relationships, many entrepreneurs decided to use integrative strategies. The study failed to incorporate the government policies which were key factor in ensuring any trading was done successfully.

A book written by Voss and Raz (2016) about sharpening negotiation skills to a point of closing any deal depicted a competitive type of negotiation skill. In addition, Voss and Razz (2016) pinpointed that one had to avoid outdated negotiations skills and concentrated more on the heart and mind of the other party negotiating with. The book further indicated that one could not get emotional while negotiating; learning to establish a quick way of beginning a rapport; ensuring that trust was easily developed; beginning a momentum of negotiation; persuasion skills on what was fair to both parties; incase conflict arose, draft of questions that could change that to collaboration skill could be enhanced; and conviction that a party would play their part. In relation to SMEs' growth, the competitive negotiation skills determined their success or failure in the economy. The present study evaluated SMEs respondent's competitive negotiation skills in Meru town.

In developing nations such as Africa there were developments on negotiation to ensure trade terms within African nations were favorable (Africa Growth Initiative [AGI], 2019). While looking at the accomplishment of negotiations pertaining African Continental Free Trade Area (AfCFTA), AGI in 2019, indicated that twenty-two African nations approved AfCFTA to begin in Africa. AfCFTA which was the second after World Trade Organization (WTO) entity to be established would ensure that Africa would have a joint customer and business expenditure shy of 7 trillion by 300,000 American dollars by 2030. This report gave the kind of economic benefits an effective negotiation approach can achieve when properly done.

According to AfCFTA (2019), positive influence on manufacturing and industrial development, tourism, intra-African cooperation, and economic transformation. Further supported by International Monetary Funds in 2018, the trade agreement would enhance efficacy in goods, improved market access and resource allocation. The negotiations had not been fully completed yet. The remaining parts included nations' plans of tariff franchises and services assurances, guidelines of origin, investment, intellectual property, and competition.

Mochoge (2017) concentrated on how effective Kisii's Niavas supermarket's material pricing was caused by negotiation approaches. The study built up that the utilization of competitive negotiations in the supermarket encouraged choice of suppliers anchored on best prices. Mochoge (2017) also established that edifice of trust was the most active collaborative negotiation approach to have reliable long-term supplies. The study also gave a finding that efficient material pricing fairness was founded on the presence of sharp compromising negotiations. The study used 30 percent of the sixty employees leading to

eighteen employees which was a very low sample and did not meet the threshold of 30 respondents in a study.

### **2.2.3 Procurement Bidding and Growth of Small and Medium-Sized Enterprises**

Procurement bidding was the administration of the procurement plan, selection of a suitable external source, and facilitation of payments to end the procurement process (Okong'o & Muturi, 2017). The types of procurement bidding were negotiated bid, managed bid, integrated bid, traditional bid and lowest bid (Ballesteros-Pérez et al., 2015; Nguyen et al., 2018). Negotiated bid was where an entrepreneur convinced that they would deliver more quality service or products to a second party compared to other competitors (Nguyen et al., 2018). Managed bid was a type where an entrepreneur operated bid for a project within the correct time and financial parameters, and manage the relationship with the customer (Nguyen et al., 2018).

Integrated bidding was a bidding approach used in making a decision based on all information received (Nguyen et al., 2018; Okong'o & Muturi, 2017). Traditional bid was a type of bidding where an expert in cost allocation was selected to estimate the total costs of a project then releases this estimate to potential bidders (Ballesteros-Pérez et al., 2015). Potential bidders who were mainly entrepreneurs participate based on whether they agreed to undertake the project based on the projected total costs of the project (Nguyen et al., 2018; Okong'o & Muturi, 2017). Lowest bid was a type where the lowest approachable and accountable bidder was granted the project (Nguyen et al., 2018).

Indicators of bidding in an SME included number of submitted contracts either manually or online for consideration in various companies, value of awarded bids, number of

awarded bids, and costs incurred for bidding process (World Bank, 2016). Effective bidding in an SME was transparent by stating all the details on the requirements, had a time frame of submission, competitive and legal (Donor Committee for Enterprise Development [DCED], 2017; Global Partners and Associates [GPA], 2012).

Bidding done by SMEs at a global perspective was a vital component towards their growth and development. A comparative analysis done by Ancarani et al. (2019) on Canada, Hungary and Italy, showed an SME welcoming approach towards public procurement. The study elaborated that in these countries, prior aspects that are normally considered as inhibitors in bidding process such as administrative requirements and award based on the lowest price were not. This was because the three developed nations had put into place measures such as regulation bodies that ensured goods produced pass safety standard marks; considerable taxation on products in these countries; and availability of credit that had very low interests payable over longer duration of times. These measures gave a leeway to bidders to comfortably lower their costs of undertaking a project and also assure quality work because the tools and products used were certified as standard. The study also gave challenges faced by bidders which were mainly low human capital in terms of skills required and experiences. Since the study studied three nations, it was necessary to also consider foreign exchange volatility contribution to bidding process which was not done.

A review done by Carbone et al. (2018) on the barricades that limited foreign organizations to participate in international public procurement markets confirmed that there were prior trade agreements that were not being followed to allow frequent participation in public procurement by international organizations. The barriers were high tariffs for foreign firms to engage in local bids; direct award of contracts to local bidders without proper

assessment; compulsions to supply products with only domestic inputs; mandatory requirement for foreign firms to have subsidiaries in the local nations to participate in bids; and heavy costs on bidding process. Carbone et al. (2018) stipulated that the recommendations made to improve parity bidding in both foreign and local firms were to have a more integrated databases that contained information of organizations and tender characteristics; and ensuring that there was qualitative assessment of discrimination in procurement market; evaluation of procurement documentation. In the present study, there was need to acknowledge the challenges that SMEs in Meru town that participated in international and local bids face.

Looking at the reasoning behind why developed governments encourage SMEs to be part of bidding processes, Flynn and Davis (2017) used the capability-based model of tendering to explain the move. Flynn and Davis (2017) noted that SMEs were the focal points behind every nation globally but they had not been fully participating in bidding processes especially on both local and national governments tenders. There was a gap from what SMEs offered and the requirements of public purchasing authorities; slow payments; too much bureaucracy of paper work; competition from large firms that push prices very low a point that SMEs were not viable to participate; very general requirements of bids; a long time to wait before receiving feedback on applied bids; and very demanding deposit for bids.

To curb these challenges in developed nations, there were measures put into place by various nations. For example, Ireland founded small business innovation research center to help SMEs draft bids more easily. The Canada innovation program support procurement prospects for SMEs with innovative products that require testing before being involved in



bidding. In Korea, first chance was given to SMEs, developed technological products which improved 10 percent of SMES sales that are done through bidding process. Greece put laws that mandated one of the bidding requirements to be green procurement. The country later developed policy for green procurement whereby SMEs were the major participants to encourage them to be participating in bidding. The study however majored on public procurement bids only and left out private biddings. The present study ventured on asserting some of the opportunities and challenges faced when SMEs in Meru town participated in both public and private biddings.

Fadic (2018) looked into on the effects of government procurement and the growth of small firms such as SMEs. Fadic (2018) concentrated on the causal influences of demand shocks on SMEs in Ecuador to ascertain whether there was a positive effect of demand shock to growth of small SMEs. The study noted that SMEs who were awarded bids had more growth on their gross revenues, wage expenses and fixed and current assets than the one that did not get awarded. Fadic (2018) further stated that the reason why government procurement was more widespread than private procurement was because it was more profitable and less risky than private ones. Once a firm was awarded a government bid, it improved its reputation and future prospects of more business from the government and non-government entities.

Fadic (2018) noticed that SMEs were struggling a lot to be recognized in bidding process. This was attributed to inadequate policies on bidding; and the fact that many SMEs did not know how effective bidding was done to get awarded a tender. The study recommended that SMEs should be given priority over large firms in bidding process to showcase their capacity and to grow; more policies be made to support transparent bidding; and more

training to be offered on how SMEs can participate in an effective tender writing that will improve their chances of being awarded the bid.

The World Bank report (2018) on public procurement and the private business sector, which considered 59,000 firms across 109 economies, discovered that the firms in countries that had good procurement systems were more likely to participate in public procurement. World Bank (2018) also revealed that there were low corruption rates and fewer losses by firms located in countries that had good public procurement systems. World Bank identified that countries with favorable public procurement had put bidding measures such as having robust public procurement database which were transparent to users; the main lifecycle of bidding such as bid preparation, bid and contract management, and payment of supplier was well comprehended; and aggregated score of public procurement that measures the quality of procurement. Bidding lifecycle period was very different in diverse nations. It could not be assumed that all the countries that had good procurement systems had a low bidding cycle as it was not indicated. There was need to acknowledge some of the minutiae of length of bidding cycle and how that impacted SMEs in Meru County in Kenya.

In developing nation such as Lebanon, IGC (2019) did a study on how SMEs participation can be strengthened in public procurement. The report recommended improvement of bidding such as enhancement of integrity and quality bids processes which follow procurement standards; developing openness of bids by publicly declaring intention to accept bids; lowering costs associated with bidding; facilitation of timely payments to SMEs that had accomplished the projects; and consideration of all bidders especially equating both SMEs and larger corporates in bidding. These recommendations were as a

result of ambiguity in public procurement bidding that is going on in Lebanon for some time. There were issues pertaining SMEs not being considered in the restricted type tendering systems because of corruption in the public procurement; old systems of public procurement were still in use; and there were reported divisions especially between bidders of open tendering where SMEs bidders did not stand a chance at all due to their small financial stability structure. This study did not indicate the development of policies made towards people living with disabilities.

Lewis-Faupel et al. (2016) did a study to assess whether using electronic procurement could reduce corruption cases in public works offices in India and Indonesia. Their study notes some improvements as a result of e-procurement. Road quality was increased in India while delays in bidding process were reduced. The study discovered that provinces that emphasize usage of e-procurement had more qualified bidders from outside the provinces and the ones awarded ensured quality road works was done. Lewi- Faupel et al. (2016) recommended need for more trainings that cover various e-bidding users. Other recommendations included development of policies to factor in other businesses such as SMEs who could provide diverse products and services, increasing awareness to improve the bidding process through the online platforms. Lewi- Faupel et al. (2016) entirely missed out on acknowledging that cyber security threat could hamper the effectiveness on e-bidding. This was because, if e-bidding was proving to be the most preferred method of getting tenders, hence, there was increased cases of hacking attempts. In relation to this study, there was need to ascertain the SMEs had been battling the issue on computer security as they engaged in bidding processes.

In Kenya, Amayi (2019) studied on how public procurement affected growth of micro and small enterprises in counties in Kenya. Amayi (2019) based the study in Trans Nzoia, Bomet and Kajiado. Out of the 155 respondents in SMEs, only 57 of them agreed that they were participating in the bidding of public procurement. The reasons for this low participation were because of discriminatory distribution of tenders; poor ICT facilities to enable them participate in e- bidding, and ineffectual levels of SMEs capacity to bid. Amayi therefore concluded that there was need for SMEs training on how to bid; the bidding process; more legislative support from county governments on bidding. Also, recommendation was the need SMEs to form groups through which they could participate in bidding process for effectiveness; and establishment of ICT hubs in the area. There were highlights on the study on the developments done towards bidding such as, the initiatives by Kenyan government spending more by at least 70 percent of the annual national budget towards supporting public procurement. There had also been review of Public Procurement and Disposal Regulations [PPDR] ACT of 2006 to factor in the chance of getting to Government Procurement Opportunities [GPO] program by SMEs in county governments. This gave the current study an opportunity to establish whether SMEs in Meru town had participated in any bidding programs such as the GPO program.

Financial capacity, contractual capacity and bidding requirements had a positive influence on effective procurement contract awards in the county government of Migori, Kenya (Odhiambo & Kwasira, 2019). The study by Odhiambo and Kwasira (2019) also discovered that the county government was leaving slots of bids to women and disadvantaged groups in the society so that they could also participate in the bidding. There was also credit extension to bidders by financial institutions as long as they provided bid

award documentation. The study recommended that there should be an appraisal of bidders to award them based on the procurement contracts award criteria. Further, Odhiambo and Kwasira (2019) said that government should conduct entrepreneurship refresher trainings where SMEs were frequently trained on how to bid effectively so as to stand a chance of participating in wider spectrum. This created a need-to-know what training on bidding was present in Meru town SMEs.

#### **2.2.4 Procurement Inventory Control and Growth of Small and Medium-Sized Enterprises**

Procurement inventory control was the process of inspection of stock (PPOA, 2007). Types of inventory control systems that existed in literature are: just in time, economic order quantity, FIFO, re-order point formula, ABS analysis (Etale & Bingilar, 2016; Muchaendepi et al., 2019; Mwangi, 2016). Just in time was a type of inventory control where products were delivered when they were needed and used immediately (Muchaendepi et al., 2019). This was very common when handling perishable food items. Economic order quantity was where an SME was able to distinguish between them having low stock or too much stock (Muchaendepi et al., 2019).

First in first out abbreviated as FIFO was a type where good that came first in the SME's store and utilized first to avoid spoiling (Otuya & Eginwin, 2017). Re-order time interval was period where there was enough time for placing an order and receiving it (Etale & Bingilar, 2016). ABS analysis was a type where goods were placed according to low, medium and high quality (Muchaendepi et al., 2019). The indicators of inventory control were: inventory turnover, average inventory, holding costs, lead time and rate of return

(Breivik, 2019). An effective inventory control ensured there was a profitable balance between stock that came in and stock that went out (Sitienei & Memba, 2016).

Developed nations such as Norway had advanced inventory control systems. The study by Breivik (2019) used inventory turnover as a degree of inventory performance and noted that inventory performance increased as a result of positive effects of retail chain affiliation. The main challenge facing inventory performance as noted in this study was the deterioration in inventory productivity. The study further noted that several approaches of inventory managements were used in different types of business settings. They included: fixed quantity structures and fixed period structures; economic order quantity; and base stock policy. The study dwelt on only SMEs related to hardware, paints and glass sellers and negated collecting data from SMEs of other industries.

Ahmad and Zabri (2016) assessed how Malaysian Micro Retailing Enterprises (MMRE) manage their stock. The study noted that although not all, MMREs had organized techniques that they used in their operations. The stock management methods were economic order quantity, vendor managed inventory and bar code tagging. Interestingly there was no mention of other stock management methods such as just in time, FIFO, re-order point formula and ABS analysis. Malaysia being a developed nation could not lack these modern methods of stock management. Ahmad and Zabri (2016) agreed that organized techniques reduced storage costs, improve flexibility, improved customer service conveyance and improved the profits.

Khaled and Hayam (2016) revising the association between inventory management and firm performance, concentrated on econometric model scrutiny. The results established

that sales ratio influenced firm's performance negatively in the commencement and final phase of the model. However, there was a good connection at growth and revival phase of the model. Khaled and Hayam (2016) revealed that some of the measures done to improve inventory management were use of just in time which enhanced earning per share due to inventory turnover. There was emphasis to add formal cost controls on the inventory management. The present study assessed some of the inventory control measures put into place by SMEs in Meru town.

Muchaendepi et al. (2019) assessed the inventory management approaches used by SMEs in the manufacturing segment of Harare and how that was affecting their performances. The study used 244 respondents in Gleview complex, Siya So Mbare, Kuwadzana, Gazaland and Magaba. An approach such as Just in time was found to be mostly used in inventory management in the manufacturing segment. Muchaendepi et al. (2019) confirmed that as a result of this approach, there was need for constant communication with suppliers to avoid frequent delays to avoid losing customers in huge numbers. This study reported some inventory control measures adopted by SMEs. They included: high use of less complicated systems such as Alliance Manufacturing (Exact Software), MFG/PRO (QAD) and All- in One (SAP); heightened production technology; innovative production forecast; using other systems such as ABS analysis and economic order quantity; and material requirements planning to know how many materials were needed (Muchaendepi et al., 2019).

The study Muchaendepi et al. (2019) adopted purposive sampling method in getting SMEs operators who were capable of answering the questionnaires. The study did not reveal what

factors (inclusion and exclusion criteria) that assisted the researcher in making this judgement.

Otuya and Eginwin (2017) worked with a sample of 30 firms drawn from furniture manufacturing, wholesale and eatery industry in Delta State, Nigeria, whose administrators or accountants answered the questionnaires. The study established that there was a positive relationship between inventory turn-over and fiscal performance of SMEs. The study also noticed inventory conversion interval had a negative influence on profitability. Otuya and Eginwin (2017) stipulated problems engulfing management of stocks in Nigerian SMEs such as excessive stocks in the store causing huge inventory holding charges; stock taking; theft of stock by employees; losses due to much spoilage of the stocks; and outdated inventory storage techniques. The study pinpointed that SMEs in Delta state were reducing these challenges by use of just in time techniques and more trainings done on how to optimize inventory management technique. Just in time method involved requesting supplies when they were needed. The study skipped explaining what measures were put into place to ensure goods were always available from the suppliers when needed. These measures could be paying a down payment for the most frequently ordered goods.

Etale and Bingilar (2016) examined secondary data from the annual reports and accounts of selected brewery firms from the Nigeria Stock Exchange from 2005 to 2014 to ascertain the effect of inventory cost management on profitability. Using the multiple regression technique, the study found out that efficient inventory cost management had a positive effect on profitability of brewery firms in Nigeria. The study recommended that brewery companies should adopt effective and efficient inventory cost management practices; deploy appropriate modern technology for effective inventory cost management; and



employ capable and qualified staff who should be trained regularly on proper and efficient inventory cost management. There were however no uniform procedures of cost accounting meaning inventory cost management would be done differently as adopted by various firms (Sitienei & Memba, 2016). This would lead to cost disadvantage where firms would be unable to create, produce, acquire, transport or distribute goods to customers at rates equal to or better than competitors. The study did not handle what techniques were used by various breweries firms in Nigeria to reduce cost disadvantages emanating from inventory cost management.

In Kenya, Sitienei and Memba (2016) did a study on how cement manufacturing companies in Kenya were managing their stock and the effect it had on their profits. Inventory turnover and conversion time interval was depicted to be connected to negative profitability due to storage costs (Sitienei & Memba, 2016). The study pin-pointed that delays experienced when converting inventory and the management decision to trade off their inventory turnover caused low profitability. Sitienei and Memba (2016) exhibited some of the techniques that were used in reducing issues faced in inventory management. These techniques included adoption of advanced technological inventory management systems such as ABC analysis and economic order quantity to avoid shortage of stock; enriching the inter-organizational networks to improve sales of products to avoid over storage issues; engaging in diverse markets to disseminate products as quick as possible to avoid products being outdated.

Mwangi (2016) in Nairobi County, studied to ascertain whether stock inventory had an influence on economies of scale. Mwangi (2016) discovered that there was conflict especially related to striking balance between economies of scale and overstocking in

stores. The study involved six breweries' organizations in Nairobi. Mwangi (2016) established that inventory management positively influenced firm profitability and operating cash flows of Kenya Breweries beer distribution firms in Nairobi County, Kenya. The major discoveries on what had been done pertaining inventory management were that many large firms had adopted methods such as the action level methods, just in time, economic order quantity and periodic review methods. Therefore, since Kenya breweries limited lagged behind in inventory controls, Mwangi (2016) recommended that effective inventory management practices like just in time and material requirement planning should be adopted. The study left out other measures such as ABC analysis and batch tracking methods of stock control.

### **2.3 Summary of the Research Gaps**

The literature related on procurement of stocks shown that there was global awareness on the emphasis put on acquiring quality products. However, the challenges experienced in stock sourcing included: poor data discretion; dishonesty in the procurement sourcing; restriction by investments hence hard to remain competitively relevant in the market; poor practices on efficiency sourcing; and scarcity of funding stood out in the reviewed literature. These aspects gave rise to assessing the influence of procurement sourcing on growth of small and medium-sized enterprises in Meru town Kenya.

In procurement negotiations, SMEs uncertainty of economic future's growth especially in business funding seem to lead the way in the gaps noticed. Poor receptibility of policies, Women owing SMEs found themselves not being able to negotiate more than their male counter parts and had a hard time accessing credit from financial institutions especially on

a new SME. The reviewed gaps gave the green light to dig deeper on some of negotiations practices used in SMEs in Meru County and how that had impacted their progress.

Literature on procurement bidding discovered that most SMEs bided in government related bids more than private bids because of profitability. That notwithstanding, there were gaps identified especially pertaining to the experience, knowledge and skills on bidding process in both developed and developing nations. SMEs in developing nations were seen to be struggling a lot to be recognized in bidding process as SMEs did not know how effective bidding was done to get awarded a tender. Inadequate policies on bidding, corruption in the public procurement; old systems of public procurement were still in use; and heavy costs on bidding process are among the gaps that are also discovered from the literature. The current study took a step further to pinpoint whether there were any common issues when the context changes to SMEs in Meru County in this study.

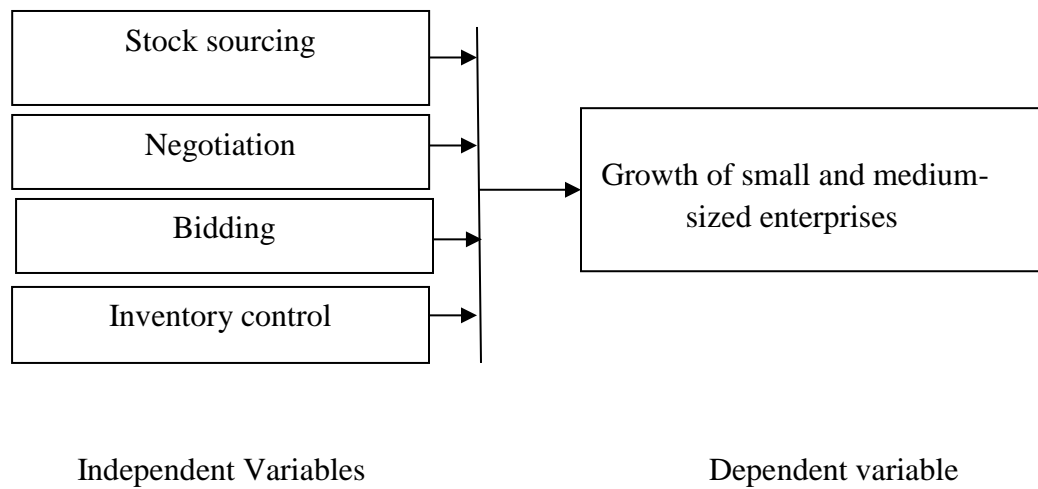
In Inventory control, studies reviewed depicts a picture of aggressive awakening on how SMEs were previously managing their stocks. Despite this evolution, menaces such as outdated inventory methods, frequent delays, hence losing customers in huge numbers, deterioration in inventory productivity had been disturbing the progress of the evolution. SMEs found themselves having excess stocks in their stores causing huge inventory holding charges; there was poor stock taking; theft of stock by employees; and losses due to much spoilage of the stocks. These concerns guided the current study to precisely know how to approach inventory control from an angle of acknowledging its contribution to development of SMEs in the current study.

## 2.4 Conceptual Frame work

A conceptual framework is the description of the relationship that variables of the study have drawn in a figurative form. Figure 2.1 shows the conceptual framework of this study.

Figure 2.1

*Conceptual framework*

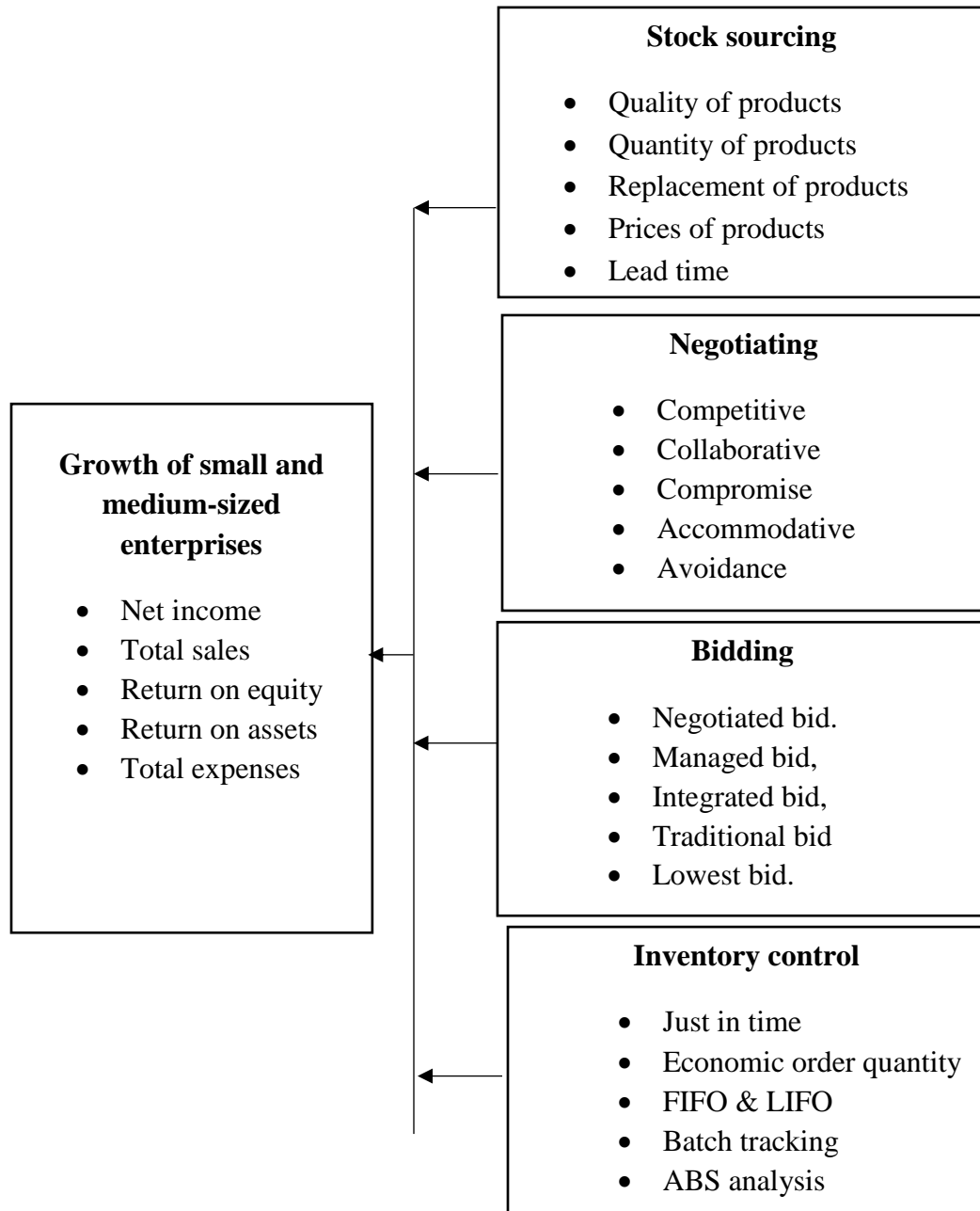


Source: Researcher, 2021

The dependent variable in this study was growth of small and medium-sized enterprises located on the right while the independent variables were stock sourcing, negotiation, bidding and inventory control. The independent variables were located on the left.

Figure 2.2

*Operational framework*



**Dependent variable.**

**Independent variables**

### **2.4.2 Description of Variables**

Growth of small and medium-sized enterprises was the dependent variable in this study. It was quantified by net income, total sales, return on equity and return on assets. Independent variables are stock sourcing, negotiating, bidding and inventory control. In stock sourcing, variables that were quantified were the quality of products, quantity of products, replacement of products, prices of products and lead time (Fadic, 2018; Gregorio et al., 2009; Osano, 2019).

In negotiating, variables that were quantified were competitive negotiation, collaborative negotiation, compromise negotiation, accommodative negotiation, and avoidance negotiation (Chandhok, 2019; Jazbek, 2019). In bidding, variables that were quantified were negotiated bid, managed bid, integrated bid, traditional bid and lowest bid (Ballesteros-Pérez et al., 2015; Nguyen et al., 2018). In inventory control, variables that were quantified were just in time, economic order quantity, FIFO & LIFO, batch tracking, abs analysis (Etale & Bingilar, 2016; Muchaendepi et al., 2019; Mwangi, 2016).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter addressed research methodology that was used when collecting data in this study. It covered location of the study, research design, target populations, sampling technique and sample size, data collection instruments, the procedure of collection of data, data analysis and ethical considerations that will be observed.

#### **3.2 Location of the Study**

The area of a study determined if the information gathered helped in underpinning the precepts of the study. This study was located in Imenti North Sub-County Meru, Kenya. Imenti North Sub-County was one of the leading sub-counties in Meru County, Eastern Region of Kenya. Meru County was one of the forty-seven counties of Kenya, located in the prior Eastern Province. The location was selected for this study due to vibrancy of SMEs in the area. SMEs were largely concentrated in urban areas, and that most urban centers were within Imenti North. There were 25 SMEs in the region that had employed between 10 and 100 employees (Meru County, 2018a; NCLR, 2005,2012). This meant that the location provided a reliable number of respondents that ensured that collected data addressed the objectives of the study. Imenti North Sub-County was also chosen because most of these SMEs had been registered and recognized by the county government of Meru (Meru County, 2018a).

### **3.3 Research Design**

A research design was the strategy that a researcher wished to utilize when conducting a study, and be able to handle the research problem conclusively (Mugenda & Mugenda, 2003). This study used descriptive survey research design. It was used because the researcher was able to gather information that describes the subjects without affecting the way they operate. This type of design was used previously in related studies such as by Mochoge (2017) in evaluating how negotiation plans affected the prices of materials at Nivas supermarket in Kisii town. Mungai (2019) also used descriptive research design in reviewing procurement practices and how they influenced financial performance of banks.

### **3.4 Target Population**

A target population was basically when a group of elements had similar characteristics that were of interest in a study (Babbie, 2014). The target population for this study was the registered SMEs in North Imenti Sub-County (Meru County, 2018b). Micro and Small Enterprises Authority Kenya was the body which was responsible for registration of various new SMEs in Kenya (NCLR, 2012). The institution only registered a small and medium enterprise which had met the threshold of having staff between 10-100 and have a turnover of Kshs 500,000 to Kshs 30,000,000 (NCLR, 2005, 2012). There were 23 SMEs in Imenti North sub-county Meru which were indicated in appendix III (Meru County, 2018b). These firms had a personnel range above 10 to 100. The 23 SMEs were categorized into supermarkets, hotels and restaurants, manufacturing firms, assembly firms, whole sale and retail outlets, and processing firms (see appendix III). Questionnaires were responded by heads of department from sales and marketing, operations, compliance, finance and procurement derived from the 23 SMEs. These five departments were the ones involved in



various procurement processes such as stock sourcing, negotiation, bidding and inventory control in any organization. Managers were the best respondents since they had immense knowledge relevant for this study's objectives, and their responses were sufficient.

### **3.5 Sampling Technique and Sample Size**

According to Cooper and Schindler (2012) and Babbie (2014), this was a method through which a researcher chose a sample to represent whole population and which would be viable in a study. This study adopted simple random sampling technique where table of random numbers was used so as to sample the SMEs that participated in the study.

#### **3.5.1 Sample Size**

A sample size of 30% of the entire target population was considered. That was 30 percent of 23 SMEs to have 7 SMEs as the sample size. Babbie (2014) advised that a sample size of 10% - 30% can be used to effectively represent a population. Therefore, the study considered only 7 SMEs from different categories as the study's sample size. This is indicated on Table 3.1

**Table 3.1***Sampled population*

SME	Total SME Population	Total Sampled SME population
Supermarkets	4	1
Hotels and restaurants	10	2
Manufacturing firms	1	1
Assembly firms	2	1
Whole sale and retail outlets	3	1
Processing firms	3	1
Total	23	7

Source: Meru County Government

Data was provided by managers from sales and marketing, operations, compliance, finance and procurement from each sampled SMEs. The managers were distributed across the sampled SMEs as shown in Table 3.2

**Table 3.2***Distribution of Managers at various SMEs*

SME	Sales and Marketing managers	Operation managers	Compliance managers	Finance managers	Procure managers	Total
Supermarkets	1	2	1	2	1	7
Hotels and restaurants	3	3	3	3	3	15
Manufacturing firms	1	1	0	1	1	4
Assembly firms	1	1	1	1	1	5
Whole sale and retail outlets	1	1	1	1	1	5
Processing firms	2	2	2	2	2	10
Total	9	10	8	10	9	46

Source: Meru County Government

**3.6 Data collection instrument**

Copper and Schindler (2012) defined data collection methods as devices utilized by a researcher to gather information from respondents. This study used questionnaires as the main data. A questionnaire was the most preferred data collection tool because it was more convenient and cost-effective tool as compared to other methods of data collection. The questionnaire used in this study is provided in appendix II. It had five sections. The first section had demographic details of SME head of department. The other four sections had questions about the variables in current study, these are: procurement sourcing, negotiation, bidding and inventory control. The reviewed past studies in chapter two gave insights on the approach to be used when asking the questions. Mostly, the gaps identified were

referenced to ensure that the questions asked were relevant and applicable to the objectives of the study. The questionnaire was closed-ended in nature and had statements that were on a rating scale of 5 ordinal scale level. These 5 ordinal scale levels were 1- strongly disagree; 2- disagree; 3- Neutral; 4-agree; 5- strongly agree (Likert, 1932). The SMEs operators were supposed to indicate their level of responses on various statements indicated. This kind of scaling of statements enabled the study have a cohesive and grouped responses that gave the general direction to the study after analysis.

### **3.7 Pre-testing**

Pre-testing was conducted to ensure that the questionnaires were at par with their intended purpose (Sullivan, 2011). Pre-testing was an important procedure to follow to ensure that the questions are not ambiguous or unrelated to the study. Pre-testing of questionnaire was conducted on one manufacturing SME which is Meru greens located in Igembe central sub-county in Meru County. The SME in Igembe central sub-county were not included in the final study. Igembe central sub-county was picked because it was also located in Meru County hence sharing the same geographical attributes. Purposive sampling method was used to select the head of departments in procurement, sales and marketing, and operations will be issued with the questionnaire. The researcher waited for 10-15 minutes as the three pre-test respondents filled in the questionnaires and also as the researcher clarified any ambiguous questions raised. The study was keen on noticing whether the respondents in the pre-testing were able to effectively answer all the questions or not.

#### **3.7.1 Reliability**

Reliability was the factor that is considered that a research instrument will perform the intended task (Simatwa, 2011). In this study, reliability test was conducted using a

Cronbach's alpha coefficient. This technique saw to it that the responses issued on the pre-testing were measured to determine their ranges. According to Cooper and Schindler (2012) and Simatwa (2011), the ranges of as Cronbach's alpha should be between 0.7 to 1 for a research instrument to be ascertained as reliable.

### **3.7.2 Validity**

Validity was defined by Cooper and Schindler (2012) as the extent to which a concept, conclusion or measurement is well-founded and likely corresponds accurately to the real world. That is, whether the study has answered the problem statement. To test validity in this study, various validity aspects such as face, criterion and construct validity were observed. Face validity was completed when the study distinctly measured the relationship that exists between each independent variable with the dependent variable to know if they had any relationship or not. This procedure helped in knowing if the objectives of the study used were actually linked to the study.

Criterion validity was completed when the study compared the results gotten and what other previous studies had ever gathered on a topic similar to the one being investigated. In as much as the topics in previous studies could be different, there must have been a correlation within particular subjects. For example, in this study the subject was related to procurement practices and growth. The researcher therefore compared the results gotten on procurement sourcing with the previous studies done for the purpose of achieving correlation. Construct validity was completed when the results showed the real representation on the procurement practices.

### **3.8 Data Collection Procedure**

The study followed the procedures required to acquire the introductory letter from Kenya Methodist University. The study then used this letter to apply for research permit from NACOSTI. A research permit was used as an authorization to conduct the study. The study contracted one research assistant who was trained on various areas such as presentation skills, patience and explanation skills. These skills were useful when presenting the questionnaires to the SMEs owners from diverse backgrounds. Once the training was finished, the research assistant was set out to go and collect data. The research assistant sought permission from the overall manager so as to be allowed to conduct the study. Once permission was granted, he introduced himself to the respondents and explained the need for undertaking the study. The research assistant proceeded to distribute the questionnaires to various head of departments in SMEs in Imenti north Sub- County. He waited for the respondents to fill in the questionnaires so that there could be a higher number of returned questionnaires. After the respondents' finished answering the questionnaires, the research assistant collected all of them for data analysis and stored in a secure place.

### **3.9 Data Analysis and Presentation**

Coding of data happened after sorting. The analysis was done using Statistical Package for Social Sciences (SPSS software, Version 25). The coding involved conveying different statistics arrangements with numbers to assist in analysis. Various tests were done to validate use of regression analysis for the study. These are normality, linearity, multicollinearity and heteroskedasticity tests. Different computation on descriptive statistics such as mean, standard deviation, frequencies and percentages were first computed and presented using well explained tables. Later on, there was use of linear

regression to test each hypothesis and multiple regression analysis to study the influence that strategies on procurement stock sourcing, negotiating, bidding and inventory control have towards growth of small and medium-sized enterprises in Meru town. The regression model was as follows:

$$\text{Growth} = C + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where;

X1= stock sourcing

X2= negotiation

X3= Bidding

X4 = Inventory control

C = constant coefficient (intercept)

$\beta$  = slope coefficient of independent variables

$\varepsilon$ = error term

### **3.10 Ethical Considerations**

The study first satisfied the Kenya Methodist University (KeMU) postgraduate requirements of issuance of an introduction letter. Once the letter was granted, the study applied for a research permit from NACOSTI to conduct the study. During the study, respondents were told that the information they gave would use for academic reasons only and no any other reason. Thereafter, they were further advised not to write any name or personal details on their questionnaires. This aided in improving anonymity and

confidentiality in the study. The respondents were also told that the research was voluntary and if they did not wish to take part, they were allowed not to. Data that was previously gotten from other sources was not fabricated to represent the results of this study. Any help gotten from any source was acknowledged in the reference section in this study according to APA referencing format.



## **CHAPTER FOUR**

### **RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter gives the findings gotten from the collected data. The chapter first gives the response rates from the respondents and then the Cronbach reliability statistics are given. The diagnostic tests such as normality, linearity, multi collinearity and heteroskedasticity follows. The chapter thereafter gives the descriptive statistics of the variables of the study, linear regression that includes model summary of variables separately and combined. Regression coefficients of all the variables are derived to determine the multiple regression analysis which concludes the chapter.

#### **4.2 Response Rate**

The study was set out to gather data from the selected SMEs located from the target population. Information was provided by 46 head of departments from sales and marketing, operations, compliance, finance and procurement derived from 7 SMEs. The respondents were issued with questionnaires as documented in chapter three. The returned questionnaires were 40 in number which represented 86% response rate. This shows that the respondents participated in a significant way. According to Gustavson et al. (2019), when the results are above 70% there is very high response rate. The results therefore could be relied upon.

### 4.3 Reliability Statistics

The study conducted a pre-test study to assess the reliability of the questionnaires. The total number of the pre-test study participants were eight. Table 4.1 gives the reliability statistics results derived from the pre-test study responses.

**Table 4.1**

*Reliability Statistics*

Instrument	Cronbach's Alpha	N of Items
Questionnaire	.836	3

The results from Table 4.1 indicates that the reliability statistics results on the questionnaires were reliable. In this study, reliability test was conducted using a Cronbach's alpha coefficient. This technique saw to it that the responses issued on the pre-testing were measured to determine their ranges. The Cronbach's alpha coefficient for the 3 pre-test questionnaires was 0.836. According to Simatwa (2011), Cooper and Schindler (2012), the ranges of reliable Cronbach's alpha values should be between 0.7 to 1.

### 4.4 Background Information of SMEs

The study gathered various demographic information of the respondents at the commencement of the questionnaires in section 1. The various demographic information collected included whether the SMEs had fully-fledged procurement department, years of operations in SMEs, Number of employees in SMEs and level of annual turn-over. The outcome of the demographic information is indicated in Table 4.2.

**Table 4.2***Demographic Information*

Status of established procurement department	Frequency	Percent	Cumulative Percent
Poor	0	0	0
Fair	10	25	25
Good	27	68	93
Excellent	3	7	100
Total	40	100	
Year in operations	Frequency	Percent	Cumulative Percent
Less than 1 year	8	20	20
2-5 years	9	22	42
5-10 years	11	28	70
Above 11 years	12	30	100
Total	40	100	
Number of employees	Frequency	Percent	Cumulative Percent
10-50	21	53	53
50-80	14	35	88
80-100	5	12	100
Total	40	100.0	
Annual Turnover (Kshs)	Frequency	Percent	Cumulative Percent
500,000-5,000,000	25	63	63
5,000,000-10,000,000	8	20	83
10,000,000- 30,000,000	7	17	100
Total	40	100.0	

From Table 4.2, most SMEs have procurement departments whose status was good 27(68%) while those whose procurement department was fair were 10(25%). From this specific result we can attest that most of SMEs in Imenti north are keen to ensure that SMEs

have a department such a procurement that will ensure that tracing, approving, obtaining goods and services from a reliable source regularly through a competitive tender process (WTO, 2018). However, there is still work needed to be done to ensure the procurement department are excellent. This is because only 3(7%) are indicated to be in excellent status A report by EU (2019) emphasizes that SMEs are now more informed on the role which procurement departments play in an organization. This has seen improvement on the number of organizations that have begun procurement department.

Table 4.2 indicates further that most SMEs were operational for more than 11 years 12(30%) and between 5-10 years which were 11(28%). This proves that the economic conditions in Imenti north sub-county were favorable and conducive for SMEs to survive in the region as compared to other regions such as Nairobi. This was attributed by high level of monetary circulation in Imenti north sub-county region. For example, a report such as ITC (2019) results contradicts the current study in the sense that due to unfavorable competition and tough economic conditions, most SMEs in Kenya on average did not survive more than 3 years since their commencement. However, ITO, (2019) does not consider a factor such as high level of monetary circulation as evidenced by the presence of a central bank in the sub-county when making the conclusion.

It is also reveled in Table 4.2 that 10-50 number of employees in SMEs were confirmed by 21(53%) SMEs. Those who had 50-80 employees were 14(35%) SMEs. Lastly 80-100 number of employees were confirmed by only five SMEs. This shows that due to covid-19 pandemic most SMEs had greatly reduced their number of employees. This indicated that SMEs were greatly struggling with low profitability resulting to cutting down expenses such as reducing the number of staff. Nyagh (2013) disagree with this study's results

indicating that high presence of manpower in an SME ensures that targets are met on time leading to growth of SME. However, due to corona virus pandemic, when data was being collected, it was revealed that most SMEs in the study had reduced the number of employees as a measure to reduce expenses.

Table 4.2 reveals that the average turn-over in most SMEs which were 25(63%) was between Kshs 500,000 to Kshs 5,000,000. However, other 8(20%) and 7(17%) SMEs had an annual turn-over of five million shillings to 30 million shillings on average. This further proves that SMEs in the region are struggling on ensuring that they remain afloat in business venture. This indicates that SMEs in the region are not yet innovative towards ensuring that they tap into the high money circulation in the region. Yes, they have existed for more than five years, but it is evident that they are using old techniques and business models to create their profits which may cause them to experience losses in the future. Ouma (2018) affirms that innovation strategies that SMEs use should be diverse and not over-rely on one type of strategy. Over using a strategy leads to low turn-over before an SME plunges into losses side of business (Ouma, 2018).

#### **4.4 Diagnostic Tests**

The study performed various diagnostics tests to ensure that the data used to analyze linear regression had fulfilled all the necessary assumptions. The researcher tested as auto-correlation, normality, linearity, multi collinearity and heteroskedasticity.

##### **4.4.1 Auto-correlation Test**

The study conducted an auto-correlation test through Durbin-Watson statistics suffices. According to Turner (2019), it ranges from 0-4. If the test falls between 0-2 then there is a

positive correlation. A constant value of 2 shows that there is no auto-correlation. If the test falls between 2-4 then there is a negative relationship among the variables. Table 4.3 gives the results of the test.

**Table 4.3**

*Auto-correlation Test*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.906 <sup>a</sup>	.820	.079	2.001	1.715

a. Predictors: (Constant), Inventory control, Bidding, Negotiation, Stock sourcing

b. Dependent Variable: growth

The results from Table 4.3, Durbin- Watson results are 1.715. This shows that it lied between 0-2 which signifies that the variables of the study were positively auto-correlated.

**4.4.2 Normality Test**

To determine whether the data used was normally distributed Normal Q-Q were generated. The test was necessary because normality tests are used to determine if a data set is well-modeled by a normal distribution and to compute how likely it is for a random variable underlying the data set to be normally distributed. Figure 4.1 show the outcome.

**Figure 4.1**

*Normality Q-Q plot*

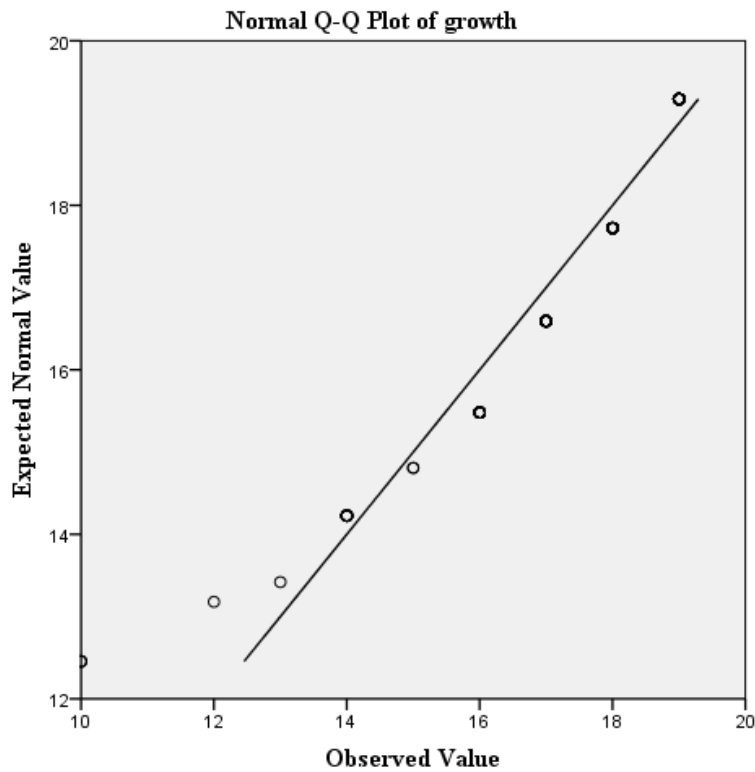


Figure 4.1 indicates that the data was normally distributed close to diagonal line.

#### **4.4.3 Linearity Test**

Linearity was performed to establish the relationship between and within the variable's groups in the study. When the value significance deviation from Linearity is above 0.05, then the relationship between the independent variables were linearly dependent (Epshtein, 2019). If the value significance deviation from Linearity was less than 0.05, then the relationship between independent variables with the dependent was not linear (Epshtein, 2019). Table 4.4 shows the results from the linearity test.

**Table 4.4***Linearity Test*

			Sum of Squares	Df	Mean Square	F	Sig.
Stock sourcing		(Combined)	46.553	3	5.173	1.214	.298
	Between Groups	Linearity	29.790	1	29.790	6.993	.010
		Deviation from Linearity	16.763	2	2.095	.492	.859
		Within Groups	349.317	38	4.260		
		Total	395.870	40			
Procurement Negotiation		(Combined)	79.189	2	11.313	3.001	.007
	Between Groups	Linearity	20.558	1	20.558	5.453	.022
		Deviation from Linearity	58.631	1	9.772	2.592	.324
		Within Groups	316.681	39	3.770		
		Total	395.870	40			
Bidding		(Combined)	92.784	5	5.458	1.333	.197
	Between Groups	Linearity	23.600	1	23.600	5.762	.019
		Deviation from Linearity	69.184	4	4.324	1.056	.412
		Within Groups	303.086	36	4.096		
		Total	395.870	40			
Inventory control		(Combined)	60.258	4	5.022	1.182	.311
	Between Groups	Linearity	27.135	1	27.135	6.387	.013
		Deviation from Linearity	33.123	3	3.011	.709	.727
		Within Groups	335.611	37	3.7		
		Total	395.870	40			



From Table 4.4 it is evidenced that the independent variables were linearly dependent and were all above 0.05. Stock sourcing deviation from linearity was 0.859; Negotiation was 0.324; Bidding was 0.412; and Inventory control was 0.727.

#### 4.4.4 Multicollinearity

The coefficient estimates can swing wildly based on which other independent variables that are in the model. The coefficients become very sensitive to small changes in the model. Multicollinearity reduces the precision of the estimate coefficients, which weakens the statistical power of your regression model (Daoud, 2019). For data to be free of multicollinearity, tolerance level should be above 0.2 and VIF should be below 5 (Daoud, 2019). The study therefore assed to check if there was a multicollinearity issue in the data. The results are shown in Table 4.5

**Table 4.5**

*Multicollinearity Test*

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Stock sourcing	.272	3.809
Procurement negotiation	.311	3.218
Bidding	.896	1.116
Inventory control	.281	3.517

Table 4.5 shows that the data set did not have multicollinearity. Stock sourcing had a tolerance level was 0.272 while its VIF was 3.809; Negotiation had a tolerance level was

0.311 while its VIF was 3.218; Bidding had a tolerance level was 0.896 while its VIF was 1.116; Inventory control tolerance level was 0.281 while its VIF was 3.517.

#### 4.4.5 Heteroskedasticity

Heteroskedasticity test was also performed on the variables of the study. This test was vital. This is because even if heteroscedasticity does not cause bias in the coefficient estimates, it makes them less precise. Lower precision increases the likelihood that the coefficient estimates are further from the correct population value. Table 4.6 gives the results.

**Table 4.6**

*Heteroskedasticity Test*

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	9.084	2.100		2.930	.524
Stock sourcing	.204	.278	.178	.733	.466
Procurement negotiation	.063	.116	.098	.545	.587
Inventory control	.110	.053	.220	2.069	.062
Bidding	-.012	.154	-.019	-.080	.937

a. Dependent Variable: growth

Results, all the variables in Table 4.6 have a significant value that is above 0.05. Stock sourcing has a significant value of 0.466; negotiation has a significant value of 0.587; Inventor has a significant value of 0.062; while bidding significance value is 0.937.

#### **4.5 Descriptive Statistics on Growth of SMEs**

The researcher assessed how stock sourcing, negotiation, bidding and inventory control had influenced growth in general. This was measured by posing some sentiments in Likert scale to the head of departments where response choices included strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5). Table 4.7 shows the results.

**Table 4.7***Descriptive Statistics on Growth of SMEs*

Statements N=40	1	2	3	4	5	Mean	Std Dev
Stocks sourcing has improved on growth of SME's	1(2%)	0(0%)	0(0%)	4(10%)	35(88%)	4.79	0.70
Negotiation has improved growth of SME's	0(0%)	6(15%)	0(0%)	14(35%)	20(50%)	4.28	0.99
Bidding has improved growth of SME's	3(7%)	15(38%)	0(0%)	22(55%)	0(0%)	2.98	1.09
Inventory control has improved growth of SME's	1(2%)	0(0%)	0(0%)	4(10%)	35(88%)	4.69	0.70
Average Mean						4.12	<b>0.88</b>

The results in Table 4.7 shows that stocks sourcing procurement practice had highly improved on growth of small and medium-sized enterprises in Imenti North Sub-County Meru, Kenya. This is evidenced by the highest mean of 4.79 and standard deviation of 0.704. In the same note, the head of departments did not agree that bidding procurement practice had improved growth of small and medium-sized enterprises in Imenti North Sub-County Meru, Kenya. This conclusion was anchored on lowest mean of 2.98 and standard deviation of 1.099. That means there is low innovation undertakings in SMEs to a point

that most SMEs have not still fully incorporated the most recent procurement practice such as bidding. This could be partly attributed to conservatism nature of the management of traditional way of running things. Apart from that, frequent training and update of current developments is scarce in most SMEs.

Ellegaard (2013) indicated that competitive procurement such as bidding was challenging small business ventures since their perception for value of money was based on ventures that had proved profitable before. It was noted business ventures avoided expenses such as placing bids in which they were not sure of the outcomes. In agreement with Ellegaard (2013), a study by ICG, (2019) gave some solutions that businesses may adopt to improve their participation in bidding for public bids. The said solutions included governments leaving some docket in their issued bids to SMEs. This is further confirmed by Munene (2018) that the government of Kenya bids are now highly advocated to be categorized based on the gender, disability, types of businesses such as SMEs. This gives SMEs a leeway to quickly learn how bids are placed and competed for so as to stand a chance in being awarded various government bids. Government bids are more reliable as compared to private firms' bids Munene (2018). Therefore, for an SME to survive in economic cycles, reliability is needed especially when supply is done and payment is due.

#### **4.6 Influence of Stock Sourcing on Growth of SMEs**

The first objective of the study was to determine the influence of stocks sourcing on growth of small and medium-sized enterprises in Imenti North sub-county Meru, Kenya. Stock sourcing variable had several elements that explained it—all of which were measured in Likert scale that included strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5). The sentiments mainly featured the quality of products, quantity of

products, replacement of products, prices of products and lead time. Responses with regard to each statement are as shown in Table 4.8.

**Table 4.8**

*Descriptive Statistics on Stock Sourcing*

Statements N=40	1	2	3	4	5	Mean	Std Dev
Quality goods have increased the total sales	0(0%)	0(0%)	0(0%)	4(10%)	36(90%)	4.90	0.29
Quantity of goods has improved the net income	0(0%)	2(5%)	1(3%)	4(10%)	33(82%)	4.71	0.75
Enhanced replacement of goods has increased to return on assets	0(0%)	0(0%)	0(0%)	3(8%)	37(92%)	4.89	0.48
Good prices of products have increased return on equity	0(0%)	5(12%)	0(0%)	22(55%)	13(33%)	3.93	1.03
Short lead time has reduced total expenses	0(0%)	0(0%)	0(0%)	21(53%)	19(47%)	4.33	0.74
Different suppliers have enabled availability of goods	0(0%)	2(5%)	0(0%)	17(43%)	21(52%)	4.25	.96
Average Mean						4.50	0.71

According to Table 4.8, stock sourcing cumulative responses have an average mean of 4.50 and a standard deviation of 0.71. This is the highest average mean in this study. Quality of goods to have increased the total sales due to reliable suppliers and enhanced replacement of goods have caused an increase in return on assets stood out distinctively in this construct with means of 4.90 and 4.89, and standard deviations of 0.299 and 0.479 respectively. The results indicate that various SMEs in Imenti North have highly complied to bureau of standards set aside by the government of Kenya. This has continually increased the use of materials issued by the suppliers hence the final product is very reliable and safe to use. In relation to conforming to the required standards, there is an increase in pricing of the products sold making the products very expensive to purchase. This was emphasized by the results gotten indicating that good prices of products had led to an overall return on equity. This statement had the lowest mean of 3.93. Therefore, SMEs have a tough task of ensuring they balance between maintaining the quality of products and regulating the prices to ensure there is profitability maximization.

Prior study of Altenburg and Lütkenhorst in 2015 indicated that one of the reasons why commodity markets were failing in developing nations was because of poor quality goods and non-competitive prices. The study argued that businesses were struggling between balancing the aspect of retaining pleasing prices to the customers and having competitive prices that would result to profit. Altenburg and Lütkenhorst (2015) indicated that when business owners did not have competitive prices that broke their business evens, they would result to failed businesses. Nyakundi (2018) further complements this argument that the skill of balancing between quality and prices is anchored on nature of business, experience level and technological investments done in an SME. However, a year later

Odhiambo and Kwasira (2019) disagrees with Nyakundi (2018) in that the balance between quality and price of products depends on demand of the product. While considering what is needed to attain a procurement contract in Migori county government, Odhiambo and Kwasira (2019) reveals that when an SME's product is not intended for attracting a bid, the quality is low.

#### **4.6.1 Model summary of stock sourcing and growth of SMEs in Imenti North Sub-County Meru, Kenya**

To be able to determine the influence of stocks sourcing on growth of small and medium-sized enterprises in Imenti North Sub-County Meru, Kenya, the study conducted a univariate regression analysis which also helped to test the first null hypothesis which stated that, stocks sourcing did not significantly influence the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. The model summary results are shown in Table 4.9.

**Table 4.9**

*Model Summary of Stock Sourcing and growth of SMEs in Imenti North Sub-County Meru, Kenya*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
Stock sourcing	.866 <sup>a</sup>	.750	.734	2.017	1.956

b. Predictors: (Constant), stock sourcing



Stock sourcing have an R value of .866<sup>a</sup> and Durbin Watson value of 1.956 showing there is a strong correlation between the two variables, that is, stock sourcing and growth of SMEs, while the R-square is 0.750. This implies that stock-sourcing as a construct predicted 75% of growth of SMEs variable in this study. The remaining 25% is due to other factors not examined in this particular single construct.

#### **4.6.2 Analysis of variance of stock sourcing and growth of SMEs in Imenti North Sub-County Meru, Kenya**

The researcher further wanted to know whether the reported relationship is statistically significant. The ANOVA analysis results provided in Table 4.10 shows a clear picture. The results there in helps to test the first null hypothesis.

**Table 4.10**

*ANOVA of stock sourcing and growth of SMEs in Imenti North Sub-County*

Model		Sum of Squares	Df	Mean Square	F	Sig.
Stock Sourcing	Regression	866.790	1	866.790	213.0752	.008 <sup>b</sup>
	Residual	366.080	39	4.068		
	Total	1232.870	40			

a. Dependent Variable: growth of SMEs

b. Predictors: (Constant), stock sourcing

The results show that stock sourcing had an F statistic of 213.0752 and significance level 0.008<sup>b</sup>. The significance level being below 0.05 provides sufficient evidence to reject the null hypothesis and conclude that stocks sourcing significantly and statistically influence the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya.

This implies that for an SME to effectively grow it should focus on how, who and where the stocks are sourced. Stock sourcing should be an ever-continuous process while acknowledging various developments in place so as to effectively be able to adopt innovations as they arise. This will ensure that the SME does not miss out on key sources that prove to be efficient and effective towards saving cost.

Therefore, it is evident clear that stock sourcing has a major influence towards SMEs growth whereby its level of influence is positive and commands up to 75% of growth of SMEs variable in the study. These results mean that the sources through which SMEs management decide to utilize to get their stocks, are a major influence on whether SME will grow or not. If the sources are unreliable, poor growth of SMEs is evidenced and vice versa. International Monetary Fund [IMF] (2018) supports the idea of SMEs always sourcing for reliable stocks providers. This is because reliable stocks sourcing has a direct impact on how Africa would competitively compete with other major global economies in economic integration. In a more local perspective, Osano (2019) shares the same idea that for Kenyan SMEs to get a position in global market, they have to begin with authenticity emphasis of reliable stock sourcing.

#### **4.7 Influence of Procurement Negotiation and Growth of SMEs**

The second objective of the study was to assess the influence of procurement negotiation on small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. Negotiation variable had several types. These were competitive negotiation, collaborative, compromise, accommodative and avoidance negotiation. The information collected on negotiation was done through the use of closed-ended questionnaire. Table 4.11 shows the results.

**Table 4.11***Descriptive Statistics on Procurement Negotiation*

Statements N=40	1	2	3	4	5	Mean	Std Dev
Competitive negotiation has improved net income	0(0%)	0(0%)	0(0%)	4(10%)	36(90%)	4.87	0.49
Collaborative negotiation has resulted to more return on equity	0(0%)	5(12%)	0(0%)	22(55%)	13(33%)	3.93	1.03
Compromise negotiation has improved total sales	0(0%)	2(5%)	0(0%)	22(55%)	16(40%)	4.16	0.89
Return on assets have advanced due to accommodative negotiation	0(0%)	0(0%)	0(0%)	22(55%)	18(45%)	4.33	0.74
Total expenses have reduced as a result of avoidance negotiation	0(0%)	0(0%)	0(0%)	19(48%)	21(52%)	4.46	0.56
Department members have been trained on how to handle negotiation process	1(2%)	2(5%)	0(0%)	20(50%)	17(43%)	4.24	0.88
Average Mean						4.33	0.77

Table 4.11 indicates that competitive negotiation has an average mean of 4.33 and standard deviation of 0.77. It has improved net income and as well as total expenses had reduced as a result of avoidance negotiation. These two statements had the highest response rate with means of 4.87 and 4.46 while having standard deviations of 0.497 and 0.563 respectively. The most disagreed statement is that collaborative negotiation had resulted to a higher rate on return on equity with a mean of 3.93 and standard deviation of 1.025. It can therefore be concluded that competitive and avoidance type of negotiations have highly influenced various aspects of growth of SMEs while collaborative negotiation has a low influence. This means that SMEs are unable to balance between pleasing the shareholders through profit maximization and pleasing their clients at the same time through corporate social responsibility. One party has to be the opportunity cost. It is evident that an SME can either decide to make their shareholders happy by making more profits at the expense of the clients or make less profits and make their clients happy through corporate responsibility at the expense of their shareholders.

In agreement, Amayi (2019) indicated that growth of micro and small enterprises in counties in Kenya was pegged majorly on competitive negotiation in public procurement participation. Another similar study by Asian Development Bank Institute (2016) stated that wrong application of negotiation skills by businesses was a valid reason why they were failing towards closing important deals. In agreement a more recent study by the Australian Government (2020) gave 'profit gained by the negotiator' as one of the purposes of a negotiation venture. If it did not meet this need then it was not worth investing time and resources pursuing it.

#### **4.7.1 Model summary of procurement negotiation and growth of SMEs in Imenti North Sub-County Meru, Kenya**

To assess the influence of procurement negotiation on small and medium-sized enterprises in Imenti north sub-county Meru, Kenya, the study had developed a hypothesis. The second hypothesis stated that procurement negotiation did not significantly influence the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. The results are shown in Table 4.12.

**Table 4.12**

*Model Summary of Procurement negotiation and growth of SMEs in Imenti North Sub-County Meru, Kenya*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
Procurement negotiation	.776 <sup>a</sup>	.602	.595	2.308	2.079

b. Predictors: (Constant), procurement negotiation

Procurement negotiation have an R value of .776<sup>a</sup> and Durbin Watson value of 2.079 showing there is a weak correlation between the two variables, that is, procurement negotiation and growth of SMEs, while the R-square was 0.602. This explains that separately procurement negotiation predicts 60.2% of growth of SMEs variable in this study. The remaining 39.8% is due to other factors not examined in the study.

#### **4.7.2 Analysis of variance of procurement negotiation and growth of SMEs in Imenti North Sub-County Meru, Kenya**

Procurement negotiation have an F statistic of 5.706 and significance level of 0.019<sup>b</sup>. This significance level that is below 0.05 was the evidence used by the study to reject null

hypothesis two that procurement negotiation did not significantly influence the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. Table 4.13 indicates the results.

**Table 4.13**

*ANOVA for linear relationship of procurement negotiation and growth of SMEs in Imenti North Sub-County Meru, Kenya*

Model		Sum of Squares	Df	Mean Square	F	Sig.
Procurement negotiation	Regression	776.558	1	776.558	186.2249	.019 <sup>b</sup>
	Residual	375.312	39	4.170		
	Total	1151.870	40			

a. Dependent Variable: growth of SMEs

b. Predictors: (Constant), procurement negotiation

Table 4.13 indicates that SMEs are struggling towards ensuring the various applied negotiation skills related well with ensuring their SMEs had significant profitability growth. That explains that on the one hand, there was low skills of employees who were proficient towards negotiating hence it has been costing SMEs profitability. On the other hand, SMEs seem to be increasing the number of customers since customers desires have always been looked into by the SMEs. However, despite the increasing number of customers, SMEs' growth is stagnant because customers are paying less as compared to the intended prices from the SMEs. Though SMEs customer profile is increasing, SMEs are incurring more expenditure to maintain these relationships hence hurting the business.

In conclusion, it is evident that the skills applied by SMEs procurement departments to negotiate play hand in hand towards promoting its growth. If proper negotiation skills are

applied, there would be 60.2% influence towards SMEs growth. This indicates that SMEs management should always encourage proper assessment of a business deal by the procurement department to ensure that right negotiation skill is used. Ouma (2018) while considering SMEs in Kakamega county, blends with this study's results. Ouma (2018) reveals that it is not enough for SMEs in Kenya to just have negotiation strategies, but their negotiation strategies should be tailor made and innovative to handle the ever-dynamic business environment. This innovativeness strategy in negotiation is also cited by Thurania (2017) as one of the main elements that significantly contribute towards how well SMEs in Meru performs.

#### **4.8 Influence of Bidding on Growth of SMEs**

The third objective of the study was to examine the influence of bidding on growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. This variable had different indicators such as negotiated bid, managed bid, integrated bid, traditional bid and lowest bid. Closed-ended questionnaires were used to collect data in this variable whereby the respondents were required to either strongly disagree, disagree, neutral, agree and strongly agree indicated by 1,2,3,4 and 5 respectively. There were 6 statements that the respondents were to respond to with regard to bidding aspect. Responses are shown in Table 4.14.

**Table 4.14***Descriptive Statistics on Bidding*

Statements N=40	1	2	3	4	5	Mean	Std Dev
Negotiated bid has improved net income	6(15%)	19(48%)	0(0%)	15(37%)	0(0%)	2.72	1.15
Integrated bid has improved return on equity	2(5%)	18(45%)	0(0%)	20(50%)	0(0%)	2.93	1.17
Lowest bids have improved total sales	18(45%)	8(20%)	7(18%)	1(2%)	6(15%)	2.40	1.49
Return on assets have advanced due to traditional bids	17(42%)	8(20%)	5(13%)	4(10%)	6(15%)	2.37	1.44
Low expenses	0(0%)	17(42%)	1(2%)	19(48%)	3(8%)	2.98	1.16
Training on bidding	0(0%)	18(45%)	0(0%)	22(55%)	0(0%)	2.98	1.09
Average Mean						2.73	1.25

Table 4.14 indicates that the influence of bidding on growth of SMEs have a very low average mean of 2.73 and standard deviation of 1.252 as compared to other objectives of



the study. The most agreed statement by respondents is that total expenses had reduced as a result of managed bid. This outcome has a mean of 2.98 and a standard deviation of 1.158. Another statement whereby the department members had been trained on how bidding works had also same mean of 2.98 but different standard deviation of 1.099. Disagreement was evidenced on the statement that stated that assets' returns had improved as a result of traditional bid. It had a mean of 2.37 and standard deviation of 1.443.

The results proved that SMEs are slowly shifting from traditional approaches of bidding towards new approaches because traditional bids are proving to be un-profitable over time. This has resulted to organizations training their staff on how to bid effectively which when done as per regulations resulted to lower expenses as compared to bidding when not trained and following the guidelines. This means that although SMEs in Meru are shifting from traditional approaches to bidding, they transition process is very slow. Putting inconsideration, the SMEs that have already embarked on the transition process of training their staff, there has been less expenditure incurred by SMEs due to low wastages. For example, staff do not waste a lot of time online trying to place bids since they already know how to access and place bids online.

In consent, Ballesteros-Pérez et al. (2015) gives some of guidelines required to be followed to have highly profitable bids in construction tenders. This proves that when it comes to placing bids, it is follows certain procedures such that when followed, results to quality bids that stand a chance of being selected. UN (2019) agrees further with the results in their procurement manual. According to UN (2019), lack of a clear consensus on which is the best way to follow has resulted to various nations and private organizations creating different ways of placing binds while procurement. Therefore, UN (2019) brings up manual

that should guide its member states so as to have a consensus on which procedure to follow when issuing and placing bids. Interestingly, DCED (2017) proclaims that most developing nations such as Kenya, Uganda and Botswana have been complicating the bidding process as a result of slow adoption to set guidelines. This slow adoption scenario promotes corruption cases among various bids participants at the expense of ignorant SMEs.

#### **4.8.1 Model summary of bidding and growth of SMEs in Imenti North Sub-County Meru, Kenya**

When examining the influence of bidding on growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya, the study had developed a hypothesis. The third hypothesis stated that bidding did not significantly influence the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. Table 4.15 shows the observations.

**Table 4.15**

*Model Summary of Bidding and growth of SMEs in Imenti North Sub-County Meru, Kenya*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
Bidding	.722 <sup>a</sup>	.522	.512	2.042	1.743

b. Predictors: (Constant), bidding

Bidding has an R value of .722<sup>a</sup> and Durbin Watson value of 1.743 showing there is a strong correlation between the two variables, that is, bidding and growth of SMEs, while the R-square is 0.522. This explains that separately bidding predicts 52.2% of growth of

SMEs variable in this study. The remaining 47.8% is due to other factors not examined in the study.

#### **4.8.2 Analysis of variance of bidding and growth of SMEs in Imenti North Sub-County Meru, Kenya**

Bidding has an F statistic of 4.930 and significance level of 0.029<sup>b</sup>. This significance level that is below 0.05 was the evidence used by the study to reject null hypothesis three that bidding did not significantly influence the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. Table 4.16 explicates the results.

**Table 4.16**

*ANOVA for linear relationship of bidding and growth of SMEs in Imenti North Sub-County Meru, Kenya*

Model		Sum of Squares	Df	Mean Square	F	Sig.
Bidding	Regression	722.600	1	722.600	174.7097	.029 <sup>b</sup>
	Residual	372.270	39	4.136		
	Total	1094.870	40			

a. Dependent Variable: growth of SMEs

b. Predictors: (Constant), bidding

Table 4.16 shows that for growth of SMEs, they have no choice but to fully accept and incorporate various bidding procurement practices. Otherwise, this will negatively affect their profitability leading to losses. Not only does bidding affect sourcing of raw materials but also grasping new opportunities especially reliable ones from the government. SMEs are contemplating on whether to consider bidding training as necessity or not. The more

they keep on contemplating and procrastinating bidding training, the more it is costing them in terms of remaining as a going concern.

In conclusion, bidding factor is positively significant towards improving growth by only at 52.2%. This means that growth of SME is lowly influenced by bidding as compared to other factors such as stock sourcing, procurement negotiation and inventory control in this study. Therefore, there is greater need to look into ways through bidding process can be made comprehensive for SMEs to participate. Fadic (2018) complains that one of the reasons why bidding is unattractive to SMEs is because there is no surety of winning bids apart from relying on luck in a massive corrupted venture. In addition, Komakech (2016) advises that professionalism is highly required to curb the vices such as corruption cases on bidding process in developing nations such as Kenya

#### **4.9 Influence of Inventory Control on Growth of SMEs**

The fourth objective of the study was to evaluate the influence of inventory control on growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. To explain Inventory control different aspects like just in time, economic order quantity, FIFO & LIFO, batch tracking and ABS analysis were considered in this study. The researcher used closed-ended questionnaires to collect information. The head of departments were supposed to either strongly disagree, disagree, neutral, agree and strongly agree indicated by 1,2,3,4 and 5 respectively. There were 6 statements in total that the respondents were to answer. Table 4.17 gives the results.

**Table 4.17***Descriptive Statistics on Inventory Control*

Statements N=40	1	2	3	4	5	Mean	Std Dev
FIFO and LIFO have improved net income	0(0%)	3(8%)	0(0%)	8(20%)	29(72%)	4.33	1.16
Batch tracking has improved return on equity	0(0%)	0(0%)	0(0%)	4(10%)	36(90%)	4.71	0.75
Economic order quantity has improved total sales	0(0%)	1(2%)	0(0%)	7(18%)	32(80%)	4.51	0.99
Return on assets have advanced due to ABS analysis	0(0%)	8(20%)	0(0%)	22(55%)	10(25%)	3.91	1.03
Storage expenses have reduced due to just in time	0(0%)	0(0%)	0(0%)	21(53%)	19(47%)	4.33	0.74
Members have been trained on inventory control systems	0(0%)	8(20%)	0(0%)	19(48%)	13(33%)	3.93	1.03
Average Mean						4.29	0.95

The results from Table 4.17 indicates that this variable has a mean of 4.29 and a standard deviation of 0.95. Batch tracking inventory control which has resulted to a higher rate on return on equity has the highest mean of 4.71 and a standard deviation of 0.749. Economic order quantity inventory control which had improved total sales was second most agreed with a mean of 4.51 and standard deviation of 0.989. The most disagreed statement was that return on assets had advanced as a result of ABS analysis inventory control. This statement had a mean of 3.91 and standard deviation of 1.025.

From the results it can be concluded that not all inventory methods were working well as ought to in SMEs in Imenti North. Some of the inventory control methods that were working included batch tracking and economic order quantity while ABS analysis inventory control was not working. This indicates that necessary skills required when tracking inventory is lacking in most SMEs. SMEs have also not invested a lot in technological equipment which helps them be able to track inventory effectively. This results to old and traditional ways of tracking inventory. For example, SMEs would prefer not to put barcodes and rely on stores staff to remember which inventory came in the store stores as a measure to curb expenses. In case of a misfortune such as stores staff leaving the SME abruptly, there would be confusion in deciding the order in which inventory should be sold.

Ferraz et al. (2015) agreed that some of the various procuring methods that various government departments vary depending with the adopted inventory control method. This revelation proves that not all inventory methods work in all organizations.

Meyer et al. (2018) complains that SMEs managers seem to be struggling with which type of inventory method should be used in various SMEs departments. This is because

according to Meyer et al. (2018), although SMEs may be dealing with similar products, their geographical location play a contributory role in deciding the inventory method to be applied. Mwangi (2016) in Kenya contradicts with the two authors in the sense that location minimally contribute to inventory method of a product. The study argues that there are products that gain more value depending on the time they are stored. However, Mwangi (2016) accounts for non-perishable products such as alcohol beverages and cheese products but fails to acknowledge the perishable products.

#### **4.9.2 Model summary for inventory control and growth of SMEs in Imenti North Sub-County Meru, Kenya**

In evaluating the influence of inventory control on growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya, the study had developed a hypothesis. The fourth and last hypothesis stated that inventory control did not significantly influence the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. Discoveries made are indicated in Table 4.18.

**Table 4.18**

*Model Summary of Inventory control and growth of SMEs in Imenti North Sub-County*

*Meru, Kenya*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
Inventory control	.834 <sup>a</sup>	.695	.672	2.024	1.911

b. Predictors: (Constant), inventory control

Inventory control has an R value of .834<sup>a</sup> and Durbin Watson value of 1.911 showing there is a strong correlation between the two variables, that is, inventory control and growth of

SMEs, while the R-square is 0.695. The P-value of constant is insignificant; hence the study used the adjusted R-square value of 0.672 instead. This explains that separately bidding predicts 67.2% of growth of SMEs variable in this study. The remaining 32.8% is due to other factors not examined in the study.

#### **4.9.3 Analysis of variance of inventory control and growth of SMEs in Imenti North**

##### **Sub-County Meru, Kenya**

Inventory control has an F statistic of 203.5965 and significance level of 0.012<sup>b</sup>. This significance level that is below 0.05 was the evidence used by the study to reject null hypothesis four that inventory control did not significantly influence the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. Table 4.19 explains the results

**Table 4.19**

*ANOVA for linear relationship of inventory control and growth of SMEs in Imenti*

*North Sub-County Meru, Kenya*

Model		Sum of Squares	Df	Mean Square	F	Sig.
Inventory Control	Regression	834.135	1	834.135	203.5965	.012 <sup>b</sup>
	Residual	368.734	39	4.097		
	Total	1202.870	40			

a. Dependent Variable: growth of SMEs

b. Predictors: (Constant), inventory control

The results from Table 4.19 indicate that the ability of an SME to be able to track its inventory significantly influences its growth. This is because there will be less wastages, low over-stocking and improved efficiency especially less turn-around time when a client



needs a product. It is evident that organizations have a long-way to go especially towards equipping their SMEs technologically. There is low milestone made towards that area hence making SMEs use traditional inventory control methods.

In conclusion, it is clear that inventory methods positively contribute greatly towards growth of SMEs at a 67.2% influence. This means that SMEs should take keen note on various suitable inventory methods that are applicable to their line of business. Poor inventory method has been established to lead to losses hence low growth of SMEs in the long-run. Nyagah (2013) reveals that inventory method doesn't have to be expensive to effectively work. All what is needed is due diligence when making a decision on the kind of inventory method that should be adopted by an SME.

#### **4.10 Results on overall model of the study: Procurement practices and growth of selected SMEs in Imenti north sub-county Meru, Kenya**

The study was analysing the influence that procurement practices had towards growth of selected small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. To achieve this, the study considered growth as the dependent variable while procurement sourcing, negotiation, bidding and inventory control were the dependent variables in the general model of the study.

Multiple linear regression analysis was done on the variables to ascertain the relationship all the predictor variables (stock sourcing, procurement negotiation, bidding and inventory control), and the dependent variable (growth of SMEs). Consequently, a model summary, ANOVA and regression coefficients have been provided.

#### 4.10.1 Model summary of procurement practices and growth of selected small and medium-sized enterprises in Imenti North Sub-County Meru, Kenya

The level of prediction of procurement practices on growth of SMEs was assessed and results presented in Table 4.20

**Table 4.20**

*Model Summary of all Variables of procurement practices and growth of selected small and medium-sized enterprises in Imenti North Sub-County Meru, Kenya*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.906 <sup>a</sup>	.820	.079	2.001	1.715

a. Predictors: (Constant), Inventory control, Bidding, Negotiation, Stock sourcing

b. Dependent Variable: growth

From Table 4.20 the results show that when all independent variables are combined, they have an R-value of 0.906 and Durbin Watson value of 1.715 showing there is a strong correlation between the two variables, that is, procurement practices and growth of SMEs, while the R-square is 0.820. The P-value of constant of 0.524 is insignificant; hence the study used the adjusted R-square value of 0.79 instead. That is to say that procurement practices (stock sourcing, procurement negotiation, bidding and inventory control) predict 79 % of growth in SMEs. However, 11% of the growth of SMEs is predicted by other factors that were not investigated in this study.

#### 4.10.2 Analysis of variance of procurement practices and growth of selected small and medium-sized enterprises in Imenti North Sub-County Meru, Kenya

The researcher was also interested in ascertaining whether the relationship between procurement practices was significant or not. This was done by analyzing the variance of all the variables as combined. Table 4.21 gives the results gotten.

**Table 4.21**

*ANOVA of procurement practices and growth of selected small and medium-sized enterprises in Imenti North Sub-County Meru, Kenya*

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	906.473	4	918.868	229.4302	.024 <sup>b</sup>
	Residual	348.396	36	4.005		
	Total	1254.870	40			

a. Dependent Variable: growth

b. Predictors: (Constant), inventory control, bidding, negotiation, stock sourcing, procurement negotiation

Results indicated in Table 4.22 show that procurement practices have a F-statistic of 229.4302 and significance of 0.024. This is an evidence that procurement practices have a positive and statistically significant influence on growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. Therefore, the model is reliable and significant in predicting the prediction.

#### 4.10.3 Regression coefficients of procurement practices and growth of selected small and medium-sized enterprises in Imenti North Sub-County Meru, Kenya

The study also analyzed regression coefficients of procurement practices and growth of SMEs. It was discovered that stock sourcing had a  $\beta=.178$ ,  $P=0.466$ ; procurement negotiation had a  $\beta=.0098$ ,  $P=0.587$ ; bidding had a  $\beta=-0.019$ ,  $P=.0.937$ ; while inventory control had a  $\beta=0.220$ ,  $P=0.062$ . The results are indicated in Table 4.22.

**Table 4.22**

*Regression coefficients of procurement practices and growth of selected small and medium-sized enterprises in Imenti North Sub-County Meru, Kenya.*

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	9.084	2.100		2.930	.013
Stock sourcing	.204	.278	.178	.733	.029
Procurement negotiation	.063	.116	.098	.545	.006
Inventory control	.110	.053	.220	2.069	.004
Bidding	-.012	.154	-.019	-.080	.022

a. Dependent Variable: growth

The overall model of the study indicated that  $Growth = Con + \beta_v SOUR + \beta_v INEGO + \beta_v BID + \beta_v INV + e$ . Where; SOUR was stock sourcing; NEGO was negotiation; BID was bidding; INV was Inventory control; Con was constant coefficient (intercept);  $\beta_v$  was slope coefficient of independent variables;  $\epsilon$  was error term. When equated with the coefficients, the model was;  $Growth = 9.084 Con + 0.178 SOUR + 0.098 NEG - 0.019 BID + 0.220 INV$ . This meant that developing one unit of SOUR, NEG, BID, INV increased

or decreased growth of SMEs by  $9.084 + 0.178 + 0.098 - 0.019 + 0.220$ . This means that procurement sourcing, procurement negotiation, procurement bidding, and procurement inventory control, when separate, each variable was significant but when combined only stock sourcing was statistically significant. These results are similar as those of Okong'o and Muturi (2017) that stock sourcing was a key factor in ascertaining procurement performance in public institutions in Kisii County. In agreement Thurania (2017) while considering women SMEs in Meru states that some of the determinants of performance include procurement practices like sourcing, negotiations, bidding, inventory control among other factors. However, bidding seem to negatively affect performance also in Thurania (2017) study.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

The study had a general objective of analysing how the procurement practices influenced growth of small and medium-sized enterprises in Imenti North sub-county Meru, Kenya. To achieve this, the study had specific objectives that included determining the influence of stocks sourcing, procurement negotiation, bidding and inventory control on growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. It was informed by two theories; resource-based view theory and game theory. Resource based view theory informed the study into investing procurement stock sourcing and inventory control management research variables While Game theory informed the investigation of two constructs, which are, procurement negotiations and procurement bidding constructs of this study.

Descriptive survey research design was used when collecting data using closed-ended questionnaires from 6 SMEs in Imenti North in Meru County, Kenya. Information was provided by 108 Head of Departments from Sales and Marketing, Operations, Compliance, Finance and Procurement Departments. Census sampling technique was used in selecting all the respondents. Data was analyzed using descriptive statistics on all variables; mean, percentages and standard deviations. Later on, univariate and multiple linear regression analysis were done.

## **5.2 Summary of the Findings**

This section provides the results that were gotten from the analysis on how the procurement practices influenced growth of small and medium-sized enterprises in Imenti North Sub-county Meru, Kenya.

### **5.2.1 Stock Sourcing**

The first objective of the study was to determine the influence of stocks sourcing on growth of small and medium-sized enterprises in Imenti North sub-county Meru, Kenya. Stock sourcing variable had several elements that explained it. These were quality of products, quantity of products, replacement of products, prices of products and lead time. Stock sourcing cumulative responses had an average mean of 4.50 and a standard deviation of 0.71. This was the highest average mean in this study. Stock sourcing had an R value of .866<sup>a</sup> while the R-square was 0.750. This explained that unitary, stock-sourcing predicted 75% of growth of SMEs variable in this study. The remaining 25% was due to other factors. Stock sourcing had a statistical significance level of 0.008<sup>b</sup>.

### **5.2.2 Procurement Negotiation**

The second objective of the study was to assess the influence of procurement negotiation on small and medium-sized enterprises in Imenti North sub-county Meru, Kenya. Negotiation variable had several types. These were competitive negotiation, collaborative, compromise, accommodative and avoidance negotiation. Competitive negotiation had an average mean of 4.33 and standard deviation of 0.77. Procurement negotiation had an R value of .776<sup>a</sup> while the R-square was 0.602. This explained that separately, procurement negotiation predicted 60.2% of growth of SMEs variable in this study. The remaining

39.8% was due to other factors not examined in the study. Procurement negotiation had a statistical significance level of 0.019<sup>b</sup>.

### **5.2.3 Bidding**

The third objective of the study was to examine the influence of bidding on growth of small and medium-sized enterprises in Imenti North sub-county Meru, Kenya. This variable had different indicators such as negotiated bid, managed bid, integrated bid, traditional bid and lowest bid. The influence of bidding on growth of SMEs had a very low average mean of 2.73 and standard deviation of 1.252 as compared to other objectives of the study. Bidding had an R value of .722<sup>a</sup> and Durbin Watson value of 1.743 showing there was a strong correlation between the two variables, that is, bidding and growth of SMEs, while the R-square was 0.522. This explains that separately bidding predicted 52.2% of growth of SMEs variable in this study. The remaining 47.8% was due to other factors not examined in the study. In addition, bidding had a statistical significance level of 0.029<sup>b</sup>.

### **5.2.4 Inventory Control**

The fourth objective of the study was to evaluate the influence of inventory control on growth of small and medium-sized enterprises in Imenti North sub-county Meru, Kenya. To explain inventory control different aspects like just in time, economic order quantity, FIFO & LIFO, batch tracking and ABS analysis were considered in this study. Inventory control had a mean of 4.29 and a standard deviation of 0.95. Bidding had an R value of .722<sup>a</sup> while the R-square was 0.522. This explained that separately bidding predicted 52.2% of growth of SMEs variable in this study. The remaining 47.8% was due to other factors not examined in the study. Inventory control had an R value of .834<sup>a</sup> while the R-square was 0.695. Inventory control had a statistical significance level of 0.012<sup>b</sup>. This



explained that separately bidding predicted 69.5% of growth of SMEs variable in this study. The remaining 30.5% was due to other factors not examined in the study.

### **5.3 Conclusions of the Study**

The study concluded that procurement practices had a positive and statistically significant influence on growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. The study concluded that level of influence was highest in stock sourcing, followed by procurement negotiation, then bidding and lastly inventory control. Stocks sourcing positively and statistically significantly influenced the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. That means there is low innovation undertakings in SMEs to a point that most SMEs have not fully incorporated the most recent procurement practice such as bidding. This could partly be attributed to conservatism nature of the management of traditional way of running things. Apart from that, frequent training and update of current developments is scarce in most SMEs. Further on, various SMEs in Imenti north have highly complied to bureau of standards set aside by the government of Kenya. This has continually increased the use of materials issued by the suppliers hence the final product is very reliable and safe to use. By abiding by the required standards, there is an increase in pricing of the products sold making the products very expensive to purchase.

Procurement negotiation positively and statistically significantly influenced the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. It was established that procurement negotiation had improved /impacted total sales, net income, return on assets and significant reduction of expenses. Though procurement negotiation

had to some level positively influenced growth of SMEs, there were underlying weaknesses. These weaknesses indicated that there was wrong application of negotiation skills when doing business by the SME and which had resulted to poor procurement results. In addition, SMEs are unable to balance between pleasing the shareholders through profit maximization and pleasing their clients at the same time through corporate social responsibility. One party has to be the opportunity cost. It is evident that an SME can either decide to make their shareholders happy by making more profits at the expense of the clients or make less profits and make their clients happy through corporate responsibility at the expense of their shareholders.

It was clear that bidding negatively and statistically significantly influenced the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. It was concluded that bidding had reduced expenses to some level, improved net income and return on equity. The results indicated that SMEs in Meru County were still struggling with bidding processes and their adaptations. This was partly attributable to lack of formal procedures followed in each SMEs that were followed when placing bids. The results proved further that SMEs are slowly shifting from traditional approaches of bidding towards new approaches because traditional bids are proving to be un-profitable over time. This had resulted to organizations training their staff on how to bid effectively which when done as per regulations resulted to lower expenses as compared to bidding when not trained and following the guidelines.

Inventory control statistically and significantly influenced the growth of small and medium-sized enterprises in Imenti north sub-county Meru, Kenya. It was established that inventory control had improved the net income, return on equity, total sales and reduced

expense emanating from storage charges. This was concluded that there were already adapted inventory control methods that were being used in SMEs in Meru. SMEs have also not invested a lot in technological equipment which helps them be able to track inventory effectively. This results to old and traditional ways of tracking which are less costly but high ineffective such as reliance of someone's ability to remember which good came in first.

#### **5.4 Recommendations of the Study**

Based on the findings of this study, SMEs need to develop customized techniques for attaining more stocks in their sourcing venture. Policies should be developed by procurement oversight authority in Kenya to ensure that SMEs management understands the qualifications to establish reliability from a supplier. This will help the SMEs terminate the relationship long before the SMEs incurs losses due to failed supply. SMEs should hedge to protect themselves from any abrupt price risks through forwards and futures contracts. Forward contracts should be customized between an SME and a supplier whereby the SME approves to buy an underlying asset at a pre-determined price at the time of purchase from the supplier, but the delivery of the asset is done at a future date. SMEs may also consider buying products through a clearing house in future date at a pre-determined price so as to hedge against rapid increase or decrease of price from the supplier.

SMEs should up their game especially on quality check of supplied products to ensure what is supplied is nothing but the best. This is because the findings reveal that SMEs have had a tough task of ensuring they balance between maintaining the quality of products and regulating the prices to ensure there is profitability maximization. The study recommends

need for more training of staff of SMEs by public procurement authority on the types of negotiations that existed in procurement process and how they were applicable. This would motivate and boost self-confidence of the employees so that they would be sensitive when negotiating for the business. There should be customized guidelines developed in each SME on steps that are to be followed during negotiating process. This is because it was established that there is a problem especially different unique SMEs try to adopt a single negotiation guideline.

There should also be efforts to put into place policies by the ministry of trade that would be effective towards guiding bidding process in SMEs. The government should ensure that its procurement bid process is attractive to SMEs so that there can be maximum participation from SMEs. This should include providing various incentives such as tax waive to certain percentage for SMEs that qualify for bids. The county government of Meru should hold annual seminars and conferences held for various stakeholders such as SMEs owners, managers, and accountants among others for sole purposes of exploring investment opportunities that SMEs can engage. The opportunities which could be global or local would promote and connect different investors to SMEs in Imenti north sub-county Meru.

The study recommends open approach and adoption of even more inventory control methods that would be used in future to improve even further the growth of SMEs in the region. Even though inventory methods adapted were working well, more are needed especially in adapting modern inventory approaches since the world was dynamic. This move would always make sure that SMEs were on top notch towards moving with technological shift hence sure of remaining in business for many years to come.

### **5.5 Suggestion of Future Research**

The study was conducted in Meru, hence, there is need for future studies to investigate whether procurement practices in other region in Kenya influenced growth of SMEs the same way or not. Since the study noticed that SMEs in Imenti north were struggling with bidding processes, there is need to assess some of the factors that SMEs were missing out in bidding that made bidding process a nightmare for them. This includes an investigation on the impacts caused by policies that govern SMEs in various fields and general county and national government processes. This would shed more light on SMEs the approach to utilize to have an impactful gain from the venture.

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## APPENDICES

### **Appendix I: Introduction letter**

Winnie Kathure Mutunga

Kenya Methodist University

School of Business and Economics

Reg no: Bus-3-0300-1/2014

0725074755

Dear Sir/Madam,

#### **RE: REQUEST FOR YOUR PARTICIPATION IN THIS RESEARCH PROJECT**

I am a student at Kenya Methodist University (KeMU) pursuing master degree in business administration (entrepreneurship). In partial fulfillment for my studies, I am conducting an investigation of procurement practices and growth of small and medium-sized enterprises in Meru town Kenya.

I am glad to inform you that you have been selected to form part of the study. I would therefore kindly request you for assistance in completing the attached questionnaire which forms a major input of the research process. The information and data will strictly be used for academic purposes only and strict confidence shall be observed on the identity. Your cooperation will go a long way in ensuring the success of this project.

I would like to thank you in advance for your time and consideration.

Yours Sincerely,

Winnie Kathure Mutunga

Reg no: Bus-3-0300-1/2014

0725074755

## **Appendix II: Questionnaire for head of departments in sales and marketing, operations, compliance, finance and procurement.**

### **Instructions**

1. Do not write your name on the questionnaire.
2. Give honest feedback
3. Inquire from the research assistant in case you do not understand a question.
4. SMEs had fully-fledged procurement department, years of operations in SMEs, Number of employees in SMEs and level of annual turn-over.

### **Segment 1: Background information**

- a) The status of established procurement department?
  - i. Poor [...]
  - ii. Fair [...]
  - iii. Good [...]
  - iv. Excellent [...]
  
- b) How long has your SME be in operation?
  - i. Less than 1 year [ ...]
  - ii. 2-5 years [...]
  - iii. 5-10 years [...]
  - iv. Above 11 years [ ...]
  
- c) How many employees are employed in this SME?
  - i. 10-50 [...]
  - ii. 50-80 [...]
  - iii. 80-100 [...]
  
- d) What is the level of annual turn-over in this SME?
  - i. 500,000-5,000,000 [...]
  - ii. 5,000,000-10,000,000 [...]
  - iii. 10,000,000- 30,000,000[...]

**Segment 2: Influence of procurement stock sourcing on growth of small and medium-sized enterprises**

This segment has statements regarding the influence of procurement stock sourcing on growth of small and medium-sized enterprises. Kindly respond with the response that matches your opinion. Please indicate by ticking as appropriate in the boxes with 1. Strongly Disagree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly agree).

No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	Quality of goods have increased the total sales due to reliable suppliers					
2.	Increased quantity of goods has improved the net income					
3.	Enhanced replacement of goods has caused an increase to return on assets					
4.	Good prices of products have led to an overall return on equity					
5.	Short lead time taken through supplying goods has reduced total expenses					
6.	Different suppliers have enabled availability of manufacturing goods at all times					

**Segment 3: Influence of procurement negotiation on growth of small and medium-sized enterprises**

This segment has statements regarding the influence of procurement negotiation on growth of small and medium-sized enterprises Kindly respond with the response that matches your opinion. Please indicate by ticking as appropriate in the boxes with 1. Strongly Disagree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly agree).

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
<b>No.</b>	<b>Statements</b>					
1.	Competitive negotiation has improved net income					
2.	Collaborative negotiation has resulted to a higher rate on return on equity					
3.	Compromise negotiation has improved total sales					
4.	Return on assets have advanced as a result of accommodative negotiation					
5.	Total expenses have reduced as a result of avoidance negotiation					
6.	The department members have been trained on how to handle negotiation process					

**Segment 4: Influence of procurement bidding on growth of small and medium-sized enterprises**

This segment has statements regarding the influence of procurement bidding on growth of small and medium-sized enterprises. Kindly respond with the response that matches your opinion. Please indicate by ticking as appropriate in the boxes with 1. Strongly Disagree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly agree).

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
<b>No.</b>	<b>Statements</b>					
1.	Negotiated bid has improved net income					
2.	Integrated bid has resulted to a higher rate on return on equity					
3.	Lowest bids have improved total sales					

4.	Return on assets have advanced as a result of traditional bids					
5.	Total expenses have reduced as a result of managed bid					
6.	The department members have been trained on how bidding works					

**Segment 5: Influence of procurement inventory control on growth of small and medium-sized enterprises**

This segment has statements regarding the influence of inventory control on growth of small and medium-sized enterprises. Please indicate by ticking as appropriate in the boxes with 1. Strongly Disagree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly agree).

No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	FIFO and LIFO inventory control has improved net income					
2.	Batch tracking inventory control has resulted to a higher rate on return on equity					
3.	Economic order quantity inventory control has improved total sales					
4.	Return on assets have advanced as a result of ABS analysis inventory control					
5.	Total storage expenses have reduced as a result of just in time inventory control					
6.	The department members have been trained on					

	various inventory control systems					
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**Segment 6: Growth of small and medium-sized enterprises**

This segment has statements regarding the growth of small and medium-sized enterprises

Kindly respond with the response that matches your opinion. Please indicate by ticking as

appropriate in the boxes with 1. Strongly Disagree, 2. Disagree, 3. Neutral, 4. Agree, 5.

Strongly agree).

No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	Stocks sourcing procurement practice has improved on growth of small and medium-sized enterprises in Imenti North Sub-County Meru, Kenya					
2.	Negotiation procurement practice has improved growth of small and medium-sized enterprises in Imenti North Sub-County Meru, Kenya					
3.	Bidding procurement practice has improved growth of small and medium-sized enterprises in Imenti North Sub-County Meru, Kenya					
4.	Inventory control procurement practice has improved growth of small and medium-sized enterprises in Imenti North Sub-County Meru, Kenya					

## Appendix III: Introductory Letter



### KENYA METHODIST UNIVERSITY

P. O. Box 267 Meru - 60200, Kenya  
Tel: 254-064-30301/31229/30367/31171

Fax: 254-64-30162  
Email: info@kemu.ac.ke

#### DIRECTORATE OF POSTGRADUATE STUDIES

October 1, 2020

Commission Secretary,  
National Commission for Science, Technology and Innovations,  
P.O. Box 30623-00100,  
**NAIROBI.**

Dear sir/ Madam,

RE: WINNIE KATHURE MUTUNGA (BUS-3-0300-1/2014)

This is to confirm that the above named is a bona fide student of Kenya Methodist University, Department of Business Administration undertaking a Degree of Master of Business Administration. She is conducting research on, *'Analysis of procurement practices and growth of selected small and medium-sized enterprises in Imenti North Sub County, Meru, Kenya.*

We confirm that her Research proposal has been defended and approved by the University.

In this regard, we are requesting your office to issue a permit to enable her collect data for her research.






Any assistance accorded to her will be appreciated.

Thank you!



**Dr. John Muchiri, PHD.**  
Director Postgraduate Studies

## Appendix IV: NACOSTI Research Permit

 REPUBLIC OF KENYA	 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
Ref No: <b>815297</b>	Date of Issue: <b>29/October/2020</b>
<b>RESEARCH LICENSE</b>	
	
<p>This is to Certify that Miss. WINNIE MUTUNGA KATHURE of Kenya Methodist University, has been licensed to conduct research in Meru on the topic: ANALYSIS OF PROCUREMENT PRACTICES AND GROWTH OF SELECTED SMALL AND MEDIUM-SIZED ENTERPRISES IN IMENTI NORTH SUBCOUNTY MERU, KENYA for the period ending : 29/October/2021.</p>	
License No: <b>NACOSTIP/20/7392</b>	
<b>815297</b> Applicant Identification Number	 Director General NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
	Verification QR Code 
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## Appendix V: List of SMEs in Meru County

Supermarkets	Magunas supermarket, Mathai supermarket, Sayen supermarket, Society supermarket
Hotels and restaurants	Alba hotel, Royal hotel, Meru slopes hotel, Continental hotel, Nevada hotel, West wind hotel, Gatimene gardens, Check mate restaurant, Three steers hotel and West wind hotel,
Manufacturing firms	Silver spread ltd
Assembly firms	CMC motors, Toyota ltd,
Whole sale and retail outlets	Best lady's cosmetics, Ayub and sons ltd, Kanini Haraka stores
Processing firms	Afya maize millers, Mafuko industries, Supa loaf industries,