

**THE EFFECT OF CHOICE OF FINANCIAL FACILITIES ON
FINANCIAL PERFORMANCE OF TOP 100 SMEs**

BY

JONATHAN LENGONE TANCHU

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DECLARATION

This project is my original work and has not been presented for a degree in any other University. Signature _____ Date:

JONATHAN LENGONE TANCHU

D61/63310/2011

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

Supervisor

Signature _____ Date: _____

WINNIE NYAMUTE

Lecturer, Department of Finance & Accounting,

University of Nairobi

DEDICATION

I dedicate this project to my family and many friends. A special feeling of gratitude to my parents whose words of encouragement and moral support ring in my ears. To my many friends who have supported me throughout the process. I will always appreciate all they have done.

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ABSTRACT

SMEs' financial performance has recently received a growing attention in both economic and financial literature, much of which in the developed economies. Much of the existing literature has however largely focused on the macroeconomic and microeconomic factors that influence firm financing, and limited attention given to the effects of the choice of the financing facilities on performances thereof. This coupled with the limited literature on the same, locally, present a significant gap in literature. It is upon the inadequacy of the current literature which made this study to be borne to fill the identified knowledge by analyzing the effect of choice of financial facilities by SMEs in Nairobi on financial performance. Specifically, the study focused the effect of interest charged on loan, loan size, collateral requirement and product range on financial performance of SMEs in Nairobi. This study was based on an exploratory design and targeted all top 100 SMEs in Kenya for the year 2013, acquired from the ranking and published list by KPMG and Nation Media Group. The sample size of this study was 30 SMEs .A questionnaire was used as main instrument for data collection from premises of the participant SMEs. In addition, correlation and multiple regressions were employed to determine the relationship between and among the studied variables. Statistical packages for social sciences version 20.0 was used for data analysis. From the findings of the study, it was concluded that external borrowings are considered to be the cheapest source of financing because of the tax benefits; SMEs' access to external sources of funding depends largely on the development of financial markets, and bank loans and overdrafts are the most widespread debt financing methods for SMEs hence it was recommended that there should be an appropriate capital structure that generates the maximum profit for the SMEs, as too less equity financing increases the control of the owners to a large extent, banks should improve transparency on their internal ratings, SMEs should strive to better understand banks' loan requirements, deliver clear, complete and timely financial and performance data, and improve rating-relevant factors such as cash flow, equity, accounting, controlling, management, the business strategy, collateral and guarantees and public policy should promote a code of conduct for minimum ratings disclosure, foster venture capital, and improve tax treatment of retained earnings.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The significant role Small and Medium Scale Enterprises (SMEs) play in economic development process has been well documented. Most of these enterprises use external financing sources like debt and equity capital to finance their activities. However, in general, in the area of SMEs' access to finance, there are market imperfections - not only in times of crisis, but on an on-going basis as a fundamental structural issue, based on uncertainty and asymmetric information between the demand side (entrepreneur) and the supply side (financial intermediary). Various surveys on access to finance show that bank loans and overdrafts are the most widespread debt financing methods for SMEs, but that alternative sources like leasing and factoring have also a high relevance (Mramor, 2009).

Daskalakis and Psillaki (2005) observe that SMEs' access to external sources of funding depends largely on the development of financial markets, the regulatory environment within which financial institutions operate and their ability to assess, manage and price the risks associated with loan products for SMEs. The latter functions take place within a particular socio-economic context, which is in fact determined by the historical patterns of financial intermediation. Theoretically, a number of analytical paradigms have attempted to explain the complexities and practicalities involved in small-firm financing. As early as the MacMillan Report in 1931, there has been recognition that small firms

suffer from what is termed the ‘finance gap’. In developed countries, this situation arises when a firm has grown to a size where the use of short-term finance is maximized, but the firm is not big enough to access capital-market funds. By contrast, in developing countries it is probable that such a finance gap arises at even earlier stages of the enterprise’s lifecycle (Céspedes et al., 2010).

1.1.1 Choice of Financial Facilities

The ability of SMEs to access finance is important for funding business investment, ensuring businesses reach their growth potential, and for facilitating new business start-ups; a lack of finance can constrain cash flow and hamper businesses’ survival prospects (BIS, 2012). Typically, SMEs are not able to raise money directly in the capital markets and are therefore - with regard to external sources - mainly dependent on traditional bank financing, which is itself limited by constraints due to banks’ refinancing capacity, their risk appetite and capital adequacy.

Modarres and Abdoallahzadeh (2008) observe that SMEs worldwide rely initially on self-financing by entrepreneurs. Then SMEs move on to debt finance and/or venture capital as they establish business records and expand operations. Elsayed (2009) identifies four key funding requirements for SMEs: initial infrastructure investments; lumpy operations costs; ‘next-step’ expansions; and unexpected opportunities requiring quick access to funds. Many parameters are currently impacting the lending behavior of banks globally, among them sovereign crisis, upcoming adjustments of the regulatory framework, and an (if at all) only fragile economic recovery. Banks respond to the difficult market

environment with deleveraging, building up liquidity, paring down risk assets and tightening of credit standards.

SMEs' access to external sources of funding depends largely on the development of financial markets, the regulatory environment within which financial institutions operate and their ability to assess, manage and price the risks associated with loan products for SMEs. The latter functions take place within a particular socio-economic context, which is in fact determined by the historical patterns of financial intermediation. Theoretically, a number of analytical paradigms have attempted to explain the complexities and practicalities involved in small-firm financing. As early as the MacMillan Report in 1931, there has been recognition that small firms suffer from what is termed the 'finance gap'. In developed countries, this situation arises when a firm has grown to a size where the use of short-term finance is maximized, but the firm is not big enough to access capital-market funds. By contrast, in developing countries it is probable that such a finance gap arises at even earlier stages of the enterprise's lifecycle.

1.1.2 Financial Performance

Financial performance is a subjective measure of how a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Investopedia, 2014). Measures of financial performance includes key business statistics such as number of new orders, cash collection efficiency, and Return

on Investment (ROI), Return on Asset (ROA) which measure a firm's performance in critical areas. Key performance indicators (KPIs) show the progress (or lack of it) toward realizing the firm's objectives or strategic plans by monitoring activities which (if not properly performed) would likely cause severe losses or outright failure.

A SMEs ought to be profitable and there are obvious checks on profitability such as whether the company has made a profit or loss on its ordinary activities and by how much this year's profit or loss is bigger or smaller than last year's profit or loss. Profitability measures include sales margin which is turnover less cost of sales, earnings per share (EPS) is defined as the profit attributed to each equity (ordinary) share as a convenient measure as it shows how well the shareholders are doing.

1.1.3 Relationship Between Choice of Financial Facilities and Financial Performance

SME financial performance has been linked to various internal and external factors, ranging from firm size to business environment. Firm's financial resource endowment is also a vital determinant of financial performance. Inability to meet financial demands is mainly caused by market imperfection that triggers due to information asymmetry between corporate insiders and external investing entities. The magnitude of these market imperfections amplify with weak legal and financial systems. Demircuc-Kunt and Maksimovic (2008) show that firms experience constraints from financial and legal institutions grow at slower rate than firms operating in well-developed legal and financial system with an active stock market.

Small and medium size enterprises (SME) are more financially constrained therefore they use less formal finance than larger firms. Reasons not only includes lack of collateral, credit history, credit rating, tax policies, high growth vulnerability, other formal requirement of lending institutes but also financial institutions. Along that, Beck et al. (2004) carried out survey of over 10,000 firms from 80 countries to determine the financing obstacles of firms. They find that

1.1.4 The Small and Medium Enterprise Industry in Nairobi County

In Kenya, the following definitions of the SME sector are applied: Micro Enterprise has 1-10 number of employees with a turnover of Kshs 0 - 5 million, Small Enterprise 11-50 employees with turnover of Kshs 5 – 50 million and Medium enterprises has 51-100 employees and turnover of Kshs 51 million -1 billion. The SME sector has become increasingly important in the Kenyan economy as a source of employment and income. During the last decade, the growth rate in the sector's employment has remained above that of the larger firms, whose employment growth rate declined, making the sector grow slowly. The informal sector has seen its share in total employment rise from 16% in 1980, to 63.6% in 1997 and 70% in 2000. Its share in GDP has also recorded increases, rising from 13% in 1993 to 18% in 1999 (Republic of Kenya, 2002).

1.2 Research Problem

The researcher will investigate four independent variables to determine their effect on the dependent variable, which is financial performance of top 100 SME in Nairobi. By adopting this four independent variables (loan size, collateral requirement, product range)

one is able to the financial profitability of a firm which boost the income of its employees bring better quality products for its customers, and have better environment friendly production units.

Small-scale enterprises are important contributors to the Kenyan economy. The sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low- income households in the country (ROK, 2005) accounting for 18 per cent of GDP. Yet the majority of entrepreneurs in this sector are considered un-creditworthy by most formal credit institutions.

Globally, SMEs are a large contributor to economies and their importance is noted in every country. SMEs make a substantial contribution to the economy in terms of job creation, GDP, investment and social welfare (Nieman, 2006). According to the African Development Bank (2005), SMEs contribute more than 55% of total employment. Since they are so important to the economy, their creation is very important as it a positive move towards economic growth. However there is a need to keep these SMEs in operation and avoid failure. Choice of financial facility has been a major challenge to the SMEs (Smith and Perks, 2006) and acquisition the right choice of financial facility can provide a long lasting solution to the survival battle of the SMEs.

In the Kenyan situation, choice of financial facilities on financial performance to the economic development has not been adequately highlighted. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year

2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). Approximately 80% of Kenya enterprises are Small and medium enterprises which are highly attractive to banks, (Ministry of Trade and Industry, 2003). Therefore, it is against this background this study rose to fill the identified knowledge gap by answering the research question: What the effects of choice of financial facilities by SMEs in Nairobi on their financial performance?

1.3 Objectives of the Study

The objective of the study was:

- i. To establish the effect of choice of financial facilities by SMEs in Nairobi on their financial performance.

1.4 Value of the Study

The researcher will benefit from the study, since by being enlightened on the effects of choice of financial facilities on financial performance on Small to Medium size Enterprises in Nairobi. More specifically, the researcher will establish the factors determining the choice of financial facilities by SMEs in Nairobi as well as the effect of the choice of financial facilities on SME financial performance.

Managers in the SME sector will also benefit, in that they might reconsider their current financial performance measurement tools, should their SMEs be struggling to survive. They may be willing to try the tools and methods explored in the study and may feel the

need for training for the purposes of improvement of their businesses with regard to general and financial performance measurement.

Entrepreneurs will also benefit as they will learn from the findings on the need to adequately assess their choice of financial facilities based on the influence thereof on financial performance. They will be informed on the need to harness their entrepreneurial skills into determining the best financial facility option in order to enhance performance.

In addition, SMEs will benefit from the study findings, as they may serve to preserve many of them from failure in the sense that it could raise awareness for the need for training and the use of the available tools described in the study to measure financial performance and make informed choices on financial facilities to opt for.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is concerned with the review of pertinent literature. It covers both theoretical and empirical literature. Theoretical literature focuses on the Pecking order and Agency cost theories.

2.2 Theoretical Review

This study reviews the following theories pertinent to determinants of the choice of financial facilities by SMEs in Nairobi and the effect on financial performance.

2.2.1 Pecking Order Theory

Pecking Order Theory, states that capital structure is driven by firm's desire to finance new investments, first internally, then with low-risk debt, and finally if all fails, with equity. Therefore, the firms prefer internal financing to external financing (Myers and Majluf, 1984). This theory is applicable for large firms as well as small firms. Since small firms are opaque and have important adverse selection problems that are explained by credit rationing; they bear high information costs (Psillaki, 1995).

The pecking order theory as propagated by Myers (1984) states that firms finance their needs in a hierarchical order, first by using internally available funds, followed by debt and finally, external equity. This practice is more common in Small Firms practice and

indicates the negative relationship between profitability and external borrowing by small firms.

2.2.2 Agency Cost Theory

This theory places emphasis on transaction costs, contracting analysis following the work of Coase (1937) Jensen and Meckling (1976) and most important, Stiglitz and Weiss (1981). The work of these writers all point to the challenges that surround ownership, contractual agreements, management interrelationship, credit rationing between SMEs and external providers of finance, thereby subjecting firms to the risk of asset substitution which in practice means a change in the firm's asset structure. For small firms, agency conflicts between shareholders and lenders may be particularly severe (Ang, 1992). Small firms are likely to have more concentrated ownership and generally, the shareholders often run the firm which decreases the conflict of interest between shareholders and managers. Therefore, few agency problems will exist. As a result of that the lower the agency problem, the less debt the small firms have in their capital structure.

2.3 Determinants of Financial Performance of SMEs

Performance of firms is of vital importance for investors, stakeholders and economy at large. For investors the return on their investments is highly valuable, and a well performing business can bring high and long-term returns for their investors. Furthermore, financial profitability of a firm will boost the income of its employees, bring better quality products for its customers, and have better environment friendly production units.

2.3.1 Ownership Structure

Ownership structures and corporate governance affect performance of firms. Berle and Means (1932) developed a dichotomy of ownership and identified two types namely, Owner-controlled firms and Managerially-controlled firms. McEachern (1975) found it to be insufficient for explanation of ownership structure and its impacts, so he identified three types, adding Externally-controlled firms. Owner-controlled firms are the ones where the managers are the dominant shareholders; Externally-controlled firms are the ones where the managers are not dominant shareholders and; Managerially-controlled firms are the ones in which no dominant shareholder exists.

Ownership structure of a firm is also found to have a great impact on the performance. The phenomenon has been empirically tested on various occasions that internal ownership results in long-term firm performance (Reddy, 2010).

2.3.2 Capital Structure

Every industry requires a substantial amount of resources, whether it is land, labor or capital employment of all required finances. These finances can either be generated internally (retained earnings) or hired from outside sources (loans and bonds). These costs can be monetary or non-monetary. Capital structure is also an important factor that determines the performance of a firm. Capital structure refers to the ratio of debt and equity financing. In case if more debt financing the company has to face certain bankruptcy risk, but there are also some tax and monitoring benefits associated with debt financing (Su and Vo, 2010). It also mitigates the agency conflict by reducing the free

cash flow of the firm. There should be an appropriate capital structure that generates the maximum profit for the organization, as too less equity financing increases the control of the owners to a large extent (Abu-Rub, 2012).

2.3.3 Firm Characteristics and Policies

Certain firm characteristics are associated with high performance of firm. These include size (Love and Rachinsky, 2007), growth rate, dividends, liquidity (Gurbuz et al., 2010) and sales (Forbes, 2002). Firms that have better growth rate can afford better machinery, and then gradually the assets and size of the firm will increase. Large firms attract better managers and workers who in turn contribute to the performance of the firm. So, both firm and its people support each other's goals.

2.4 Empirical Review

SME financial performance has over the years received immense scholarly attention. Coluzzi et al. (2008), use survey information collected from firms by the World Bank to capture an indicator of financing constraints for five euro area countries (Germany, Spain, France, Italy and Portugal). They find that young and/or small firms in principle grow faster than larger and older firms. At the same time, they also face considerably more severe financing restrictions than other firms. Also, firms of the manufacturing and construction sectors are more likely to feel financing constraints, which may be attributable to the high capital intensity of these sectors. As could be expected, increased sales which reflect better success of the chosen business model – lessen financing constraints. Regarding the impact of financing constraints on growth, the authors find that

more cash flow fosters growth. The probability of financial obstacles (proxied by age, size and other firm features) is found to affect growth for many countries.

Huyghebaert (2008) argues that higher leverage creates incentives for an entrepreneur to maximize short-term earnings in order to reduce the risk of adverse credit decisions by lenders and possibly resulting liquidation of the firm, since firm survival is a crucial consideration for entrepreneurs who typically hold a largely undiversified investment portfolio and enjoy sizeable private benefits from control. The positive effect of higher leverage on profitability is empirically confirmed for start-up firms in Belgium. This positive effect of leverage is also found to persist, albeit growing at a declining rate, as firm's age.

These academic findings were contrasted with a practitioner's view, based on a survey among Dutch firms (von Dewall, 2007). Broadly speaking, the study concluded that external financing constraints are not experienced by conservative, self-constrained firms, while truly expansionary entrepreneurs which are the minority in the Netherlands – are likely to face financing constraints. While particularly for this minority of strongly expansionary firms lack of risk capital and the absence of well-functioning venture capital markets hamper growth, the bigger problem according to this author seems to be a lack of skills at various levels: entrepreneurial skills at the level of the firm, lack of skills of accountants, and lack of skills at banks in the context of their lending and financing decisions. Banks' moving towards automated expert credit information and evaluation

systems might further exacerbate this problem, reinforcing the notion that banks are not the best suited institutions to provide risk capital.

Locally, Ayadi (2009) proposes a broad range of measures to improve SME financing under the new rating culture: First, banks should improve transparency on their internal ratings (with the optimal degree of such transparency being discussed quite intensively at the conference), give reasons for down or upgrades and credit decisions and provide financial advice. SMEs should strive to better understand banks' loan requirements, deliver clear, complete and timely financial and performance data, and improve rating-relevant factors (such as cash flow, equity, accounting, controlling, management, the business strategy, collateral and guarantees. Public policy should promote a code of conduct for minimum ratings disclosure, foster venture capital, and improve tax treatment of retained earnings.

In general, external financing sources are limited to bank loans and trade credit in the first few years after start-up. Berger and Udell (1998), among others, already pointed this out when stressing the importance of the 'life cycle paradigm' for SME financing decisions. For US firms, Berger and Udell claim that the sources from the principal owner, bank loans and trade credit account for 70% to 80% of total financing for SMEs, independent of firm size and age. For Belgian business start-ups, Huyghebaert and Van de Gucht (2007) demonstrate the huge reliance of these firms on debt financing. The median company raises 82% of its total sources by means of external debt (in their definitions,

debt never includes the loans the entrepreneur extends to her own company). About half of this debt – 45% to be exact – is contracted from banks, whereas trade credit accounts for about 25% of total debt. The other debt largely consists of liabilities vis-à-vis the workforce, tax authorities and prepayments from customers. Leasing is only marginally important for the enterprises in their sample (4%). Besides, the debt that is being raised in the start-up year has to be repaid on short notice.

2.5 Summary of Literature Review

A number of studies have examined the relationship between choice of financial facilities and SME growth. The studies reviewed reveal that several factors contribute to the growth for SMEs, these includes, the development of horizontal relationships aimed at improving the market environment for small enterprises, the development of vertical linkages with larger domestic enterprises, principally through subcontracting agreements; or the development of new inter-firm networks that increase the small-scale sector's capacity for dialogue in relation to macro-level policy (for example, export rebates and tax concessions). All which are vital for the development of clusters which is a concentration of suppliers of raw materials and components; specialist organizations providing technical, financial and accounting services and national and international marketing agencies; and the availability of a large pool of skilled, specialized workers, specialist training centers and transport services (Cook, P. 2000). Several theories and previous researches conducted on the subject matter have been explored with the aim of approaching and drawing conclusions that reaches a deeper understanding of the financing problems of SMEs in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The methodology presents a description of how the study was approached. It presents the plan of the research, that is, the research design, how data was collected and from whom, and the data analysis technique that was adopted to analyze the data in order to generate the findings of the study.

3.2 Research Design

There are two types of research: quantitative and qualitative. The purpose of quantitative research is to evaluate objective data consisting of numbers while qualitative research deals with subjective data that are produced by the minds of respondents or interviewees *i.e.* human beings (Welman et al, 2001). This study is based on an exploratory design. A mixed qualitative-quantitative method was used in data analysis. Mixed-method research works particularly well for exploratory research since it allows the researcher to take the rich empirical data yielded from subjects and apply either quantitative or qualitative methods to the data. In this manner, qualitative data can be quantitized or quantitative data can be qualitized to extract meaning from the data sets that might otherwise be hidden. (Kitchenham, 2009).

3.3 Population

The population consists of the study's subjects, who are individuals, groups, organizations, humans, products, and events, or the conditions to which they are exposed (Welman et al, 2005). The units of analysis are the members or elements of the population. The population in this study comprised the top 100 SMEs in Kenya for the year 2013, acquired from the ranking and published list by KPMG and Nation Media Group.

3.4 Sample and Sampling Techniques

A sample is a smaller group or sub-group obtained from the accessible population (Mugenda and Mugenda, 1999). This subgroup is carefully selected so as to be representative of the whole population with the relevant characteristics. Each member or case in the sample is referred to as subject, respondent or interviewees. Sampling is a procedure, process or technique of choosing a sub-group from a population to participate in the study (Ogula, 2005). The study applied both random sampling procedures to obtain the respondents for questionnaires. The sample frame of the study includes a representative sample of the top 100 SMEs in Kenya for the year 2013, acquired from the ranking and published list by KPMG and Nation Media Group. At least 30% of the total population is representative (Borg and Gall, 2003). Thus, 30% of the accessible population is enough for the sample size. Therefore, for the sake of this study, 30 SMEs were derived from the top 100 ranked SMEs in 2013.

3.5 Data Collection

Semi-structured questionnaires were used to collect primary data from the premises of the participant SMEs, using an administered questionnaire. The questions was divided into sections, typically, and within each section, the opening question was followed by some probing. SMEs owners or managers were called to request an appointment for the data collection.

The questionnaires was therefore used to collect both quantitative and qualitative data and consisted of four parts, part one targeted the Interest charged on loan, part two covered the Loan size, part three covered Collateral requirement and lastly part four focused on the Product range in regards to the performance of the firm.

3.6 Reliability and Validity

Validity is the extent to which research results can be accurately interpreted and generalized to other populations. It is the extent to which research instruments measure what they are intended to measure (Oso and Onen, 2008) on the other hand; reliability is a measure of how consistent the results from a test are. A pilot test was conducted in order to test for reliability and validity of the data collection instrument (questionnaire). Validity was enhanced by engaging the supervisors and experts as supported by Fraenkel and Warren (2000) and Huck (2000) to check the questionnaire items on their appropriateness of content and to determine all the possible areas that need modification so as achieve the objectives of the study.

Pre-testing is considered important in this study because comments and suggestions by respondents during pre-testing help to improve the quality of the questionnaire (Mugenda and Mugenda, 2003). Pre-testing is meant to reveal deficiencies in the instruments. For example, unclear instructions, insufficient writing space, vague questions and wrong numbering may be revealed and corrected, thus improving the instrument.

The correlation coefficient that was obtained represents the reliability of only half of the instrument. In order to obtain the reliability of the entire instrument, the Spearman-Brown Prophecy formula indicated below was used

$$R_e = \frac{2r}{1 + r}$$

Where r – reliability

R_e – reliability coefficient

The closer the reliability coefficient value is to 1.00 the higher the degree of the reliability of the data. According to Gay (1981) any research instrument with a correlation coefficient between 0.7 and 1.0 is accepted as reliable enough.

3.7 Data Analysis

Both quantitative and qualitative approaches were used for data analysis. Quantitative data from the questionnaire was coded and entered into the computer for computation of descriptive statistics. The Statistical Package for Social Sciences (SPSS version 22.0) was used to run descriptive statistics such as frequency and percentages so as to present the

quantitative data in form of tables and graphs based on the major research questions. The qualitative data generated from open ended questions was categorized in themes in accordance with research objectives and reported in narrative form along with quantitative presentation. The qualitative data was used to reinforce the quantitative data. In addition, inferential statistics was done to show the nature and magnitude of relationships established between independent, intervening and the dependent variable using regression analysis to make inferences from the data collected to a more generalized conditions. Each inferential analysis was linked to specific research questions that were raised in the study.

The regression analysis took the following model:

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

Where: Y= Financial performance measured by profitability Return on Assets (RoA)

α = Constant

β_1 . β_4 = Beta coefficients

X_1 = Interest charged on loan

X_2 = Loan size

X_3 = Collateral requirement

X_4 = Product range

ϵ = Error term

To test the relationship between the variables (choice of financial facilities and financial performance), the study adopted both descriptive and inferential analysis. The inferential statistical procedures to be used in this study are correlation coefficient (r) and pearson correlation coefficient. The tests of significance used are regression analysis expected to yield the coefficient of determination (R^2), analysis of variance along with the relevant t – tests, f -tests, z – tests and p – values. The choices of these techniques are guided by the variables, sample size and the research design. The inferential statistical techniques was done at 95% confidence level ($\alpha = 0.05$). The data was analyzed using the Statistical Package Social Sciences Software (SPSS) version 22.0. Quantitative data used to present results in form of graphs and tables.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the result of the analysis of data collected through questionnaires with the top level management and middle level managers based at the SMEs in Nairobi. The data was analyzed using quantitative analysis based on meanings and implications emanating from respondents information and documented data.

4.2 Response Rate

Out of 30 questionnaires distributed to the respondents, 26 questionnaires were returned. This response rate was excellent, representative and conforms to Creswell (2009) stipulation that the key to judging the accuracy of survey results is getting a high response rate of 70 percent to 80 percent. This response rate is considered reflective of the population. He further stipulates that a high response rate is mandatory for a survey sample. The response rate of the study was 86.7%.

Table 4.1: Response Rate

	Questionnaires administered	Questionnaires filled & returned	Percentage
Respondents	30	26	86.7%

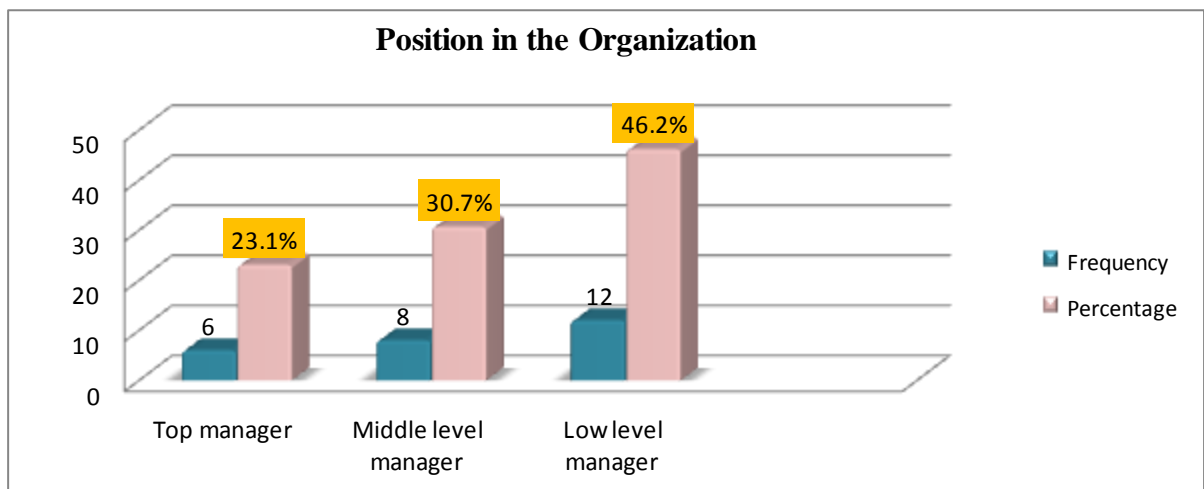
4.3 Descriptive Analysis

The study sought to determine the position of the respondents' in the organization; the level of education and the number of years they have worked in the organization.

4.3.1 Position in the Organization

The study determined the position of the respondents in the organization as evident in the figure below.

Figure 4.1: Position in the Organization



Source: Author, 2014

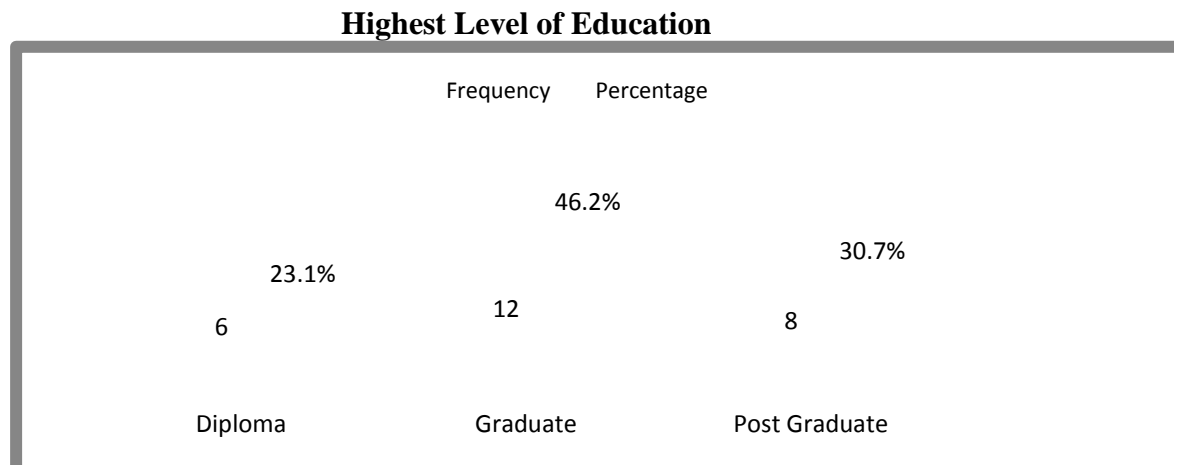
The study findings established that the majority of the respondents were in lower management accounting for 12 (46.2%). 8 (30.7%) of the respondents indicated that they were in middle level management while 6 (23.1%) were in top management level in the organization. The study deduced that the respondents were in a position to know of the effects of choice of financial facilities on financial performance and they were able to

provide adequate information on the matter. The managers play a role in choosing financial facilities on financial performance of the SMEs.

4.3.2 Highest Level of Education

The study sought to determine the highest level of education of the respondents. The findings were presented in the figure below.

Figure 4.2: Highest Level of Education



Source: Author, 2014

From the findings the study established that the majority of the respondents had graduate studies accounting for 12 (46.2%). The respondents indicated that they had attained post graduate studies 8 (30.7%) while 6 (23.1%) had attained diploma studies.

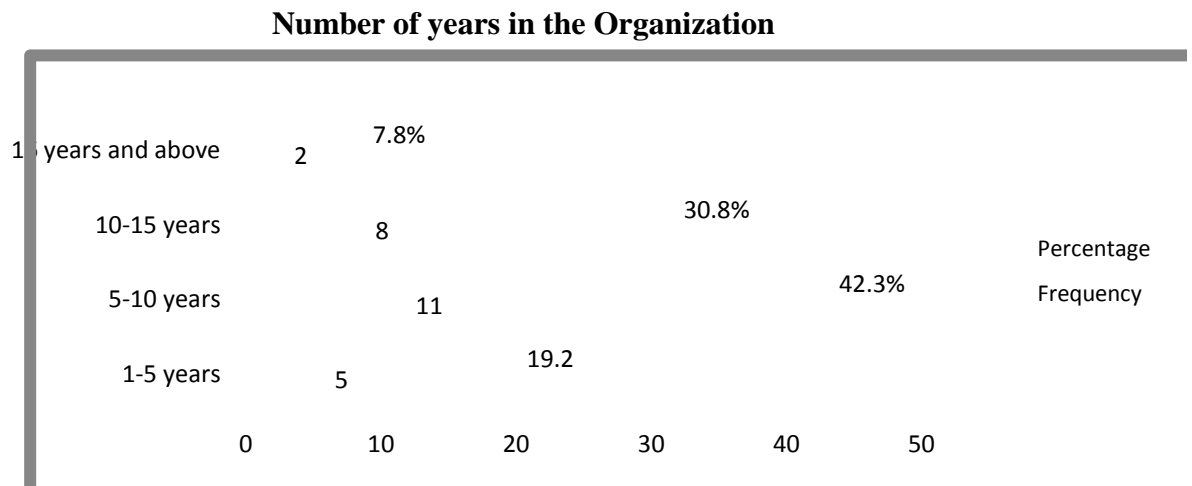
The study deduced that the respondents were knowledgeable on the effects of choice of financial facilities on financial performance of top 100 SMEs. The educational background of the respondents indicated that the respondents had knowledge of financial choice facilities and financial performance of SMEs.

4.3.3 Number of Years in the Organization

The study sought to determine how long the respondents have been in the organization.

The findings were presented in the figure below.

Figure 4.3: Number of Years in the Organization



Source: Author, 2014

The study found out that the majority of the respondents had been working in the organization for a period of 5-10 years. This accounted for 11 (42.3%). The respondents indicated that they had worked for a number of 10-15 years accounting for 8 (30.8%). The respondents indicated that they had worked for a number of 1-5 years accounting for 5 (19.2%) while 2 (7.8%) had worked for a number of 16 years and above in the organization. The study deduced that the respondents had experience enough in the organization to give effective and adequate responses on the effects of choice of financial facilities on financial performance of SMEs.

4.3.4 Interest Charged on Loan and Service

The study sought to determine the extent to which aspects of interest charges on loan and service influence the firm's financial performance with respect to choice of financial facility. The respondents were asked to rate the aspects of interest charges on loan and service influence on the firm's financial performance in a five point Likert scale. The range was 'to very great extent' (5) to 'no extent' (1). The scores of no extent (N.E) and little extent (L.E) had an equivalent mean score of 0 to 2.4 on the continuous Likert scale ;($0 \leq N.E/L.E < 2.4$). The scores of 'to a moderate extent' have been taken to represent a variable that had an impact to a moderate extent (M.E.) had an equivalent mean score of 2.5 to 3.4 on the continuous Likert scale: $2.5 \leq M.E. < 3.4$). The scores of very great extent (V.G.E) and great extent (G.E) had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; $3.5 \leq V.G.E/G.E < 5.0$). A standard deviation of > 1.5 implies a significant difference on the impact of the variable among respondents.

Table 4.2: Aspects of Interest Charges on Loan and Service

Aspects of Interest Charges on Loan and Service	Mean	Std. Dev.
Interest charges	3.65	.2432
Loan processing charges	3.52	.3865
Prepayment Charges	3.41	.2456
Charges for late payment	3.83	.1562
Service Tax	3.46	.6472
Fixed-rate loans	3.64	.1732
Adjustable-rate loans	3.32	.4874
Partially-fixed rate loans	3.21	.4653

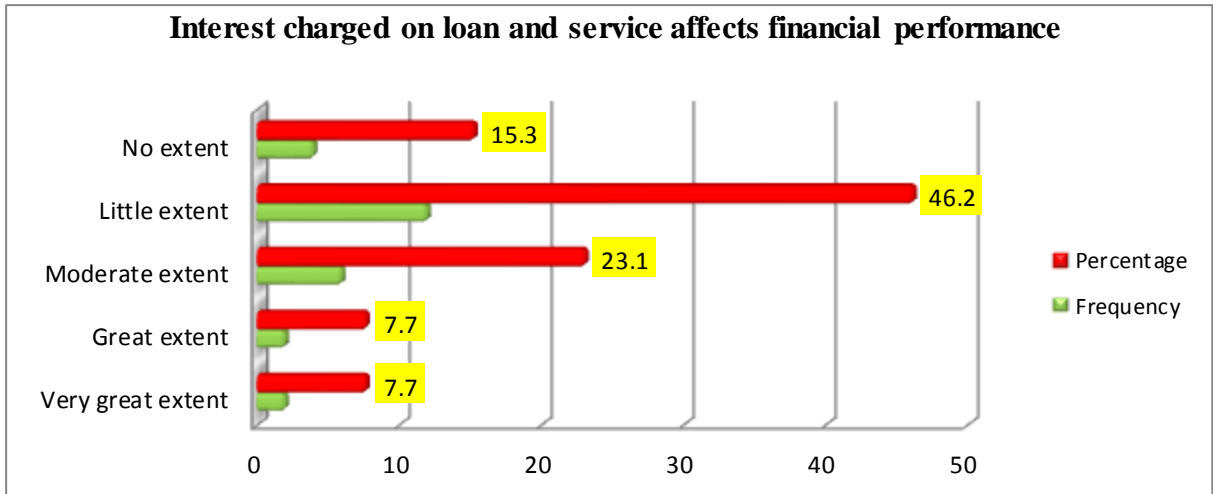
Source: Author, 2014

According to the findings, the respondents rated the aspects of interest charges on loan and service to show its influence in the firm's financial performance with respect to choice of financial facility. The respondents rated interest charges to a great extent (mean 3.65); loan processing charges was rated to great extent (mean 3.52); prepayment charges was rated to a moderate extent (mean 3.41); charges for late payment was rated to a great extent (mean 3.83); service tax was rated to a moderate extent (mean 3.46); fixed-rate loans was rated to a great extent (mean 3.64); adjustable-rate loans was rated to a moderate extent (mean 3.32) and partially-fixed rate loans was rated to a moderate extent (mean 3.21).

The findings are in line with Akbar and Baig (2010), the aspects of external borrowings are considered to be the cheapest source of financing because of the tax benefits. But they do still have certain costs like interest payments and it is widely accepted that the cost of external funds is directly proportional to the amount of these funds also while borrowing the capital structure policy of the firm has to be kept in mind.

Figure 4.4: Interest Charged on Loan and Service Affects Financial Performance

The study sought to determine the extent to which interest charged on loan and service in choice of financial facility has affected financial performance of the firm. The findings were presented in the figure shown.



Source: Author, 2014

The findings revealed that the majority of the respondents 46.2% indicated that the interest charged on loan and service in choice of financial facility have little effect to the financial performance of the firm. 23.1% indicated that the interest charged on loan and service affects financial performance to a moderate extent. 15.3% indicated that the interest charged on loan and service affects financial performance to no extent. 7.7% indicated that the interest loan on loan and service affects financial performance to a great extent and very great extent.

4.3.5 Loan Size

The study sought to determine the extent to which aspects of loan size influence the firm's financial performance with respect to choice of financial facility. The respondents were asked to rate the aspects of loan size influence on the firm's financial performance in a five point Likert scale. The range was 'to very great extent' (5) to 'no extent' (1). The scores of no extent (N.E) and little extent (L.E) had an equivalent mean score of 0 to 2.4 on the continuous Likert scale ;($0 \leq N.E/L.E < 2.4$).

The scores of ‘to a moderate extent’ have been taken to represent a variable that had an impact to a moderate extent (M.E.) had an equivalent mean score of 2.5 to 3.4 on the continuous Likert scale: $2.5 \leq M.E. < 3.4$). The scores of very great extent (V.G.E) and great extent (G.E) had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; $3.5 \leq V.G.E/G.E < 5.0$). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

Table 4.3: Aspects of Loan Size Influence the Firm’s Financial Performance

Aspects of Loan Size	Mean	Std. Dev.
Term to maturity	3.56	.1748
Uncertainty about loan amount	3.24	.2747
High interest rates	3.86	.1574
Mismatch of funds	3.21	.2115
Undue pressures for repayment	3.83	.2563

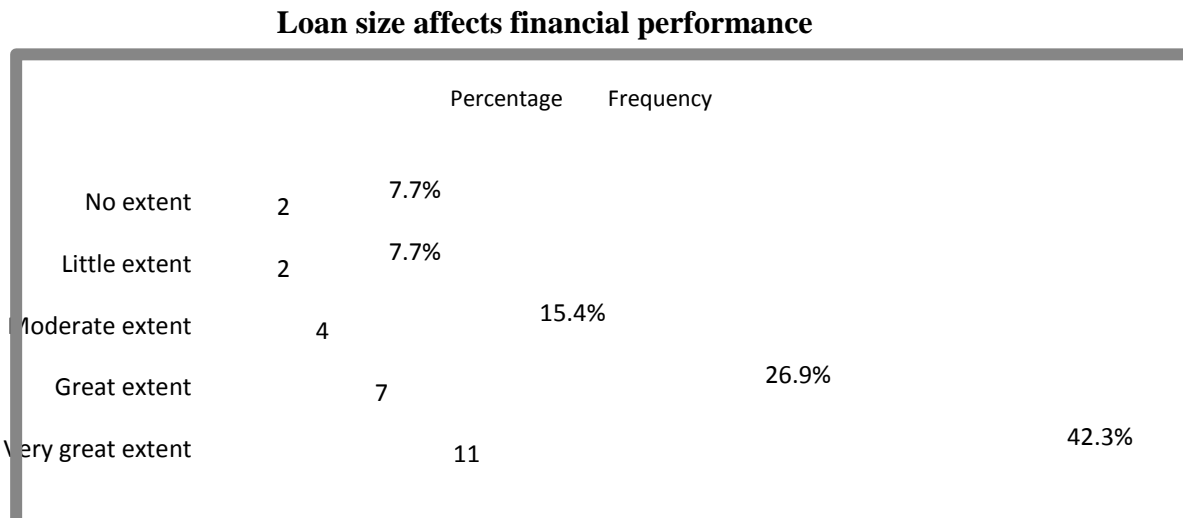
Source: Author, 2014

According to the findings, the findings established that the respondents agreed that the term to maturity of the loan influenced the firm’s financial performance to a great extent (mean 3.56). The respondents rated the uncertainty about loan amount affecting the firm’s financial performance to a moderate extent (mean 3.24). The respondents rated the high interest rates affecting the firm’s financial performance to a great extent (mean 3.86). The respondents rated mismatch of funds affecting the firm’s financial performance to a moderate extent (mean 3.21) while undue pressures for repayment

affect the firm's financial performance to a great extent (mean 3.83). The findings are in line with Mramor (2009) that various surveys on access to finance show that bank loans and overdrafts are the most widespread debt financing methods for SMEs, but that alternative sources like leasing and factoring have also a high relevance. Daskalakis and Psillaki (2005) further observed that SMEs' access to external sources of funding depends largely on the development of financial markets, the regulatory environment within which financial institutions operate and their ability to assess, manage and price the risks associated with loan products for SMEs.

Figure 4.5: Loan Size Affects Financial Performance

The study sought to determine the extent to which loan size in choice of financial facility has affected financial performance of the firm. The findings were presented in the figure below.



The findings revealed that the extent to which loan size of financial facility has affected the firm's financial performance is to a very great extent. This accounted for 42.3% of the respondents, hence the majority. This was followed by 26.9% who indicated to a great extent while 15.4% indicated that loan size affects the firm's financial performance to a moderate extent.

4.3.6 Collateral Requirement

The study sought to determine the extent to which aspects of collateral requirement influence firm's financial performance with respect to choice of financial facility. The respondents were asked to rate the aspects of collateral requirement influence on the firm's financial performance in a five point Likert scale. The range was 'to very great extent' (5) to 'no extent' (1). The scores of no extent (N.E) and little extent (L.E) had an equivalent mean score of 0 to 2.4 on the continuous Likert scale; ($0 \leq \text{N.E/L.E} < 2.4$). The scores of 'to a moderate extent' have been taken to represent a variable that had an impact to a moderate extent (M.E.) had an equivalent mean score of 2.5 to 3.4 on the continuous Likert scale; ($2.5 \leq \text{M.E} < 3.4$). The scores of very great extent (V.G.E) and great extent (G.E) had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; ($3.5 \leq \text{V.G.E/G.E} < 5.0$). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

Table 4.4: Aspects of Collateral Requirement

Aspects of Collateral Requirement	Mean	Std. Dev.
Credit history	4.21	.1274
Asset base	3.62	.7462
Availability of collateral	4.01	.3174
Delayed payments by debtors	4.23	.2859
Irregular cash flows	3.81	.4879

Source: Author, 2014

According to the findings, the respondents rated credit history; availability of collateral and delayed payments by debtors as aspects of collateral requirement affects the firm's financial performance to a very great extent (mean 4.21, 4.01 and 4.23). Asset base and irregular cash flows debtors as aspects of collateral requirement affect the firm's financial performance to a great extent (mean 3.62 and 3.81).

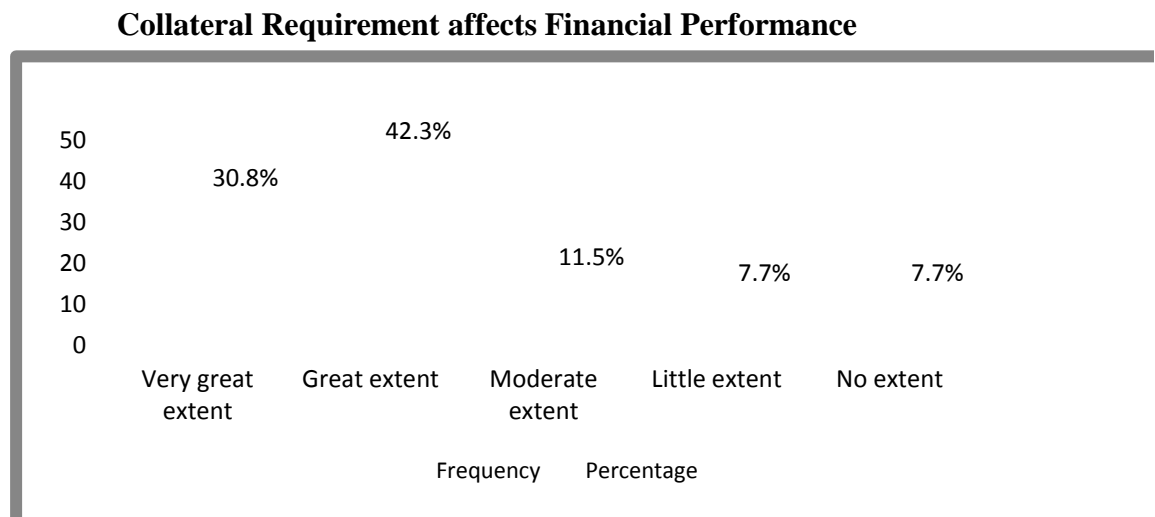
The findings are in line with Abor (2005), that at the start-up stage, the business is characterized by a heavy reliance on insider finance from owner-managers, family and friends. The motivation for such investments frequently goes beyond financial returns: entrepreneurial ambition and personal ties also play an important part. This is economically rational and efficient, since there is likely to be insufficient information and/or collateral for an external financier to assess the risk.

According to World Bank Environment Survey (WBES) the second leading general constraint for the development and growth of firms is the source of finance. Surveyed firms elaborated the causes as high interest rates, collateral requirement, bank paper

work, inadequate credit information to clients, and credit rationing (Schiffer and Weder, 2001).

Figure 4.6: Collateral Requirement Affects Financial Performance

The study sought to determine the extent to which loan size in choice of financial facility has affected financial performance of the firm. The findings were presented in the figure below.



Source: Author, 2014

The findings show the extent to which the respondents have rated the effect of collateral requirement on financial performance. The respondents rated to a great extent that collateral requirement affect financial performance accounting for 42.3%. 30.8% indicated that collateral requirement affect financial performance to a great extent. 11.5% indicated that collateral requirement affect financial performance to a moderate extent.

4.3.7 Product and Service Range

The study sought to determine the extent to which aspects of product and service range influence firm's financial performance with respect to choice of financial facility.

The respondents were asked to rate the aspects of product and service range influence on the firm's financial performance in a five point Likert scale. The range was 'to very great extent' (5) to 'no extent' (1). The scores of no extent (N.E) and little extent (L.E) had an equivalent mean score of 0 to 2.4 on the continuous Likert scale; ($0 \leq N.E/L.E < 2.4$). The scores of 'to a moderate extent' have been taken to represent a variable that had an impact to a moderate extent (M.E.) had an equivalent mean score of 2.5 to 3.4 on the continuous Likert scale; ($2.5 \leq M.E < 3.4$). The scores of very great extent (V.G.E) and great extent (G.E) had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; ($3.5 \leq V.G.E/G.E < 5.0$). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

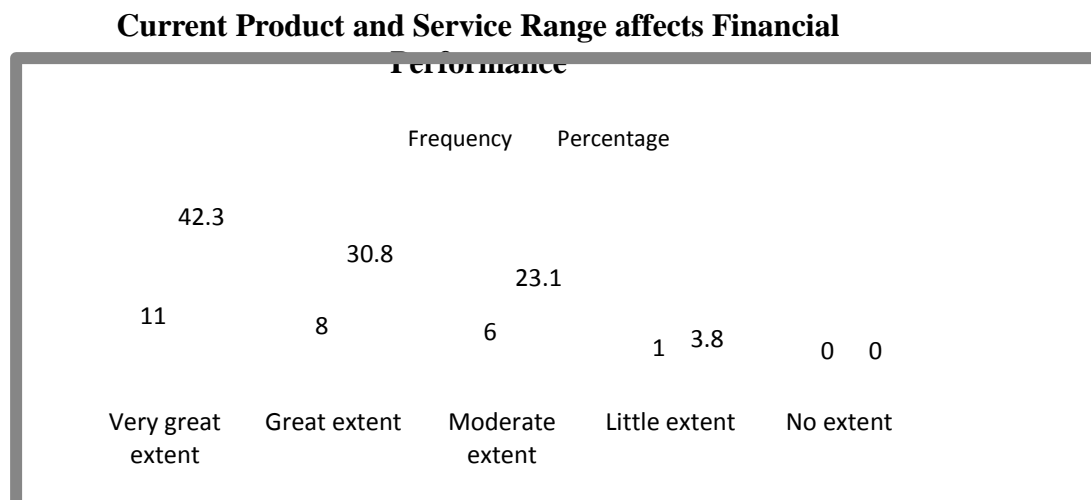
Table 4.5: Product and Service Range

Product and Service Range	Mean	Std. Dev.
Increase in sales	3.46	.1954
Increase in returns	3.59	.1574
Increase in stock levels	3.51	.1457
Increase in retained earnings	3.68	.1574
Increase in profitability	3.89	.1465

Source: Author, 2014

According to the findings, the respondents indicated that increase in sale was an aspect of product and service range that affects the firm's performance to a moderate extent (mean 3.46). The respondents also indicated that increase in returns; increase in stock levels; increase in retained earnings and increase in profitability (mean 3.59, 3.51, 3.68 and 3.89).

Figure 4.7: Product and Service Range affects Financial Performance



According to the findings, the respondents indicated that to a very great extent does current product and service range affects financial performance accounting for 42.3%. The respondents indicated that current product and service range affects financial to a great extent accounting for 30.8%; current product and service range affects financial to a moderate extent accounted for 23.1% while the current product and service range affects financial to little extent accounted for 3.8%.

4.4 Regression Analysis

4.4.1 Pearson Correlation Analysis

The study sought to establish the relationship between the effects of choice of financial facilities on financial performance. Pearson Correlation analysis was used to achieve this end at 95% confidence level ($\alpha = 0.05$). Table 4.6 shows that there were significant correlation coefficients were established between effects of choice of financial facilities on financial performance. Very good and positive linear relationships were established between effects of choice of financial facilities on financial performance: Interest charged on loan ($R=0.690$, $p= .023$); Loan size ($R=0.719$, $p= .005$); Collateral requirement ($R=0.538$, $p= .001$) and Product range ($R=0.727$, $p= .021$). This depicts that financial facility positively influence financial performance of SMEs.

Table 4.6: Pearson Correlation Analysis

Financial performance	Capital structure	
Interest Charged on loan	Pearson Correlation	0.690*
	Sig. (2-tailed)	.023
Loan Size	Pearson Correlation	0.719**
	Sig. (2-tailed)	.005
Collateral Requirement	Pearson Correlation	0.538**
	Sig. (2-tailed)	.001
Product Range	Pearson Correlation	0.727**
	Sig. (2-tailed)	.021

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

Correlation is significant at the 0.01 level (2-tailed).**

4.4.2 Regression Analysis

The study sought to determine the effect of choice of financial facilities on financial performance of top 100 SMEs in Nairobi County using multiple linear regression analysis. The independent variables were: Interest charged on loan; loan size; collateral requirement and product range.

The regression model was: $Y = \beta_0 + \beta_1 (IC) + \beta_2 (LS) + \beta_3 (CR) + \beta_4 (PR) + \varepsilon$

Whereby Y is financial performance, β_0 is regression constant, $\beta_1 - \beta_4$ regression coefficients, β_1 is IC: Interest charge score, β_2 is LS: loan size score, β_3 is CR: collateral requirement, β_4 is PR: product range and ε model's error term.

Table 4.7 shows that there is a good linear association between the dependent and independent variables used in the study. This is shown by a correlation (R) coefficient of 0.887. The determination coefficient as measured by the adjusted R-square presents a moderately strong relationship between dependent and independent variables given a value of 0.764. This depicts that the model accounts for 76.4% of the variations in financial performance while 33.6% remains unexplained by the regression model.

Durbin Watson test was used as one of the preliminary test for regression which to test whether there is any autocorrelation within the model's residuals. Given that the Durbin Watson value was close to 2 (2.104), there was no autocorrelation in the model's residuals.

Table 4.7: Model's Goodness of Fit Statistics

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-
.887 ^a	.787	.764	.757	2.104

a. Predictors: (Constant), Interest charged, Loan size, Collateral requirement and Product range

b. Dependent Variable: Financial performance

The ANOVA statistics presented in Table 4.8 was used to present the regression model significance. An F-significance value of $p < 0.001$ was established showing that there is a probability of less than 0.1% of the regression model presenting false information. Thus, the model is very significant.

Table 4.8: Analysis of Variance (ANOVA)

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	120.450	5	20.075	35.037	.000 ^b
Residual	32.659	32	.573		
Total	153.109	37			

a. Predictors: (Constant), Interest charged, Loan size, Collateral requirement and Product range

b. Dependent Variable: Financial performance

Table 4.9: Regression Coefficients Table

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.350	1.167		1.157	.251
Interest charged	.001	.044	.001	.012	.990
Loan size	.021	.056	.044	.369	.713
Collateral requirement	.034	.039	.100	.881	.381
Product range	.026	.032	.013	.246	.354

a. Dependent Variable: Financial performance

Source: Author, 2014

From the model, when other factors (IC, LS, CR and PR) are at zero, the poverty indicator: A constant value of 1.350. Holding other factors (IC, LS, CR and PR) constant, a unit change in IC, would lead to a 0.001 ($p = 0.990$) change in financial performance; a unit change in LS, would lead to a 0.021 ($p = .713$) change in financial performance; a unit increase in CR, would lead to a 0.034 ($p = 0.381$) change in financial performance and a unit increase in PR, would lead to a 0.026 ($p = 0.354$) change in financial performance.

This shows that among the factors IC, LS, CR and PR affect the financial performance of SMEs.

4.5 Summary and Interpretation of the Findings

The main objective of this study was to establish effect of choice of financial facilities on financial performance of top 100 SMEs. The study finding on the extent to which aspects of interest charges on loan and service influence the firm's financial performance with respect to choice of financial facility indicated that the respondents rated the aspects of interest charges on loan and service to show its influence in the firm's financial performance with respect to choice of financial facility. The respondents rated interest charges to a great extent (mean 3.65); loan processing charges was rated to great extent (mean 3.52); prepayment charges was rated to a moderate extent (mean 3.41); charges for late payment was rated to a great extent (mean 3.83); service tax was rated to a moderate extent (mean 3.46); fixed-rate loans was rated to a great extent (mean 3.64); adjustable-rate loans was rated to a moderate extent (mean 3.32) and partially-fixed rate loans was rated to a moderate extent (mean 3.21).

The findings the extent to which interest charged on loan and service in choice of financial facility has affected financial performance of the firm revealed that the majority of the respondents 46.2% indicated that the interest charged on loan and service in choice of financial facility have little effect to the financial performance of the firm. 23.1% indicated that the interest charged on loan and service affects financial performance to a moderate extent. 15.3% indicated that the interest charged on loan and service affects financial performance to no extent. 7.7% indicated that the interest loan on loan and service affects financial performance to a great extent and very great extent.

The loan size in choice of financial facility has affected financial performance of the firm. The findings revealed that the extent to which loan size of financial facility has affected the firm's financial performance is to a very great extent. This accounted for 42.3% of the respondents, hence the majority. This was followed by 26.9% who indicated to a great extent while 15.4% indicated that loan size affects the firm's financial performance to a moderate extent.

The regression results show that there is a good linear association between the dependent and independent variables used in the study. This is shown by a correlation (R) coefficient of 0.887. The determination coefficient as measured by the adjusted R-square presents a moderately strong relationship between dependent and independent variables given a value of 0.764. This depicts that the model accounts for 76.4% of the variations in financial performance while 33.6% remains unexplained by the regression model.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, summary of the main study findings is presented. The chapter also covers conclusions and recommendations of the study as well as suggestions for further research.

5.2 Summary of Findings and Discussions

The study established the extent to which the aspects of interest charges on loan and service influence the firm's financial performance with respect to choice of financial facility. The findings showed that the aspects of interest charges on loan and service influence the firm's financial performance to little extent. The aspects of interest charges on loan and service include interest charges, loan processing charges, prepayment charges, charges for late payment, service tax, fixed-rate loans, adjustable-rate loans and partially-fixed rate loans. The findings are in line with Akbar and Baig (2010), the aspects of external borrowings are concerned they are considered to be the cheapest source of financing because of the tax benefits. But they do still have certain costs like interest payments and it is widely accepted that the cost of external funds is directly proportional to the amount of these funds also while borrowing the capital structure policy of the firm has to be kept in mind.

The findings established that loan size influence the firm's financial performance to a very great extent. The aspects of loan size influence the firm's financial performance include: term to maturity; uncertainty about loan amount; high interest rates; mismatch of funds and undue pressures for repayment. SMEs' access to external sources of funding depends largely on the development of financial markets, the regulatory environment within which financial institutions operate and their ability to assess, manage and price the risks associated with loan products for SMEs. The findings are in line with Mramor (2009), that various surveys on access to finance show that bank loans and overdrafts are the most widespread debt financing methods for SMEs, but that alternative sources like leasing and factoring have also a high relevance.

The findings determined the collateral requirement that influence a firm's financial performance with respect to choice of financial facility. The aspects of collateral requirement include credit history; asset base; availability of collateral; delayed payments by debtors and irregular cash flows. The respondents indicated that collateral requirements affect financial performance to a great extent. Small and medium size enterprises (SME) are more financially constrained therefore they use less formal finance than larger firms. Reasons not only includes lack of collateral, credit history, credit rating, tax policies, high growth vulnerability, other formal requirement of lending institutes but also financial institutions.

According to World Bank Environment Survey (WBES) the second leading general constraint for the development and growth of firms is the source of finance. Surveyed

firms elaborated the causes as high interest rates, collateral requirement, bank paper work, inadequate credit information to clients, and credit rationing (Schiffer and Weder, 2001).

The study also established the aspects of product and service range that influence the firms' financial performance. These aspects include an increase in: sales, returns; stock levels; retained earnings and profitability. The product and service range influence the firm's performance to a very great extent. Performance of firms is of vital importance for investors, stakeholders and economy at large. For investors the return on their investments is highly valuable, and a well performing business can bring high and long-term returns for their investors. Furthermore, financial profitability of a firm will boost the income of its employees, bring better quality products for its customers, and have better environment friendly production units.

5.3 Conclusion

The study made conclusions based on the study findings. External borrowings are considered to be the cheapest source of financing because of the tax benefits. But they do still have certain costs like interest payments and it is widely accepted that the cost of external funds is directly proportional to the amount of these funds also while borrowing the capital structure policy of the firm has to be kept in mind. SMEs' access to external sources of funding depends largely on the development of financial markets, the regulatory environment within which financial institutions operate and their ability to assess, manage and price the risks associated with loan products for SMEs. The bank

loans and overdrafts are the most widespread debt financing methods for SMEs, but that alternative sources like leasing and factoring have also a high relevance. Small and medium size enterprises (SME) are more financially constrained therefore they use less formal finance than larger firms. Reasons not only includes lack of collateral, credit history, credit rating, tax policies, high growth vulnerability, other formal requirement of lending institutes but also financial institutions. Performance of firms is of vital importance for investors, stakeholders and economy at large. For investors the return on their investments is highly valuable, and a well performing business can bring high and long-term returns for their investors. Furthermore, financial profitability of a firm will boost the income of its employees, bring better quality products for its customers, and have better environment friendly production units.

5.4 Limitation of the Study

Various challenges were encountered when conducting the research that included the fact that the SMEs ordinarily do not want to give information freely.

In addition, some of the respondents would not find the subject to be of interest. Some respondents would not want to give the information as they considered it of competitive importance.

Time limitation made it impractical to include more respondents in the study due to the fact that the researcher was balancing between work and study. More respondents would

have been essential to increase the representation of small medium enterprise in Kenya to allow for better check of consistency of the information given.

The study was also limited by other factors in that some respondents may have been biased or dishonest in their answers. The respondents being normally very busy people may not have found a lot of time to be interviewed which could also have led to giving biased answers.

5.5 Recommendations

5.5.1 Policy Recommendations

The study made recommendations based on the study findings. There should be an appropriate capital structure that generates the maximum profit for the SMEs, as too less equity financing increases the control of the owners to a large extent. The banks should improve transparency on their internal ratings (with the optimal degree of such transparency being discussed quite intensively at the conference), give reasons for down or upgrades and credit decisions and provide financial advice. The SMEs should strive to better understand banks' loan requirements, deliver clear, complete and timely financial and performance data, and improve rating-relevant factors such as cash flow, equity, accounting, controlling, management, the business strategy, collateral and guarantees. Public policy should promote a code of conduct for minimum ratings disclosure, foster venture capital, and improve tax treatment of retained earnings.

5.5.2 Suggestions for Further Research

The findings are subject to methodological limitations. For example, the models might not have accounted for all relevant factors or the variables might not have captured the actual intended concepts. Perhaps because of the heterogeneity in the people's decision, these models might have failed to capture the overall tendency, or the data set was likely too small to capture the variability of variables among on financial performance of top 100 SME in Nairobi.

Primarily, it is proposed that, a comprehensive study could be conducted involves all SMEs in the country since this study cover only top 100 SMEs in Kenya as the case study.

The data did not permit us to involve other the noticeable features i.e. political and socioeconomic variables which possibly might impact SMEs' to choice of financial facilities because these variables are difficult to be captured quantitatively in our study. This is an area of study that could be researched further.

Further studies with larger sample size and different models can be conducted in this area in order to check the factors influencing financial performance of SMEs in Nairobi.

Finally it is proposed to perform a comparative analysis between SMEs in developing countries and those in other developed countries. This study would provide insights as to whether the choice of financial facilities is the same.

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APPENDICES

Appendix I: Introduction Letter

University of Nairobi

School of Business,

P.O. Box 30197,

Nairobi

Dear Respondent,

REF: COLLECTION OF SURVEY DATA

I am a MBA student at the University Of Nairobi. To complete the MBA, I am conducting a management research project titled “The Effect of Choice of Financial Facilities on Financial Performance of Top 100 SMEs” in partial fulfillment of the requirements of for award of Masters of Business Administration degree.

The questionnaire enclosed seeks to obtain information on the Effect of Choice of Financial Facilities on Financial Performance of SMEs. I would appreciate your completing the questionnaire and returning it in time.

This will only take a few minutes of your time to answer the questions that you might find an interesting experience. Your answers will be treated strictly as confidential and will be used purely for academic purposes.

Thanks in advance for your time and effort.

Yours sincerely,

Jonathan Lengone Tanchu.

MBA Student.

Appendix 1I: Questionnaire

Please fill in the spaces provided or tick where appropriate.

Section A: Background Information

1. Please indicate your position in the organization.

- a. Top manager [] b. Mid level manager [] c. Low level manager []

2. Please indicate your level of education.

- a. Diploma [] b. Graduate [] c. Post Graduate []

3. How long have you been working in the organization?

- a. 1-5 years [] b. 5-10 years [] c. 10-15 years []

Section B: Interest Charged on Loan and Service

1. Kindly indicate the extent to which the following aspects of interest charges on loan and service influence your firm's financial performance, with respect to your choice of financial facility, using the scale: 1= No extent; 2= A little extent; 3= Moderate; 4 = Great extent; 5= Very great extent

	1	2	3	4	5
Interest charges					
Loan processing charges					
Prepayment Charges					
Charges for late payment					
Service Tax					
Fixed-rate loans					
Adjustable-rate loans					
Partially-fixed rate loans					

2. To what extent would you say Interest charged on loan and service in your choice of financial facility has affected your financial performance?

Very great extent []

Great extent []

Moderate extent []

Little extent []

No extent []

Section C: Loan Size

1. Kindly indicate the extent to which the following aspects of loan size influence your firm's financial performance, with respect to your choice of financial facility, using the scale: 1= No extent; 2= A little extent; 3= Moderate; 4 = Great extent; 5= Very great extent

	1	2	3	4	5
Term to maturity					
Uncertainty about loan amount					
High interest rates					
Mismatch of funds					
Undue pressures for repayment					

2. To what extent would you say Loan size in your choice of financial facility has affected your financial performance

Very great extent []

Great extent []

Moderate extent []

Little extent []

No extent []

Section D: Collateral Requirement

1. Kindly indicate the extent to which the following aspects of collateral requirement influence your firm’s financial performance, with respect to your choice of financial facility, using the scale: 1= No extent; 2= A little extent; 3= Moderate; 4 = Great extent; 5= Very great extent

	1	2	3	4	5
Credit history					
Asset base					
Availability of collateral					
Delayed payments by debtors					
Irregular cash flows					

2. To what extent would you say collateral requirement in your choice of financial facility has affects your financial performance

Very great extent []

Great extent []

Moderate extent []

Little extent []

No extent []

Section E: Product and Service Range

1. Kindly indicate the extent to which the following aspects of product and service range influence your firm’s financial performance, with respect to your choice of financial facility, using the scale: 1= No extent; 2= A little extent; 3= Moderate; 4 = Great extent; 5= Very great extent

	1	2	3	4	5
Increase in sales					
Increase in returns					
Increase in stock levels					
Increase in retained earnings					
Increase in profitability					

2. To what extent would you say that your current product and service range in your choice of financial facility has affected your financial performance?

- Very great extent []
- Great extent []
- Moderate extent []
- Little extent []
- No extent []

Appendix III: Work Plan

The following is a schedule of activities indicating when each respective activity is due to occur:

Event/Date	Nov 2013	Dec 2013	Jan-March 2014	Apr 2014	Apr- May 2014	June 2014
Concept Note Writing						
Proposal writing;						
Present proposal						
Formal approval of study						
Data Collection						
Data Analysis						
Report Writing						
Defense and Presentation of Thesis						

Appendix IV: Financial Budget

ITEM	AMOUNT
Typing, editing and printing	10,000
Data collection	10,000
Transport	15,000
Training enumerators/data collection	25,000
Stationery, photocopies and binding	20,000
Miscellaneous	20,000
TOTAL	100,000

Appendix V: List of Top 100 SMEs Included in the Sample

1. LEAN ENERGY SOLUTIONS LTD.
2. EAST AFRICAN CANVAS CO. LTD
3. DIGITAL CITY LTD
4. PLENSER LTD
5. ALLWIN AGENCIES (K) LTD
6. PROPACK KENYA LTD
7. VIVEK INVESTMENTS LTD
8. POWERPOINT SYSTEMS (EA) LTD
9. CONINX INDUSTRIES LTD.
10. SYNERMEDICA PHARMACEUTICALS (KENYA) LTD
11. COAST INDUSTRIALS & SAFETY SUPPLIES LTD
12. ISOLUTIONS ASSOCIATES
13. WOTECH KENYA LIMITED
14. AVTECH SYSTEMS LIMITED
15. KENYA BUS SERVICE
16. MURANGA FORWARDERS
17. SYNERMED PHARMACEUTICALS (K) LTD
18. TISSUE KENYA LTD
19. KENYA HIGHLAND SEED CO LTD
20. FAMIAR GENERATING SYS LTD
21. ALEXANDER FORBES
22. CHEMICALS & SCHOOL SUPPLIES LTD.
23. CHARLSTONE TRAVEL LIMITED
24. ONFON MEDIA LTD
25. ELITE TOOLS LTD
26. EUROCON TILES PRODUCTS LTD
27. ENDEVOUR AFRICA LIMITED
28. RONGAI WORKSHOP & TRANSPORT LTD

29. R & R PLASTICS LTD
30. CHIGWELL HOLDINGS LTD
31. CLASSIC MOULDINGS LIMITED
32. PEWIN CABS LIMITED
33. NOVEL TECHNOLOGIES EA LTD
34. XTREME ADVENTURES LTD
35. VINTAGE AFRICA LIMITED
36. PUNJANI ELECTRICAL AND INDUSTRIAL HARDWARE LIMITED
37. SPRY ENGINEERING CO. LTD
38. GENERAL CARGO SERVICES LTD
39. PINNACLE (K) TRAVEL & SAFARIS
40. PANESARS KENYA LIMITED
41. SPECIALIZED ALUMINIUM RENOVATORS LTD.
42. CUBE MOVERS LIMITED
43. BROGIIBRO COMPANY LTD
44. TOTAL SOLUTIONS LTD
45. TYREMASTERS LTD
46. XRX TECHNOLOGIES LIMITED
47. SENSATION LTD
48. EUREKA TECHNICAL SERVICES LTD
49. PALBINA TRAVEL LIMITED
50. WAUMINI INSURANCE BROKERS LTD
51. ASL CREDIT LIMITED
52. ZAVERCHAND PUNJA LIMITED
53. CANON CHEMICALS LTD
54. PACKAGING MANUFACTURERS(1976) LTD
55. TRIDENT PLUMBERS LTD
56. TYPOTECH
57. KINPASH ENTERPRISES LTD

58. VEHICLE & EQUIPMENT LEASING LTD
59. SHEFFIELD STEEL SYSTEMS
60. COMPLAST INDUSTRIES LTD
61. DUNE PACKAGING LIMITED
62. HEBATULLAH BROTHERS LIMITED
63. SPICE WORLD LIMITED
64. MUSEUM HILL WINES LTD
65. YOGI PLUMBERS LTD
66. VAJRA DRILL LTD
67. MELVN MARSH INTERNATIONAL LTD
68. KANDIAFRESH PRODUCE SUPPLIERS LTD
69. FAYAZ BAKERS LIMITED
70. SPECICOM TECHNOLOGIES LIMITED
71. MOMBASA CANVAS LTD
72. SILVERBIRDTRAVEL PLUS LTD
73. IRON ART
74. RADAR LIMITED
75. MASTER POWER SYSTEMS
76. HARDWARE & WELDING SUPPLIES
77. MASTERS FABRICATORS LTD
78. SOFTWARE TECHNOLOGIES LTD
79. HERITAGE FOODS KENYA LTD
80. AFRICA TEA BROKERS LTD
81. RAEREX (EA) LIMITED
82. TRAVELSHOPPE COMPANY LTD
83. ORIENTAL GENERAL STORES LTD
84. CHUMA FABRICATORS LTD
85. STATPRINT LTD
86. SOLLATEK ELECTRONICS LTD

87. SMARTBRANDS LTD
88. DE RUITER EAST AFRICA LTD
89. KISIMA DRILLING (EA) LTD
90. CARE CHEMISTS
91. BROLLO KENYA LTD
92. CANON ALUMINIUM FABRICATORS LTD
93. SATGURU TRAVEL & TOURS LTD
94. KUNAL HARDWARE AND STEEL
95. DEEPA INDUSTRIES LIMITED
96. SKYLARK CREATIVE PRODUCTS LTD.
97. UNEEK FREIGHT SERVICES LTD
98. BBC AUTO SPARES LTD
99. LANTECH (AFRICA) LIMITED.
100. POLYTANKS LIMITED