RELATIONSHIP BETWEEN ACCESS TO FINANCE AND PERFORMANCE OF SMALL AND MEDIUM SIZE ENTERPRISES IN KASARANI SUB-COUNTY, KENYA

BY

MARGARET WANJIKU KIHUNI

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DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

Signed: _____________________Date: __________________________

MARGARET WANJIKU KIHUNI

D63/81404/2015

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

Signed: _____________________Date: __________________________

DR. KENNEDY OKIRO

Lecturer, Department of Finance and Accounting

School of Business, University of Nairobi

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DEDICATION

To my mum, Anne Mukami, my sibling Dennis Wachira and all likewise the individuals who have had an effect in my life to make it to who I am today.

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CBK	Central Bank of Kenya
ROA	Return on Assets
ROE	Return on Equity
SME	Small & Medium Enterprise
VIF	Variance Inflation Factor

ABSTRACT

Although SMEs have the capacity to significantly and positively impact the global economy, they are faced with many challenges in the developing countries. The SME sector is highly volatile and is mostly associated with business shrinkage and closure and thus the government has continued to make significant efforts to ensure the sustainability and growth of the SME sectors. According to Sessional Paper No. 2 of 2005, three out of five businesses find it hard to survive and fail within the first five years of operation implying that most SMEs fail despite their significant role in the economy. Most SME's failure results to job losses, low liquidity, increased insecurity and subsequently economic growth downfall. This examination proposed to discover the impact of access to finance on financial performance of SMEs in Kasarani Sub-region. The investigation's populace was all the 839 SMEs in Kasarani Sub-area while the example estimate was 85 appropriated over the different wards inside the sub-county. The independent factor for the examination was access to finance assessed by the proportion of advances requested for to the credits given. The control factors were leverage estimated by the aggregate obligation to total resources proportion and firm size assessed by natural logarithm of aggregate resources. Financial performance was the needy variable which the examination looked to clarify and it was estimated by yield from resources. Secondary information for 5 years was collected (January 2013 to December 2017) on a yearly premise. An enlightening descriptive cross-sectional research structure was utilized in the examination, and a multiple linear regression model was utilized in breaking down the relationship between the factors. Information investigation was embraced with the guide of the Statistical package for social sciences version 21. The consequences of the examination created R-square estimation of 0.135 implying that that about 13.5 percent of the variation in the SMEs in Kasarani Sub-area' monetary execution can be clarified by the three chose indicator factors while 86.5 percent in the variation of budgetary execution of SMEs in Kasarani Sub-province was related with different components not canvassed in this exploration. The examination additionally discovered that indicator factors had a frail association with budgetary execution (R=0.367). ANOVA results demonstrate that the F statistic was huge at 5% level with a p=0.000 thereby the model was fit to clarify the connection between the chose factors. The outcomes further uncovered that access to finance and firm size delivered positive and factually noteworthy qualities for this examination while leverage was observed to be a measurably unimportant determinant of financial performance of SMEs in Kasarani Sub-area. This investigation suggestions are that means should be taken to upgrade fund openness among SMEs in Kasarani Sub-region as this will enhance their budgetary execution.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

There exist extensive literature on Small and Medium Enterprises (SMEs) with keen focus on factors facilitating or constraining their prosperity and their contribution to economic development (Mwangi, et al., 2013). Past studies have been central in identifying the various of factors that determine success or failure of SMEs, categorized as micro or macro factors. The internal factors enterprise-specific issues like management proficiency, personnel and their demographic, financial management, and innovation while micro factors imply organizational specific factors such as management proficiency, personnel , management of finance and authoritative socioeconomics while outside variables incorporate macroeconomic components, legislative issues and hierarchical powers, advertise openings, and socio social elements (Olawale&Garwe, 2010; Thandeka, 2008). Access to finance is one factor that is theoretically expected to influence performance of SMEs and that will be the focus of the current study.

Different theoretical approaches attempt to explain some issues facing credit and mainly based on default risks and associated borrower incentives. The adversity choice hypothesis of credit markets began off for the paper by Stiglitz and Weiss (1981). This hypothesis depends on two theories that lenders can't separate between leasers of shifted degrees of hazard, and that credit understandings are liable to legitimate responsibility. If return on investment is less than loan invested, the borrower has no responsibility to repay. This is limited to unintentional loan defaulting. It presupposes that debtors pay back loans when they have the resources to do so. At usurious interest rates, the only candidates are usually debtors who have the potential to generate huge profits but presumably with small risk likelihood.

Recent National Economic Survey report by (CBK) points out that SMEs make up 98% of all business in Kenya and despite this we are yet to experience a vibrant and expanding small business sector which can be a major catalyst of inclusive growth in Kenya. Several surveys, for instance Deloitte Kenya Economic Outlook (2016) have been conducted to investigate the constraints experienced by SMEs they have sited many obstacles including debilitating infrastructure, inadequate knowledge and skills, corrupt governance, rapid changes in technology, unfavorable regulatory environment, stiff competition causing high attrition rate and whole host of administrative challenges. However, shortage of finance or capital continues to be one of the most significant impediments to creation, survival and growth of SMEs in Kenya. Possible reasons for this is that SMEs appear unattractive to mainstream investor or venture capitalist owing to their high risk profile, difficulty in finding collateral to support loan application, stringent lending policies such as interest rates and limit of loan able amount, tedious and bureaucratic loan application process among others. This has made most entrepreneurs shy away from borrowing credit facilities as they view loans as a Double-Edged Sword and have thus developed attitudes against loans.

1.1.1 Access to Finance

According to Mwangi and Bwisa (2013), access to loans entails restrictions placed on households' convenience and suitability criteria of loans. Credit access is mostly a source related issue related to the potential financier's choice of the highest credit ceiling. (SMEs) have become significant participants in the Kenyan fiscal strategies; however they are still facing issues that curb their performance and profitability.

The ability of small and medium sized Firms to live up to their capability in an economy depends on the availability of credit funding (Whincop, 2001). Funding from loans is especially critical for small enterprises, since they are not able to fund themselves through funds ploughed back into the business or through equity funds. Most businesses in Kenya depend on financial products offered by banks and MFIs for options for financing their operations. Most Micro and Small Sized Enterprises in Kenya use business loans, lease finance, hire-purchase and invoice-discounting as means of finance (Manasseh, 2001).

According to Kimuyu and Omiti (2000), accessibility of loans from both formal and informal avenues requires a particular level of security. Most of the time, the collateral necessary is too expensive. This becomes a restriction to small firms most of who do not have ownership documents to assets to present as collateral to secure loans. This study therefore seeks to find out whether there is a connection between access to fund and monetary execution of little and medium endeavors in Kasarani Sub-area, Nairobi County.

1.1.2 Financial Performance

The range by which goals of the firm and for this situation monetary targets will be met or have been met is alluded to as money related execution i.e. financial performance (Yahya&Lamd, 2015). An organization’s execution is controlled by how wisely it uses it assets to create income from its core business. It can likewise mean the money related strength of an association and can also be utilized to analyze firms inside a similar industry or crosswise over businesses. Monetary execution is, in summary, is a crucial objective that firms especially the profit oriented firms desire or aim at to achieve (Kajirwa, 2015).

Financial performance focuses more variables that impact on the financial statements directly. The financial performance analysis deals with sales turnover, dividend growth, asset base and capital employed among others about the firm (Omondi&Muturi, 2013). The financial performance is an important index or measure of some for firms like achievement of defined objectives (Xu&Wanrapee, 2014).

Measuring of execution is typically founded on money related proportions like benefit, liquidity movement and obligation proportions (Bouba, 2011). Monetary related execution can be estimated from different points of view including: dissolvability, productivity, and liquidity (Mwangi&Angima, 2016). Performance estimation for an organization should be possible through bookkeeping based measures figured from the organisation's fiscal summaries, for example, ROA, ROE and Gross net revenue (Mwangi&Murigu, 2015).

1.1.3 Access to Finance and Financial Performance

Business enterprises notwithstanding of how large they are require financing from the start and throughout their progression and expansion. The initial capital as well as acquisition of required equipment will affect at a great value, the scope of the enterprise which in turn determines the continued existence of a venture and future profitability assuming all factors do not change. The investor has to find a suitable way of financing to initiate the enterprise, drive and run the firm (Hallber, 2002).

Size of a firm is considered one of the essential determining factors of securing lending. Indeed, even among the little endeavors class, there an expansive deviation in size and there are modest undertakings and huge ventures as far as degree and aggregate figure of easygoing and lasting workers and income and resource base. As indicated by Berger and Udell (1998) minor and significant ventures have a higher plausibility of having more prominent expense of loaning and they should give security which on most occasions is a test since they regularly have a little resource base to be utilized as guarantee. Securing lending pushes enterprises to flourish and thrive. Studies conducted by the World Bank indicate that accessibility of funds enhances enterprise productivity. It not only accelerates market entry, expansion of enterprises and decreasing threats according to Beck, Thorsten and Honohan (2008) but also influences originality and starting of new business enterprises. Further to that, enterprises with greater access to funding have higher ability to make use of expansion and investment prospects. As a result, boost of the performance of an economy by improving accessibility to funding (Gok, 2005).

1.1.4 Small and Medium Enterprises in Kasarani Sub-County

Kasarani Sub-county is home to the SME sector which consists of a mix of various firms involved in different activities that are focused more in the metropolitan areas. Information at the local authority's offices in Kasarani indicates an increasing number of entrepreneurs who run small businesses. In Kenya categorization of firms is mainly by the total number of staff employed by the enterprises (Njoroge, 2012). Enterprises that employ between 6 to 50 and 51 to 99 employees are categorized as minor firms and medium scale firms respectively (Kinyanjui, 2006).

Most enterprises in Kasarani Sub-Location are mostly comprised of single household groups and sole proprietorship businesses. Most of them are artisans and self-help groups engaged in raw items supply and production from indigenous crops. Majority of income generating activities within this category include manufacture of small household items, clothing and fashion. Others include ceramics, footwear, jua kali artisans, wood, bricks and cement, soft drinks, foodstuffs and cuisine specialists and confectionery (Mokogi, 2003).

Kasarani Sub-county is one of the most populated sub-counties in Nairobi County, Kenya. A good number of this population earns a living by engaging themselves in small and medium businesses which are family owned and distributed all over the sub-county (Nairobi City Council, 2018). Few have permanent shelters while most of the businesses are either on temporary shelters or conducted by mobile traders who move from one place to another selling their products. Statistics have shown that very few of these businesses survive long enough to even reach their potential. The factors affecting performance, growth strategies and sustainability of small and medium business enterprises in Kasarani need to be established and strategies put in place to promote their performance.

1.2 Research Problem

The growth of SMEs in the long-term together with their competitiveness of is hampered by inaccessibility to funds in the creating nations. Restricted openness of advances to SMEs has been brought up as a ground-breaking limitation confronting the sector in Kenya (Soderbom 2001). Therefore, amount of credits isn't relative to their vital job to the economy. This has caused a log jam in their tasks. As per Evans and Carter (2000) and Whincop (2001), well set up firms have cornered the capital market to the detriment of the little ones that can't access such wellsprings of assets. Due to nonappearance of well-developed finance information systems, the finance sectors remains the sole hotspot for SMEs' outside assets (Darson 1995). Thus, SMEs subsequently, are not ready to get assets from elective sources.

Notwithstanding their capability to add to the world economy, SMEs confront numerous difficulties in the developing world. The SME area is exceedingly unpredictable and is for the most part connected with business shrinkage and closure (Berger, 2006) and thus the government has continued to make significant efforts to ensure the sustainability and growth of the SME sectors. The high SME attrition rate shows that SMEs have a limited ability to sustainable employment in the long-rum thus they are responsible for the many job and wealth losses in the country (Ayyagari, 2003). According to Sessional Paper No. 2 of 2005, three out of five businesses find it hard to survive and fail within the first five years of operation implying that most SMEs fail despite their significant role in the economy (GoK, 2009). Most SME's failure results to job losses, low liquidity, increased insecurity and subsequently economic growth downfall. Therefore, SMEs must adopt innovative measures in order to survive in the competitive global environment which could be done by continuously streaming innovation in order to gain competitive advantage (Robbins & Coulter, 2009).

Studies by previous researchers have not focused on the exact concepts and context like the current study. Daniels and Mead (1998) stated that external factors define the macro environment which may influence business ownership at an early level and during the business growth. Such issues bring up opportunities, threats and information affecting business owners in their immediate environment, regardless of their business previous experience, level of schooling or business idea. Dalberg Institute Geneva (2011) records different components to incorporate sociological, statistic, commercial centers both nearby and worldwide, rising and set up business sectors, social, institutional, lawful, financial, infrastructural and other physical variables of that specific circumstance. Mechanical, Political, natural and additionally lawful elements were likewise established by Beck and Honohan (2008) as exceptionally basic issues that may influence the extension of small enterprises. Locally, Mokogi (2003) studied the fiscal consequences of lending by MFIs on Small Scale firms and its influence on their businesses. Among other conclusions, the author stated that usurious interest rates and lack of security were the main barriers to access to loans from Saccos by start-up investors and business people. Mwangi and Bwisa (2013) studied the challenges facing business start-ups in accessing credit in Makuyu, Kenya. Jeru (2014) and Kinyua (2014) too are other researchers who have researched this area of credit services and SMEs. Jeri (2012), Mewa (2013), and Wanjiku (2014) also out studied micro finance services and SME growth and performance. Although several studies have been undertaken that greatly focused on financial credit facilities and SMEs, they have not been conclusive. The current study means to fill this examination hole by noting the exploration question; what is the relationship between's access to finance and financial performance of small and medium ventures in Kasarani Sub-area, Kenya?

1.3 Objective of the Study

The target of this examination was to determine the connection between access to finance and financial performance, that is, budgetary execution of small and medium enterprises in Kasarani Sub-county, Kenya.

1.4 Value of the Study

The examination's discoveries will be used for future reference by researchers, students and scholars who seek to undertake studies on a similar or correlated field. The study will also benefit researchers and scholars in the identification of other fields of research by highlighting related topics that require further research and reviewing the empirical studies to determine study gaps.

The findings of the study are important to small and medium entrepreneurs since they reveal factors influencing their access to credit. The study findings will help the County Governments in formulating SME friendly policies.

The study findings will help in the formulation of policies that will promote would small and medium enterprises to create employment. It will help the educational institutions and nongovernmental organizations to focus more on the needs of small businesses in training.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter audits theories that shape the foundation of this investigation. Furthermore, past observational examinations that have been conveyed before on this exploration theme and related territories are additionally talked about. Alternate areas of this part incorporate determinants of financial performance, conceptual framework demonstrating the connection between study factors and a writing audit synopsis.

2.2 Theoretical Framework

This presents survey of the important hypotheses that explains the relationship between financial innovations and efficiency. The theoretical reviews covered are financial intermediation theory, adverse selection theory and the financial inclusion theory.

2.2.1 Financial Intermediation Theory

The theory of financial intermediation relates to access to credit and the cost of doing business. It’s the work of Gurley and Shaw in 1960. The presence of financial go-betweens or agents can be illustrated by the existence of different levels of issues including high administrative costs which affects access to credit, lack of clear policies on the same as well as incomplete information availability. The financial or monetary intermediation theory analyzes the functions of financial or monetary intermediation, the way in which having agents in the financial sector influences economic growth also how it affects policies in the banking sector (Andries&Cuza, 2009).

Financial intermediation through borrowing and lending money can thus be described as the key role of the banks. According to Mises (1912), involvement in financial intermediation by banks denies them the role of creating money while retreating from the process presents them with a chance to create money. However Allen and Santomero (2001) criticize the theory on grounds that it perceives risk management as an emerging factor in the financial sector and puts the concept of participation costs at the front line. This theory is relevant as it recognizes the role played by financial institutions in ensuring that clients including SMEs have credit access.

2.2.2 Adverse Selection Theory

The adverse selection theory of credit markets relates to access to credit and the risks associated with lending and borrowing. The theory came from the works of Stiglitz and Weiss (1981). The reasoning depends on two fundamental ideas that lenders can't separate between account holders of various dimensions of hazard, and that credit agreements are liable to practically little accountability.

This means that if the return on investment is less than the total debt owed, the debtor is not accountable to pay from their own monies. The evaluation is limited to unintentional default of loans and presupposes clients repay credit when they can. Helsen and Chmelar (2014) points out that based on the way lenders choose creditors; the credit market becomes clear when analyzing the undesirable impacts for letting interest rates to rise under the market fluctuations. This discussion is relating to the study that is being conducted as it describes the factors considered before extending credit to customers including SMEs.

2.2.3 Financial Inclusion Theory

The theory states that process to ensure accessibility to suitable financial services exists and products fit for the entire society including the low income bracket of the society which are affordable, and offered fairly and transparently, by the major services givers

(Chakrabarty, 2011). A financial sector is one that provides access to credit, savings and insurance and payment services for all the members of the society (United Nations, 2006). Financial inclusion does not necessarily mean that whoever qualifies uses the services but it should be available if they choose to, Kempson et al., (2014) report that financial exclusivity is mostly common among low income people, the unemployed and people who live on social transfers by the government are more vulnerable, households with low incomes, the marginalized society that may have a low amount of interation with the economic support system.

The Families Resource Survey 2002-2005 and Kempson et al., (2004) held the view that financial service consumption products is amongst households of African Caribbean, in Pakistanis and Bangladeshi in the United Kingdom. Religious beliefs contribute to a limited extent to this exclusion on the part of these people. The World Bank (2008) categorized impediments to financial accessibility under four grouping; lack of documentation, physical challenges, lack of suitable products and services cost barriers. Branch network have been the normal bank outlet for geographical accessibility therefore distance to the nearest outlet compared to the population can indicate an absence of physical barriers to accessibility (Beck, dermirguc-Kunt & Martinez, 2007). This theory forms a foundation for this study as it explains how the various groups with different needs are incorporated when extending financial services such as access to finance.

2.3 Determinants of Financial Performance

Factors that influence output would either be within or without to an entity that defines the output level. The internal factors are different for each firm and determine its financial performance. These factors are attributable to management decisions and that of the board. The internal factors such as corporate governance, size of the firm, financial leverage, liquidity, management efficiency, capital, and market power. External factors include; exchange rate volatility, interest rates, inflation, economic growth, money supply among others (Athanasoglou, Brissimis & Delis, 2005).

2.3.1 Access to Finance

Accessibility to finance for SMEs is vital for continuous growth (Beck &Demirgüc-Kunt, 2006). The further argue that efforts directed targeted on the SME sector meant to enhance credit access has been misplaced. In the past government policies have specified that access to credit to SMEs be based on their size industry or market. Beck and Demirgüc-Kunt argued that SMEs gain more from policies that ensure equity in the market. In country comparative study the authors found out that entry barriers and low turnover caused by growth challenges, slow down development of SMEs and the industry in general. Where a, market is experiences low entry and turnover, it is an indication that there are constraints in the market which are slowing down the growth and development of SMEs.

2.3.2 Firm Size

To determine the size of a firm, a close look at the quantity and diversity of the firm's production capacity and ability or look at the quantity and diversity of services the firm can provide at a given time to its clients. Based on economies of scale, firm size will dictate profitability as larger firms will benefit from lower costs of producing commodities. In a number of concentrates on the impacts of firm size on the dimension of gainfulness, there has been blended outcomes. Ozgulbas et al., (2006) discovered positive outcomes showing that substantial scale firms would do well to execution over little scale firms in an examination which researched the effect of firm size on the execution of organizations recorded in Istanbul Stock Exchange inside a period of 6 years (2000-2005). Lee (2009) conducted a study in which he employed the settled impact dynamic board information demonstrate to analyze over 7000 publicly-owned companies in the US and he observed that firm size played a large role in the level of profits.

2.3.3 Financial Leverage

The harmony among obligation and value in financing firm activities has some level of influence on the level of ROE and ROA recorded in firms. As argued in the capital structure irrelevant theory, in perfect markets, it is assumed that there is perfect flow of information hence no room for arbitrage (Lee, 2009). This means that the net worthy of an organization is not affected in any way by the leverage. However, in real world, taxes exist and affect the way organization operates in terms of their capital structure (Njoroge, 2014). Usage of debt comes with some agency costs like the existence of constraints put by the firm providing debt on how an organization is to run its affairs (Lee, 2009). This may bring about inflexibility in undertaking some projects even if they promise greater return on equity (Amato & Burson, 2007).

2.3.4 Corporate Governance

Corporate governance consists of structures and policies adopted so as to guide in achieving its objectives and goals, strategies and plans, supervises and reports its progress, and controls its risk (Reddy et al., 2010). Exemplary corporate governance structures have a favorable effect on the performance of the company. Maher et al., (1999) propose that corporate structure has two models namely; stakeholder and shareholder models. In the shareholder model, emphasis on the creation of wealth for the owners takes center stage while the stakeholder model emphasizes on a more inclusive approach whereby the concerns of all stakeholders and the general performance of the firm are all considered to be crucial. Corporate governance has five principles which are: protection of shareholders' rights, protection of stakeholders' rights, fair and equal treatment of all the shareholders, proper disclosure and transparency and fulfillment of responsibilities by the board (IFC, 2009).

2.3.5 Macro-economic Variables

Many studies have done to ascertain the impact of macroeconomic factors on performance of companies. The factors include but not limited to monetary aggregates, rate of interest, investment level in the economy, consumer price index, producer price index, GDP growth, inflation, financial depth and the degree of market efficiency. Kwon and Song (2011) carried out a research on mergers in the Korean market. He found out that the global financial challenges negatively influence the cumulative abnormal return of the acquiring company when upon the making of a merger announcement. He also stated that it may be possible that investors are more aversive to large cash outflows during a period of crisis. Flannery and Protopapadakis (2002) pointed out that inflation and money supply are well documented as the two macro-economic factors that have a significant effect on shareholders returns.

2.4 Empirical Review

Studies have been directed both in Kenya and abroad to help the connection of access to finance and performance, but these studies have produced mixed results.

2.4.1 Global Empirical Review

Mbonyane and Ladzani (2011) endeavored to find out the causes behind the sluggish growth of micro enterprises South African towns, to enlighten the people about the same and formulate strategies to address the state of affairs. The study findings were that the poor growth was as a result of absence of nurturing that small and medium enterprises get to receive from institutions meant to provide support and to limited extent internal weaknesses. The findings also identified that lack of funding, absence of acumen and lack of legal knowledge as other factors impeding their growth.

Kira and He (2012) looked the effect of an entity’s features in its access to credit by SMEs in Tanzania. Primary data were collected. Calculated relapse and Pearson connection were embraced to see whether there was a relationship between's the investigation ideas and s and to discover if multicollinearity was an indication of problems existed among the predictor variables. Presence of collateral security coefficient was an indication of a significant relationship with accessibility to funds.

Mensah & Agbekpornu (2015) looked at the drivers of agribusiness in Kumasi (Ghana) in getting credit using a sample of 151, the factors were grouped as social economic, management and firms’ attributes. Accessibility to funds dichotomous whether a firm accessed funds or not hence a logit model was used in analyzing the variables correlation. The findings were that 55% had not applied for loan before although in comparison with other studies many banks did not demand security against loans. Logit model too showed that every one percent raise in collateral leads to a 30% probability increase in accessibility to funds. The results of the study also revealed significant correlation of the study variables (Fatoki & Odeyem, 2010).

Avortri, Bunyaminu and Wereko (2013) looked at the contributory factors SMEs in Accra metropolis, Relapse investigation and elucidating measurements were utilized to decide a connection between study factors. Chi square test was utilized and demonstrated that there existed positive direct relationship between's the quantity of money related organizations and simplicity of getting to credits. The examination proceeded to bring up this was likely because of rivalry. In the examination 20 respondents were picked per stratum. Strata were not of equivalent size;hence the stratified sample created was not representative. This problem could easily have been addressed to increase the level of accuracy.

Ado and Nuno, (2014) sought to find out if proficiency in finance matters in four districts of the Great Accra Region of Ghana. Where questionnaires were administered at random and data was collected from 556 SMEs. Two approaches financial literacy were used (1) addition of the answer to questions on the understanding of interest rate, inflation savings and insurance, (2)demographic attributes of the entrepreneur and amount of financial education the entrepreneur had received. Standard Least Square (OLS) utilized demonstrated that sex of the proprietor, level training, and monetary instruction got altogether in clarified education. Use of monetary administrations was utilized in measure ring access of credit. Analyst utilizing 2-organize probit relapse demonstrated a presence of a critical likelihood that substances whose speculators had monetary education were bound to appreciate money related administrations for like acquiring little credits

2.4.2 Local Empirical Review

Memba (2011) concentrated to decide the impact of funding on execution of SMEs in Kenya. Case study method was used with one hundred small businesses were sampled, that is, those financed by venture capitalists in Nairobi, Kisumu, Nakuru & Mombasa. The study findings revealed an influence of venture capital on performance of small businesses The results of using venture capitalists was average profits doubling (Ksh 12,202,775), improved asset value, (Ksh 102,547,692) because resources for growth and diversification were available Sales doubled (Ksh 139, 043,076) more employees were absorbed (24,802). In determining if businesses using venture capital attract alternative financial, sources results showed that 100% ascertained that alternative financial sources were ready to offer finance. This included banks which were resistant to funding SMEs.

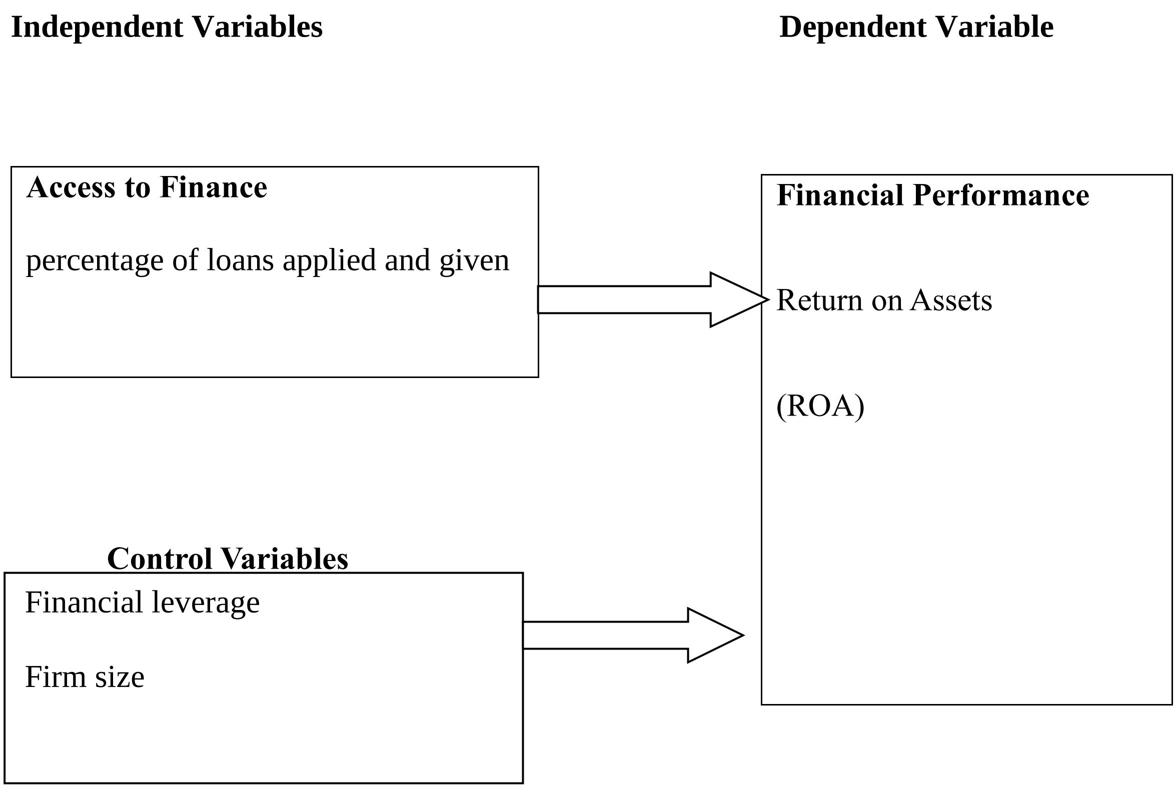
Meba, Gkuru and Karaja (2012) attempted to assess the impact of investors on development of little and medium organizations in Kenya. The discoveries demonstrated that the effect of funding on development of SME is genuine and down to earth. It demonstrated that utilizing of wandering entrepreneurs can produce benefits in Kenya in questionable legislative issues and financial condition too. The impact addressed both financial and social variables. The monetary effect observed to be acquired by SME in type of offers development, benefit, resource and enhanced money related administration. The social effect included business openings that thusly enhance the lives of individuals and those of laborers.

Simiyu (2012) looked to survey the degree of utilization of the pecking request hypothesis in little and medium ventures segment in Kenya. Furthermore the examination looked to discover why SMEs settle on different types of fund Data was gathered from 54 SMEs drawn from assembling, Service, Commerce and exchange. The investigation discoveries showed that SMEs working on looking request hypothesis. Skewness was towards shabby credits, that is: first, inside capital and awards, commitment from companions' earlier going for of obligations. This was credited to high rates of enthusiasm by money related foundations and default methodology utilized from these organizations

Mugori (2012) tried to decide the effect of getting to smaller scale monetary assets on the execution of little and medium ventures claimed by young people in Nairobi. On an example of 100 SMEs possessed by the adolescent was arbitrarily chosen, the specialist discovered dominant part of the SMEs get starting capital some acquire their organizations from guardians. It was additionally uncovered that credit had the most astounding effect on execution of SMEs with a beta coefficient of 0.309, at that point investment funds preparation with a beta coefficient of 0.210 and preparing with a beta coefficient of 0.048. From the discoveries it was finished up arrangement of microfinance administrations has a critical on the execution of the adolescents' possessed organizations in Kenya. Muratha (2015) inspected the factor influencing youthful business person instance of Family Bank Limited. It found irrelevant positive connection between the two factors loan fees charged and credit availability. His decision of research configuration was proper for the examination since the information gathered was both organized and semi organized. Utilization of stratified testing was likewise suitable since the information should have been illustrative of the whole business portion.

2.5 Conceptual Framework

The calculated system is a diagrammatic portrayal of how the variables distinguished are identified with one another. The components given thought here are money related execution and access to back. The free factor is access to fund as estimated by level of advances connected for and given. The control is firm size as estimated by common logarithm of aggregate resources and budgetary use as given by aggregate obligation separated by aggregate resources. Monetary performance will be measured by ROA.



Source: Researcher (2018)
Figure 2.1: The Conceptual Model

2.6 Summary of the Literature Review

A number of theoretical frameworks have explained the theoretically expected correlation between the study variables. The theories covered in this review are; financial intermediation theory, adverse selection hypothesis and the money related consideration hypothesis. A portion of the key influencers of budgetary execution have additionally been investigated in this segment. Observational examinations have been led both globally and locally on the effect of getting to fund and execution of firms. The discoveries of these examinations have additionally been investigated in this section. The absence of accord among universal examinations on the impact of access to fund on money related execution of firms is an enough motivation to lead further investigations. The checked on concentrates in the Kenyan setting have either fizzled to show how the SMEs financial performance is affected by access to finance or considered a different context. The current study intended to fill this research gap.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In order to determine the effect of access to fund on money related execution of SMEs, an examination approach was important to diagram how the exploration was completed. This part has four segments specifically; look into plan, information gathering, and symptomatic tests and information examination.

3.2 Research Design

A clear cross-sectional plan was utilized in the examination to research the relationship of access to fund and budgetary execution of SMEs in Nairobi County. Expressive structure will be used as the scientist is keen on discovering the situation as they exist (Khan, 2008). This structure is fitting for the examination as the specialist knows about the wonder under scrutiny however need to realize more regarding the idea of the factors relationship the investigation factors. In addition, a descriptive research aims at providing a valid and accurate representation of the study variables and this helps in responding to the research question (Cooper & Schindler, 2008).

3.3 Population

This is a group of individuals or entities to on who the sample findings samples are to be generalized (Cooper & Schindler, 2008). An objective populace alludes to an accumulation of components which we need to make reasoning. (Cooper & Schindler, 2008). According to records from the Nairobi County Council, there are 8259 registered SMEs (Nairobi County Council, 2017) with 839 SMEs found within Kasarani Sub-county. The study targeted SMEs that have been in operation for more than five years at the time of the study. The target population consisted of SMEs from different towns including Kasarani, Njiru, Mwiki, Ruai and Kamulu. The population distribution that shows classification of SMEs is presented in Table 3.1 below.

Table 3.1: Population Distribution

Classification of SMEs	Population
Kasarani	247
Mwiki	207
Ruai	231
Njiru	95
Kamulu	59
TOTAL	**839**

Source: Nairobi County Council, 2018

3.4 Sampling Design and Sample Size

The researcher adopted stratified sampling technique where the population was divided into five strata depending on the town the firm is operating in. Simple random sampling methodology was then applied within each stratum to get a sample from the population. Stratified sampling enables the researcher to representatively sample each subgroup in the population hence higher statistical precision. Simple random sampling avoids biased selection and ensures that each object has an equal chance of selection hence satisfying the statistical regularity principle, which proposes that random selection of a sample implies that it possesses similar attributes as the entire population. Since stratified sampling technique has high statistical precision, it requires a small sample size hence the study took 10% of the target population of 839 hence obtaining a sample of 85 SMEs as respondents.

Table 3.2: Sample Size

Classification of SMEs	Population	Sample size
Kasarani	247	25
Mwiki	207	21
Ruai	231	23
Njiru	95	10
Kamulu	59	6
TOTAL	**839**	**85**

Source: Nairobi County Council, 2018

3.5 Data Collection

Secondary data obtained solely from the financial statements of the selected SMEs for a period of five years between January 2013 and December 2017 and captured in a data collection sheet. The reports were obtained from the SMEs. The owners of the businesses or their representatives also provided information on the number of loans they have applied for in a given year and captured in a data collection sheet. The end result was annual information detailing the independent variables and dependent variable for the 85 SMEs in Kasarani Sub-county selected for this study. The specific data collected was net income, total assets, total debt and number of loans applied for on an annual basis.

3.6 Diagnostic Tests

Linearity show that two factors X and Y were to relate by a numerical condition Y=bX where b is a consistent number. Linearity test was accomplished with the dissipate plot testing or F-measurement in ANOVA. Stationarity test is where the measurable properties, for example, mean, difference and autocorrelation structure don't change with time. Stationarity was gotten from the run arrangement plot. Typicality tests the suspicion that the lingering of the reaction variable are ordinarily circulated around the mean. This was dictated by Shapiro-walk test or Kolmogorov-Smirnov test. Autocorrelation is the estimation of the similitude between a specific time arrangement and a slacked estimation of a similar time arrangement over progressive time interims. It was tried utilizing Durbin-Watson measurement (Khan, 2008).

Multicollinearity is said to happen when there is an about correct or correct direct connection among at least two of the free factors. This was tried by the determinant of the connection lattices, which differs from zero to one. Orthogonal independent variable is an indication that the determinant is one while it is nil if there is a complete linear dependence the dependence between the variables is complete and linear as they tend towards zero then Multicollinearity becomes more. Variance Inflation Factors (VIF) and tolerance levels will also be carried out to show the degree of Multicollinearity (Burns & Burns, 2008).

3.7 Data Analysis

The SPSS software version 21 was used in the analysis of the data. The researcher quantitatively presented the findings using graphs and tables. Descriptive statistics was employed in summarizing and explaining variables of the study evident in the SMEs. The results were presented using frequencies, percentages, measures of central tendencies and dispersion displayed in tables. Inferential statistics will include Pearson correlation, multiple regressions, ANOVA and coefficient of determination. The regression model below was used:

$$Y= \alpha+ \beta_1X_1+\beta_2X_2+\beta_3X_3+\varepsilon.$$

Where: Y = Financial performance of SMEs as measured by return on assets on an annual basis

α =y intercept of the regression equation.

β_1, β_2, β_3 =are the slope of the regression

X_1 =Access to Credit measured by the percentage of loans applied and given on an annual basis

X_2 =Financial leverage as measured by total debt divided by total assets per year

X_3 =Firm size as measured by natural logarithm of total assets per year

ε =error term

3.6.1 Tests of Significance

The researcher carried out parametric tests to establish the statistical significance of both the overall model and individual parameters. The F-test was adopted in determining the significant of the models and it was obtained from Analysis of Variance (ANOVA) while a t-test was adopted in establishing statistical significance of the distinct variables.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1 Introduction

The section gives an introduction of the investigation, discoveries and translation of information gathered. The investigation was looking to discover the impact of access to fund on money related execution of SMEs in Kasarani Sub-county. The autonomous factors been examined were credit accessibility, financial leverage and firm size. Regression Analysis was applied in testing the relationship between's the factors being studied as per the targets of the investigation. ANOVA was embraced to test the goodness of fit of the diagnostic model. The discoveries were presented in tables and figures.

4.2 Descriptive Analysis

Descriptive statistics gives a presentation of the average, maximum and minimum values of variables applied together with their standard deviations in this study. Table 4.1 demonstrates the descriptive statistics of the factors applied. An investigation of the considerable number of factors was gained utilizing SPSS programming for the time of five years (2013 to 2017) for all the 85 SMEs that gave information to this examination. The mean, standard deviation, least and greatest for every one of the variables chosen for this investigation are as shown in the table underneath.

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	425	-.0532	.0670	.024730	.0193996
Credit accessibility	425	.0246	.9686	.461929	.2155596
Leverage	425	.1200	.9700	.495694	.2371282
Size	425	6.7938	8.7031	7.690267	.5304976
Valid N (list wise)	425				

Source: Research Findings (2018)

4.3 Diagnostic Tests

The researcher carried out diagnostic tests on the collected data. The research assumed a 95 percent confidence interval or 5 percent significance level (both leading to identical conclusions) for the data used. These values helped to verify the truth or the falsity of the data. Thus, the closer to 100 percent the confidence interval (and thus, the closer to 0 percent the significance level), the higher the accuracy of the data used and analyzed is assumed to be. To test for typicality, the invalid theory for the test was that the auxiliary information was not ordinary. On the off chance that the p-esteem recorded was more than 0.05, the scientist would dismiss it.

A test of Multicollinearity was attempted, Tolerance of the variable and the VIF esteem were utilized where esteems more than 0.2 for Tolerance and qualities under 10 for VIF implying that Multicollinearity doesn't exist. Different relapses are relevant if solid relationship among factors doesn't exist. From the discoveries, every one of the factors had resistance esteems >0.2 and VIF values <10 as appeared in table 4.2 demonstrating that Multicollinearity among the autonomous factors doesn’t exist.

Table 4.2: Multicollinearity Test for Tolerance and VIF

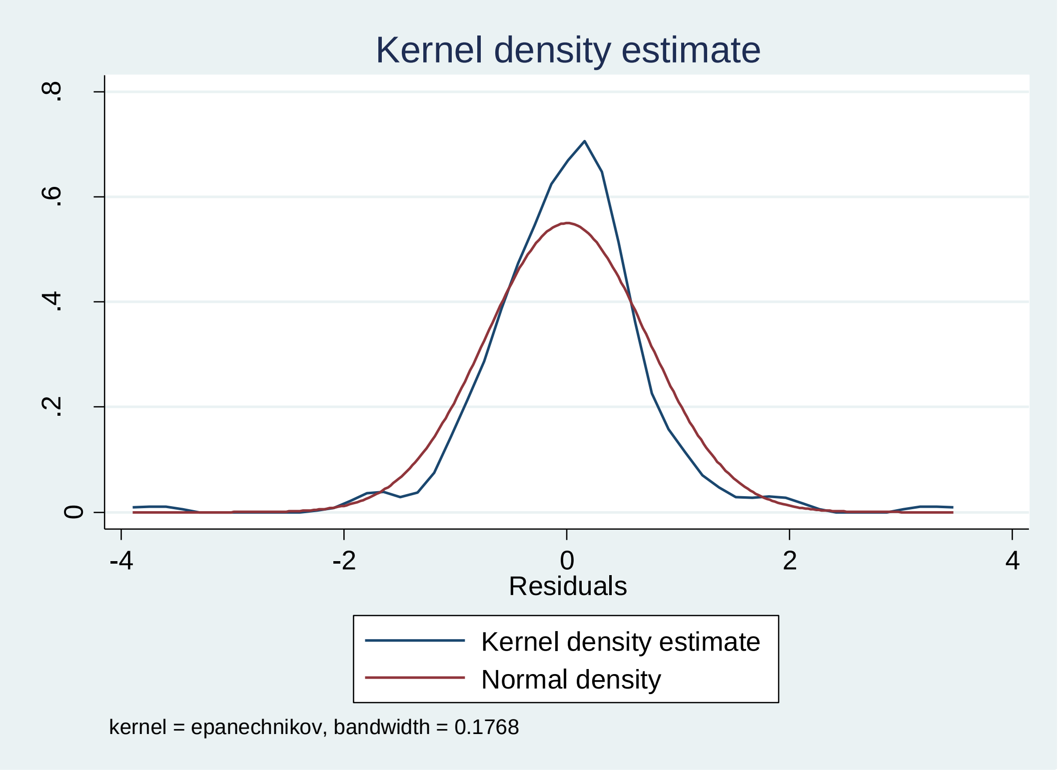
	Collinearity Statistics	
Variable	**Tolerance**	**VIF**
Credit accessibility	0.360	1.382
Leverage	0.392	1.463
Firm size	0.646	1.434

Source: Research Findings (2018)

The researcher further tested for normality of the data used in the study. The null hypothesis for the test was secondary data was not normal. Kernel density was used in testing for normality. The results of the test are as shown in table 4.3.

Kernel density test recorded o-esteem more prominent than 0.05 which suggests that exploration information was ordinarily dispersed and along these lines the invalid theory was rejected. This information was in this manner proper for use to direct parametric tests, for example, Pearson's relationship, relapse investigation and examination of fluctuation.

Table 4.3: Normality Test



Autocorrelation testing was done in order to identify presence of for correlation of blunder terms after some time periods. Autocorrelation was tried utilizing the Durbin Watson test. A durbin-watson measurement of 1.823 demonstrated that the variable residuals were not sequentially related since the esteem was inside the worthy scope of somewhere in the range of 1.5 and 2.5.

Table 4.4: Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.367[a]	.135	.129	.0181086	1.823

a. Predictors: (Constant), Size, Credit accessibility, leverage
b. Dependent Variable: ROA

Source: Research Findings (2018)

4.4 Correlation Analysis

The relationship between any two factors utilized in the examination is built up utilizing connection investigation. This relationship extends between (-) solid negative connection and (+) flawless positive relationship. Pearson relationship was utilized to quantify the dimension of relationship between the SMEs budgetary execution and the autonomous factors for this investigation (access to fund, firm size and leverage).The examine discovered that credit openness, use and firm size had positive and critical connection with SMEs execution as appeared by p esteems that are less than 0.05.

Table 4.4: Correlation Analysis

		ROA	Credit accessibility	leverage	Size
ROA	Pearson Correlation	1	.168**	.113*	.316**
	Sig. (2-tailed)		.001	.020	.000
Credit accessibility	Pearson Correlation	.168**	1	.063	-.001
	Sig. (2-tailed)	.001		.194	.978
Leverage	Pearson Correlation	.113*	.063	1	.064
	Sig. (2-tailed)	.020	.194		.187
Size	Pearson Correlation	.316**	-.001	.064	1
	Sig. (2-tailed)	.000	.978	.187	

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
c. Listwise N=425

Source: Research Findings (2018)

4.5 Regression Analysis

Financial performance was regressed against three predictor variables; access to finance, firm size and bank leverage. The regression analysis was executed at a significance level of 5%. The critical value obtained from the F – table was measured against the one acquired from the regression analysis.

R squared, being the coefficient of assurance demonstrates the deviations in the reaction variable that is because of modifications in the indicator factors. According to the result in table 4.5 underneath, the estimation of R square was 0.135; a revelation that 13.5 percent of the deviations in monetary execution of SMEs in Kasarani Sub-region is caused by changes in access to fund, firm size and bank use. Different factors excluded in the model legitimize for 86.5 percent of the varieties in financial performance of the SMEs in Kasarani Sub-county. Also, the results revealed existence of a weak correlation among the selected independent variable and the financial performance as shown by the correlation coefficient (R) equal to 0.367.

The study obtained the model summary statistics as shown in table 4.5 below.

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.367[a]	.135	.129	.0181086	1.823

a. Predictors: (Constant), Size, Credit accessibility, leverage
b. Dependent Variable: ROA

Source: Research Findings (2018)

A durbin-watson statistic of 1.823 indicated that the variable residuals were not serially correlated since the value was more than 1.5.

Table 4.6: Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	.022	3	.007	21.869	.000[b]
1	Residual	.138	421	.000		
	Total	.160	424			

a. Dependent Variable: ROA
b. Predictors: (Constant), Size, Credit accessibility, leverage

Source: Research Findings (2018)

The significance esteem is 0.000 being under p=0.05 infers the model was factually huge in foreseeing how access to fund, firm size and bank use influences budgetary execution of SMEs in Kasarani Sub-county.

Coefficients of assurance were utilized as pointers of the heading of the relationship between the free factors and the budgetary execution of SMEs in Kasarani Sub-region'. The p-esteem under sig. section was intended to show importance of the relationship between the ward and the autonomous factors. At 95% certainty level, a p-estimation of under 0.05 as a proportion of measurable hugeness. In that capacity, a p-esteem above 0.05 is an indication that the dependent variables have a statistically insignificant association with the independent concepts. The findings are indicated in table 4.7

Table 4.7: Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.073	.013		-5.621	.000
	Credit accessibility	.015	.004	.163	3.585	.000
	leverage	.007	.004	.083	1.818	.070
	Size	.011	.002	.311	6.842	.000
a. Dependent Variable: ROA						

Source: Research Findings (2018)

From the above results, it is evident that access to finance and firm size produced positive and statistically significant values for this study (high t-value, $p < 0.05$) while leverage produced positive but statistically insignificant values for this study.

The following regression equation was estimated:

$Y = -0.073 + 0.015X_1 + 0.007X_2 + 0.011X_3$

Where,

Y = Financial performance

X_1= Credit accessibility

X_2= Leverage

X_3= Firm size

In The estimated regression model, the constant = -0.073 showing that if selected predictor variables (access to finance, firm size and leverage) were rated zero, the SMEs in Kasarani Sub-county financial performance would be -0.073.A unit increase in access to finance and firm size will cause an increase in financial performance by 0.015 and 0.011 respectively while leverage would lead to an insignificant positive effect.

4.6 Interpretation of Research Findings

The researcher aimed at determining the association between accessibility to finance and performance of SMEs in Kasarani Sub-county. Access to finance in this study was the independent variable in this study and was evaluated by the ratio of credit applied for to the loans given. The control concepts were firm size as measured by normal logarithm of aggregate resources and utilizing as assessed by proportion of aggregate obligation to resources add up to every year. Money related execution was the needy variable which the investigation tried to clarify and it was estimated by profit for resources.

The Pearson connection coefficients between the factors uncovered that entrance to back has a positive and measurably noteworthy relationship with the budgetary execution of SMEs in Kasarani Sub-county. It likewise demonstrated that a positive and huge relationship existed between firm size and execution of SMEs in Kasarani Sub-county. Use displayed a frail positive and noteworthy relationship with execution of SMEs in Kasarani Sub-district.

The model synopsis uncovered that the autonomous factors: access to back, firm size and use clarifies 13.5% of changes in the needy variable as portrayed by R2 esteem meaning this model does exclude different elements that represent 86.5% of changes in the SMEs in Kasarani Sub-province' execution. The model is fit at 95% dimension of certainty as the F-esteem =21.869.This demonstrates that the in general different relapse display is measurably huge and is a sufficient model for foreseeing and representing the impact of the picked indicator factors on the SMEs in Kasarani Sub-region execution.

The outcomes agree with Mugori (2012) who needed to decide the effect of availability of back on the money related execution private companies in Nairobi. An example of

100 SMEs claimed by adolescents' was haphazardly chosen. The investigation uncovered that the vast majority of the business people obtained startup capital while some acquired their organizations from guardians or different sponsors. The discoveries additionally demonstrated that credit had the most critical impact on the money related medium SMEs with a beta coefficient of 0.309, reserve funds preparation a beta coefficient of 0.210 with a beta coefficient of 0.048. From the examination discoveries it tends to be inferred that giving of microfinance administrations affected essentially on the money related execution of the independent companies.

The examination discoveries are additionally in concurrence with Mbonyane and Ladzani (2011) who endeavored to discover the difficulties of the development of small scale undertakings in organizations in South African townships, to illuminate about the causes and detail methodologies to address this issue and advance fruitful ventures. The scientist found this situation was to a constrained degree owing to nonattendance of help the SMEs are qualified for from the help foundations and to a restricted degree their shortcomings inside. The study further identified lack of legal literacy, a lack of funds and acumen as the commonest causes of lack of business growth.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter demonstrates the outline of research discoveries, the ends produced using the outcomes, and the proposals for approach and practice. The section talks about a couple of impediments experienced and also proposals for future research.

5.2 Summary of Findings

The aim of the investigation was to inspect the effect of access to fund on the execution of SMEs in Nairobi County. The autonomous factors for the investigation were access to back, firm size and use. An engaging cross-sectional research configuration was utilized. Optional information from monetary reports of the chose SMEs and SPSS programming utilized in examining it. The investigation utilized yearly information for 85 SMEs in Kasarani Sub-district covering five years from January 2013 to December 2017.

From the after effects of relationship investigation, access to fund was found to have a positive and measurably critical connection with the execution of SMEs in Kasarani Sub-region. The examination additionally discovered that a positive and huge connection exists among use and budgetary execution of SMEs in Kasarani Sub-region and a similar relationship applies between firm size and monetary execution.

The co-effective of assurance R-square esteem was 0.135 which implies that about 13.5percent of the variety in monetary execution of the SMEs in Kasarani Sub-area can be clarified by the three chose free factors while 86.5percent in the variety of money related execution was related with different elements not shrouded in this exploration.

The examination additionally found a feeble connection between's the free factors and the SMEs in Kasarani Sub-district' money related execution (R=0.367). ANOVA results demonstrate that the F measurement was at 5% noteworthiness level with a p=0.000. In this manner, the model was fit in clarifying the relationship between the chose factors.

The regression results demonstrate that when all the autonomous factors chose for the examination have zero esteem, the financial performance of SMEs in Kasarani Sub-county will be -0.073. A unit increase in access to finance and firm size will cause an increase in financial performance by 0.015 and 0.011 respectively while leverage would lead to an insignificant positive effect.

5.3 Conclusion

It can be concluded from the findings that the SMEs in Kasarani Sub-county’ financial performance is significantly affected by access to finance and firm size. The study therefore concludes that a unit increase in either access to finance or firm size causes a noteworthy increment in money related execution. The investigation found that use is a factually irrelevant determinant of monetary execution and subsequently this examination reasons that use does not impact to a substantial degree the budgetary execution of SMEs in Kasarani sub-area.

This investigation presumes that autonomous factors chose for this examination; access to fund, firm size and use impact to an expansive degree money related execution. Consequently, it tends to be reasoned that these factors significantly impact monetary execution of SMEs in Kasarani Sub-region as uncovered by the p esteem in anova rundown. The way that the three autonomous factors clarify 13.5% of changes in budgetary execution infer that the factors excluded in the model clarify 86.5% of changes in SMEs in Kasarani Sub-region' monetary execution Results agree with Mugori (2012) who tried to decide the effect of availability to microfinance on the execution of independent companies in Kenya

5.4 Recommendations

The examination discovered getting to fund has a positive and huge effect on budgetary execution. In this manner the investigation wishes to make the accompanying proposals for arrangement change: The administration and other approach creators should make it simple for private ventures in Kasarani sub-area and other sub-provinces by and large to get to back as an expansion in credit availability prompts a critical increment in money related execution.

The examination presumed that there is money related execution and size of a SME correspond emphatically. This examination prescribes that SMEs' administration and chiefs should go for expanding their advantage base by concocting measures and strategies went for extending the organizations' benefits as this will inevitably impact budgetary execution of the firm. From the discoveries of this examination, enormous SMEs as far as resource base are required to perform superior to little SMEs and consequently SMEs ought to endeavor to develop their benefit base.

5.5 Limitations of the Study

The extent of this exploration was for a long time 2013-2017. It has not been resolved if the outcomes would hold for a more extended investigation period. Moreover it is questionable whether comparative discoveries would result past 2017. A more drawn out investigation period is increasingly dependable as it will consider major financial conditions, for example, booms and recessions.

Information quality is one of the investigation impediments. From this examination, it is difficult to finish up whether the outcomes present the verified certainties about the circumstance. Information that has been utilized is just thought to be precise. There is additionally an extraordinary irregularity in the measures utilized relying upon the overarching conditions. Optional information was utilized in the investigation which was at that point in existent instead of essential information which was crude data. The investigation additionally viewed as chosen determinants and not every one of the variables influencing money related execution of SMEs in Kasarani Sub-county for the most part because of restriction of information accessibility.

For information investigation purposes, the specialist utilized a various straight relapse demonstrate. Due weaknesses included when utilizing relapse models, for example, mistaken and misdirecting results when the variable qualities change, the analyst can't have the capacity to sum up the discoveries with sureness. Assuming an ever increasing number of information is added to the useful relapse demonstrate, the guessed connection between at least two factors may not hold.

5.6 Suggestions for Further Research

This examination concentrated on access to fund and monetary execution of SMEs in Kasarani Sub-county and relied upon secondary information. An exploration contemplate where information gathering relies upon primary information i.e. inside and out surveys and meetings covering all the SMEs in Kasarani Sub-county is prescribed in order to compliment this examination.

The examination was not thorough of the autonomous factors influencing budgetary execution of SMEs in Kasarani Sub-region in Kenya and it's prescribed that further investigations be done to join different factors like administration effectiveness, development openings, industry rehearses, age of the firm, political stability and other macro-economic variables. Establishing the effect of each variable on financial performance will enable policy makers know what tool to use when controlling the financial performance.

The study concentrated on the last five years since it was the most recent data available. Future studies may use a range of many years e.g. from 2000 to date and this can be help confirm or disapprove this study's results. The study limited itself by focusing on SMEs in Kasarani Sub-county. The recommendations of this study are that further studies be conducted on SMEs operating in other sub-counties in Kenya. Finally, due to the inadequacies of the regression models, other models like the Vector Error Correction Model (VECM) can be applied in explaining the different associations between the variables.

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