



**E-INVOICING AND THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI CITY COUNTY
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ABSTRACT

SMEs carry out a significant task to economic function of a country. They are main source of income to numerous entrepreneurs and also they offer job opportunities mostly to the youths. However, despite the crucial role the SMEs play, they face numerous challenges which have impacted on their performance with some closing down. One of the areas the SMEs face challenges is invoicing challenges which have prompted businesses to adopt e-invoicing technologies so as to enhance their procurement functions. The purpose of this study was to investigate influence of e-invoicing on performance of SMEs within City County of Nairobi, Kenya. During the study, descriptive research design was adopted. Target population comprised of 3000 licensed and registered SMEs working within City County of Nairobi, Kenya. Sample size comprised of 97 SMEs owners or managers. The unit of observation comprised SMEs' owners and managers. From the target population, stratified random sampling technique was utilized to select 97 respondents. The study used structured questionnaires to collect data. Secondary data was used to supplement the primary data. Data was gathered from journals, reports, web sources and other relevant publications. Quantitative data was analyzed using descriptive statistics and inferential statistics data with the help of Statistical Package for Social Science (SPSS). In addition, descriptive statistics included percentages and frequencies. Correlation analysis and regression analysis were employed to determine the impact of e-invoicing on the performance of the SMEs. Frequency tables were used to present the findings. The study found that e-invoicing has a significant influence on SMEs performance within Nairobi, Kenya. The study recommended that all SMEs within Nairobi County should work towards ensuring full adoption of electronic invoicing which will in turn improve services offered to customers hence making them more satisfied. In addition, small and medium enterprise should adopt e-invoicing to reduce costs associated with storage, printing and delivery of paper invoices.

Key Words: e-Invoicing, SMEs Performance

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INTRODUCTION

Across the world, integration of Internet and business has been a common phenomenon for so long. However, procurement as part of the key functions of an organization which is substantially likely to affect the organization survival or even profitability or has shifted into electronic platform in several large economic entities. In modern day competitive and highly dynamic sectors, businesses and corporate sectors have realized the need to be well-informed with developments new technological and also manage minimizing cost of operational while meeting the objectives and goals of an organizational and hence increase adoption of e-procurement including e-invoicing (Subramanian, Qualls & Shaw, 2006). In total e-invoicing implementation is expected to raise productivity as well as efficiency of organization business operations.

In the SMEs, the coming of e-invoicing has emerged as a key ingredient in their procurement function enabling them to enhance their procurement function. Currently, SMEs adopt a wide range of e-invoicing so as to enhance their procurement processes as they cut on operational costs. In the United Kingdom, the adoption has become a key strategy among the SMEs whereby, about 47% of the SMEs have already adopted e-invoicing (Eadie, 2007).

The SMEs have also greatly adopted e-invoicing in Asia. In India for instance, the SMEs have recognized the huge benefits of procurement and are adopting e-invoicing to enhance their procurement functions. According to Garoma (2012), the SMEs in India are increasingly using e-procurement solutions such as e-invoicing to increase flexibility in their procurement operations, to boost customer satisfaction, to enhance delivery, and to manage their inventory in an effective manner. Garoma (2012), suggest that adopting e-invoicing has not only helped the businesses to gain and sustain competitive positions but has also brought greater transparency and eliminated unethical practices in their procurement practices.

Similarly, in Malaysia, the SMEs have greatly adopted e-invoicing in order to streamline their procurement operations. Tiwari et al, (2019), claim that a large number of SMEs use e-invoicing to enhance their procurement operations. The technologies have enabled the businesses to effectively communicate with customers and suppliers, to check for the prices of goods, to check the availability of goods and services, and to exchange purchase information with the internal as well as external parties.

In Africa, e-invoicing has proved to be one of the most effective tools used by SMEs to bring good governance and to improve the procurement practices. While the level of adoption of several technologies is lower compared to that in Asia and Europe, it is worth noting that SMEs in Africa are striving to utilize the available technologies to boost their procurement practices among other business functions. In Nigeria for instance, according to Aduwo et al, (2016), SMEs have to some extent integrated e-invoicing in order to maximize its benefits during the purchasing of goods and also services, in management of inventory as well as improving communication between the businesses and the suppliers and the consumers. This has helped to enhance the performance of the businesses. In South Africa, Sithole (2017) observed that the SMEs in South Africa are increasingly utilizing e-procurement technologies to enhance their operations. One of the most commonly used technological strategies adopted include e-invoicing. These technologies have largely revolutionized the procurement operations and to boost the performance of the businesses.

In Kenya, the SMEs are increasingly adopting and utilizing e-procurement technologies like e-invoicing to enhance business processes. The adoption of the strategies is inspired by the pressure they have to deliver quality goods and services on a timely basis. A large number of these enterprises have been having challenges meeting the customers' demands due to delayed delivery of goods. Delayed supply of goods occurs due to lack of efficient and effective

procurement systems which ultimately affect constant supply of goods to customers. This leads to customer dissatisfaction and poor business performance. The SMEs therefore adopt various e-procurement technologies such as e-invoicing and e-payment to facilitate payments.

Statement of the Problem

SMEs perform a key function in the socio economic growth in Kenya. Despite this importance, they face numerous challenges which have impacted on their performance with some closing down. According to KNBS (2017), the rate at which the SMES in Kenya are failing is alarming, which compromises its expected contribution to the attainment of the vision 2030. Further, according to KNBS (2017), a large number of SMEs is registered in the country but only a small number of them survive to the 10th year after formation. This agrees with the findings of a survey conducted by Sitienei (2018) which concluded that a large number of SMEs in Kenya do not survive up to their first birthday. While the SMEs contribute greatly to the economic prosperity of the nation, little research has been conducted to determine the challenges the businesses undergo. A review of past empirical literature brings forth various contextual, empirical, methodological gap which create the need for more research.

Waganda (2018) conducted a survey on impact of e-invoicing on performance of United Nations agencies, Nairobi. The findings indicated a positive association between e-invoicing and performance of procurement at the agencies. The use of e-invoices has enabled the agencies to minimize costs, to simplify the invoicing processes, to minimize the payment time, and to increase data security. Empirical and methodological gaps exist which create the need to address other dimensions of e-procurement.

From the available literature, empirical gaps were clear on need to focus on different dimensions of e-procurement. Therefore, it was crucial to undertake a study focusing on different e-invoicing and also its

influence on SMEs within the City County of Nairobi in order to fill gaps and expand knowledge base.

LITERATURE REVIEW

This study was based on Economic Theory of Entrepreneurship as well as Drucker's Entrepreneurship Theory.

Economic Theory of Entrepreneurship

Economic Theory of Entrepreneurship was founded by Papanek (1962) and improved by Harris (1970). The theory states that economic incentive is the key factor that promotes entrepreneurship. The economic gains inspire the entrepreneurs to undertake diverse entrepreneurial initiatives and to adopt measures in order to develop entrepreneurial competencies. The entrepreneurs' inner urge and the desired economic gains have great influence on the development and improvement of entrepreneurial competencies. In the case of SMEs, the desire to achieve greater results inspires the owners to seek means of improving operational efficiencies and competencies. Having identified gaps in the procurement functions, the SMEs now adopt modern specialized e-procurement technologies in pursuit of efficient and effective procurement.

The Economic Theory of Entrepreneurship is relevant and applicable in the study of the e-procurement embracing by SMEs within Nairobi. As a remedy to numerous procurement challenges the businesses have been facing, they largely adopt and integrate technology in their procurement operations. The e-invoicing strategy adopted is expected to enhance the sourcing and ordering processes and to improve the performance. In this study, the economic theory of entrepreneurship assisted in understanding the influence of e-invoicing on the procurement efficiency and on the business performance.

Drucker Entrepreneurship Theory

Drucker Entrepreneurship theory was founded by Drucker (1985). In this theory, Drucker views an entrepreneur as a unique agent of change.

According to Drucker (2014) an entrepreneur is always in constant investigation for changes, reacts to the changes, and also exploits the changes as opportunities. According to Drucker, entrepreneurs should be highly hard working and innovative and should always be ready to exploit any innovative opportunities available. In the context of the SMEs, the business environment in which they operate is highly dynamic. Therefore, the entrepreneurs should be innovative and should seek strategies that would enable them improve their performance and hence the significance of the e-procurement.

Drucker Entrepreneurship theory was helpful in explaining the innovative strategies that SMEs in Nairobi currently adopt in order to increase their operational efficiency. The invoicing process has always been a key challenge to SMEs, which leads to delayed supply of goods and customer dissatisfaction. E-invoicing has therefore emerged as a solution to this problem and SMEs are highly using different e-invoicing technologies to enhance their procurement process.

Empirical Literature Review

E-invoicing is a process through which a business sends and receives invoices through electronic means (Brun, 2008). According to Hernandez-Ortega (2011), an e-invoice enables a business to gather information pertaining to transactions and to transmit it through a network. The e-invoices enable the business to maintain business information throughout the supply chain and to enhance the authentication and non-repudiation of origin and receipt, confidentiality and privacy.

The benefits of e-invoicing have been documented by numerous researchers. Chegugu and Yusuf, (2017) analyzed the effect of practices on electronic procurement on performance of an organizational of public hospitals within the county government of Uasin Gishu in Kenya. Descriptive research design was deployed to gather data in 5 hospitals from a sample of 367 respondents which was analyzed by

deploying of quantitative and qualitative methods. From the analysis, research study acknowledged that the adoption of e-invoicing had greatly helped to enhance the procurement process at the hospitals. From the e-invoicing, the hospitals were able to easily monitor charges from purchasers to suppliers. While the study added to the understanding on role of e-procurement, empirical gaps exists as the study did not e-sourcing, e-payment, and also e-tendering. Thi study did not also focus on SMEs. Contextual gaps also exist as the study was not in Nairobi City County.

Waganda (2018) performed an investigation on effects of e-procurement on performance of United Nations agencies within Nairobi. The investigation used an exploratory research design and both primary as well as secondary data. In addition, primary data was gathered from procurement managers and other personnel in procurement process while secondary data was gathered from different journals and publications. Based on the regression analysis conducted, the study established a positive association between e-invoicing and performance of procurement at the agencies. The use of e-invoices has enabled the agencies to reduce costs, to simplify the invoicing processes, to reduce the payment time, and to increase data security. Although this study was very informative on the role of e-invoicing, empirical exist as the study did not use e-sourcing, e-payment, and e-tendering. The investigation did not also focus on SMEs. Contextual gaps also exist as the study was not conducted in Nairobi City County.

Similarly, Chegugu and Yusuf (2017) established that e-invoicing has facilitated financial processing between the hospitals in Uasin Gishu and the suppliers. This investigation had empirical gaps as it did not focus on e-sourcing, e-payment, and e-tendering. This study did not also focus on SMEs. There was also a contextual gap as the study was not conducted in Nairobi City County.



Independent Variables

Dependent Variable

Figure 1: Conceptual Framework

METHODOLOGY

This study adopted a descriptive research design. The target population was owners of all registered and licensed SMEs within Nairobi County. According to the Nairobi City County Records (2019), there were 3000 SMEs that were registered, licensed and operational in the Nairobi City County. The target population therefore comprised of 3000 SMEs owners. The sample size of SMEs was computed using the Taro Yamane formulae as shown below;

$$n = \frac{N}{1 + N(e^2)}$$

$$n = \frac{3000}{1 + 3000(0.1^2)}$$

n=97 SMEs

The study utilized a stratified random sampling method to select SMEs to participate in the study. This stratification method was preferable as it made sure all SMEs in various sectors are represented in the study hence eradicating bias. The various categories included General trade Transport, Industrial factories and workshops, health and entertainment, professional and technical services, cereals and groceries, manufacturing, textiles, agricultural producers and processors, and hotels and lodging hotels. Simple random was applied within each category to select the firms to be included in the sample. The SMEs owners or managers were sampled through purposive sampling as they were deemed well conversant with the operations of the SMEs and thus suitable to give the required data and information.

Table 1: Category of SME, Target Population and Sample Size

Category of SMEs	Total Number	Percentage	Sample
General Trade, Wholesale, Retails, Stores	1,110	36	35
Professional and Technical Services	780	26	25
Transport, Storage and Communications	720	25	24
Industrial Plants, Factories and Workshops	390	13	13
Total	3,000	100	97

The study used both primary as well as secondary data. Further, primary data was gathered using structured questionnaires. The rationale for choosing questionnaire was that it permits for collection of wide range of data from a large sample; it is economical and time-saving (Bloch, Phellas & Seale, 2011). These questionnaires were given out to the respondents by the researcher with assistance of 2 research assistants. Secondary data was collected from journal articles, reports, web sources, and other relevant publications. The researcher utilized content and face validity to determine if questionnaires had issues in terms of

clarity and to determine and correct errors. Consultations and also discussions with various supervisors were done to enhance content validity. The pilot test was conducted in Kiambu County whereby 6 SMEs owners. To assess reliability of research questionnaire, researcher utilized a Cronbach's Alpha. The results showed that e-tendering had a Cronbach's alpha of 0.717; e-sourcing had a Cronbach's alpha of 0.866; e-invoicing had a Cronbach's alpha of 0.918; and e-payment had a Cronbach's alpha 0.864. This meant that all variables in this survey were reliable and hence there was no need to adjust the instrument.

Data was analyzed using quantitative data analysis techniques. Data gathered was coded and also entered in the Statistical Package for Social Studies (SPSS) and then analyzed by use of descriptive statistics and inferential statistics. Descriptive analysis involved percentages and frequencies while inferential analysis was carried out using correlation analysis and multiple regression analysis technique. Regression analysis helped to determine influence of e-procurement on SMEs performance of Nairobi City County.

Regression model was as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where: Y= Performance; β_0 = Constant of the model; β_1 = E-sourcing; β_2 =E-tendering; β_3 = E-invoicing; β_4 = E-payment; and ϵ = Error term

FINDINGS AND DISCUSSIONS

The sample size was 97 owners or managers of registered and licensed SMEs within Nairobi County.

During the data collection process 97 questionnaires were dispersed, out of which 86 were completely filled and given back to the researcher. Thus, response rate in this research study of was 88.66%. Kothari (2009) argue that a response rate which is more than fifty percent is regarded as sufficient for data analysis and also for reporting whereas a response rate which is more than seventy percent is considered excellent. Therefore, in this study the response rate was within the limits which are acceptable for drawing conclusions as well as making recommendations.

Respondents' general information consisted of gender, education level, number of years in business, number of staffs and number of suppliers. Respondents in this study were requested to specify their gender. From these findings, 65.1% of the participants were male whereas 34.9% of the respondents were female. It means that utmost of SMEs' owners and managers in Nairobi County were male.

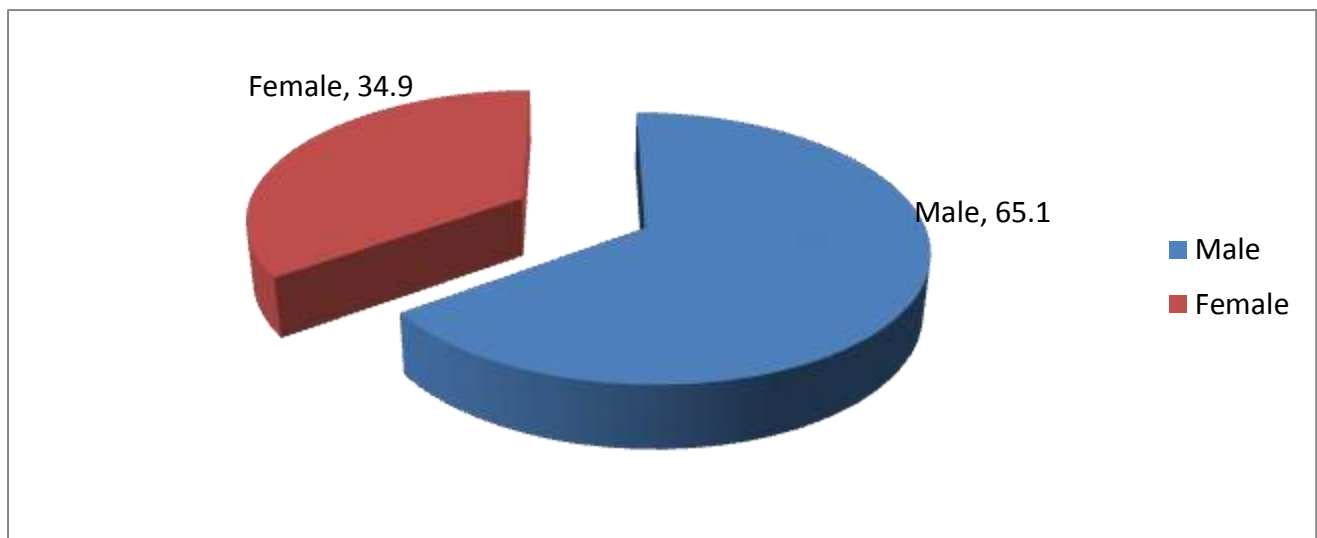


Figure 2: Gender of the Respondents

The participants were asked to specify their highest education level. From the results, 25.6 % of the participants specified that respondents had secondary education being their highest education level, 23.3% pointed out that they were undergraduates, 18.6 % specified that they had

technical certificates, the same percentage (18.6 %) indicated that they had primary education while 14.0 % specified that they had post graduate degrees. This implied that most of the SMEs' owners and managers in Nairobi County had secondary certificates.

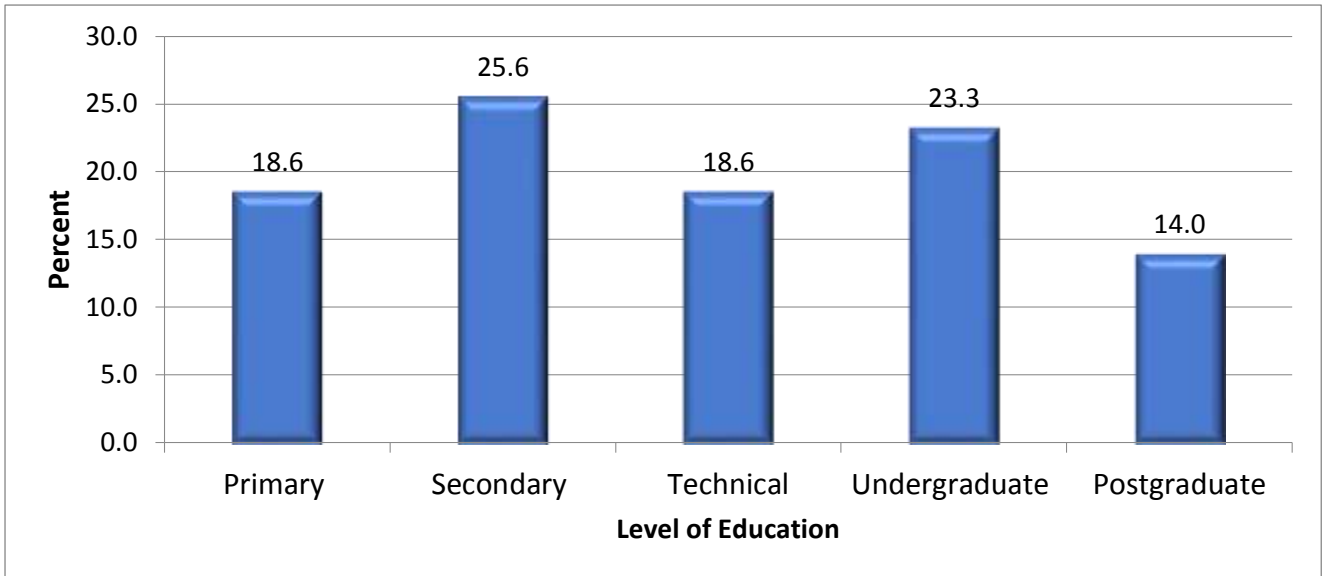


Figure 3: Education Level of the Respondents

As part of general information, participants were asked to specify number of years they had operated their businesses. From the findings, 44.2% of the participants revealed they had been in business for less than 5 years, 32.6 % specified they had worked

in their businesses for a period of between 5 and 10 years, while 23.3% specified that they had been in business for more than 10 years. This means that most of SME owners had operated their businesses for less than 5 years.

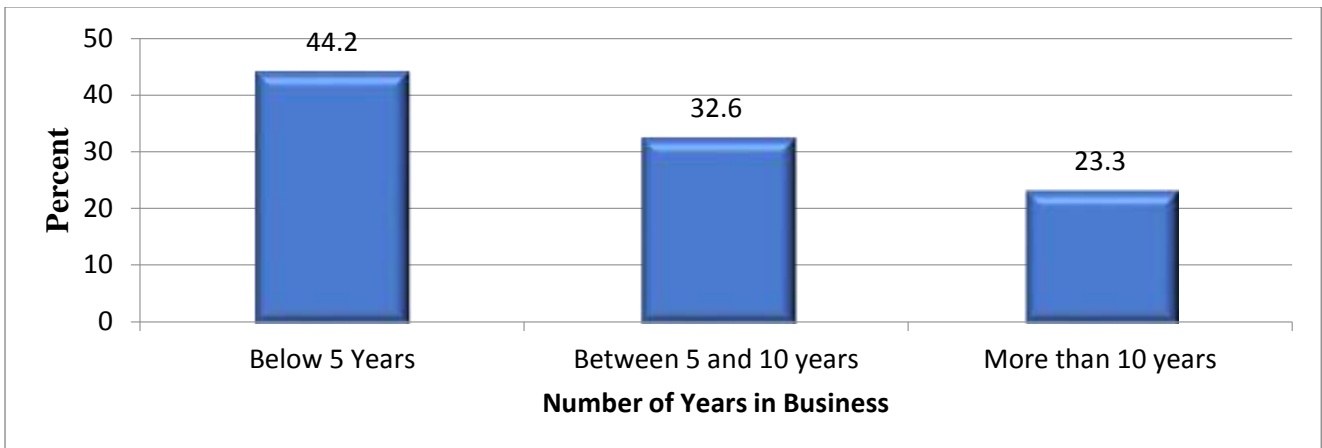


Figure 4: Number of Years in Business

The participants were also requested to specify the number of staffs they had in their businesses. From the results 39.5 % of the participants had employees ranging between 10 and 20, 32.6% had between 10 and 20 employees, 16.3% had between

21 and 30 employees, 9.3% had below 10 employees while 2.3% had more than 50 employees. It means that most of the SMEs within Nairobi County had between 10 and 20 employees.

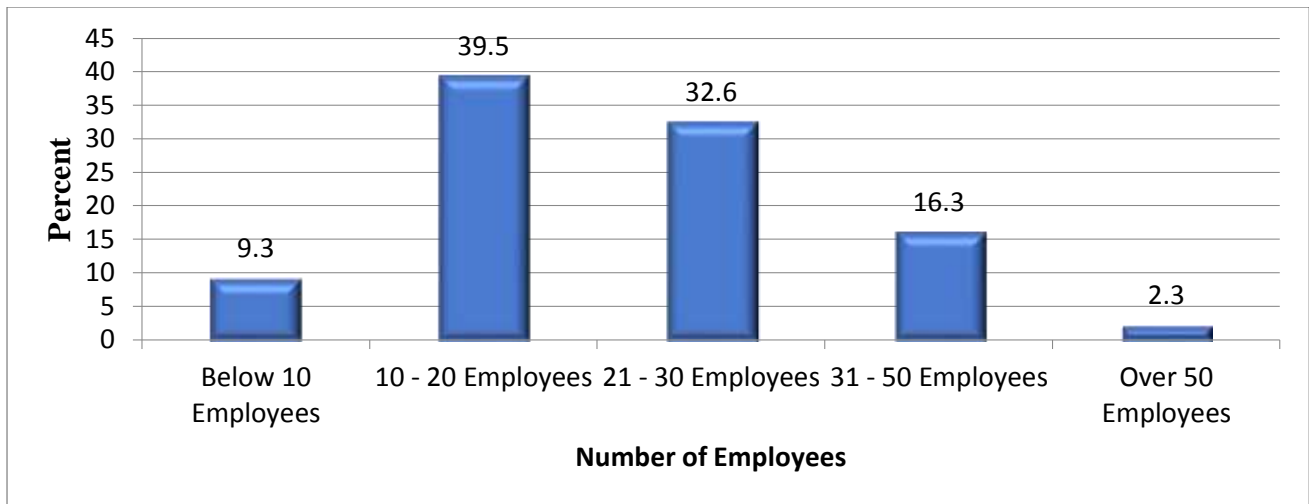


Figure 5: Number of Employees

The participants were also requested to specify the number of suppliers they had in their businesses. From the results, 46.5% of the participants revealed that they had between 5 and 10 suppliers, 16.3% of the respondents had less than 5 suppliers, 14.0%

had between 11 and 20 suppliers while 7.0% had between 21 and 50 suppliers. This means that most of the SMEs in County of Nairobi had between 5 and 10 suppliers.

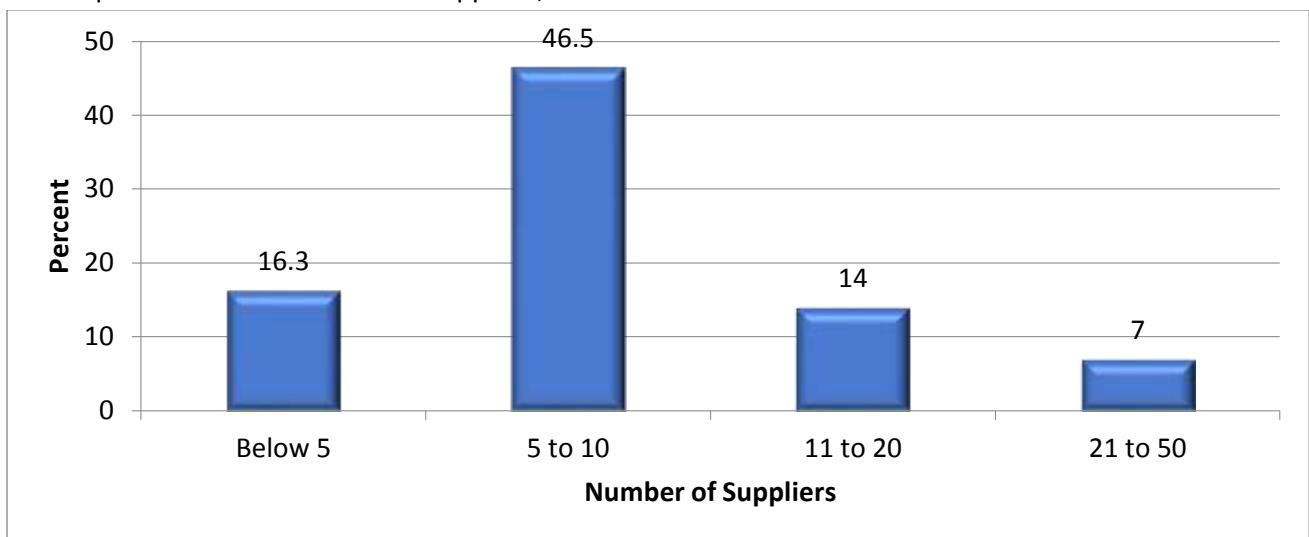


Figure 6: Number of Suppliers

Use of e-Invoicing

The respondents during the study were asked to specify their level of agreement on different statements relating to use of e-invoicing. A Likert scale of 5-point in this study was utilized where by 1 signified no-extent, 2 signified small-extent, 3 signified moderate-extent, 4 signified large-extent,

5 signified very large extent. The participants revealed with a mean of 3.888 (std.Dev =0.026) that businesses were using e-invoicing to a large extent. These findings agree with Eei, Husain, and Mustafa, (2012) findings that e-invoicing is used among small and medium enterprises.

Table 2: E-Procurement Practices

	1	2	3	4	5	Mean	Std. Deviation
E-invoicing	5.8	9.3	27.9	12.8	44.2	3.888	.026

E-Invoicing

The respondents were asked to specify their level of agreement with different statements on the influence of e-invoicing on the different performance metrics in their businesses. The findings were shown in Table 3. From the results, participants agreed by a mean of 3.791 (std. dv = 1.139) that e-invoicing has increased the profitability of the business. As indicated with a

mean of 3.326 (std. dv = 0.999), respondents were moderate on statement that e-invoicing has increased customer satisfaction. These findings differ with Waganda (2018) findings that e-invoicing has significant effect on customer satisfaction. The participants disagreed on the statement that e-invoicing has increased market share of the businesses. This was indicated with a mean of 2.256 (std. dv = 1.031).

Table 3: Influence of E-Invoicing on Performance

	1	2	3	4	5	Mean	Std. Deviation
E-invoicing has increased the profitability of the business	7.0	9.3	7.0	51.2	25.6	3.791	1.139
E-invoicing has increased customer satisfaction	5.8	4.7	57.0	16.3	16.3	3.326	.999
E- E-invoicing has increased the market share of the business	18.6	54.7	16.3	3.5	7.0	2.256	1.031

The respondents were asked to specify the extent of their agreement with various statements on e-sourcing and business performance. As indicated with a mean of 3.977 (std. dv = 1.414), participants agreed e-invoicing has highly enhanced data security at their business. Further, the respondents agreed that the e-invoicing has reduced delays and highly promoted timeliness in invoicing settlements by the suppliers as indicated with a mean of 3.628 (std. dv = 1.063). However, respondents were

moderate on the statement that the e-invoicing has reduced delays and highly promoted timeliness in invoicing settlements by the suppliers. This is indicated with a mean of 3.465 (std. Idv =1.048). The results agree with Waganda (2018) argument that use of e-invoices has enables supply chain organizations to reduce costs, to simplify the invoicing processes, to reduce the payment time, and to increase data security.

Table 4: E-invoicing and Business Performance

	1	2	3	4	5	Mean	Std. Deviation
The e-invoicing has highly enhanced data security at my business.	9.3	11.6	9.3	11.6	58.1	3.977	1.414
The e-invoicing has reduced delays and highly promoted timeliness in invoicing settlements by the suppliers.	7.0	9.3	11.6	58.1	14.0	3.628	1.063
The e-invoicing has helped to prevent invoice errors and to enhance accuracy	9.3	4.7	25.6	51.2	9.3	3.465	1.048

Inferential Statistics

The study used inferential statistics which comprised of correlation analysis and also regression analysis to examine influence e-invoicing on performance of SMEs in Nairobi, Kenya.

Correlation Analysis

During the study Pearson correlation analysis was utilized to examine relationship between study independent variables (e- e-invoicing) and dependent variable (performance of SMEs in Nairobi). The results showed that e-invoicing has

positive and also a significant correlation with performance of SMEs in Nairobi County ($r=0.991$, p value =0.000). The correlation was significant because the p value (0.000) was below 0.05 the significant level. These findings concur with findings

of Waganda (2018) that there exist a positive correlation between e-invoicing and performance of procurement at United Nations agencies in Nairobi.

Table 5: Correlation Coefficients

		Performance of SMEs	E-Invoicing
Performance of SMEs	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	86	
E-Invoicing	Pearson Correlation	.991	1
	Sig. (2-tailed)	.000	
	N	86	86

Regression analysis

Multivariate regression analysis was adopted to evaluate the weight of correlation between dependent (SMEs performance in City County of Nairobi, Kenya) and independent variables in this study (e-invoicing).

The multivariate regression model used was:

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

Whereby; Y = dependent variable (the performance of SMEs in the City County of Nairobi, Kenya), β_0 =

Constant Term; $\beta_1-\beta_4$ = regression coefficients; X_1 = e-invoicing and ϵ = error term.

The R-squared was utilized to explain the difference in dependent variable (the SMEs performance in City County of Nairobi, Kenya) that could be illustrated by independent variables in this study (e-invoicing). The R squared was 0.269 and this meant that 26.9% of dependent variable (the SMEs performance in City County of Nairobi, Kenya) could be clarified in this study by independent variables (e-invoicing).

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.519 ^a	.269	.249	1.12413

The ANOVA was adopted to evaluate if the model used was good fit for the data. As shown in Table 7, F-calculated was 216.037 which was more than the F-critical (2.484) and the p value (0.000) was below significant level which is (0.05). Therefore, model

was a good fit for the data and therefore could be utilized in explaining influence of independent variables (e-tendering, e-sourcing, e-invoicing and e-payment) on dependent variable (the SMEs performance within Nairobi City County, Kenya).

Table 7: Analysis of the Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	16.352	1	16.352	216.037	.000
Residual	6.358	84	0.075		
Total	22.71	85			

Regression equation used was as follows,

$$Y = 2.981 + 0.531X_1$$

The findings revealed that e-invoicing has positive also significant effect on performance of SMEs in Kenya. ($\beta_1=0.531$, p value=0.000). This association

was significant as p value (0.000) was below 0.05 which is the significant level. This means that e-invoicing has significant effect on SMEs performance in Kenya. The study findings concurred with those of Waganda (2018) who established a positive association between e-invoicing and

performance of procurement at the agencies. The findings also are in line with Chegugu and Yusuf, (2017) findings that the adoption of e-invoicing had greatly helped to enhance the procurement process at the hospitals.

Table 8: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	BI	Std. Error	Beta		
(Constant)	2.981	1.036		2.877	0.168
E-Invoicing	0.531	0.115	0.529	4.617	0.000

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that e-invoicing has positive as well as significant influence on SMEs performance within Nairobi County. Study revealed that e-invoicing improved the performance of the business and moderately improved customer satisfaction and market share. The study also established that the e-invoicing highly enhanced data security in businesses and reduced delays and highly promoted timeliness in invoicing settlements by the suppliers.

The findings also established that e-invoicing increases performance in terms of client's satisfaction. Therefore this research recommends that all SMEs within Nairobi County should work towards ensuring full adoption of electronic invoicing which will in turn improve services offered to customers hence making them more satisfied. In

addition, small and medium enterprise should adopt e-invoicing to reduce costs associated with storage, printing and delivery of paper invoices.

The major aim of this investigation was to examine influence of e-invoicing on the SMEs performance in City County Nairobi, Kenya. However, this study was only limited to SMEs operating within the City County of Nairobi. Hence, this study recommends that additional investigations should be performed on influence of e-invoicing on SMEs performance in other counties in Kenya. Besides that, this investigation found that 26.9% of the SMEs performance in City County of Nairobi could be illustrated by e-invoicing. Therefore, this study recommended additional study to be performed in order to evaluate other factors which influence performance of SMEs across Kenya.

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