

**THE EFFECT OF FINANCIAL PRODUCTS ON FINANCIAL
PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN
NAIROBI COUNTY**

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DECLARATION

This research project is my original work and has not been submitted for examination in any other university.

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This research project has been submitted for examination with my approval as the University supervisor.

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DEDICATION

To my family for the endless support and encouragement during this entire time. Thank you for holding my hand and walking with me while instilling in me the passion for knowledge and hard work.

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LIST OF ABBREVIATIONS AND ACRONYMS

| | |
|-------------|--------------------------------|
| FI | Finance Institutions |
| MFI | Micro Finance Institutions |
| ODI | Overseas Development Institute |
| ROA | Return on Assets |
| ROE | Return on Equity |
| ROI | Return on Investment |
| ROS | Return on Sales |
| SMEs | Small and Medium Enterprises |

ABSTRACT

The importance of financing products on performance of SMEs can therefore not be underestimated. Access to financing products such as savings, credit, insurance and payment services lead to a positive improvement in financial performance of SMEs. Despite the fact that SMES are the vital and significant contributors to economic development through their critical role in providing job opportunities and reducing poverty levels, there is a high failure rate among SMES attributed to financing. This study sought to determine the effect of financial products on the financial performance of Small and medium enterprises in Nairobi County with an aim of making policy recommendations for improvement. The theories adopted by the study include credit access theory, Microfinance Credit theory, financial growth life cycle theory and adverse selection theory. A descriptive survey design was adopted to achieve the research objectives. The study target population consisted of a total of 30, 253 small and medium enterprises which operate in Nairobi County according out of which 400 SMEs were sampled. The data collection instrument used was a questionnaire and data was analyzed through correlation and regression analysis. The study findings showed that the financing products that are micro savings products, micro credit products and internet banking products had a positive and significant effect on financial performance of SMEs. Micro insurance products had a positive but not significant effect on financial performance of SMEs. The study recommends SMEs in Kenya to adopt Savings products with high annual interest. There is also need for SMEs to adopt savings products with no minimum balance and savings products which are accessible any time. The study also recommends SMEs to adopt loan products which are guaranteed by the financial institutions such as short term loan products, emergency loan products and group loan products as well as micro leasing products. Further, there is need for SMEs to adopt insurance products such as property insurance products, life insurance products, general liability insurance products and crime insurance products. Furthermore, the study recommends SMEs to adopt internet saving products such as internet deposit products, internet credit products and internet insurance products.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and Medium Enterprises (SMEs) are regarded as the engine for economic growth in developing economies in terms of wealth creation, creation of jobs and poverty alleviation (Koech, 2011). Through industrialization, SMEs provides a platform for a fast economic growth of a country. According to Mwangi (2011), small and medium enterprises are the socio-economic and political growth mediums in any economy particularly for the small economies. According to Wanjohi (2012), SMEs are vital for the growth and expansion of businesses because of their numbers. They lead to the growth of the economy by bringing about competitions in the commercial sector leading to an improvement in terms of service delivery. Despite this, the SMEs face challenges in their operation and are characterized by high failure rate.

Financing has been a major hindrance to the growth of SME sector in Kenya. Most SMEs have a challenge in providing collateral for loans worsened by improper regulatory and legal policies which do not factor in some of the inventive strategies for lending to Small and medium enterprises. Restricted access to proper funding caused by inadequacy in terms of ability to provide funding to SMEs remains a hindrance to the advancement of SMEs sector in Kenya. Most banks in Kenya categorize MSEs as volatile and unsustainable in terms of riskiness. Despite the riskiness of providing credit to SMEs, some financial institutions and micro finances still provide them with loans.

Business financing has been a daunting task as only few SMEs barely manage to secure loans. However, several forms of financial interventions to advance the growth and the development of SMEs have been put forth by non-governmental organizations to enhance their profitability. Memba *et al.* (2012) also notes that the development of SMEs has barely been successful despite the great amount of support programs.

1.1.1 Financial Products

Financial products means the services that are provided by the financial institutions which includes deposit taking, investment capital, pension funds and insurance funds. Gaurav *et al.* (2011) refers to financial products as services designed to provide for loans, savings and the management of risks. Financial products are classified as either formal or informal in third world countries.

Normally successful and lawfully accepted financial institutions engage in the provision of Formal financial services (FinScope Ghana - 2010). Common instances of financial facilities that are termed as formal are loans, account confirmation, accounts' savings, debit and credit cards, insurance products, money transfer services, mobile banking, investment accounts, joint funds, retirement plans, private and government shares, stocks and construction loans. Bendig *et al.* (2009) in recent times argued that facilities provided by banks are categorized formal financial products as banks are lawfully bound.

Financial services offered by persons, society groups, families or accomplices friends, families, community groups and individuals re termed as informal products. They are normally characterized by no interest costs and are available in form of loans or savings. Informal

financial product are typified by abnormalities usually full with high losses due to swindling, negligence or cases of fraud. Informal facilities are hard to categorize because they are not standardized. Generally, informal facilities are not lawfully bound and therefore quantifying their effect in terms of national growth is quite challenging (IFAD Ghana, 2000). This study focuses on micro credit products, micro saving products, micro insurance products and internet banking products as the indicators of financing products because they are relevant to SMEs.

1.1.2 Financial Performance

The growth of an enterprise or a firm can be determined in terms of their operations, profitability and cost effectiveness. Profitability helps determine whether the firms have the capacity to realize its objectives in form of revenue generation and soundness in comparison with the performance of other firms in different financial periods in a similar sector. Moreover, pointers such as the statements for financial position enable the firm to determine its financial performance. According to Atril (2008), the above mentioned pointers enable the firm to evaluate its viability and performance.

Normally, financial indicators that are used frequently to measure the financial performance of SMEs comprise the growth of sales, investment returns and sales returns, dividend return per bond and equity returns. Barbosa and Louri (2005) further notes that other pointers of performance used to measure profitability and the growth of the business include profits generated by asset (ROA), income on investment (ROI), profits related to equity (ROE), sales profits (ROS), growth of the revenue, share dividends, cost of dividends, profitability and cost-effectiveness. The measurement of financial performance

in this study has been captured as market share, growth in sales, profits and returns on assets.

1.1.3 Financial Products and Financial Performance

Cooper (2012) argues that financial products positively affect financial performance of SMEs. A deficit of financial control information together with the hesitation of the commercial players exposes SMEs to grave risks in terms of financial performances. Buro and Simiyu (2017) notes that micro finance products such as small savings, small loans, training and micro insurance positively affect financial performance of small and medium enterprises. Early micro finance institutions which claimed to be the alleviators of poverty and unemployment mostly depended on the support from the governments and international supporters, (Overseas Development Institute, 2011). Buro *et al.* (2017) established how micro finance institutions products affect financial development of SMEs. The main focus was those in Garissa County. The findings revealed that financing products affect financial development of SMEs positively.

Galor and Zeira (2012) argued that access to financing products such as savings, credit, insurance and payment services, boost the financial capability of the SMEs and enhance their chances of survival. However, lack of access to the financing products will affect financial performance of SMEs negatively.

1.1.4 Small and Medium Enterprises in Kenya

The growth and advance of the Kenyan economy is heavily reliant on the performance of SMEs. SME sector led to the creation of 79.8% of new opportunities for jobs in 2011 in Kenya. Therefore, a lot of emphasis have been put on achieving vision 2030 economic pillar objectives on the role of small and micro enterprises in terms of generating new job opportunities in Kenya, (GOK, 2012).The MSE Act 2012 provides for a proper legal and regulatory framework which breathes a lifeline for the growth of SMES through the current devolution brought about by the new constitutional, (Ong'olo & Odhiambo, 2013). Nevertheless, the existence of proper institutional and regulatory policies defines the success of SMEs brought about by the facets of devolution. As stated in Vision 2030, SMEs are instrument for the success of the economy of Kenya. SMEs are regarded as the economic pillar for the realization of vision 2030.

Government of Kenya's drive and objective to enhance the growth of SMEs was first put forward in 1986 policy report to be one of the fundamental issues. The report highlighted some of the problems hampering the performance of small and medium enterprises which were later documented in government's MSE policy report in 1992 and subsequently re-assessed in 2002. These subsequent reviews gave birth to new regulatory structures which are more inclined to the growth of SMEs in accordance with Kenya's' objective of wealth distribution, industrialization, creation of job opportunities and poverty alleviation (KADET, 2005).

1.2 Research Problem

Galor and Zeira (2012) argue that access to financing products lead to a positive improvement in financial performance of SMEs. Micro finance institutions products' has become very fundamental in financing SMEs sector especially in third world countries. The same argument is echoed by Buro and Simiyu (2017) who noted that micro finance products affect performance of SMEs in a positive way. The importance of financing products on performance of SMEs can therefore not be underestimated. The high failure rate of SMEs globally has continued to be a challenge. Sha (2006) argues that SMEs in Africa suffer from weak financial performance and a high failure rate while Perry & Pendleton (2009) argues that despite government efforts, SMEs still perform poorly in Africa. In Kenya, Nyamao *et al.* (2012) argues that despite the key contributions of SMEs in job creations and economic growth, up to 40 percent of SMEs don't go past their second anniversary while of all startups, up to 60 percent don't go past their fourth anniversary and this failure rate is attributed to financing.

Studies conducted on financing products and performance of SMEs has left knowledge gaps. Globally, studies by Olalekan and Taiwo (2013) focused on micro insurance products in Nigeria, Ahiawodzi (2012) looked at factors influencing access to credit by small and medium enterprises in Ghana and Werner (2009) conducted a comparative study to determine how micro-insurance products affect SMEs performance in Bangladesh. These studies presented a contextual knowledge gaps and provide a chance to conduct a study locally to compare the findings.

Locally, a study conducted by Mutuku (2010) on the effect of microfinance institutions on SMEs in Kenya indicated that microfinance institutions greatly affect the creation of job opportunities and eradication of poverty, Makena(2011) and Ngugi (2009) studied on the financial constraints encountered by SMEs and revealed some shortage in access to finance to be an impediment to the growth of SMEs while Koech (2011) focused on financial constraints hampering SME's growth and concluded that principal market, interest price, access to credit, loan security, control of equity and registration fees were found to be the major factors affecting the growth of SMEs. Furthermore, Kemei (2011) looked at the association amongst MFIs' facilities and the growth of small and medium enterprises and indicated that micro finance institutions loans positively and significantly influences the performance of SMEs. These studies have presented conceptual knowledge gaps and this study has widened the scope to include more financing products in order to fill this gap. This study therefore sought to answer the question, what is the effect of financing products on financial performance of SMEs in Nairobi County?

1.3 Research Objective

To determine the effect of financial products on the financial performance of Small and medium enterprises in Nairobi County

1.4 Value of the Study

The study findings can be expected to be of value to the policy makers in the financial sector. The results of the research can be expected to be beneficial to Central Bank of

Kenya which regulates the financial institutions in Kenya to develop a proper policy framework which allows easy access of credit to SMEs.

The study findings can also play a significant role in informing the financial institutions about the best financing products to offer to their clients. From micro credit, micro insurance, micro savings to internet banking products, this study established the effect of each of the financing products on financial performance hence it can aid the financial institutions in understanding the SMEs reception to each of the financing products.

The findings of the study can also be expected to be valuable to the SMEs operating in not only Nairobi, but also other parts of the country as a whole since they face similar challenges regarding financing. The findings can be expected to provide useful insights into the need to embrace various financing products being offered by financial institutions. By linking financing products to financial products, the SMEs can be able to understand the most important financing products for their growth.

The findings of the study can also be expected to be of value to future scholars and researchers by laying a foundation for carrying out future research. The study presented knowledge gaps and recommendations for further studies on the theme under investigation. This can play a significant role in expanding on the topic of financing products being offered by financial institutions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the reviewed literature and the theories that guide the study, the previous empirical studies carried out relevant to the study. Finally the study presents the summary of the major ideas for the study.

2.2 Theoretical Review

The study was anchored on the following theories to help determine the effects of financing products on the financial performance of Small and medium enterprises. The theories adopted by the study include credit access theory, Microfinance Credit theory, financial growth life cycle theory and adverse selection theory.

2.2.1 Credit Access Theory

The proponent of the theory was Stiglitz and Weiss in 1981. The theory outlines how lack of information leads to faulty financial markets in third world countries like Kenya. Banking institutions advancing loans to SMEs are more focused on the interests that will accrue to them from loans but also the risks involved. Therefore, majority of the banking institutions scrutinize and monitor effectively borrowers as compared to other investors. The theory posits that information asymmetry on issues such as interest rates; price changes affect credit access (Pinaki, 1998).

The theory is relevant to the study as it helps explain the micro credit financing products. The theory links credit access to information asymmetry on issues such as interest rate and price changes. The theory posits that due to this information asymmetry, credit necessitates collateral requirement for loans. High risk borrowers have more wealth as compared to low risk borrowers. Borrowers who are less prone to risks are more difficulty in securing collateral. In this regard, SMEs which can't afford the collateral end up missing on the credit and that affects their performance negatively.

2.2.2 Microfinance Credit Theory

Microfinance institutions came to the fore in mid 1950s through the Loan Board Scheme, (Dondo, 1999). The main aim for the formation of MFIs was to facilitate credit to local individuals having small trading business loans. Providing loans to groups is hailed as a major source of innovation for MFIs. It is also credited with the provision of remedies to the downfalls of loan markets, specifically the problem for curbing the symmetries caused by information. Normally, moral hazard and adverse selection are a byproduct of imperfect information systems. Failure to obtain the correct information leads to adverse selection as the lender does not get the right information about the volatility of the borrower.

According to Rahman (2010), the chances of default for borrowers increase with their level of risk. The increased risk for default calls for higher cost of interest rates particularly to riskier borrowers so as to compensate for their failure. Consequently, those who are less risky should be subjected to lower cost of interest. However, due to information asymmetry financial institutions are forced to impose higher cost of interest rates.

The theory is of relevance to the study as it helps explain the science behind the interests charged on credit. According to the theory, lenders charge high interest rate on those borrowers they perceive as highly risky. Furthermore, information asymmetry can also play a role in the interests charged on borrowers since it is argued that high interest rate are charged due to the high risk associated with lending where there is information asymmetry.

2.2.3 Financial Growth Life Cycle Theory

The proponent of the theory was Berger and Udell in 1998. The theory argues that as SMEs grow in size, their opportunities for securing funding widens. The theory factors in the existence of varying nature of collateral as well as information in explaining the availability of funds for firms over time.

Berger and Udell (1998) argue that due to information asymmetry, firms plan for a series of funding during their operation period based on financial pecking order. The theory states that the chances for small firms to acquire credit improves over time until they eventually gain better and bigger funding in form of loans or market equities. Small and medium enterprises advance in stages based on their equity.

This theory is relevant to the study in understanding how financial products influence the performance of SMEs. The theory links access to financing products and financial growth of SMEs. The theory provides an understanding on access to financing products in relation to SMEs growth in size and opportunities for securing funding widens.

2.2.4 Adverse Selection Theory

The proponent of adverse selection theory of financial institutions was Stiglitz and Weiss in 1981. The theory states that the cost of interest that is charged by the financial institutions is key in determining the risks for every borrower which results in adverse selection. The subsequent action of the borrowers will bring about the effect of incentives. The type of the transaction is determined by the cost of interest rate. These effects are caused by information asymmetry in the credit markets. Therefore, banks opt to use the cost of interest rates to evaluate the risk of borrowers.

Stiglitz and Weiss (1981) also states that large cost of interest rates entices MFIs to initiate tasks to firms with little opportunities for success leading to moral hazard problem. These forces financial institutions to take drastic measures such as formulation of loan contracts terms and in return induce borrowers who have low risks. When demand for credit supersedes the supply then an equilibrium rate of interests results.

The theory also links financing products to financial performance of SMEs. The theory argues that the sum of collateral and loan determines how borrowers approach financial institutions as well as their probability of going back to banks.

2.3 Determinants of Financial Performance

The determinant of financial products is simply facilities or tools that are delivered by monetary institutions. The section discusses the determinants of financial products ranging

from micro saving product, micro credit product, micro insurance product and internet banking product.

2.3.1 Micro Savings Products

A number of MFIs in developing economies provide saving services which are vital to family units in developing economies (Daryl. 2005). MFIs enable households 'to acquire cheap and alternative foodstuffs especially when the sources of income are poor. MFIs also augment investments in form of personal and tangible loans. Typically, activities of pooling and savings are poor in developing economies worsened by inability to draft strategies to improve it. Poor access to life is the main cause of bad level of savings and loans which are timely, cheap and secure. In developing economies, the savings are characterized by merry go round kind of savings and in form of physical goods or livestock. According to Modigliani (1966), Traditional models of savings like the perennial theory as well as the long term models for income (Friedman 2011) hypothesize than persons normally reduce their expenses to evaluate the amount to save for prospective expenditure with respect to present expenses.

However, mechanisms for committing savings are well established in successful economies. Pension policies, medical funds, education funds, saving funds, investment funds are some of the services that are poorly utilized by the unprivileged in the developing economies. Indeed, there are a lot of theories in developing economies pertaining to the generation of such facilities (Shipton 2009). This led to the provision of some ventures with small costs by MFIs.

2.3.2 Micro Credit Products

McKillop and Wilson (2011) defined credit risk as the inability to repay loans in accordance with the contractual agreement due to unsafe lending practices. Levintis, Dimitropoulos and Anandarajan (2012) assert that the value of loans as an asset can be computed by establishing the total loans and deducting allowance for loan losses. Allowance for loan loss is a provision or reserve estimated showing the amount of loans made past due and likely to continue in default.

The weaknesses in loans repayment led to the financial turmoil of 2007 and 2009. Brunnermiar (2009) noted that inability to make loan losses lead to depletion of capital and hence losses in US banks in 1980s. Therefore, to avoid the capital depletion, the U.S regulators tightened examination criteria and loan reserve policies Bizer (1993) and accepted other voluntary measures to reduce risks by bank managers Hancock and Wilcox , (1993,1994).

2.3.3 Micro Insurance Products

The major reason for micro insurance is to serve the omission of economic resources or services in scenario where fatality or sickness arises. Micro-insurance is typified with the system for controlling risks so as to enable the less privileged to recompense for the shortage of proper state funded plans (Richard, 2011).

Small insurance policies offers the under privileged an insulation against particular risks in place of for standard premium charges estimated to the chance and risk fees concerned. Richard (2011) argues that someone might utilize it to acquire standardized insurance. Its production or contribution is measured by the amount of premium versus claims, reinsurance and administrative cost experiences (Gerrit, 2014).

2.3.4 Internet Banking Products

Internet banking is extensive form of banking facilities obtained and served in the course of digital conduits which involves costs, capital, funds, allowance, covers and fiscal data (Onay and Ozsoz, 2011). The term digital channels refer to a range from the internet, point of sales devices, as well as electronically enabled cards and computerized devices (Afi, 2016).

Digital Financial Services (DFS) provide convenient and secure environment for transaction to the public at large (Gabor & Brooks, 2016). In Kenya, M-Shwari which is an extension of M-banking involve the use of mobile devices to gain simple banking facilities. According to Hernandez (2011) M-banking is a reaction to a vibrant and erratic business setting, which needs MFIs to generate new policies for sharing of information.

2.4 Empirical Review

Olalekan and Taiwo (2013) conducted a study to determine the effect of short and long run associations between the economic growth of small and medium enterprises and micro-insurance development in Nigeria between the years 1986 to 2010. The study results

revealed that micro insurance had a positive and significant association with the economic growth of SMEs in Nigeria. Further, results of the study indicated that presence of a long run association between micro insurance developments integrated with economic growth of SMEs in Nigeria. The study focused on insurance products in Nigeria. This presents conceptual differences with this study since this study incorporates not just the insurance products but also internet, savings and credit products.

Ahiawodzi (2012) focused on examining the determinants of access to credit by small and medium enterprises in Ghana. The study focused on 78 SMEs and used questionnaires to collect data. Data was analyzed using correlations and regressions analysis. The study findings revealed that when SMEs are able to access financial services, it leads to better financial performance. Nkeobuna (2012) also carried out a study linking micro-credit products and performance of SMEs in Ghana using correlation and regression analysis. The data collected was primary. Results showed that micro-credit products had a positive and significant correlation with financial performance of SME s in both financial service and agricultural sector. The study focused on credit access which called for more conceptual insight by focusing on other financing products. This was in order to fill the existing knowledge gaps presented by the study.

Sakthi and Kumar (2011) linked entrepreneurial development to financing products offered by MFIs. The findings showed that majority of Africans borrow to purchase food while few people in Africa borrow to start a business. The study further concluded that majority of the Africans lack knowhow of becoming successful entrepreneurs. It was established

that there is lack of proper technical management skills, individual determination and willingness for fear of sharing ownership and failed to form partnership.

Werner (2009) conducted a comparative study to determine how micro-insurance products in Bangladesh varied with those of India and established that access to micro insurance products led to an increase in use of basic health services. It also increased ventures into more risky ventures by SMEs. The study was conducted in a developed economy. This is a contextual knowledge gap which called for investigation of the same topic in a different context such as Kenya so that the findings can be compared to establish a common argument position.

Wachira (2011) established the determinants of micro credit use by SMEs in Kenya using primary data and inferential analysis. The findings showed that loan lending terms such as interest rate and collateral required affect access to credit by SMEs. In another study, Macharia (2012) linked micro credit products to the growth of SMEs in Kenya. The study used primary data. Descriptive and regression analysis indicated that micro credit products play a significant role in growth of SMEs. The study presents a conceptual knowledge gap. The main focus was credit financing products. This study has not only focused on three more financing products in form of micro insurance, micro savings and internet products, but also aims to link them to financial performance.

Another study by Nyabuga (2013) found that informal financial is instrumental in improving access to credit for small and micro-enterprises operated by women in Kibera leading to their empowerment. Correlation results showed a positive and significant association with access to credit, management and the growth of the enterprises operated by the women. The study also concluded that informal financial sectors have a positive effect on the growth of SMEs in Kibera. This study has widened the scope of investigation. There is a consideration to fill the contextual knowledge gap by focusing on not just Kibera but the entire County as a whole so as to enhance heterogeneity and reach more conclusive findings.

Muthoka (2012) examined the link between micro financing products and financial sustainability among SMEs in Nairobi East District. The study used primary data and ran regression model to establish the relationship. The findings revealed that micro credit and financing products had led to financial sustainability among SMEs. This study has widened the scope of investigation. There is a consideration to fill the contextual knowledge gap by focusing on not just Nairobi East but the entire County as a whole so as to enhance heterogeneity and reach more conclusive findings.

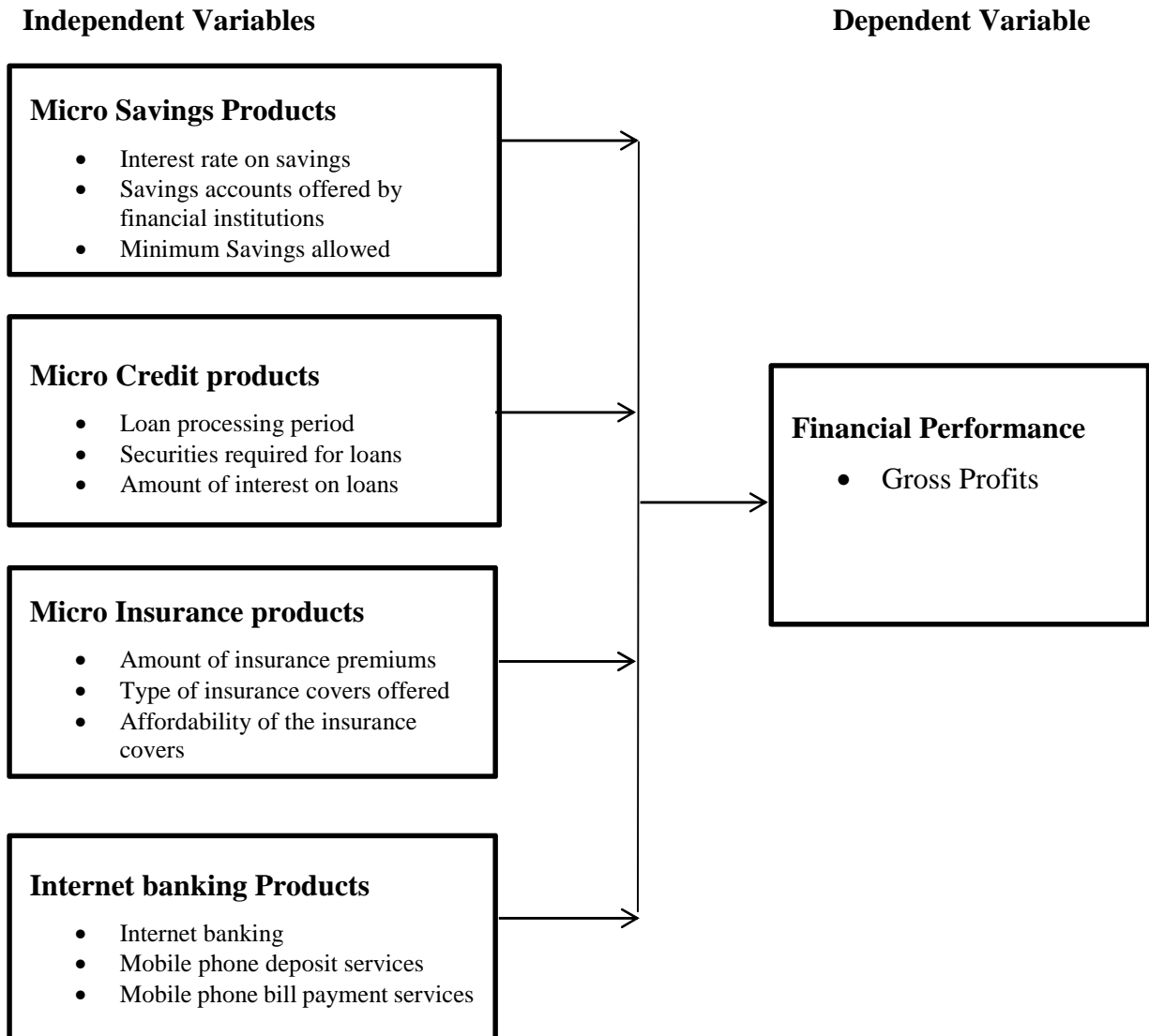
A study by Mokuu (2013) on the other hand focused on the effect of management skills and collateral measures on growth of SMEs in Kenya. The study adopted descriptive research design and collected data among SMEs in Kisii County. The results revealed that lack of access to finance affected growth of SMEs and that bureaucratic procedures were the reason for insufficient finances to the enterprises from the monetary organizations. The study presented a conceptual knowledge gap which this study seeks to fill by focusing on a wider conceptual

scope of financing products by inclusion of insurance products and internet banking products. This helps fill the conceptual knowledge gap.

2.5 Conceptual Framework

The independent variables of the study is financing products which are micro savings products, micro credit products, micro insurance products and internet banking products. Literature review by Buro *et al.* (2017) argue that micro finance products such as small savings, small loans, training and micro insurance have a positive effect on the financial performance of small and medium enterprises. This study therefore expects a positive relationship between the variables.

Figure 2.1: Conceptual Model



Source: Researcher (2017)

2.6 Summary of the Literature Review

The review of literature indicates that studies conducted by Olalekan and Taiwo (2013) to determine the effect of short and long run associations between the economic growth of small and medium enterprises and micro- insurance development in Nigeria, Ahiawodzi (2012) to examine the determinants of access to credit by small and medium enterprises in Ghana and Nkeobuna (2012) linking micro-credit products and performance of SMEs in

Ghana presented contextual knowledge gaps which this study seeks to fill. These studies were conducted outside Kenya and hence their findings can't be generalized to Kenya. The study conducted locally for instance Wachira (2011) to establish the determinants of micro credit use by SMEs in Kenya, Muthoka (2012) to examine the link between micro financing products and financial sustainability among SMEs and Mokuia (2013) to establish the effect of management skills and collateral measures growth of SMEs in Kenya present conceptual knowledge gaps.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter has presented the study methodology adopted in terms of the research design, population and sample size. Furthermore, the chapter has indicated the method of collecting data and the analysis method adopted for the study.

3.2 Research Design

The study employed a descriptive survey design. Blumberg, Cooper & Schindler (2014) define a descriptive survey design as that which is used to describe the present situation and collect data over a number of units. It was appropriate for this study because it plays a role in answering the “what” and “which” and describes the phenomena of financial performance of SMEs as it is. The study questions can well be answered if the research design is applied (Mugenda, 2008). The research design was hence suitable in establishing the effect of financing products on financial performance of small and medium enterprises.

3.3 Population

The study target population consisted of a total of 30, 253 small and medium enterprises which operate in Nairobi County according to the Company Registrar (2016). The study targeted the owners of the small and medium enterprises. The distribution of the small and medium enterprises across the Sub Counties in Nairobi is as indicated in Table 3.1.

Table 3.1 Target Population

| Sub County | Target Population |
|-------------------|--------------------------|
| Starehe | 3138 |
| Kamukunji | 3642 |
| Kasarani | 3361 |
| Makadara | 3214 |
| Embakasi | 3694 |
| Njiru | 3057 |
| Dagoretti | 3552 |
| Langata | 3165 |
| Westlands | 3429 |
| Total | 30252 |

Source: Company Registrar (2016)

3.4 Sample

The study applied stratified random sampling in order to ensure inclusion and reduce bias across the strata. To determine the sample size, Yamane (1967) formula indicated below was applied.

$n = (N / (1 + N(e)^2))$; Where: n = sample size, N = total number of SMEs in Nairobi County, e = margin of error (5%). Substituting the values gives a sample size of 400 SMEs operating in Nairobi County, $n = (30252 / (1 + 30252(0.05)^2))$ gives a sample size of 400. The 400 SMEs was then distributed using stratified sampling into the strata because the population was heterogeneous. The sample distribution was indicated in Table 3.2.

Table 3.2 Sample Size

| Sub County | Target | | |
|-------------------|-------------------|--------------------|-------------------|
| | Population | Sample Size | Percentage |
| Starehe | 3138 | 41 | 10 |
| Kamukunji | 3642 | 48 | 12 |
| Kasarani | 3361 | 44 | 11 |
| Makadara | 3214 | 42 | 11 |
| Embakasi | 3694 | 49 | 12 |
| Njiru | 3057 | 40 | 10 |
| Dagoretti | 3552 | 47 | 12 |
| Langata | 3165 | 42 | 10 |
| Westlands | 3429 | 45 | 11 |
| Total | 30252 | 400 | 100 |

3.5 Data Collection

The study gathered quantitative primary data using questionnaires. The unit of analysis was the SMEs. Where the owners are more than one, only one of them was the respondent. The type of questions asked was closed ended and yielded quantitative data. The questionnaire was divided into six sections where the first section asks questions on the demographic information about the respondents while the five other sections have questions on the variables of the study asked in a five point Likert form.

3.6 Data Analysis

Since the data to be collected was quantitative, the study used descriptive and inferential analysis methods to analyze. Descriptive analysis entailed the use of means, standard deviation, percentages and trends in the study variables over the period of time. The study used correlation analysis to establish the association between the study variables. The study also used a multivariate regression model to establish the effect of the independent on the dependent variable.

3.6.1 Analytical Model

A regression model was used to establish the relationship between the study variables. The independent variable which is financing products was measured by micro savings products, micro credit products, micro insurance products and internet banking products and the dependent variable was financial performance measured by profits and growth in sales. Because of the presence of more than one predictor variable, a multivariate regression analysis was suitable. The model was as indicated:

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

Where Y – Financial performance of SMEs

X₁ – Micro Savings Products

X₂ – Micro Credit Products

X₃ – Micro Insurance Products

X₄ – Internet Banking Products

ε – Is the error term

β₁ – Predictor variables coefficients

3.6.2 Measurement of Variables

The study used four independent variables that are micro savings products, micro credit products, micro insurance products and internet banking products and the dependent variable was financial performance of small and medium enterprises.

Table 3.3 Measurement of Study Variables

| Variable | Type | Measurement | Questions in the questionnaire |
|---------------------------|----------------------|---|---------------------------------------|
| Micro Savings Products | Independent Variable | Interest rate charged on savings Minimum amount of Savings allowed | B1-B4 |
| Micro Credit Service | Independent Variable | Amount of interest on loans Loans processing period | C1-C5 |
| Micro insurance Product | Independent Variable | Amount of insurance premiums Insurance cover offered | D1-D4 |
| Internet Banking products | Control Variable | M-deposit services M-bill payment service | E1-E5 |
| Financial performance | Independent Variable | Gross Profits | F6 |

3.6.3 Test of Significance

The study conducted an analysis of Variance (ANOVA) using F test to establish the model significance. T statistic was also used to establish the significance of the model coefficients.

To establish whether financing products have a significant effect, the study tested the relationship at 5% level of significance which was a 95% confidence level.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter details the descriptive and inferential analysis results for the data collected. The questionnaires issued were 400 and the respondents were given ample time to fill them. A total of 312 questionnaires were properly filled and returned representing 78% response rate. This response rate is in line with Kothari (2011) who argued that a response rate of a response rate of 50% or more was adequate for a descriptive study.

4.2 Demographic Characteristics of the respondents

The demographic characteristics of the respondents involved the respondent's age, academic qualification and the duration in business.

4.2.1 Respondents' Age

The study findings presented in Table 4.1 indicate that, 42.9% of the respondents were aged above 50 years. Those who were aged between 41 and 50 years were 16.7% while 23.1% were aged between 31 and 40 years while those who were aged below 30 years were 17.3%. These findings imply that majority of the owners of SMEs in Nairobi County are aged above 30 years. This implies that majority of the youth are not engaged in entrepreneurship activities in Nairobi County.

Table 4.1 Respondents Age

| Age in Years | Percentage |
|------------------------|-------------------|
| Less than 30 years | 17.3 |
| Between 31 to 40 years | 23.1 |
| Between 41-50 years | 16.7 |
| Over 50 years | 42.9 |

Source: Research Findings

4.2.2 Respondents' Level of education

The summary of the results in Table 4.2 show that 18.9% of the SMEs owners in Nairobi County have primary level education, those who have secondary level education were the majority 31.7% while those who had diploma or certificate level of education were 25.6%. Moreover, results of the study indicated that only 6.4% of the SMEs owners in Nairobi county had bachelor's degree and 17.3% had masters and above level of education. The findings imply that majority of the small ad business owners in Nairobi County low level education of primary and secondary. It reveals poor attitude of the graduates towards engaging in small and medium entrepreneurship.

Table 4.2 Respondents Level education

| Level of education | Percentage |
|---------------------------|-------------------|
| Primary | 18.9 |
| Secondary | 31.7 |
| Diploma / Certificate | 25.6 |
| Bachelor's Degree | 6.4 |
| Masters and above | 17.3 |

Source: Research Findings

4.2.3 Respondents' Duration in Business

The findings in Table 4.3 reveal that majority, 47.8%, of the respondents have been in SME business for less than 2 years, those who have been in the business for a period between 2 and 5 years were 38.8% while those who have been in the business for over 5 years were only 13.5%. The findings of the study indicate that most SMEs owners have been in the business for less than 5 years. This quantifies the research problem that most SMEs don't go beyond the fifth anniversary.

Table 4.3 Respondents Work Experience

| Work experience in years | Percentage |
|---------------------------------|-------------------|
| Less than 2 Years | 47.8 |
| 2 to 5 years | 38.8 |
| Over 5 years | 13.5 |

Source: Research Findings

4.3 Extent of Adoption of Financial Products

The study sought to establish the extent to which SMEs in Nairobi County have adopted the various financial products ranging from micro savings products, micro credit products, micro insurance products and internet banking products. The findings in Table 4.4 indicate the average response of the extent of adoption of each financing product.

Table 4.4 Adoption of financial products

| Financing Product | Mean |
|---------------------------|-------------|
| Micro savings products | 4.13 |
| Micro credit products | 4.02 |
| Micro insurance products | 2.11 |
| Internet banking products | 3.75 |

Source: Research Findings

The findings of the study imply that SMEs have adopted micro savings products to a high extent (Mean = 4.13). Results also showed that SMEs have adopted micro credit savings to a high extent. On the other hand, micro insurance products have been adopted to a low extent (Mean = 2.11) while internet banking products have been adopted to a high extent (Mean = 3.75). As per the ranking, the most adopted financial product by the SMEs in Nairobi County is micro savings products followed by micro credit products then internet banking products and lastly micro insurance products which is the least adopted to a low extent.

4.4 Descriptive Statistics

The respondents were asked to rank statements on a five point likert scale to establish the extent of adoption of the various financing products. A scale of 5 represented very high extent, 4 represented high extent, 3 represented moderate extent, 2 represented low extent while 1 represented very low extent. The findings have been discussed per variable as shown in the subsections that follow.

4.4.1 Micro Savings Products

The study sought to establish the extent to which SMEs have adopted micro savings products. The results of the study are as presented in table 4.5 below. The findings of the study revealed that SMEs have adopted savings products with high annual interest to a moderate extent (mean=3.01). The results of the study further indicated that SMEs have adopted target savings products to a high extent (mean=4.38). Moreover, results indicated that firms have adopted savings products with no minimum balance to a moderate extent (mean=3.22). In addition, the findings of the study showed that firms have adopted Savings products which are accessible any time to a moderate extent (mean=3.36). On average, SMEs have adopted micro savings products to a moderate extent as indicated by a mean of 3.49.

Table 4.5 Micro savings products

| Statements | Mean | Std Dev |
|--|-------------|----------------|
| Savings products with high annual interest | 3.01 | 1.28 |
| Target savings products | 4.38 | 0.85 |
| Savings products without no minimum balance | 3.22 | 1.22 |
| Savings products which are accessible any time | 3.36 | 1.43 |
| Average | 3.49 | 1.20 |

Source: Research Findings

4.4.2 Micro Credit Products

The study sought to establish the extent to which SMEs have adopted micro credit products. The results of the study are as presented in table 4.6 below. The findings of the study revealed that SMEs have adopted Loan products that are guaranteed by the financial institutions to a moderate extent (mean=3.12). The results of the study further indicated that SMEs have adopted Short term loan products to a high extent (mean=4.22). Moreover, results indicated that firms have adopted Emergency loan products to a high extent (mean=4.17). In addition, the findings of the study showed that firms have adopted Group loan products to a moderate extent (mean=2.90). Lastly, results of the study indicate that firms have adopted Micro leasing products (Mean=1.82). On average, SMEs have adopted micro credit products to a moderate extent as indicated by a mean of 3.25.

Table 4.6 Micro credit products

| Statements | Mean | Std Dev |
|--|-------------|----------------|
| Loan products guaranteed by the financial institutions | 3.12 | 1.43 |
| Short term loan products | 4.22 | 1.21 |
| Emergency loan products | 4.17 | 0.95 |
| Group loan products | 2.90 | 1.25 |
| Micro leasing products | 1.82 | 0.89 |
| Average | 3.25 | 1.15 |

Source: Research Findings

4.4.3 Micro Insurance Products

The study sought to establish the extent to which SMEs have adopted micro insurance products. The results of the study are as presented in table 4.7 below. The findings of the study revealed that SMEs have adopted Property insurance products to a low extent (mean=1.71). The results of the study further indicated that SMEs have adopted Life insurance products to a high extent (mean=3.56). Moreover, results indicated that firms have adopted General Liability insurance products to a moderate extent (mean=2.56). In addition, the findings of the study showed that firms have adopted Crime insurance products to a low extent (mean=2.28). On average, SMEs have adopted micro insurance products to a moderate extent as indicated by a mean of 2.53.

Table 4.7 Micro insurance products

| Statements | Mean | Std Dev |
|--------------------------------------|-------------|----------------|
| Property insurance products | 1.71 | 0.83 |
| Life insurance products | 3.56 | 0.50 |
| General Liability insurance products | 2.56 | 0.96 |
| Crime insurance products | 2.28 | 1.06 |
| Average | 2.53 | 0.83 |

Source: Research Findings

4.4.4 Internet Banking Products

The study sought to establish the extent to which SMEs have adopted Internet Banking Products. The results of the study are as presented in table 4.8 below. The findings of the study revealed that SMEs have adopted Internet Saving products to a moderate extent (mean=3.24). The results of the study further indicated that SMEs have adopted Internet Deposit products to a low extent (mean=2.40). Moreover, results indicated that firms have adopted Internet credit products to a high extent (mean=4.38). In addition, the findings of the study showed that firms have adopted Internet insurance products to a moderate extent (mean=3.09). Lastly, the results of the study revealed that firms have adopted Internet bill payment products to a high extent (mean=3.72). On average, SMEs have adopted Internet Banking Products to a moderate extent as indicated by a mean of 3.37.

Table 4.8 Internet Banking Products

| Statements | Mean | Std Dev |
|--------------------------------|-------------|----------------|
| Internet Saving products | 3.24 | 1.40 |
| Internet Deposit products | 2.40 | 1.39 |
| Internet credit products | 4.38 | 0.85 |
| Internet insurance products | 3.09 | 1.66 |
| Internet bill payment products | 3.72 | 1.31 |
| Average | 3.37 | 1.32 |

Source: Research Findings

4.4.5 Financial Performance of SMEs

The study sought to determine the percentage change in firm's gross profit between the years 2014 and 2016. The findings of the study indicated a sharp drop in the gross profit in 2015 from 23% to 21% but it slightly improved in 2016 to 22%.

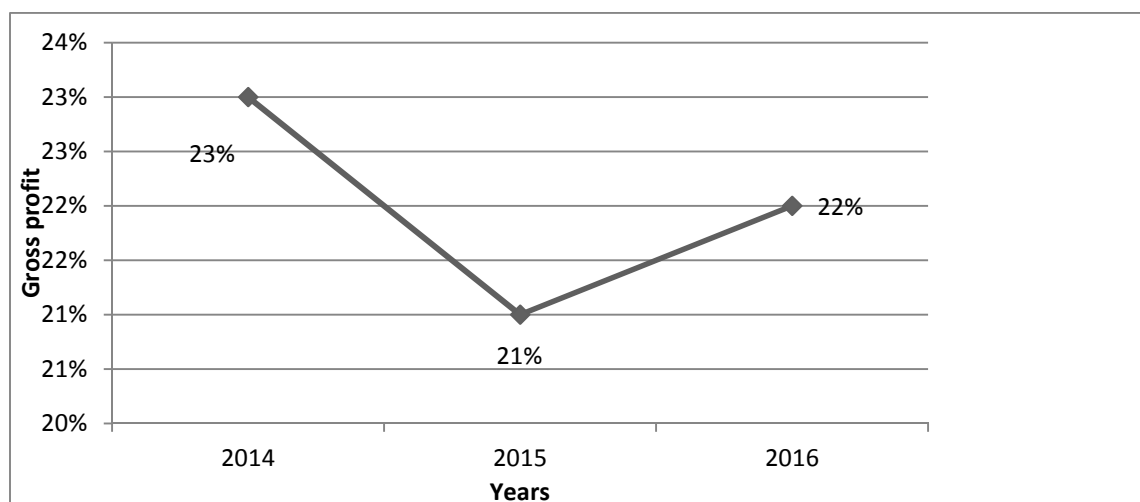


Figure 4.1 Trends for Gross Profit

Source: Research Findings

The study sought to determine the percentage change in firm's Totals sales between the years 2014 and 2016. The findings of the study indicated a sharp drop in the gross profit in 2015 from 34% to 29% but it slightly improved in 2016 to 31%.

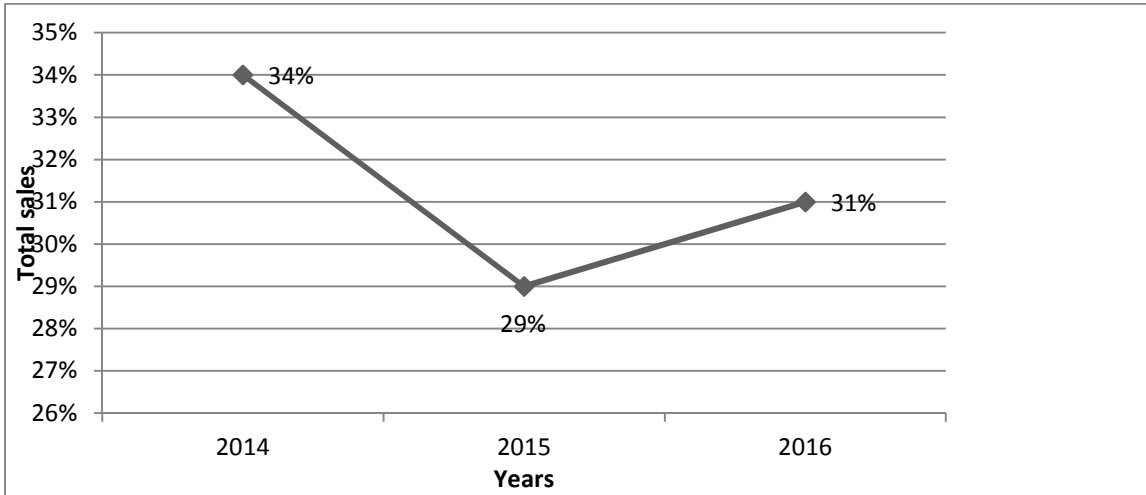


Figure 4.2 Trends for Totals sales

Source: Research Findings

The study sought to determine the percentage change in firm's Business operating cash between the years 2014 and 2016. The findings of the study indicated a sharp drop in the Business operating cash in 2015 from 49% to 39% but it slightly improved in 2016 to 43%.

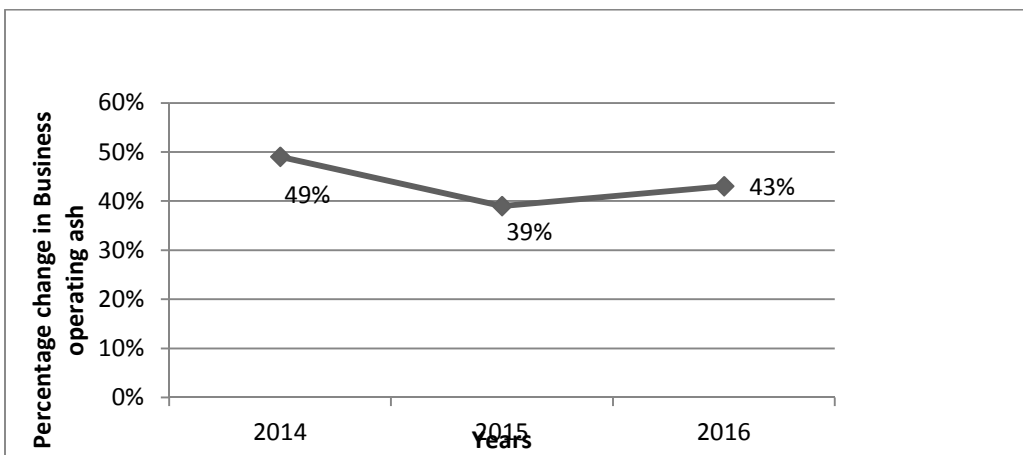


Figure 4.3 Trends for Business operating cash

Source: Research Findings

The study sought to determine the percentage change in firm's Business market share between the years 2014 and 2016. The findings of the study indicated a slight increase in Business market share in 2015 from 13% to 14% but it sharply decreased in 2016 to 10%.

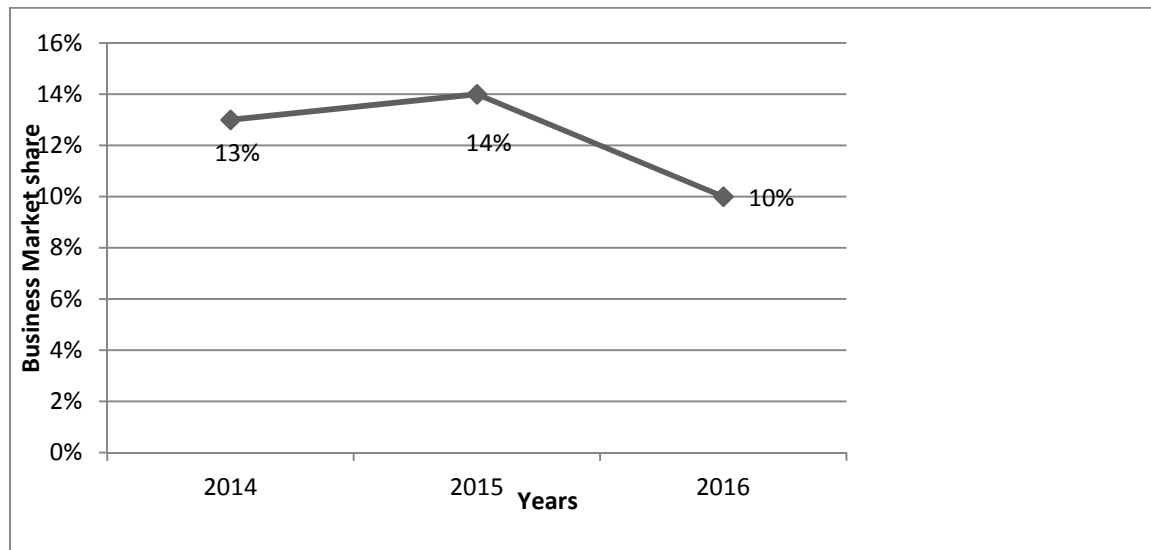


Figure 4.4 Trends for Business market share

Source: Research Findings

4.5 Inferential Analysis

The study carried out inferential analysis, that is correlation and regression to establish the association as well as the relationship between the study variables.

4.5.1 Correlation Analysis

The study conducted correlation tests to determine the relationship between micro savings products, micro credit products, micro insurance products, internet banking products and financial performance of SMEs in Nairobi County.

Table 4.9 Correlation Results

| Correlations | | Micro savings products | Micro credit products | Micro insurance products | Internet banking products | Financial Performance |
|---|---------------------|------------------------|-----------------------|--------------------------|---------------------------|-----------------------|
| Micro savings products | Pearson Correlation | 1 | | | | |
| Micro credit products | Pearson Correlation | .226** | 1 | | | |
| Micro insurance products | Pearson Correlation | 0.101 | .221** | 1 | | |
| Internet banking products | Pearson Correlation | .161** | 0.058 | -.198** | 1 | |
| Financial Performance | Pearson Correlation | .342** | .425** | 0.062 | .364** | 1 |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.272 | 0.000 | |
| | N | 312 | 312 | 312 | 312 | 312 |
| ** Correlation is significant at the 0.01 level (2-tailed). | | | | | | |
| *Correlation is significant at 0.05 level of significance | | | | | | |

Source: Research Findings

The summary of the correlation analysis results are indicated in table 4.9. The findings of the study indicated that micro savings products had positive and significant correlation with the financial performance of SMEs (R=0.342, p value=0.000).

The correlation results also revealed that there was a positive and significant relationship between micro credit products and financial performance of SMEs ($R= 0.425$, p value= 0.000).

Moreover, study findings revealed that there was a positive but insignificant association between micro insurance products and the financial performance of SMEs ($R= 0.062$, p value= 0.272).

Finally, correlation results showed that there internet banking products had a positive and significant relationship with the financial performance of SMEs ($R= 0.364$, p value= 0.000).

4.5.2 Regression Analysis

The study also used a multivariate regression model to examine the relationship between financial products and the financial performance of SMEs. The results of the study are presented in table 4.10 below.

Table 4.10 Model Summary

| Model Summary | | | | |
|----------------------|------|----------|-------------------|----------------------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .581 | 0.338 | 0.329 | 0.6322 |

Source: Research Findings

The study conducted regression analysis to determine the relationship between micro savings products, micro credit products, micro insurance products, internet banking products and financial performance of SMEs in Nairobi County. The regression analysis findings presented in Table 4.10 indicated that the coefficient of determination (R squared) was 0.338 which imply that 33.8% variation in the financial performance are explained by micro savings products, micro credit products, micro insurance products and internet banking products.

Table 4.11 Regression coefficients

| Model | Variables | B | Std. Error | Beta | t | Sig. |
|---|---------------------------|-------|------------|-------|-------|-------|
| 1 | (Constant) | 0.573 | 0.345 | | 1.662 | 0.098 |
| | Micro savings products | 0.21 | 0.049 | 0.209 | 4.307 | 0.000 |
| | Micro credit products | 0.412 | 0.057 | 0.354 | 7.26 | 0.000 |
| | Micro insurance products | 0.046 | 0.087 | 0.026 | 0.524 | 0.601 |
| | Internet banking products | 0.38 | 0.058 | 0.315 | 6.51 | 0.000 |
| a Dependent Variable: Financial Performance | | | | | | |

Source: Research Findings

The optimal Regression Model for the study thus

Financial performance= 0.573 + 0.412 Micro Credit Products + 0.38 Internet Banking Products + 0.210 Micro Savings Products

The summary of the regression coefficients results is as shown in table 4.11 above. The study findings showed that micro savings products had a positive and significant association with financial performance ($\beta = 0.210$, Sig = 0.000). The findings imply that a unit increase in the consumption of micro savings products leads to 0.210-unit increase in the financial performance of SMEs.

The study findings also showed that micro credit products had a positive and significant relationship with the financial performance ($\beta = 0.412$, Sig = 0.000). Results of the study imply that a unit increase in the consumption of micro credit products leads to 0.412-unit increase in the financial performance of SMEs.

Moreover, the findings also showed that micro insurance products had a positive but insignificant relationship with the financial performance ($\beta = 0.046$, Sig = 0.601). Results of the study imply that a unit increase in the consumption of micro insurance products leads to 0.046-unit increase in the financial performance of SMEs.

Finally, the findings also showed that internet banking products had a positive and significant relationship with the financial performance ($\beta = 0.38$, Sig = 0.000). Results of the study imply that a unit increase in the consumption of internet banking products leads to 0.38-unit increase in the financial performance of SMEs. The significance of the coefficient using p values is corroborated by use of z or t values. At $\alpha = 5\%$, $z = 1.96$ (note this being a large sample since $n = 312$). Z values for $x_1(4.307)$, $x_2(7.26)$ and $x_4(6.51)$ are greater than 1.96, hence statistically significant while that of $x_3(0.524)$ is not significant.

Table 4.9 ANOVA Results

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|--|------------|----------------|-----|-------------|--------|------|
| 1 | Regression | 62.685 | 4 | 15.671 | 39.207 | .000 |
| | Residual | 122.71 | 307 | 0.4 | | |
| | Total | 185.395 | 311 | | | |
| a Dependent Variable: Financial Performance | | | | | | |
| b Predictors: (Constant), Internet banking products, Micro credit products, Micro savings products, Micro insurance products | | | | | | |

Source: Research Findings

The results of the overall model significance are as indicated in table 4.9 above. The study findings reveal that the overall model was significant. The F statistic for the model of 39.207 was significant (Sig = 0.000), hence an indication that the model linking financial products to financial performance was significant. To corroborate the findings, the study also used the F-distribution table to obtain the F-critical value ($F_{0.05(4,307)}$) calculated at $\alpha = 5\%$, using denominator degrees of freedom of 307 and numerator degrees of freedom of 4 and compared against the F-calculated value of 39.307. The rule of the thumb was that if F-calculated is greater than the F-critical, then the model was significant. The F-critical value from the F-distribution table was 2.401, which is less than 39.307 hence it confirms the previous findings that the model linking financial products to the financial performance was significant.

4.6 Interpretation of the Findings

The findings indicate that SMEs have adopted Savings products with high annual interest. SMEs have adopted target savings products. SMEs have adopted savings products without any minimum balance. The findings also revealed that SMEs have savings products which are accessible any time. Results indicated that SMEs loan products are guaranteed by the financial institutions. Moreover, the findings of the study indicated that SMEs offer short term loan products. The findings of the study also indicated that SMEs have emergency loan products. The findings also revealed that SMEs offer group loan products. SMEs offer micro leasing products.

Further, the results of the study indicated that SMEs have adopted property insurance products; it also revealed that SMEs have adopted life insurance products. In addition, the results indicated that SMEs have adopted general liability insurance products. The findings also revealed that SMEs have adopted crime insurance products. The findings also showed that SMEs offer internet saving products. Similarly, the findings of the study showed that SMEs offers internet deposit products. Also the results showed that SMEs offers internet credit products. The study findings also revealed that SMEs offers internet insurance products. The study findings also indicated that SMEs offer internet bill payment products. The study sought to establish the relationship between financial products and the financial performance of SMEs. Correlation analysis results revealed that micro savings products had positive and significant correlation with the financial performance of SMEs ($R=0.342$, $p\text{ value}=0.000$). This implies that an increase in the adoption of micro savings products leads to a positive increase in the financial performance of SMEs. The correlation results

also revealed that there was a positive and significant relationship between micro credit products and financial performance of SMEs ($R= 0.425$, p value= 0.000). This implies that an increase in the adoption of micro credit products leads to a positive increase in the financial performance of SMEs. Moreover, study findings revealed that there was a positive but insignificant association between micro insurance products and the financial performance of SMEs ($R= 0.062$, p value= 0.272). This implies that an increase in the adoption of micro insurance products leads to a positive increase in the financial performance of SMEs. Finally, correlation results showed that there internet banking products had a positive and significant relationship with the financial performance of SMEs ($R= 0.364$, p value= 0.000). This implies that an increase in the adoption of internet banking products leads to a positive increase in the financial performance of SMEs.

Regression results revealed that micro savings products had a positive and significant association with financial performance ($\beta = 0.210$, $Sig = 0.000$). The findings imply that a unit increase in the consumption of micro savings products leads to 0.210-unit increase in the financial performance of SMEs. Results are consistent with the findings of a study by Muthoka (2012) which revealed that micro savings and financing products had led to financial sustainability among SMEs.

The study findings also showed that micro credit products had a positive and significant relationship with the financial performance ($\beta = 0.412$, $Sig = 0.000$). Results of the study imply that a unit increase in the consumption of micro credit products leads to 0.412-unit increase in the financial performance of SMEs. Results are consistent with the findings of

a study by Ahiawodzi (2012) which revealed that when SMEs are able to access financial services, it leads to better financial performance.

Moreover, the findings also showed that micro insurance products had a positive but insignificant relationship with the financial performance ($\beta = 0.046$, Sig = 0.601). Results of the study imply that a unit increase in the consumption of micro insurance products leads to 0.046-unit increase in the financial performance of SMEs. The findings are consistent with the results of a study by Olalekan and Taiwo (2013) which revealed that micro insurance had a positive and significant association with the economic growth of SMEs in Nigeria.

Finally, the findings also showed that internet banking products had a positive and significant relationship with the financial performance ($\beta = 0.38$, Sig = 0.000). Results of the study imply that a unit increase in the consumption of internet banking products leads to 0.38-unit increase in the financial performance of SMEs. Results in the current study are also consistent with that of a study by Werner (2009) which established that internet banking products led to an increase in use of basic health services.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusions and recommendations. It also presents the recommendation for further studies.

5.2 Summary

Chapter one of the study provided a summary of the financial performance of small and medium enterprises. The chapter presented the problem statement, background, objectives as well as the value of the study. Financial performance of firms can be affected by financial products. Micro finance products such as small savings, small loans, training and micro insurance have a positive effect on the financial performance of small and medium enterprises. The importance of financing products on performance of SMEs can therefore not be underestimated. The objective of the study was therefore to determine effect of financing products on financial performance of SMEs in Nairobi.

Chapter two presented a literature review on the theme of the study. Both empirical and theoretical literature was presented. The study discussed the Credit Access Theory which outlines how lack of information leads to faulty financial markets in third world countries like Kenya. The study also used Microfinance Credit Theory which states that the reason for the formation of MFIs was to facilitate credit to local individuals having small trading business loans. Providing loans to groups is hailed as a major source of innovation for

MFIs. The theory provides an explanation on the science behind the interests charged on credit. Moreover, financial growth life cycle theory argues that as SMEs grow in size, their opportunities for securing funding widens. The theory factors in the existence of varying nature of collateral as well as information in explaining the availability of funds for firms over time. Lastly, the study was also anchored on Adverse Selection Theory which states that the cost of interest that is charged by the financial institutions is key in determining the risks for every borrower which results in adverse selection. The subsequent action of the borrowers will bring about the effect of incentives. The chapter then presented the empirical review and knowledge gaps.

Chapter three of the study detailed the research methodology. The study employed descriptive survey design. Primary data was used for analysis. A multivariate regression model linking micro savings products, micro credit products, micro insurance products, internet banking products and the financial performance of SMEs was developed. The study detailed the use of mean to present descriptive statistics. Inferential statistics analysis involving the use of correlation and regression were the main inferential techniques used for analysis.

Chapter four provided the correlation analysis which showed the relationship between financial products and financial performance of SMEs. Correlation analysis results revealed that micro savings products had positive and significant correlation with the financial performance of SMEs ($R=0.342$, $p \text{ value}=0.000$). This implies that an increase in the adoption of micro savings products leads to a positive increase in the financial

performance of SMEs. The correlation results also revealed that there was a positive and significant relationship between micro credit products and financial performance of SMEs ($R= 0.425$, p value= 0.000). This implies that an increase in the adoption of micro credit products leads to a positive increase in the financial performance of SMEs. Moreover, study findings revealed that there was a positive but insignificant association between micro insurance products and the financial performance of SMEs ($R= 0.062$, p value= 0.272). This implies that an increase in the adoption of micro insurance products leads to a positive increase in the financial performance of SMEs. Finally, correlation results showed that there internet banking products had a positive and significant relationship with the financial performance of SMEs ($R= 0.364$, p value= 0.000). This implies that an increase in the adoption of internet banking products leads to a positive increase in the financial performance of SMEs.

Regression model enabled the study to establish the relationship between predictor and dependent variable. The study findings showed that micro savings products had a positive and significant association with financial performance ($\beta = 0.210$, $\text{Sig} = 0.000$). This implies that a unit increase in the adoption of micro savings products leads to 0.210-unit increase in the financial performance of SMEs. The study findings also showed that micro credit products had a positive and significant relationship with the financial performance ($\beta = 0.412$, $\text{Sig} = 0.000$). Results of the study imply that a unit increase in the adoption of micro credit products leads to 0.412-unit increase in the financial performance of SMEs. Moreover, the findings also showed that micro insurance products had a positive but insignificant relationship with the financial performance ($\beta = 0.046$, $\text{Sig} = 0.601$). Results

of the study imply that a unit increase in the adoption of micro insurance products leads to 0.046-unit increase in the financial performance of SMEs. Finally, the findings also showed that internet banking products had a positive and significant relationship with the financial performance ($\beta = 0.38$, Sig = 0.000). Results of the study imply that a unit increase in the adoption of internet banking products leads to 0.38-unit increase in the financial performance of SMEs.

5.3 Conclusion

The study concludes that savings products have a positive effect on financial performance of SMEs. The study also concludes that SMEs have adopted savings products with high annual interest, target savings products, savings products with no minimum balance and savings products which are accessible any time. The study also concludes that micro credit products positively affect financial performance of SMEs. It was concluded that SMEs have adopted short term loan products, emergency loan products and group loan products as well as micro leasing products.

The study further concluded that insurance products have a positive insignificant effect on financial products of SMEs. It was concluded that SMEs have adopted property insurance products, life insurance products, general liability insurance products and crime insurance products. The findings also led to the conclusion that internet saving products have a positive significant effect on financial performance of SMEs. It was also concluded that SMEs have adopted internet saving products, internet deposit products, internet credit products and internet insurance products.

5.4 Recommendations for Policy and Practice

The study recommends SMEs in Kenya to adopt Savings products with high annual interest. There is also need for SMEs to adopt savings products with no minimum balance and savings products which are accessible any time. The study also recommends SMEs to adopt loan products which are guaranteed by the financial institutions such as short term loan products, emergency loan products and group loan products as well as micro leasing products. Further, there is need for SMEs to adopt insurance products such as property insurance products, life insurance products, general liability insurance products and crime insurance products. Furthermore, the study recommends SMEs to adopt internet saving products such as internet deposit products, internet credit products and internet insurance products.

5.5 Limitations of the Study

During data collection, some of the SME owners were reluctant to provide information about their SMEs especially information on financial issues. The researcher however assured the respondents that the study was for academic purpose only. They were not requested to indicate their names on the questionnaires in order to enhance confidentiality.

5.6 Recommendations for Further Research

The study recommends future scholars to look into other factors that contribute to 66.2% of the variations in financial performance since micro savings products, micro credit products, micro insurance products and internet banking products only account for 33.8% of the variation in the financial performance of SMEs in Nairobi County. Further studies should also be conducted on other SMEs in other counties.

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APPENDIX I: QUESTIONNAIRE

Kindly answer the following questions as honestly and accurately as possible. The information given will be treated with a lot of confidentiality. Please do not write your name anywhere on this questionnaire. You are encouraged to give your honest opinion.

SECTION A: DEMOGRAPHIC INFORMATION

1. What is your age in years?

Less than 30 years

31 to 40 years

41-50 years

Over 50 years

2. What is your highest academic qualification?

Primary

Secondary

Diploma /Certificate

Bachelor's Degree

Masters and above

3. For how long have you been in business?

Less than 2 Years

3 to 5 years

Over 5 years

4. To what extent does your firm adopt the following financial products?

| Statement | Very small extent | Small extent | Moderate extent | High extent | Very high extent |
|---------------------------|-------------------------|-----------------|--------------------|----------------|------------------------|
| Micro Saving Products | | | | | |
| Micro Credit Products | | | | | |
| Micro Insurance Products | | | | | |
| Internet Banking Products | | | | | |

SECTION B: MICRO SAVING PRODUCTS

To what extent does your firm adopt the following micro savings products?

| No | Statement | Very small extent | Small extent | Moderate extent | High extent | Very high extent |
|-----------|--|-------------------------|-----------------|--------------------|----------------|------------------------|
| 1 | Savings products with high annual interest | | | | | |
| 2 | Target savings products | | | | | |
| 3 | Savings products without no minimum balance | | | | | |
| 4 | Savings products which are accessible any time | | | | | |

SECTION C: MICRO CREDIT PRODUCTS

To what extent does your firm adopt the following micro credit financial products?

| No | Statement | Very small extent | Small extent | Moderate extent | High extent | Very high extent |
|----|--|-------------------|--------------|-----------------|-------------|------------------|
| 1 | Loan products guaranteed by the financial institutions | | | | | |
| 2 | Short term loan products | | | | | |
| 3 | Emergency loan products | | | | | |
| 4 | Group loan products | | | | | |
| 5 | Micro leasing products | | | | | |

SECTION D: MICRO INSURANCE PRODUCTS

To what extent does your firm adopt the following micro insurance financial products?

| No | Statement | Very small extent | Small extent | Moderate extent | High extent | Very high extent |
|----|--------------------------------------|-------------------|--------------|-----------------|-------------|------------------|
| 1 | Property insurance products | | | | | |
| 2 | Life insurance products | | | | | |
| 3 | General Liability insurance products | | | | | |
| 4 | Crime insurance products | | | | | |

SECTION E: INTERNET BANKING PRODUCTS

To what extent does your firm adopt the following internet banking financial products?

| No | Statement | Very small extent | Small extent | Moderate extent | High extent | Very high extent |
|----|--------------------------------|-------------------|--------------|-----------------|-------------|------------------|
| 1 | Internet Saving products | | | | | |
| 2 | Internet Deposit products | | | | | |
| 3 | Internet credit products | | | | | |
| 4 | Internet insurance products | | | | | |
| 5 | Internet bill payment products | | | | | |

SECTION F: FINANCIAL PERFORMANCE OF SMES

Indicate the changes in the following indicators of performance for the last three years

| Indicator | 2014 | 2015 | 2016 |
|-------------------------|------|------|------|
| Gross profit | | | |
| Totals sales | | | |
| Business operating cash | | | |
| Business market share | | | |