



## **EFFECT OF SOURCING ON THE PERFORMANCE OF RETAIL SME's IN KILIFI COUNTY, KENYA**

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### **Abstract**

SMEs are critical drivers of economic growth, but often face challenges in optimizing supply chain processes, which negatively affect their operational performance. This study investigated the effect of sourcing on the performance of small and medium enterprises (SMEs) retail stores in Kilifi County, Kenya. The study was guided by resource-based view. The study adopted a descriptive cross-sectional design. The target population for the study comprises all registered retail SMEs in Kilifi County. The respondents were 227 SME owners/managers. The Yamane formula was employed to determine the sample size. The study sample size was 145 respondents. The simple random sampling was used to select the study sample. Primary data was gathered from Kilifi County's SME respondents. Both closed-ended and open-ended structured questionnaires were used in the study to gather data. Data collection was conducted through self-administered questionnaires distributed to the selected SMEs. The Statistical Package for Social Sciences (SPSS) version 28 was employed for data analysis, utilizing both descriptive and inferential statistics. Descriptive statistics, including frequencies, percentages, means and standard deviations, provided an overview of the basic characteristics of the dataset. Inferential statistics involved correlational and regression analyses. Specifically, Pearson moment correlation was used to assess the relationships between independent and dependent variables, while regression analysis showed how much one factor influences another. Quantitative findings were illustrated in tables, showcasing mean and standard deviation values to facilitate interpretation and comparison of responses. The study found that sourcing had a significant and positive effect on performance of SMEs retail stores in Kilifi County. The study recommends that SMEs should explore and establish relationships with a wider range of suppliers to reduce reliance on single sources. This can mitigate risks associated with supply disruptions and price fluctuations.

**Key words:** Sourcing, Performance, SMEs

## Background of the Study

Small and medium-sized enterprises (SMEs) are critical to the economic development of many nations, contributing significantly to job creation, income generation and local economic growth (Pedraza, 2021). Globally, SMEs account for over 90% of businesses and more than 50% of employment, according to the International Finance Corporation (IFC, 2020). Within the retail sector, SMEs serve as the backbone for providing essential goods, particularly in rural and suburban areas. However, despite their importance, SMEs often face numerous challenges that affect their sustainability and long-term performance (Agyapong, 2010).

SMEs' performance is greatly impacted by supply chain management (SCM), especially in the retail industry. Processes that convert raw resources into finished commodities are all part of supply chain management (SCM). Effective SCM ensures that goods are available at the right place, at the right time and at the right cost (Christopher, 2016). By improving SCM practices, SMEs can reduce costs and boost customer satisfaction. This study investigates the effect of key SCM practices - sourcing, inventory management, logistics management and technology adoption on the performance of retail SMEs in Kilifi County, Kenya.

Supply chain management (SCM) plays an integral role in improving the performance of small and medium enterprises (SMEs) globally, particularly in the retail sector. Efficient SCM practices, including sourcing, inventory management, logistics and technology adoption, are vital for sustaining business operations and enhancing profitability. Globally, SMEs are crucial to both developed and emerging economies because they account for more than 90% of enterprises and 50% of jobs (International Finance Corporation [IFC], 2020). The COVID-19 pandemic exposed the fragility of global supply chains and emphasized the importance of building resilient systems to withstand disruptions. SMEs in the retail sector experienced challenges, including inventory shortages and delayed deliveries that directly affected their performance (World Bank, 2021). These disruptions highlighted the need for agility and resilience in supply chain practices, with digital solutions such as automation, e-procurement and inventory management systems proving crucial in maintaining business continuity and reducing costs (Chopra & Meindl, 2021; Simchi-Levi, 2021).

Kibet and Noor (2023) found that strategic sourcing, inventory management and logistics management significantly improve the performance of retail firms in Nairobi City County. Their findings emphasized the importance of developing strong supplier relationships and investing in automated inventory systems to reduce procurement costs and ensure consistent supply. These findings are highly relevant to SMEs in Kilifi County, where similar SCM practices can help overcome operational inefficiencies. Otengo (2019) investigated how inadequate inventory control and sourcing procedures in Luanda Town caused frequent supply chain interruptions, which had a detrimental effect on retail supermarket performance. His study brought to light the significance of inventory optimization and supplier relationship management, two major issues facing SMEs in Kilifi County. By improving these SCM practices, Kilifi SMEs can reduce operational costs and enhance business sustainability.

## Statement of the Problem

Small and Medium Enterprises (SMEs) are a cornerstone of Kenya's economy, contributing 33.8% to the GDP and providing significant employment across both formal and informal

sectors (Kenya National Bureau of Statistics, 2016). In Kilifi County, retail SMEs play a critical role in local commerce, yet they face significant operational challenges that contribute to a high failure rate. According to the Kenya National Bureau of Statistics (2020), 50% of SMEs fail within the first five years of operation and according to Mwakera et al., (2021), only one in every five SMEs in Kilifi County surpasses their 8<sup>th</sup> year of operation. These challenges are partly attributed to inefficiencies in key SCM practices, including sourcing, inventory management, logistics management and technology adoption, which undermine their ability to grow and remain competitive in a rapidly evolving market.

A major challenge for retail SMEs is ineffective sourcing practices, which involve supplier selection, supplier relationship management (SRM) and sourcing risk management. These practices are essential for ensuring the timely procurement of quality goods at competitive prices. Research by Kariuki & Noor (2020) shows that SRM practices have a direct and significant impact on business performance with 64.6% of variations in firm performance attributed to SRM practices. Additionally, a 1% increase in SRM practices leads to a 17.4% improvement in firm performance. This underscores the importance of effective supplier relationships in achieving customer satisfaction and enhancing turnover, ultimately boosting profitability. This study aimed to explore how sourcing practices influence the performance of retail SMEs in Kilifi County.

### **Objective**

The general objective of the study was to determine the effect of sourcing on performance of small and medium enterprises (SME's) retail stores in Kilifi County

### **Significance of the Study**

This research would provide valuable insights for SME owners and managers in Kilifi County, equipping them with practical strategies to optimize their supply chain management (SCM) practices. By improving sourcing SMEs can enhance their overall business performance. The findings would also offer evidence-based recommendations for policymakers to develop supportive policies that promote the sustainability and growth of SMEs. Strengthening these businesses has the potential to significantly boost employment and economic development in the region.

### **Theoretical Framework**

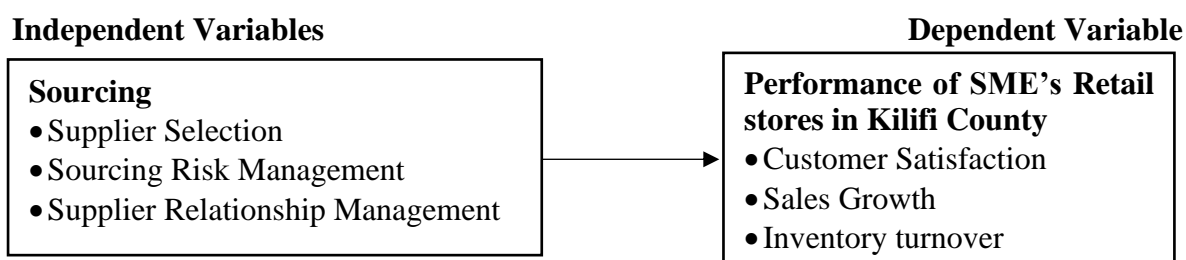
The Resource-Based View (RBV) was anchored by Barney (1991). The RBV posits that organizations gain a competitive advantage by effectively managing valuable, rare and inimitable resources (Barney, 1991). RBV stresses on the utilization and deployment of resources, leading to the development of resource-driven competencies and eventual competitive advantage (Glavas & Mish, 2015). A company's resources might be either internal or external and they can be purchased or already owned by the company. Finding and organizing these vital resources, whether they are actual or intangible, inside or external to the company and its utilization to achieve firm objectives and organizational goals leads to competitive advantage (Rothaermel, 2012). According to this theory, the performance of SMEs can be enhanced by leveraging internal resources such as efficient supply chain management

practices. In the context of retail SMEs, resources such as strong supplier relationships, inventory control mechanisms and logistics networks can be seen as unique assets that contribute to market competitiveness (Barney & Hesterly, 2010). Studies have shown that SMEs that adopt strong SCM practices are better able to optimize their resources, resulting in improved profitability and market performance (Wernerfelt, 1984; Bagudu, Khan, & Roslan, 2016).

According to the theory, the acquisition of resources through sourcing plays an important role in SMEs performance. Sourcing is centered on decision-making regarding an organization's procurement activities including spend analysis, risk management, supplier selection and evaluation, contract management and relationship management (Rothaermel, 2012). Therefore, strategic sourcing decisions such as selecting the right suppliers and evaluating their strategic and performance dimension for long-term and short-term partnerships, identifying solutions for mitigating supplier risk, improving supplier governance and enforcing supplier compliance are important in ensuring that the organization acquires unique resources which can be utilized to achieve (sustained) competitive advantage (Costello & Donnellan, 2011). Hence, leveraging on resources through sourcing can lead to enhanced customer satisfaction, sales growth and inventory turnover.

### Conceptual Framework

The conceptual framework shows the connection between the independent and dependent variables. This is as shown in Figure 1 below.



**Figure 1: Conceptual Framework**

Sourcing is one of the major steps in the procurement process. It involves the identification and selection of the supplier whose costs, qualities, technologies, timeliness, dependability and service best meet the organization's needs (Mandal, 2021). For any organization to be able to sustain the current trends, they should focus strategic sourcing. This aspect of sourcing provides value-added benefits to the organization since it takes into consideration organization's transformation to supply management. Strategic sourcing involves taking a strategic approach to the selection of suppliers an approach that is more aligned with the organization's competitive strategy (Chen, 2022). Supplier selection, sourcing risk management and supplier relationship management are pivotal factors that shape the sourcing and procurement practices of SMEs (Caniels & Gelderman, 2005)

Building and sustaining solid relationships with suppliers is a hallmark of effective supplier relationship management, which also results in on-time delivery, competitive pricing, higher-quality products and even more innovation (Krause et al., 2007). Enhancing supply chain efficiency requires relationship management, particularly supply chain management (SRM) (Cavinato, 2012). Hughes (2010) proposed that improved supply chain coordination results in

increased revenues for businesses and that integrated supply networks have a favorable impact on organizational performance. SRM guarantees customer satisfaction and helps businesses to keep a consistent inventory flow in the context of SMEs. Ndambuki (2014) studied the relationship between supply chain integration and performance in Kenyan humanitarian organizations and found that effective SRM leads to better supply chain outcomes. This finding can be applied to SMEs in Kilifi County, where improving relationships with suppliers can directly impact profitability.

## Research Methodology

The study adopted a descriptive cross-sectional design. This approach was suitable as it enables the measurement of various variables within the population of interest at a specific moment (Kothari, 2014). Descriptive cross-sectional surveys involve gathering information through interviews and questionnaires administered to a selected sample at a single point in time (Mugenda & Mugenda, 2008). The target population for the study comprised all registered retail SMEs in Kilifi County. According to the County Government of Kilifi, there are approximately 227 registered retail SMEs operating in the region (County Government of Kilifi Business Register, 2023). The respondents were SME owners/managers. Therefore, the target population will be 227 respondents. The sampling frame consisted of business owners/managers derived from the list of registered retail SMEs obtained from the Kilifi County government. The Yamane formula was employed to determine the sample size. The study sample size was 145 respondents. The simple random sampling was used to select the study sample. Simple random sampling is favorable in homogeneous and uniformly selected populations (Kothari, 2014). Primary data was gathered from Kilifi County's SME respondents. Both closed-ended and open-ended structured questionnaires were used in the study to gather data.

To ascertain the validity and reliability of questionnaire a pre-test and pilot survey will be conducted. The purpose of pilot testing will be to establish the accuracy and appropriateness of the research design and instrumentation and to provide proxy data for selection of a probability sample (Saunders, Lewis, & Thornhill, 2007). Data collected was reviewed for completeness and accuracy before analysis. The Statistical Package for Social Sciences (SPSS) version 28 was employed for data analysis, utilizing both descriptive and inferential statistics. Descriptive statistics, including frequencies, percentages, means and standard deviations, provided an overview of the basic characteristics of the dataset (Kothari, 2014). Inferential statistics involved correlational and regression analyses. Specifically, Pearson moment correlation was used to assess the relationships between independent and dependent variables, while regression analysis showed how much one factor influences another. For example, how much improving logistics management might affect performance of SMEs.

The regression model will be represented as follows:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where: Y = performance,  $\beta_0$  = Constant,  $\beta_1$  = Coefficient of all the independent variables,  $x_1$  = Sourcing,  $\varepsilon$  = Error term

### Data Analysis and Results

The study targeted 145 respondents who were all issued with the questionnaires. From the issued questionnaires, 138 were filled and returned. This formed a response rate of 95%. According to Mugenda and Mugenda (2019) a response rate of 60% and above for a study is adequate.

Reliability refers to whether an assessment tool produces consistent results when employed in similar situations with similar subject categories. Internal consistency was used to assess reliability of the questionnaire. Good internal consistency is indicated by an alpha value of 0.7 or above. Table 1 is a summary of the results.

**Table 1: Reliability Statistics Test**

Variables	Alpha value	Items	Comment
Sourcing	0.793	8	Acceptable
Performance	0.841	8	Acceptable

The results show that sourcing had a Cronbach alpha value of 0.793, and performance a Cronbach alpha of 0.841. Since the variables had an alpha value of 0.7 and above, it implies that they were all reliable. Therefore, the variable sourcing and performance were considered reliable and hence, no editing was needed. Therefore, the questionnaire was reliable for actual data collection.

Content validity was also used to determine validity. Content validity evaluates the extent to which the questionnaire items represent the content of the characteristic being measured (Polit & Beck, 2017). This was ensured by aligning the items with the study's objectives and indicators. Further, to enhance content validity the suggestions by the supervisor and experts in procurement management were used to improve the questionnaire content.

### Descriptive Statistics Analysis

The respondents were required to indicate the extent to which they agree or disagree with the statements about the effect of sourcing on the performance of SMEs' retail stores in Kilifi County. The results were as shown in table 2

**Table 2: Effect of Sourcing on Performance of SMEs'**

	Strongly Disagree	Disagree	Moderate	Agree	Strongly Agree	Mean	SD
Suppliers are selected based on their capabilities and reliability to provide products needed by the firm	5	11	19	75	28	3.797	0.876
Our organization emphasizes building long-term relationships with suppliers during the selection process.	3	9	16	64	46	4.022	0.884
We regularly evaluate and update our supplier selection criteria to align with market changes.	7	13	20	59	39	3.797	0.752
Our store conducts regular risk management to identify potential supply chain threats.	9	10	13	72	34	3.812	0.876
Risk management enables our store to mitigate supply chain disruptions in a timely manner.	6	9	18	55	50	3.971	0.843
We maintain open and transparent communication with our suppliers	8	10	21	64	35	3.783	0.778
Supplier feedback is actively sought and valued in our relationship management	5	8	18	71	36	3.906	0.874
Performance reviews are regularly conducted to assess and improve supplier relationships	4	10	14	80	30	3.884	0.956

From the findings, the respondents agreed that their store emphasizes building long-term relationships with suppliers during the selection process as demonstrated by mean of 4.022 and standard deviation of 0.884, risk management enables them to mitigate supply chain disruptions in a timely manner ( $m = 3.971$ ,  $sd = 0.843$ ), supplier feedback is actively sought and valued in relationship management ( $m = 3.906$ ,  $sd = 0.874$ ), performance reviews are regularly conducted to assess and improve supplier relationships ( $m = 3.884$ ,  $sd = 0.956$ ), the store conducts regular risk management to identify potential supply chain threats ( $m = 3.812$ ,  $sd = 0.876$ ), suppliers are selected based on their capabilities and reliability to provide products needed by the firm ( $m = 3.797$ ,  $sd = 0.876$ ), the owners regularly evaluate and update our supplier selection criteria to align with market changes ( $m = 3.797$ ,  $sd = 0.752$ ), and the owners maintain open and transparent communication with our suppliers ( $m = 3.783$ ,  $sd = 0.778$ ). The findings are related to those of King'ori and Lambaino (2023) who discovered that SMEs that implemented strategic sourcing practices such as long-term partnerships with reliable suppliers experienced higher customer satisfaction and profitability.

### Performance of SMEs

The respondents were required to indicate the extent to which you agree or disagree with the following statements performance of SMEs' retail stores in Kilifi County.

**Table 3: Performance of SME Retail Stores**

	1	2	3	4	5	Mean	SD
There has been growth in sales in our store in the past year	3	9	17	83	25	3.833	0.978
Customer satisfaction has improved due to efficiency in our inventory management system	6	8	20	76	28	3.812	0.892
Efficiency in our inventory management system ensures that customer demand are met on timely basis	2	12	16	79	29	3.877	0.934
Maintaining good supplier relationships has ensured that customer needs are met enhancing satisfaction	4	10	15	64	45	3.986	0.873
Stock availability has enabled the firm to meet customer expectations	6	9	18	68	37	3.877	0.844
There has been growth of sales due to the efficient logistics systems	5	7	19	70	37	3.920	0.869
The adoption of technology has ensured high inventory turnover	3	11	16	59	49	4.014	0.866
The overall performance of our business over the last year is excellent	4	9	15	73	37	3.942	0.907

According to the findings, the respondents agreed that the adoption of technology has ensured high inventory turnover ( $m = 4.014$ ,  $sd = 0.866$ ), maintaining good supplier relationships has ensured that customer needs are met enhancing satisfaction ( $m = 3.986$ ,  $sd = 0.873$ ), the overall performance of our business over the last year is excellent ( $m = 3.942$ ,  $sd = 0.907$ ), there has been growth of sales due to the efficient logistics systems ( $m = 3.920$ ,  $sd = 0.869$ ), efficiency in inventory management system ensures that customer demand are met on timely basis ( $m = 3.877$ ,  $sd = 0.934$ ), stock availability has enabled the firm to meet customer expectations ( $m = 3.877$ ,  $sd = 0.844$ ), there has been growth in sales in the store in the past year ( $m = 3.833$ ,  $sd = 0.978$ ), and customer satisfaction has improved due to efficiency in our inventory management system ( $m = 3.812$ ,  $sd = 0.892$ )

### Correlational Analysis

The Pearson moment correlation was used to assess the relationships between independent and dependent variables. Results were as shown in Table 3.

**Table 3: Correlational Results**

		Performance of SMEs	Sourcing
Performance of SMEs	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	138	
Sourcing	Pearson Correlation	.792**	1
	Sig. (2-tailed)	.001	
	N	138	138

**\*\*.** Correlation is significant at the 0.05 level (2-tailed).

The findings established that there was a positive correlation between sourcing and performance of SMEs' retail stores in Kilifi County as demonstrate by  $r = 0.792$ ,  $p\text{-value} = 0.001 < 0.05$ . This shows that sourcing had a positive and significant effect on performance of SMEs retail stores in Kilifi County.



### Multiple Regression Analysis

The model summary was used to determine the variations of performance of SMEs retail stores due to changes in sourcing. Table 4 shows the results.

**Table 1: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.898 <sup>a</sup>	0.806	0.801	0.03152

The findings portray that the adjusted R square was 0.801. This implies that there was 80.1% variation in performance of SMEs retail stores due to the changes in sourcing. Further, the 19.9% shows that there are other factors that may affect the performance of SMEs retail stores in Kilifi County that were not used in this study.

The ANOVA was used to determine whether the model was a good fit for predicting performance of SMEs retail stores in Kilifi County. The results were as shown in Table 5.

**Table 52: Analysis of Variance**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.002	4	5.251	49.036	.001 <sup>b</sup>
	Residual	14.241	133	0.107		
	<b>Total</b>	<b>35.243</b>	<b>137</b>			

The findings in table 5 show that the f-calculates was 49.036 which is higher than the f-critical (2.440) from the f-tables. Further, the significance value was  $0.001 < 0.05$ . This implies that sourcing significantly predicts SMEs retail stores in Kilifi County.

The beta coefficient values were fitted in the regression model as follows;

$$Y = 1.147 + 0.301X_1 + \varepsilon$$

The equation shows that holding performance of SME at a constant, sourcing would significantly influence performance of SMEs retail stores in Kilifi County at a constant of 1.147.

**Table 3: Beta Coefficients of Variables**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
<b>1</b>					
(Constant)	1.147	0.199		5.764	0.000
Sourcing	0.301	0.104	0.291	2.894	0.002

The findings depict that sourcing had a statistically significant effect on performance of SMEs ( $p\text{-value } 0.002 < 0.05$ ). Further, sourcing had a positive effect on performance of SMEs (Beta = 0.301). Hence, a unit increase in sourcing would lead to an increase in performance of SMEs retail stores by 0.301 units. The findings are related to those of King'ori and Lambaino (2023) who discovered that SMEs that implemented strategic sourcing practices such as long-term partnerships with reliable suppliers experienced higher customer satisfaction and profitability.

## Conclusion

The study established that sourcing had a statistically significant effect on performance of SMEs. Further, sourcing had a positive effect on performance of SMEs. The study concludes that sourcing has a significant and positive effect on performance of SMEs retail stores in Kilifi County.

## Recommendations

The study recommends that SMEs should explore and establish relationships with a wider range of suppliers to reduce reliance on single sources. This can mitigate risks associated with supply disruptions and price fluctuations.

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