Preferential purchasing policies and SME participation in public procurement markets: do technological capabilities matter?

Baraka Israel[1&2*] *and Alban Dismas Mchopa*[3]

[1]Department of Procurement and Supply Management, College of Business Education, Mbeya, Tanzania

[2]Department of Business Administration and Management, The University of Dodoma, Dodoma, Tanzania

[3]Department of Procurement and Supply Chain Management, Moshi Co-operative University, Moshi, Tanzania

[*]**Correspondence:** isbara03@gmail.com

Abstract

This article examines how preferential purchasing policies influence small and medium-sized enterprise (SME) participation in public procurement markets, with particular attention to the moderating role of technological capabilities. The study adopted a cross-sectional research design and utilised a structured questionnaire to collect data from 283 randomly selected SMEs in Tanzania. The collected data was subsequently analysed using the Hayes PROCESS macro to test the proposed hypotheses. The findings revealed significant direct effects of preferential purchasing policies and technological capabilities on SME participation in public procurement markets. Surprisingly, technological capabilities exhibited insignificant positive moderating effect on the relationship between preferential purchasing policies and SME participation in public procurement markets. The study concludes that preferential purchasing policies can autonomously legitimise SME participation in public procurement markets, irrespective of technological capabilities. However, its positive coefficient signifies the potential of technological capabilities in strengthening the effect of preferential purchasing policies on SME participation in public procurement markets. The study recommends that policymakers, oversight authorities and support institutions streamline preferential purchasing policies within the public e-procurement system and provide training and mentorship programmes aimed at strengthening SMEs' technological capabilities and engagement in procurement markets. For SME managers, the study suggests investing in basic digital infrastructure (e.g. standard ICT tools and internet access), developing e-procurement-related skills and system integration. The study makes novel contribution to literature on SME-supporting policies and competitiveness in public procurement markets. It integrates insights from regulatory frameworks and firm-level technological capabilities to explain SMEs' participation in public procurement markets, an interplay which has been underexplored in existing literature.

Received
06 March 2026
Received in revised form
01 June 2026
Accepted
17 June 2026

Keywords:
Preferential purchasing
SMEs
Public procurement
Technological capabilities
Inclusive participation

1. Introduction

The inclusion of the small and medium-sized enterprises (SMEs) in the public procurement markets (PPM) has been stressed across governments and regions. This is attributed to substantial roles that SME plays in economies, as well as the sheer size of PPM. SMEs are commonly known to be drivers of economic growth, innovation, job creation and major contributors to gross domestic products (GDP). Also, SMEs represent the largest proportion (90%) of all businesses worldwide, generate up to 50% of the global employment, and contribute approximately 40% of the GDP (Flynn, 2026; World Bank, 2023). PPM, on the other side, constitutes a significant percentage of government expenditure, estimated at 70% in emerging economies and 30% in developed countries (Open Contracting Partnership, 2020; Taoufik & Azmani, 2025). With these regards, the inclusion of SMEs in PPM gives governments a distinct policy tool to facilitate broader socio-economic development, entrepreneurship, revenue generation and market expansions for SMEs (Changalima et al., 2023; Israel & Kazungu, 2019; Kinyua et al., 2025; Zabala-Iturriagagoitia, 2022). Ideally, the participation of SMEs in PPM symbolises how SMEs can access public procurement opportunities, compete against them, win tenders and successfully carry out contracts to supply goods, works and services (Flynn, 2026; Flynn & Davis, 2017; Hoekman & Taş, 2022). Irrespective of their significance, SMEs grapples with challenges to capitalize on their prospects and succeed in PPM. The market, especially is dominated by large-experienced enterprises (Akenroye et al., 2024; Kibari & Muturi, 2020). The statistics provided in 2023 revealed that the global average rate of SMEs involvement in PPM was 18% (World Bank, 2023).

Published by The University of Dodoma
https://doi.org/10.58548/2026abmj41.1632
© 2026 The authors. CC BY 4.0 license (https://creativecommons.org/licenses/by/4.0/)

In Tanzania specifically, where this study was conducted, the overall participation rate of SMEs in PPM was 4%, with an estimated range of 3% among the small enterprises, and 6% among the medium-sized enterprises (World Bank, 2023). This rate is considerably less compared to 18% of participation rate of large firms (World Bank, 2023). Several structural and individual obstacles have been reported to inhibit the ability of SMEs to exploit the potential of PPM. Among these obstacles are the bureaucratic nature of the PPM process, limited managerial and technical capacity among SMEs, stringent qualification and certification requirements, and intense competition from large companies (Mahuwi & Israel, 2023; Mutangili, 2024). The other obstacles are limited access to information on procurement, insufficient financial capacity and lack of experience in handling large government contracts (Ismail & Changalima, 2022; Israel et al., 2026; Mahuwi & Israel, 2023). To counter these issues, the Government of Tanzania has endorsed a set of preferential purchasing policies (PPPs) as a significant tool to help overcome the obstacles and low rates of participation of SMEs in PPM. The policies are grounded in the institutional theory (IT) and are aimed to level the playing field and engage SMEs in PPM by offering them preferential treatment and advantages in the tender evaluation and award of contracts (Ibrahim & Kyara, 2023; Kim et al., 2023). Viewed in the theoretical lens of IT, PPPs provide legislative frameworks (coercive and normative), which compel public organisations to implement and legitimize practices that involve SMEs in the procurement ecosystem (Kemboi & Thogori, 2025). Moreover, SMEs themselves are embedded in the same institutional context and are required to align their behaviour with the prevailing rules and norms of PPPs to gain legitimacy for engaging in PPM.

One of the PPPs in countries such as Kenya, South Africa, and Tanzania requires that 30% of procurement contracts be exclusively reserved for disadvantaged small businesses [The United Republic of Tanzania, (URT, 2023)]. Other policies focus on prioritising procurement from local SMEs and separating contracts into smaller lots (Ibrahim & Kyara, 2023; URT, 2023). Moreover, SMEs are also exempted of performance and tender security assurances, bidding charges and access to advance payments (Kenya Literature Bureau, 2021; URT, 2023). In certain contexts, bid price preferences are applied by discounting SMEs' tenders by a designated percentage. If a particular SME's tender emerges as the lowest-evaluated bid, it is then awarded the contract (Glas & Eßig, 2018; Patil, 2017). When properly enforced, PPPs have the potential to offset the structural and individual barriers associated with SME engagement in PPM. The rationale behind this is that PPPs enable SMEs to lower the barriers to entry in PPM, ease compliance requirements, provide preferential evaluation criterial and targeted capacity-building assistance (Di Mauro et al., 2020; Matveev, 2024). However, studies on the importance of PPPs in SME involvement in PPM suggests a contradictory view. In South Korea and New Zealand, studies by Kim et al. (2023) and Malcolm et al. (2024) indicate that PPPs facilitate SME involvement in PPM. However, in the United Kingdom, Glas and Eßig (2018) found no significant relationship between PPPs and SME involvement in PPM. These discrepancies underscore the necessity of getting further insights into when PPPs translate into greater involvement of SMEs in PPM.

According to Hayes (2022), the "when" question in business and social research is addressed through moderation analysis. This method describes how a moderating variable reinforces or undermines the effect of a predictor variable on the outcome variable. Considering the fact that PPPs are embedded in e-procurement system (Siwandeti et al., 2021; URT, 2023), therefore, this study proposes technological capabilities (TEC) as a key moderator of the relationship between PPPs and the participation of SMEs in PPM. This proposition is anchored in the theoretical framework of technology acceptance model (TAM), which explains firm's acceptance, adoption and use of new technologies (Davis, 1989). TAM proposes that firms adopt new technology depending on their perceptions of its usefulness and ease of use (Aburbeian et al., 2022). In this regard, TEC, especially digital skills, information and communication technology (ICT) infrastructure and system integration are important contributors to the perceived usefulness and ease of use that facilitates SMEs access to PPPs and overcome the complexity of e-procurement systems. Robust TEC ensure that SMEs can respond adequately to the digital aspect of PPM. More importantly, robust TEC helps SMEs design innovative products and services that meet the demand of buying organisations (Israel & Mwenda, 2024; Kemboi & Thogori, 2025).

Therefore, the interaction between PPPs and TEC establishes a sophisticated environment where the involvement of SMEs in PPM is determined. Although PPPs can reduce barriers to entry in PPM (Flynn, 2018), firms with strong TEC are better placed at successfully exploiting digitally integrated procurement opportunities (Kemboi & Thogori, 2025). However, evidence-based studies examining the interplay between PPPs, TEC and participation of SME suppliers in PPM, particularly in emerging economies like Tanzania remain scarce. Prior empirical studies in this domain are centred on assessing the direct effect of PPPs (Kim et al., 2023; Malcolm et al., 2024; Matveev, 2024) and TEC (Israel & Mwenda, 2024; Nakabuye, et al., 2023) on SME participation in PPM. Other studies address the barriers and factors for SME engagement in PPM (Akenroye et al., 2024; Dobrotă et al., 2022; Jama & Muloosi, 2025; Mutangili, 2024). The present study offers novel insight, examining the moderating role of TEC on the relationship between PPPs and participation of SME suppliers in PPM using the theoretical lenses of IT and TAM. In addition, the study examines whether PPPs and

Published by The University of Dodoma
https://doi.org/10.58548/2026abmj41.1632
© 2026 The authors. CC BY 4.0 license (https://creativecommons.org/licenses/by/4.0/)