# INFLUENCE OF MICROFINANCE SERVICES ON SMALL AND MEDIUM ENTERPRISES PERFORMANCE. A SURVEY OF SMEs WITHIN KAJIADO COUNTY.

**BY**


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## DECLARATION

This is my original work and to the best of my knowledge has not been submitted to any institution for any purposes of examination.

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

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## LIST OF ACRONYMS

**AUSAID** – Australian Aid

**CAMCCUL -** Cameroon Cooperative Credit Union League

**CBD** – Central Business District

**CBN -** Central Bank of Nigeria

**CIDA** – Council of Innovative Development Access

**GDP** – Gross Domestic Product

**MFI** – Microfinance Institutions

**NGOs -** nongovernmental organizations

**NN -** Neutral networks

**ROI**- returns on investment

**SME** – Small and Medium Scale enterprises

**SPSS** – Statistical Package for Social Sciences

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## ABSTRACT

Past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2011). While there are various reasons for such failure, one central reason attributed by researchers like Damanpour *et al*, (2009) is lack of proactive and sustainable adoption of financial services innovations. Therefore, the purpose of the study is to determine influence of microfinance services on Small and Medium Enterprises performance in Kajiado County. It specifically sought to determine the influence of microfinance financial training on SMEs Performance; establish the influence of micro insurance on SMEs Performance; and, evaluate the influence of business loans accessibility on SMEs Performance in Kajiado County, Kenya. The Games Theory of Microfinance, Uniting theory of microfinance, Poverty alleviation Theory and Diffusion Theory anchored the study. The study was hinged on descriptive survey research design. For this study, the 167 SMEs, with their 167 managers in Kajiado was targeted. The study employed census method to gather data from the entire population. The study specifically used questionnaires as the primary data collection instrument. Document checklist was used to scrutinize financial documents of the SMEs over a period of two years. To ascertain the reliability of research instruments, pilot study to test for both was done in neighboring Nairobi County. Consequently, the Cronbach's coefficient alpha model that gets the standard alpha coefficient formula classified the results and gave a significant figure result. To therefore ascertain content validity, the research supervisor was used to check the instruments and advice on suitability or validity of the said instruments and feedback was used to revise the instruments accordingly. Firstly, quantitative data gotten from the instruments was classified then coded and later analyzed using descriptive statistics in the form of frequencies, percentages, means and standard deviations. Later, inferential statistics in the form of Pearson's Correlations and regressions was used to help test the Hypotheses at the 95% confidence level. The results show that lack of financial training, micro insurance and loan accessibility by microfinance institutions had a negative influence on performance of SMEs in Kajiado County. The study thus recommends that: The microfinance institutions' management need to engage in robust seminars and workshops in order to train SME owners/managers on effective SME management. The SME owners/managers should on their own acquire training to help them manage their businesses better. The microfinance institutions' management need to diversify their insurance portfolio to cover a wider scope of SME needs and operations. The microfinance institutions' management need to demystify and strategize loan accessibility issues by reducing bottlenecks for SMEs and easing security needed to access loans. The Government need to recalibrate existing policy that touch on loaning to SMEs to make it easy for SMEs to access loans, get trained better and overall manage their SMEs better.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background to the Problem

This section highlights the concepts of microfinance services, SME performance and the link between the two.

### 1.1.1 Microfinance Services

Microfinance, according to Longenecker, *et al*., (2006) is defined as the rendering of financial services to persons coming from either low-income poor or the extremely poor self-employed households. Oketch (2000) on his part notes that the financial services basically comprise of savings together with credit but also carries other complimentary financial services like payment services and insurance options. Westerberg and Wincent (2008) on their part asserted that microfinance is simply an attempt to advance significant access to small cash deposits together with small loans for households with poor backgrounds and who have almost perennially been neglected by traditional banks. Consequently, microfinance is about the delivery of financial services like savings, insurance, payments and loans to poor households or persons living in both urban and rural contexts and who have challenges accessing the same from traditional banks.

Often in literature, microcredit and microfinance are terms that have been used almost interchangeably, however it is imperative to describe the variance between the two terms as both terms are frequently confused. Westerberg and Wincent (2008) defined microcredit as simply small loans, while microfinance is fitting in situations where NGOs and MFIs complement the loans with other notable financial options like insurance, savings and others. Thus, microcredit is a constituent of microfinance as it comprises of provision of credit to the poor while microfinance comprises of extra non-credit financial options like insurance, savings, pensions and payment options (Oketch, 2000).

Microfinance plays a very pivotal role in the growth of any country according to scholars of microfinance economics. Qian and Li (2008) asserted that significant studies have highlighted the three most significant roles that that microfinance plays in development. They mentioned that it aids poor households to meet their very basic needs while protecting them against risk. It is also linked to improved household economic welfare and is important in the empowerment of women in their engagement with business and other economic empowering ventures that would help spur gender equity. Qian and Li (2008) also elaborated the several ways that "microfinance, at its fundamental nature fights poverty". They observe that microfinance generates access points to industrious capital for the poor, which coupled with human capital, advanced via education and training, together with social capital and attained via local organisational building, allows persons to get out of poverty. By giving monetary capital to a poor household, their sense of self-respect is reinforced and this can help to permit the household to contribute effectively to the economy and society. Microfinance services have consequently helped Small and Medium enterprises to flourish (Oketch, 2000; Amyx, 2005).

### 1.1.2 SME Performance

Small and medium-sized enterprises (SMEs) are critical and vibrant economic players impacting creatively the economies of nations (Wolff & Pett, 2006). Clark III & Moutray, (2008) noted that they have become a vital source of job creation and progression and they characterize the sources for future big corporations and companies (Monk 2009). That said, the small and micro enterprises (SMEs) have a significant place in the Kenyan Economy and significant evidence supports this.

The Economic Survey (2012), asserts that the SMEs had over 50 percent of fresh jobs introduced attributed to it in 2011. However, notwithstanding their significance, all has not been rosy as recent statistics show that three out of five SMEs ground to a halt within the initial five years of business operations in Kenya based on the Kenya National Bureau of Statistics, (2011) report. SMEs have variously been defined as business with 250 employees or less and whose turnover does not exceed half a million in a month (NUTEK, 2004)

The performance of small business fluctuates significantly to the extent that the chance for failure or success is always present. Due to their small size, a simple management error can as well be the death of any SME and is thus the reason to be strict with management and avoid simple but costly mistakes (Oketch, 2000). It has been argued that poor planning, indecorous financing and management laxity have been postulated as the major grounds for letdown of enterprises that are small in size and capitation (Longenecker, *et al*., 2006). Also, notably, inadequate access to capital from banks is a major constrain acknowledged by researchers as a catalyst to SMEs growth (Oketch, 2000; Tomecko & Dondo, 2009).

### 1.1.3 Microfinance services and SME Performance

Amyx (2005), had notably observed that one of the most grievous hindrances to the performance of SMEs is lack of effective financial services that would elevate them to effective performance. In fact, AUSAID (2010) indicates that the said financial services have progressively been viewed as necessary for poverty alleviation and achievement within the auspices of the Millennium Development Goals. By borrowing or saving, SMEs can strategize on a better future that transcends just the short term. They can generate assets and capitalize in operative businesses and financial services can aid them to again sustain their businesses in tough economic times. Beyond this, adopting financial services is important to endorse social inclusion and generate self-confidence and empowerment, basically among women entrepreneurs.

SMEs are argued to present a more innovative characteristic than the bigger firms, basically attributed to their flexibility and their capability to speedily and efficiently assimilate inventions generated by the firms' growth actions (Acs and Yeung 2009, Qian and Li 2008). Research augments the assertions noted variously by scholars that SMEs that get access to any financial services post better returns and performance indices than those that do not (Westerberg and Wincent 2008, Qian and Li 2008). Further, embarking on a significant investigation of SMEs is bound to augment scholarly and practical understanding of the SME development and growth needs and ramifications. Such an investigation would then ensure that scholars, practitioners, strategists and policy makers have sound financial strategies that would support the growth of SMEs (Norrman 2008). However, as Damanpour*et al*. (2009) noted, when SMEs don't take advantage of financial innovation, such SMEs fail. This viewed in a competitive advantage spectrum has been the downfall of many SMEs, supporting the earlier assertion that three out of five SMEs generally do not succeed beyond their first five years of operation.

Nevertheless, in Sub-Saharan Africa, adoption of elementary banking options among SMEs still is imperfect and barricaded, and is still behind the established and developed nations (Chaia et al. 2009). Kendall et al. (2014) in an elaborate study enumerated via a host of data that estimated that just 20% of SMEs in Sub-Saharan Africa had full interaction and engagement with financial services in the late 2000s and that this figure was exponentially rising in subsequent years. Whereas, evidently there exists some growth in recent years, Kendall et al. (2014) showed almost same results using more recent data that showed that in as much as developing countries have only 28% has the percentage for banked adults, Sub-Saharan Africa has its figure far below (only 16%)

and for SMEs, the result is far worse. Kendall et al. (2014) again asserted that low banking service implementation might again be the reason for SMEs to miss getting capital sums for their start-ups or growth which would adversely impact especially those rural poor folks.

Taking this into consideration, growing access to even very base savings and credit options to stimulate greater adoption could have significant impacts. The present evidence on this matter is somewhat confused and far between, however. Banerjee et al (2010) asserted that adoption of microfinance when motivated portends positive results for small businesses and this is supported by Crépon et al (2011) who also noted that in India the saving culture is a reason for business growth. Ruiz, (2010) in a study in Mexico also noted that access to loans by small businesses was a measure of how far the business would go in the long run. Another experiment of the same caliber done in Nepal, Prina (2011) also showed significant impacts of increasing access and cultivating adoption of financial services to savings option for women entrepreneurs.

From a policy position, further to comprehending the effect of financial adoption, a crucial issue is the means with which to achieve it. This is an angle in research that has seen several innovations just within the last five years. These fresh innovations eventually amount to either the reduction of hindrances to adoption to current financial institutions (like reducing fees); or the influx of banking services closer to people in a geographical sense. For instance, a number of nations have espoused “correspondent” or “agent” banking strategies where clients can deposit into and then also withdraw money from accounts by utilizing a non-bank agent in a retail store for instance.

Karlan and Zinman (2013) mentioned that often most SMEs still have limited level of training to enable them adopt financial services through banks or other mediums. Allen et al. (2011) on their part have observed that adoption in some SMEs in marginalized areas is hampered due to micro-insurance norms that are characterized by belief of what saving money is about and almost a total lack of insurance services for small businesses. Limited family support among other such contexts. And as earlier noted, narrow business loans accessibility in some places works against any meaningful adoption of financial services (Chaia et al, 2009).

### 1.1.4 Kajiado County

Kajiado County is currently being touted as a booming trade centre which as a result has attracted massive microfinance interest. The 167 SMEs according the county registry and a host of significant companies in the area has created a robust business hub in the region. In fact, the county has been considered a conduit for spillover growth from Nairobi which shows a marked potential. While significant consideration has recently been put in to the numerous strategies to advance quality of financial services (Banerjee et al 2010), consequently on access, relatively less consideration has been put to investigate the influence of microfinance services on Small and Medium Enterprises performance, with adoption of microfinance services being derived particularly from factors like level of training, micro-insurance factors and expansion of business loans accessibility particularly in Kajiado County. This study hoped to fill the gap.

## 1.2 Research Problem

Past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2011). While there are various reasons for such failure, one central reason attributed by researchers like Damanpour *et al*, (2009) is lack of proactive and sustainable adoption of financial services innovations. Looking at Kajiado that has about 167 registered SMEs, financial challenges seem to affect their performance. As noted by Damanpour *et al*. (2009); when SMEs don’t take advantage of financial innovations, such SMEs are bound to fail. However, to what extent adoption of microfinance services influence SME performance remains significantly unknown, particularly in what is considered peri-urban areas like Kajiado.

Further, to what level business loans accessibility, business insurance and training influences SME performance needs investigation.

Mead (2008) asserted that there exists a symbiotic and a direct, proportionally advancing relationship between the health of a country's economy and the essentials of micro and small enterprise sector. In the event that the nature of the macro economy is less than favorable, by contrast, prospects for profitable employment growth in SMEs become limited. This is true particularly for SMEs that have connections to bigger companies and the economy generally. Considering this scenario, a clear knowledge of the undercurrents of SMEs is essential not only for the growth of support SME programmes, but also for the development of the economy in general. Also, the relationship between adoption of financial services from microfinance institutions and SME performance is necessary.

Also, numerous studies have dealt with innovativeness in SMEs (Westerberg and Wincent 2008; Acs and Yeung 2009, Qian and Li 2008). However, few significant research as linked adoption of financial innovation and services from microfinance institutions to business performance particularly in developing countries like Kenya. Emphatically, there is a gap in empirical and conceptual studies of adoption of financial innovation and services and how it influences business performance among SMEs in Kenya. This study therefore hoped to determine influence of microfinance services on Small and Medium Enterprises performance. It specifically considered the following research questions; What is the influence of microfinance financial training on SMEs Performance in Kajiado County?; What is the influence of micro insurance on SMEs Performance in Kajiado County; and, what is the influence of business loans accessibility on SMEs Performance in Kajiado County.

### 1.3 Research Objectives

#### 1.3.1 General Objective

To determine influence of microfinance services on Small and Medium Enterprises performance in Kajiado County.

#### 1.3.2 Specific Objective

(i) Determine the influence of microfinance financial training on SMEs Performance in Kajiado County;

(ii) Establish the influence of micro insurance on SMEs Performance in Kajiado County; and,

(iii) Evaluate the influence of business loans accessibility on SMEs Performance in Kajiado County, Kenya.

### 1.4 Value of the Study

The result from the present study may be beneficial to at least three sets of stakeholders. Firstly, the study may be helpful to SME managers who would wish to improve the performance of their firms then consulting organs who help SMEs strategize and improve on their efficiency and finally, policy makers whose design of support apparatuses and procedures help SMEs to grow via financial innovation and access.

It is noteworthy to elaborate that the present study also seeks to communicate to certain notable individuals. The first set of persons include the microfinance institutions that offer access to finances to SMEs and who deal with an internal pool of SME managers, consultants and researchers. The other group are persons who connect directly to the external environment of the SMEs in an aggregate level. Finally, the study may be significant to fellow academicians to add the findings to their body of facts and works.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter will consider literature on SME performance, the concept of micro-financing, level of training, micro insurance and development of micro-financing networks. It further offers the theoretical framework and the conceptual frameworks

## 2.2 Theoretical Literature Review

The succeeding portion will review literature and models of SME performance and microfinance.

### 2.2.1 Micro-Finance Theories

Microfinance has been rendered as a tool of development that allows for the granting of financial services in the form of small loans, insurance, saving options, leasing and transfer of money to help the poor persons to expand and grow their businesses. microfinancing has hit a strong traction in developing countries due to its affordable service and ability to help the poor in tough economic times (Robinson, 1998). Ledgerwood (1999) observed that apart from financial intermediation, other microfinance organizations offer social intermediation options like group formations, training in self-development and financial literacy. He further notes that banks, both commercial and otherwise, NGOs, cooperatives, credit unions and other non-bank institutions offer some semblance of microfinancing to poor households.

Microfinance services targets mostly self-employed low-income individuals who are mostly traders, farmers, artisans, tailors among other small-scale entrepreneurs. Microfinance institutions then becomes a somewhat panacea to the poor man or woman economic troubles and offers a way that their businesses can thrive through the services and products that the microfinance institutions offer. Subsequently, the services offered by microfinance institutions are largely financial and are rendered to clients mostly from the rural areas with minimal security and tangible assets and who are also mostly illiterate. This is unlike the traditional financial institutions who look at the nature and scope of security before loan access and seek to make profits in the long run (CIDA, 2001).

#### 2.2.1.1 Games Theory of Microfinance.

The microfinance games theory is a model particularly espoused by Ledgewood, (1999) and which apart from supporting group lending as offered by micro finance institutions also postulates that there is need to create a mechanism to have a group of borrowers monitor and enforce contracts and get access to loans. This theory is credited to have been the main premise on which the Grameen lending model of microfinance was devised; in that a lending mechanism is offered a group of four to seven persons who collectively access and guarantee repayment by all members. Grameen Bank (Bangladesh) has so far been successful in generating weekly repayments from their clients and their type of microfinance model is touted as successful. The model has similarly led to broader social reimbursements as a result of prearrangements based on mutuality in trust and a guarantee of the groups coming together to build something better (Ledgewood, 1999).

#### 2.2.1.2 Uniting theory of microfinance

The central premise of the uniting theory of micro finance is its emphasis on the concept of joint responsibility. Ghatak and Guinnane (1999) studied the main instruments endorsed by significant theories that show the value that joint liability or responsibility could progress in a repayment market where borrowers are also inhibited when borrowing. They recognized that all the theories and models have in shared mutuality the notion that joint liability can aid in reducing and even eradicating the main challenges facing lenders like screening, monitoring, evaluating, auditing and implementation by using the indigenous information and social investment that is present among borrowers under clear joint liability. Basically, when a single borrower has a problem in repaying a loan, group members are then contractually obligated to repay in his or her place. Such repayments have the potential to be enforced via the risk of common punishment which is characterized by denial of further credit to all members as a result of one person defaulting of getting the group's entire savings as collateral.  Also, the perception of joint liability can be implied, in the sense that borrowers believe that in the event a group member defaults, the entire group become unentitled to future loan even when there is no specified  punishment.

### 2.2.1.3 Poverty alleviation Theory

One of the most important aspects and needs for any rural economy is the ability to create jobs to a huge unemployed mass and labor force. It is habitually observed that jobs can be generated either by creating wage employment or by endorsing self-employment in non-traditional activities. Generation of employment needs capital in small working investments. Inappropriately, income from other bases is so low that they cannot create investible monetary excesses on their own. Therefore, getting credit under certain conditions can help the poor accrue their own capital and thus advance their living standard via the income generated from investments, (Wahid, 1994).

### 2.2.1.4 Diffusion Theory

The present study has also utilized the diffusion theory as propagated by Rogers (2003), a theory also referred to as the diffusion of innovations theory. This is a theory regarding the infusion of innovation, concepts, and technology via a philosophy or philosophies in cultures. The theory has been lengthily investigated by sociologists, researchers and anthropologists. Diffusion theory asserts that there are several constructs in diverse people that make them to admit or not an innovation. There are also several concepts of innovations that can make people to willingly accept them or to counterattack them (Rogers, 2003).

The diffusion theory is premised on five phases which encapsulate the process of adopting any innovation at whatever time. The first phase is knowledge, where a person becomes conscious of an innovation but has little to no information on it. Then the other succeeding phase is persuasion, where a person becomes vigorously interested in acquiring knowledge or the required information about the innovation. The third phase is decision, where the person considers keenly the merits and demerits of the innovation and decides if they will adopt or not.

Then there is the implementation phase, where the person really adopts and utilizes the innovation. Confirmation is the final phase where a final decision is made on whether to maintain the usage of the innovation with the use of personal experience from the previous interactions. These same phases apply, to fluctuating degrees, to groups of persons in addition to just individuals (Rogers, 2003; Levy, 2005).

In considering the adoption of financial services by SMEs, level of training, social cultural networks, development of business loans accessibility and nature of financial needs are some of the considerations hypothesized by this study to constitute the factors that affect the performance of SMEs.

### 2.2.2 SME Performance Models

A major method used to categorize the performance models of SMEs is by looking at their natures. there are basically two main categories of small business models the first being the firm growth models that measure performance in soft methods. Here, the model is concerned with the progression of firms from start to fully grown entities and the models are qualitative in description.

Bhide (2000) present the second category of business models that centers around performance predictions using a hard method of performance measurement. The models in this case is further sub-categorized into financial prediction theories of failure and the dynamic theories of firm performance. The models here are frequently in their nature, quantitative and allows for a ,ore robust viewpoints that offer better theoretical infiltration of the issue. There is also another way to look at firm performance models and that is via analytical perspectives.

**2.2.2.1 Firm Growth Models**

Growth models is about the fact that firms don't grow immediately and in a static manner but that the firms grow within a continuum of processes and phases (Bhide 2000). Additionally, the growth models are constituted in triune model subdivisions, namely: evolutionary models, life cycle models, together with business strategy models. For lifecycle, for instance, they differ in the sum of stages utilized to describe the life of a business. In a succinct illustration, Churchill and Lewis (1983) noted that small businesses, like the life of a locust, have five stages to describe their life.

The business strategy models, which is the third group of models, emphasize the necessity of regulations, rules, procedures and guidelines often at the expense of the progress of the said businessses (Bhide 2000). Further, the models are commonly utilized to evaluate bigger companies, but there is also the necessity to examine smaller businesses to offer robust strategic considerations (Griggs 2002). The Business Platform model is one example of a business strategy model that explains this phenomenon.

#### 2.2.2.2 Performance Prediction Models

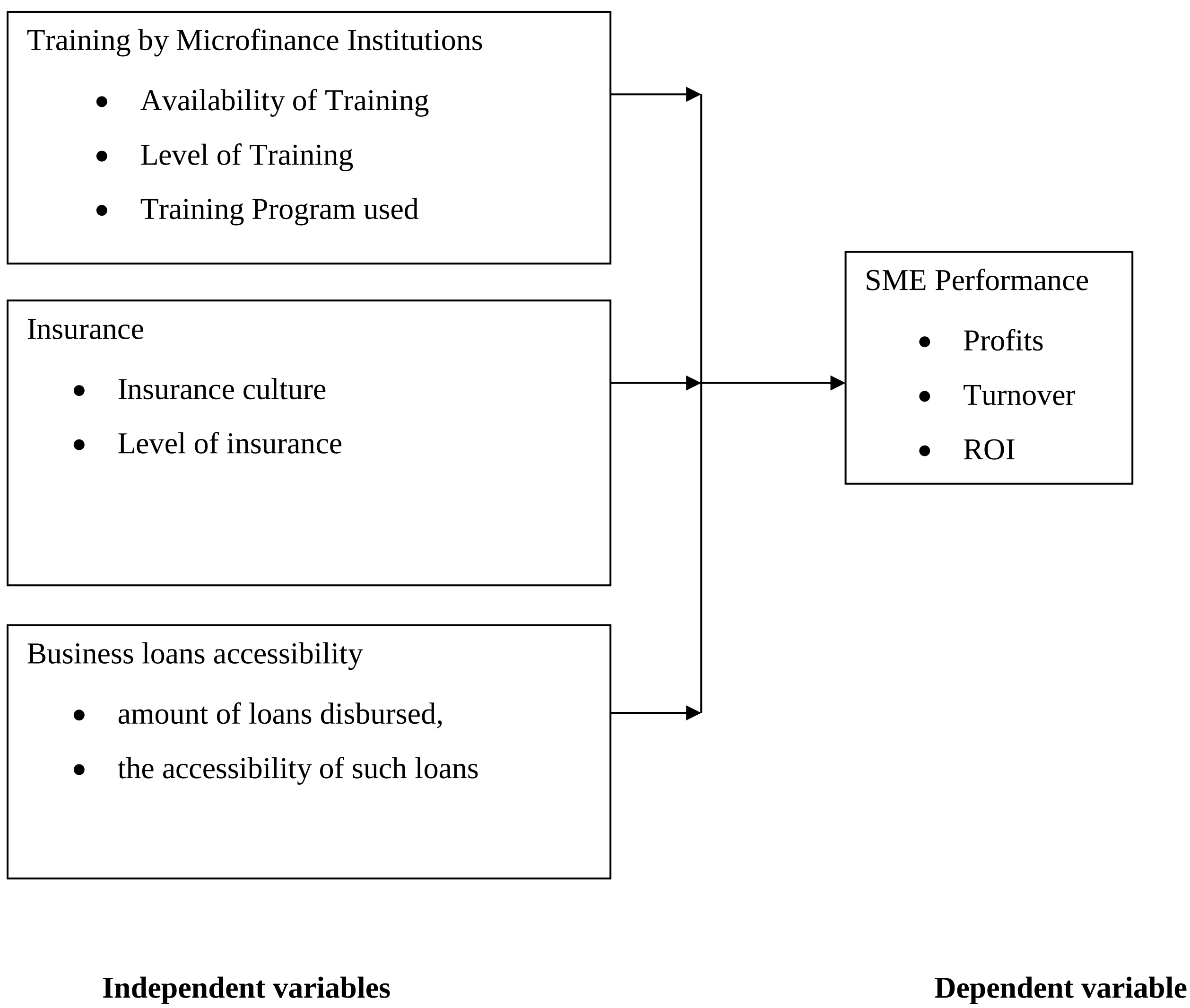
Performance prediction models is a dynamic model that is more concerned about two aspects: firm dynamics theories coupled with financial failure prediction models. Under firm dynamics, businesses are viewed within the auspices of entry and exit dynamics while the other is concerned with the actual tenets of forecasting firm performance overall. The initial subcategory is more troubled with external setting of the firm, in a smuch as the other category is more absorbed with setting internally of the business.

Namisi (2012) defined performance as the extent to which an organization is able to accomplish financial tasks against standard or expected outcomes or results. Linyiru. (2016) explained further that firm performance is understood by using Financial Ratio analysis, budget index or benchmarking or a combination of all measures. Otieno (2012) asserted that several studies categorized performance particularly in SMEs as either internal or external; where internal is exemplified by financial and non-financial variables while external is exemplified by competition, penetration, inflation, ownership, regulation and money supply; indicators that are ideally beyond the control of the firms (Kongiri, 2012).

## 2.3 Conceptual Framework

Kombo and Tromp (2006) citing Reichel and Ramey (1987) defines a conceptual framework as an illustrative link using diagrams of the connection between variables. In this study, the conceptual framework is developed in order to understand clearly the Link between the independent variables and the dependent variable.

**Figure 1: Conceptual framework**




### 2.4 Empirical Literature Review

As far as microcredit services are concerned, there are many studies on offer. Copstake, et.al (2000) in their descriptive review touching on microcredit and poverty in Zambia and targeting a population 233 staff found out certain aspects. First, they noted that microfinancing is a robust method that allows for a catalyst driven poverty alleviation among community members. Also, that, human capital is important if microfinance is to help persons get out of poverty.The study also noted that by and large those who engaged with microfinance institutions got out of poverty to the next stage of survival as compared to those who did not. However, the study was more on poverty than on the construct of SME performance and hence the present study will fill the gap.

Alarape (2007) on their explanatory review based on owners/managers of small business and the efficiency and growth of SMEs in Nigeria noted certain salient things in their descriptive and inferential analysis using both primary and secondary data. They observed that owners and managers of SMEs who got engaged in entrepreneurial training of some sort were better managers and their businesses showed better growth and efficiency as compared to those owners or managers that did not. The entrepreneurial training helped to shape up perspectives and drive up awareness on better practice for SMEs in the long run.

Nilsson (2010) in a study of Microfinance Institutions (MFI) and their impact of SME development in Cameroon looked at the aspect in the light of the theory of planned behavior in an elaborate descriptive review. The study noted that Microfinance Institutions were a strong and significant indicator of SME performance. The study noted that Microfinance Institutions were very important even to help companies that had struggles in return on investment, profitability and equity and that the Microfinance Institutions also helped start-ups and rebranding companies to compete. The study also noted that SMEs were not to be understood only as a conceptualized idea but as an integral part of market environment.

Bran and Woller (2010) looking explanatorily at the Microfinance sector in India highlighted six aspects that are necessary for the success of Microfinance in the country. In an elaborately hypothesized study using regression analysis, the study noted some salient issues. First, the study noted that Microfinance was a significant feature that scored among the top of the aspects as far as small businesses management was concerned. Other issues like talent retention, attraction, motivation and leadership also were ranked but appeared as determinants in the link between Microfinance and SME performance. This basically means that when an organization improves on capital injection, the performance of the organization in terms of operations is bound to improve. How true this last assertion is true for SMEs in Kenya remains significantly unknown and hence the need for the present study.

Olu (2009) did a descriptive study that was quantitative in nature to study microfinancing and growth of SMEs in Nigeria. The study had hypotheses that were later regressed and the study found out that microfinancing was very important and that organizational goals of successful companies and SMES were often hinged on microfinancing. The study also noted that there was need to have a training method that worked for SME staff development if the business was to progress to successful results. They noted that SMEs were profit-making entities as a result of their sizes. And yet, there is still lack of sufficient evidence as to the level of connection between microfinancing and SME performance.

Locally, Membaet. al, (2012) looked at venture capital aspect on growth of SMEs in Kenya and related it to general performance of SMEs engaged in the service business. The study particularly looked at these businesses using both quantitative and qualitative analytical techniques. The study sampled more than 300 respondents in an exhaustive review and noted that primarily, SMES in Kenya relied heavily on microfinancing to spur operational growth. The study also measured the SME growth using net assets, sales per annum, profit per annum, together with number of workers. There is however need to domesticate the study to the Kenyan situation.

Cooper (2012) did an elaborate review about both the impacts and notable influence of micro-finance options on SME growth levels in the urban parts of Kenya. The review got responses from

53 SMEs located in Nairobi Central Business District. The researcher made use of self-administered and developed questionnaire to collect data and later analyzed the data descriptively in a quantitative method. The study found out that SMEs majorly depended on microfinancing for their progress. In fact, a big number of analyzed SMEs used MFI capital and loans to spur their growth. Also, that the SMEs that had progressed to medium scale or even large-scale organizations did that on the back of MFI loans and help. Strict exemptions and regulations were however a common bottleneck to many SMEs. Also, lack of training was a major concern particularly for SME owners and managers in Nairobi. The study determined that microfinance services had a robust positive influence on the development of SMEs in Kenya. The study then recommended that there was a necessity to lessen the procedures for loan application and that the Kenyan government should offer an auspicious environment that will have MFIs thriving everywhere in the country.

On training Level, in many cases, education and training are taken to mean attending a school/institute. Kitainge (2009) defines training as the comprehensive exposure to opportunities and challenges in life aimed at achieving an all-round preparation of individuals for the challenges and roles awaiting them as members of the society. Similarly, training is viewed as a particular education towards a known goal. It is a focused education within the education and training system. Thus education and training entail the realization of certain individual and societal ideals within national and international perspectives (Kitainge, 2009). Kitainge measured training level in terms of the availability of training program on finance matters whether in-service or out-service; level of training on financial matters one had received whether advanced, intermediary or basic and the training program used. This was also supported by Omwenga*et al.* (2004), in his study on factors influencing level of training attainment of commercial bank staff in Nairobi.

On micro insurance, Bettman's (1998) theory of constructive institutional choice contends that a business frequently does not possess well-structured partialities when they make decisions and, in its place, they may construct them on the ground and immediately and as needed (Bettman, 1979). Additionally, he contends that consumers in the course of constructing their option preferences get from strong contextual influences the choice option. Contextual influences may be also be defined as *micro-insurance influences* (Briely and Aaker, 2006 cited in Jackson, undated) and *culture* is defined as including the knowledge, beliefs, art, morals, customs, language and habits and perceptions of the social environment shared by members of society (Triandis, 1972 cited in Jackson, undated). Thus Briely and Aaker, (2006) noted that SMEs saving culture, their opinion on where to bank, whether commercial, microfinance or through 'chamas' are important measurements.

Koech (2011) mentioned the number of microfinance institutions, the scope of services offered, the accessibility of such banks whether by extended opening hours or use of mobile banking as notable measures. From all these studies none of them have looked at the influence of microfinance services on SME performance particularly in entrant locations like Kajiado. Secondly, the studies that have been done have not considered variables of level of training, micro insurance and the development of MFI markets and how they influence performance of the SMEs. Finally, much of the studies have been done in areas where MFI and many of the SMEs are fully developed like Nairobi but this study will consider Kajiado that is a growing town.

**2.5 Summary of Literature**

Microfinance plays a very pivotal role in the growth of any country according to scholars of microfinance economics. Qian and Li (2008) asserted that significant studies have highlighted the three most significant roles that that microfinance plays in development. They mentioned that it aids poor households to meet their very basic needs while protecting them against risk. It is also linked to improved household economic welfare and is important in the empowerment of women in their engagement with business and other economic empowering ventures that would help spur gender equity. Qian and Li (2008) also elaborated the several ways that “microfinance, at its fundamental nature fights poverty”. Microfinance services have consequently helped Small and Medium enterprises to flourish (Oketch, 2000; Amyx, 2005). Small and medium-sized enterprises (SMEs) are critical and vibrant economic players impacting creatively the economies of nations. They have become a vital source of job creation and progression and they characterize the sources for future big corporations and companies. That said, the small and micro enterprises (SMEs) have a significant place in the Kenyan Economy and significant evidence supports this.

Amyx (2005), had notably observed that one of the most grievous hindrances to the performance of SMEs is lack of effective financial services that would elevate them to effective performance. In fact, AUSAID (2010) indicates that the said financial services have progressively been viewed as necessary for poverty alleviation and achievement within the auspices of the Millennium Development Goals. By borrowing or saving, SMEs can strategize on a better future that transcends just the short term. They can generate assets and capitalize in operative businesses and financial services can aid them to again sustain their businesses in tough economic times. Beyond this, adopting financial services is important to endorse social inclusion and generate self-confidence and empowerment, basically among women entrepreneurs.

Also, numerous studies have dealt with innovativeness in SMEs. However, few significant research as linked adoption of financial innovation and services from microfinance institutions to business performance particularly in developing countries like Kenya. Emphatically, there is a gap in empirical and conceptual studies of adoption of financial innovation and services and how it influences business performance among SMEs in Kenya. This study therefore hopes to determine influence of microfinance services on Small and Medium Enterprises performance. It will specifically consider the following research questions; What is the influence of microfinance financial training on SMEs Performance in Kajiado County? What is the influence of micro insurance on SMEs Performance in Kajiado County; and, what is the influence of business loans accessibility on SMEs Performance in Kajiado County.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

The succeeding portion highlights the research methodology under which the study was hinged and thus highlights the research design to data analysis and tools with sample, validity and reliability in between.

## 3.2 Research Design

The study was hinged on descriptive survey research design that is structured to analyze the happenings in the environment and investigate organizations in the settings within which they operate from (Kothari, 2014). Morris and Wood (1991) had asserted that the value of descriptive design is to get a broader understanding of factors, features, events and settings of the area under study. They further argued that the design is instrumental is getting answers to both the what and why questions while explaining also the how. The design also gives sufficient room for the coalescing of both the quantitative and qualitative data with their attendant data collection instruments. Quantitative analysis was used via questionnaires to gather numerical data that will designate the phenomena of adoption of microfinance institution services by SMEs.

## 3.3 Target Population

A research target population is about getting the entire collection of individuals who constitute the main focus of a scientific query. For this study, the 167 SMEs, with their 167 managers in Kajiado was targeted. The SMEs targeted were the ones that had less than 250 employees and a capitation of less than 500,000 kshs but also one that made a minimum turnover of 100,000kshs a month and had a minimum of 5 employees. Source: Kajiado County Business Registry (2016).

### 3.4 Census Method

The study employed census method to gather data from the entire population. Kothari (2004) advices that when the target population is manageable enough there is no need to sample and thus the entire population can be used. However, also, purposive sampling was used to select only the SMEs from the 167 who had less than 250 employees and a capitation of less than 500,000 kshs but also one that made a minimum turnover of 100,000kshs a month and had a minimum of 5 employees

### 3.5 Data Collection Instruments

The study used both quantitative and qualitative type of data. Quantitative data is a numerical measurement expressed not by means of a natural language description, but rather in terms of numbers. Qualitative data are measures of 'types' in a bid to ascertain the quality of something.

The study specifically used questionnaires as the primary data collection instrument; the questionnaires being structured in Likert scale with five points questionnaires to get the required information from the respondents. The questionnaire is the most suitable research tool as it permits the researcher to gather data from a large population with varied background; the findings keep on being confidential, saves valuable time and since they are in paper format presentation, there is limited opportunity for bias.

Document checklist was used to scrutinize financial documents of the SMEs over a period of two years. The documents will include financial statements and balance sheets together with other non-financial documents like performance appraisals to help measure performance.

### 3.6 Reliability of the Instruments

Here, Reliability is about the range to which the calculating instruments (questionnaires) that measure the variables offer results that are repeatable and dependable (Kothari, 2014). To thus ascertain the reliability of research instruments, pilot study to test for both was done in neighboring Nairobi County and target 7 SME owner/manager management staff; which is 10% of the target population; Kothari (2014) agrees with this percentage and the results thereof will help to streamline the instruments consistency. Consequently, the Cronbach's coefficient alpha model that gets the standard alpha coefficient formula classified the results and gave a significant figure result of 0.716 (Kothari 2014) and a reliable figure above 0.7 was accepted as a mark of high reliability.

### 3.7 Validity of the Instruments

Validity is about the level to which the measuring instruments (questionnaires) ascertain in measurement the exact and intended designations in the variables (Kothari, 2014). For the purposes of the present study, Content validity, is best as it shows the suitability of the samples in the instruments and considers the actual aspects that need to be measured in the present study. To therefore ascertain content validity, the research supervisor was used to check the instruments and advice on suitability or validity of the said instruments and feedback was used to revise the instruments accordingly.

### 3.8 Data Collection Procedure

Data collection began with the researcher obtaining a consent letter from the suitable Nairobi University Organs and authorities. Also, the National Commission of Science, Technology and Innovation (NACOSTI) organ was sought before embarking to the field. Then, the researcher with the assistance of research assistants booked appointments with the SME owner/managers and gave the questionnaires to them.

### 3.9 Data Analysis and Presentation

Firstly, quantitative data gotten from the instruments was classified then coded and later analyzed using descriptive statistics in the form of frequencies, percentages, means and standard deviations. The same was then presented in tables as they offer a suitable graphic representation of the results. Later, inferential statistics in the form of Pearson's Correlations and regressions was used to help test the Hypotheses at the 95% confidence level. The Social Package for Statistical science (SPSS) software version 20 was the computing tool to help in the analysis. Performance in this regard was measured by examining the profit margins of the SMEs, the Return on Investment and market share as financial measures. Microfinance services that would be considered as loans, deposits and other convenience services that lead effective financial training, micro insurance and attitudes of SME owners and management staff and the nature and scope of micro-business loans accessibility.

Linear Regression Model Formulae

$$Y_0 = \beta_0 + \beta_1 (X_1) + \beta_2 (X_2) + \beta_3 (X_3) + e$$

Here, the measurements are designated thus:

$Y_0$- Performance

$X_1$- Financial Training

$X_2$- Micro insurance

$X_3$- Business loans accessibility

e- Error term

# CHAPTER FOUR

# DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION OF FINDINGS

## 4.1 Introduction

This chapter presents an elaborate data analysis, its subsequent presentation and interpretation and contextualizes the results within the literature already reviewed. It is sectioned as follows; the response rate, the general characteristics, SME performance, the influence of microfinance financial training on SMEs Performance; the influence of micro insurance on SMEs Performance; and, the influence of business loans accessibility on SMEs Performance in Kajiado County, Kenya. It finally presents the correlation and regression analyses as selected analytical tools to test the hypotheses.

## 4.2 Response Rate

The study used purposive sampling to select only the SMEs from 167 total sample size who had less than 250 employees and a capitation of less than Kshs.500,000 but also one that made a minimum turnover of Kshs.100,000 a month and had a minimum of 5 employees. From this, only 75 SMEs were acquired and this corresponds to 100% of those SMEs that met the aforementioned criteria.

## 4.3 General characteristics of the Respondents

The study was concerned with determining the influence of microfinance services on Small and Medium Enterprises performance in Kajiado County. To clearly offer an analysis to answer the subsequent objectives accruing from the main purpose of the study, the respondents were asked about their demographic information. The results are henceforth presented.

### 4.3.1 Gender Distribution of Respondents

The SME owners/managers were asked about their gender characteristics and the results are as seen in Table 4.1.

**Table 4.1: Gender of Respondents**

| Category | Frequency | Percentage |
|---|---|---|
| Male | 41 | 54.1% |
| Female | 34 | 45.9% |
| **Total** | **75** | **100.0** |

The representation of the findings shown on the table 4.1 shows that 54.1% of the total respondents who participated in the study were male while 45.9% were female respondents. The results led to interpreting that most SMEs in Kajiado County had an almost equal presence of both genders a factor that Kamau (2010) agreed with when he noted that both genders by reason of the economic times presently are more inclined to engage in business in whatever form unlike the past where many businesses were male dominated. This also implies that both the reliability and credibility of the results would be positive considering that both genders would significantly offer their responses on the subject matter.

### 4.3.2 Age of Respondents

Age is an important demographic element in any study and as a result, the SME owners/managers were asked about their ages; see Table 4.2 for the results.

**Table 4.2: Age Distribution of Respondents**

| Category | Count | Percentage |
|---|---|---|
| 18-26 Years | 9 | 9.3% |
| 27-36 Years | 24 | 34.0% |
| 37-46 Years | 26 | 40.7% |
| 47-56 Years | 9 | 9.3% |
| Over 56 Years | 7 | 6.7% |
| Total | 75 | 100.0% |

From the results on ages as highlighted in Table 4.2 it is clear that majority at 40.7% were aged between 37 and 46 years, then closely followed by 34.0% who were aged between 27-36 years. The others were older, 46 years and above. This gives the suggestion that the SME owners/managers were mature and significantly able to thus comprehend and consequently canvass on issues to do with the influence of microfinance services on Small and Medium Enterprises performance in Kajiado County.

### 4.3.4 Highest Level of Education Attained

The presentation on table 4.3 addresses the highest level of education of respondents

**Table 4.3: Highest Level of Education Attained**

| Category | Frequency | Percentage |
|---|---|---|
| Secondary | 3 | 3.1% |
| Certificate | 27 | 37.3% |
| Diploma | 31 | 40.2% |
| 1st Degree | 14 | 19.4% |
| **Total** | **75** | **100.0** |

From Table 4.3, this finding indicates that a significant percentage at 40.2% were diploma holders then 37.3% had certificate followed by 19.4% with first degree and only 3.1% had secondary school certificates only. It can thus be established that this study comprised of adequately educated SME owners/managers going by the majority of the respondents with diploma education and above. This is ably supported by Prina (2011) who mentioned that in the event of the presence of educated respondents in a study, the question under study can be better understood and clearly elaborated with minimal ambiguity. The result here shows that issues of microfinance services were better understood and clearly elaborated with minimal ambiguity by the SME owners/managers by dint of their acceptable academic credentials which if put to better use would undoubtedly offer deep responses that are guided by reasoned action.

### 4.3.5 Work Experience

The work experience of respondents in this study was presented on table 4.4 as shown.

**Table 4.4: Work Experience of the Respondents**

| Category | Frequency | Percentage |
|---|---|---|
| < 2 years | 11 | 13.2% |
| 2-4 years | 21 | 27.1% |
| 5-7 years | 29 | 40.1% |
| Above 7 years | 14 | 19.6% |
| **Total** | **75** | **100.0%** |

The study as shown on table 4.4 establishes that majority at 40.1% of respondents had worked in the SME for between 5-7 years, 27.1% of them had worked for 2 to 4 years; 19.6% had worked for over 7 years and 13.2% of the respondents had worked in the SME for a period of 2 years and below. This result is important considering that the Kenyan Economic Survey report (2017) highlighted that majority of SMEs did not survive past 5 years. the results here show that many of the SMEs had survived past 5 years and their responses as to whether microfinance services had helped would be relevant.

### 4.4 Performance of SMEs

The construct of Small and Medium Enterprises performance made up the dependent variable. The results are as seen in Table 4.5

**Table 4.5: SME Performance**

| | Strongly Agree | | Agree | | Neutral | | Disagree | | Strongly Disagree | | Mean | StD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | F | % | F | % | F | % | F | % | F | % | | |
| We post an evidently high market share of averagely over 20% in the previous year | 4 | 6.1% | 10 | 13.2% | 4 | 8.0% | 31 | 41.2% | 26 | 31.5% | 2.80 | .75 |
| Our yearly profitability is above half a million mark or more | 1 | 0.3% | 3 | 4.3% | 14 | 19.2% | 47 | 63.1% | 10 | 13.7% | 2.18 | .87 |
| The SME owners are contented with the SME growth levels | 2 | 1.2% | 4 | 5.3% | 22 | 30.3% | 32 | 43.2% | 15 | 20.0% | 2.17 | .84 |
| Largely, the progress of the firm has been stable and significantly satisfactory | 4 | 8.0% | 2 | 1.2% | 3 | 5.7% | 44 | 51.3% | 25 | 33.7% | 2.19 | .72 |

From Table 4.6 it is evidently clear that majority 72.7% disagreed with the assertion that they posted an evidently high market share of averagely over 20% in the previous year. Further, 19.3% agreed and 8.0% were undecided on the matter. This is an indication that the SMEs were not big enough in terms of market share. The performance of small business fluctuates significantly to the extent that the chance for failure or success is always present. Due to their small size, a simple management error can as well be the death of any SME and is thus the reason to be strict with management and avoid simple but costly mistakes (Oketch, 2000).

On whether the yearly profitability was above half a million mark or more. Here, majority at 76.8% disagreed, 19.2% were neutral and 4.6% agreed. Therefore, this was an indication that SME was also not performing well in terms of profitability. Literature suggests that a truer mark of acceptable SME performance is high profitability. Also, it has been argued that poor planning, indecorous financing and management laxity have been postulated as the major grounds for letdown of enterprises that are small in size and capitation (Longenecker, *et al.*, 2006).

On whether the SME owners were contented with the SME growth levels; 63.2% disagreed, 30.3% were neutral and 6.5% agreed. The study implies that there is very minimal satisfaction of the SME performance by the owners and managers themselves due to indicators of profits, return on Investment and assets among others. This could be attributed to a large part to lack of capital. Amyx (2005), had notably observed that one of the most grievous hindrances to the performance of SMEs is lack of effective financial services that would elevate them to effective performance. In fact, AUSAID (2010) indicates that the said financial services have progressively been viewed as necessary for poverty alleviation and achievement within the auspices of the Millennium Development Goals. Finally, when asked if largely the progress of the firm had been stable and significantly satisfactory, majority at 85.0% disagreed, 9.2% agreed and 5.7% were undecided. This implies that the SME was not performing according to acceptable standards. Further, based on the results as stipulated in the mean and the standard deviations, all the responses showed valid and reliable results.

### 4.5 Influence of Microfinance Financial Training on SMEs Performance

The first objective sought to establish the influence of microfinance financial training on SMEs Performance. The results are as presented in table 4.6

**Table 4.6: Influence of Microfinance Financial Training on SMEs Performance**

| | Strongly Agree | | Agree | | Neutral | | Disagree | | Strongly Disagree | | Mean | StD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | F | % | F | % | F | % | F | % | F | % | | |
| I am trained by the microfinance institutions in good money management (e.g. setting financial goals, making and using a budget) which makes me interact well with financial institutions | 5 | 6.6% | 4 | 6.5% | 10 | 13.2% | 36 | 48.2% | 19 | 25.5% | 2.10 | .76 |
| I am well exposed to financial institutions and how they work based on systems and procedures | 3 | 3.9% | 5 | 6.6% | 10 | 13.2% | 24 | 33.2% | 32 | 43.1% | 2.77 | .77 |
| I am trained in savings and investments (entrepreneurial) skills which makes me interact well with financial institutions | 3 | 2.9% | 2 | 2.3% | 17 | 23.3% | 33 | 43.3% | 21 | 28.2% | 2.11 | .74 |
| There are workshops and seminars done for us to improve our understanding of financial services and its importance. | 7 | 9.2% | 4 | 6.5% | 11 | 15.1% | 37 | 49.1% | 15 | 20.0% | 2.19 | .72 |

Table 4.7 provides findings on whether the SME owners/managers were trained by the microfinance institutions in good money management (e.g. setting financial goals, making and using a budget) which made them interact well with financial institutions. On this, majority at 73.7% disagreed, 13.1% agreed and 13.2% were undecided. This is an indication that there was a lapse in training by the microfinance services for the SME owner/manager as far as SME management was concerned. Kitainge (2009) measured training level in terms of the availability of training program on finance matters whether in-service or out-service; level of training on financial matters one had received whether advanced, intermediary or basic and the training program used. He however argues that such training by microfinance service appears only on paper and is never actualized. This was also supported by Omwenga *et al.* (2014), in his study on factors influencing level of training attainment of commercial bank staff in Nairobi who noted that banks need to offer training services to SMEs as there is a significant gap there.

On whether the SME owners/managers were exposed to financial institutions and how they worked based on systems and procedures, 76.3% disagreed, 13.2% were neutral and 10.5% agreed. This implies that despite empowering SME owners/managers into a capital mindset, the microfinance institutions had not done enough to expose SME owners/managers with their systems and procedures for ease of awareness. Research augments the assertions noted variously by scholars that SMEs that get access to any financial services post better returns and performance indices than those that do not and also those that are trained and elaborately exposed to microfinance services post better returns (Westerberg and Wincent 2008, Qian and Li 2008).

On whether the SME owners/managers were trained in savings and investments (entrepreneurial) skills which made them interact well with financial institutions, 71.5% disagreed, 23.3% were neutral and 5.2% agreed. This again implies that the SME owners/managers were not sufficiently trained in entrepreneurial skills and this would be a reason for poor SME growth and performance. Karlan and Zinman (2013) mentioned that often most SMEs still have limited level of training to enable them adopt financial services through banks or other mediums. Finally, when asked whether there were workshops and seminars done for SMEs to improve their understanding of financial services and its importance**,** 69.1% disagreed, 15.1% were undecided and 15. 7% agreed. This was an indication that the microfinance institutions had not engaged SMEs in training.

### 4.6 Influence of Microfinance Insurance on SMEs Performance

The first objective sought to establish the influence of microfinance insurance on SMEs Performance. The results are as presented in Table 4.7

**Table 4.7: Microfinance Insurance and SME Performance**

| | Strongly Agree | | Agree | | Neutral | | Disagree | | Strongly Disagree | | Mean | StD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | F | % | F | % | F | % | F | % | F | % | | |
| I have an insurance cover for my business with an MFI | 9 | 12.2% | 1 | 1.2% | 21 | 28.3% | 19 | 26.1% | 24 | 32.2% | 3.10 | .96 |
| The insurance covers all the aspects of the business | 0 | 0.0% | 15 | 20.0% | 2 | 3.2% | 28 | 36.3% | 30 | 40.1% | 2.76 | .73 |
| I fear that my business may not be covered when I need the insurance | 21 | 27.7% | 50 | 67.2% | 1 | 1.2% | 0 | 0.0% | 3 | 4.9% | 1.11 | .64 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| I have gotten reimbursed from the insurance cover I have | 1 | 1.2% | 3 | 4.9% | 14 | 18.6% | 44 | 59.1% | 13 | 17.2% | 2.09 | .73 |
| The insurance cover is significant enough to help my small business | 4 | 5.1% | 1 | 1.2% | 22 | 36.1% | 17 | 21.2% | 28 | 41.0% | 2.14 | .76 |

Based on results from Table 4.7 on whether SMEs had an insurance cover with an MFI, 58.3% disagreed, 28.3% were neutral and 13.4% agreed. The result therefore indicates that a significant number of SMEs were not using the insurance services of microfinance institutions. On micro insurance, Bettman's (1998) theory of constructive institutional choice contends that a business frequently does not possess well-structured partialities when they make decisions and, in its place, they may construct them on the ground and immediately and as needed (Bettman, 1979). Additionally, he contends that consumers in the course of constructing their option preferences get from strong contextual influences the choice option. Contextual influences may be also be defined as *micro-insurance influences* (Briely and Aaker, 2006 cited in Jackson, undated).

On whether the insurance covered all the aspects of the business, 76.4% disagreed, 20.0% agreed and 3.2% were neutral. This again speaks to the low uptake of insurance from MFIs by the SMEs. Yet, there is need for the SMEs to engage with the insurance services from the MFIs. Mead (2008) asserted that there exists a symbiotic and a direct, proportionally advancing relationship between the health of a country's economy and the essentials of micro and small enterprise sector. In the event that the nature of the macro economy is less than favorable, by contrast, prospects for profitable employment growth in SMEs become limited

When asked whether the SME owners/managers feared that their businesses may not be covered when the insurance was, 94.8% agreed and 4.9% disagreed. This attitude of fear seems to permeate the SME management and operations. This is also agreed to in literature with Mayne (2009) arguing that managers together with staff are more inclined fear insurance covers and that proactive MFIs must engage in robust training and information sharing to provide security and a sense of hope.

On whether SMEs had gotten reimbursed from the insurance cover they had, 76.3% disagreed, 18.6% were neutral and 5.2% agreed. This again implies that there was a lapse in MFI insurance service for SMEs. Finally, when asked if, the insurance cover was significant enough to help small business, slightly less than half at 45.1% disagreed, 36.1% were undecided and 21.6% agreed. This implies that MFI insurance covers was not as effective as they ought to be. This is agreed to in literature. Past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2011). While there are various reasons for such failure, one central reason attributed by researchers like Damanpour *et al*, (2009) is lack of proactive and sustainable adoption of financial services Loan Accessibility s like insurance. It should be noted that all the variables and results here are reliable based on the significant difference between the mean and standard deviation results.

**4.7 Influence of Microfinance Loan Accessibility on SMEs Performance**

The first objective sought to establish the influence of microfinance loan accessibility on SMEs Performance. The results are as presented in Table 4.8:

**Table 4.8: Loan Accessibility and SME performance**

| | Strongly Agree | | Agree | | Neutral | | Disagree | | Strongly Disagree | | Mean | StD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | F | % | F | % | F | % | F | % | F | % | | |
| My SME needs capital to improve | 31 | 41.2% | 26 | 31.5% | 5 | 8.0% | 10 | 13.2% | 4 | 6.1% | 2.60 | .71 |
| I have requested for a loan from an MFI | 10 | 13.7% | 47 | 63.1% | 14 | 19.2% | 3 | 4.3% | 1 | 0.3% | 2.08 | .77 |
| I have not received a loan from an MFI | 15 | 20.0% | 33 | 43.2% | 22 | 30.3% | 4 | 5.3% | 2 | 1.2% | 2.87 | 1.84 |
| Overall, I can say that getting loans from the MFI is easy | 9 | 12.2% | 1 | 1.2% | 21 | 28.3% | 19 | 26.1% | 24 | 32.2% | 3.19 | .98 |
| There are not many regulations needed for an SME to get a loan from an MFI | 0 | 0.0% | 15 | 20.0% | 2 | 3.2% | 28 | 36.3% | 30 | 40.1% | 2.72 | .63 |
| The interest rate is high which discourages accessing loans from the MFI | 21 | 27.7% | 50 | 67.2% | 1 | 1.2% | 0 | 0.0% | 3 | 4.9% | .81 | .63 |
| The security required is expensive which discourages accessing loans from the MFI | 13 | 17.2% | 44 | 59.1% | 14 | 18.6% | 1 | 1.2% | 3 | 4.9% | 2.19 | .74 |
| Overall, there is lack of business loan accessibility from MFIs | 17 | 21.1% | 28 | 41.0% | 22 | 36.1% | 4 | 5.1% | 1 | 1.2% | 2.14 | .76 |

From Table 4.8 it is evidently clear that majority 72.7% agreed with the assertion SME needed capital to improve. Further, 19.3% disagreed and 8.0% were undecided on the matter. This is an indication that SME owners/managers were of the opinion that they needed cash to survive. This agrees with Bran and Woller (2010) who noted that when an organization improves on capital injection, the performance of the organization in terms of operations is bound to improve.

On whether the SMEs had asked for loans from MFis, majority at 76.8% agreed, 19.2% were neutral and 4.6% disagreed. Therefore, this was an indication that The SMEs having appreciated the need for capital had gone a step further and asked for loans from MFIs. Membaet. al, (2012) looked at venture capital aspect on growth of SMEs in Kenya and related it to general performance of SMEs engaged in the service business and noted that loans were necessary for SMEs to improve aspects of net assets, sales per annum, profit per annum, together with number of workers.

On whether they had received a loan from an MFI which had helped the business; 63.2% agreed, 30.3% were neutral and 6.5% were undecided. The study implies that many of the SMEs had not received any loan as applied. This is agreed to in literature. Amyx (2005), had notably observed that one of the most grievous hindrances to the performance of SMEs is lack of effective financial services that would elevate them to effective performance. In fact, AUSAID (2010) indicates that the said financial services have progressively been viewed as necessary for poverty alleviation and achievement within the auspices of the Millennium Development Goals. By borrowing or saving, SMEs can strategize on a better future that transcends just the short term. They can generate assets and capitalize in operative businesses and financial services can aid them to again sustain their businesses in tough economic times.

Based on results again, on whether the SMEs felt getting loans was easy, 58.3% disagreed, 28.3% were neutral and 13.4% agreed. Also, the results show that security and interest rates were high which finally hampered loan accessibility by SMEs. The result therefore indicates that a significant number of SMEs had had problems accessing loans inasmuch as many applied. This is in line with some notable literature that shows that in Sub-Saharan Africa, adoption of elementary banking options among SMEs still is imperfect and barricaded, and is still behind the established and developed nations (Chaia et al. 2009). Kendall et al. (2014) in an elaborate study enumerated via a host of data that estimated that just 20% of SMEs in Sub-Saharan Africa had full interaction and engagement with financial services in the late 2000s and that this figure was exponentially rising in subsequent years.

### 4.8 Correlations analysis for SMEs.

Pearson's Correlation analysis was designed and later measured for SMEs and the results presented in table 4.9.

**Table 4.9: Correlation Analysis for SMEs**

| | | SME Performance | MFI insurance | Loan accessibility | Training |
|---|---|---|---|---|---|
| SME Performance | Pearson Correlation | 1 | | | |
| | Sig. (2-tailed) | | | | |
| | N | 75 | | | |
| MFI insurance | Pearson Correlation | .638** | 1 | | |
| | Sig. (2-tailed) | .000 | | | |
| | N | 75 | 75 | | |
| Loan Accessibility | Pearson Correlation | .686** | 434** | 1 | |
| | Sig. (2-tailed) | .001 | .001 | | |
| | N | 75 | 75 | 75 | |
| Training | Pearson Correlation | .729** | .415** | .395 | 1 |
| | Sig. (2-tailed) | .000 | .005 | .011 | |
| | N | 75 | 75 | 75 | 75 |

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

Wong and Hiew (2005) had asserted in their seminal work that there were certain limits to deliberate on when one is inferring on the correlation coefficient value *(r)* and they asserted that a score of 0.10 to 0.29 is weak, 0.30 to 0.49 is medium and finally 0.50 to 1.0 is significantly strong. Nevertheless, Field (2005) in his study extended the Wong and Hiew assertion by noting that the coefficient should not go beyond 0.8 to avoid multicollinearity hiccups. Therefore, in the present study the correlation coefficient is 0.729 which does not exceed 0.8 and thus presents no multicollinearity issues (Table 4.9).

From table 4.9, all the independent variables (MFI insurance, Loan Accessibility and training and development) had a positive relationship with SME Performance. Training had the highest correlation ($r=0.729$, $p< 0.00$), followed by loan accessibility ($r=0.686$, $p< 0.00$) and finally MFI insurance had the least correlation with SME Performance ($r=0.638$, $p< 0.01$). This implied that MFI insurance, Loan Accessibility and training have a positive relationship with SME Performance in Kajiado County.

### 4.10 Regression Analysis

Regression analysis is applied when the study intends to measure the scores that is found in quantitative data and can also be used to test the hypotheses. Consequently, this study used regression to do all the required calculations as seen in Table 4.10, 4.11. 4.12 and 4.13.

**Table 4.10: Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .863[a] | .736 | .632 | .135 |

a. Predictors: (Constant), microfinance financial training, micro insurance, loans accessibility

b. Dependent Variable: Performance of SME

Table 4.10 highlights the score for the R value at .863 which shows that, bearing in mind the positive nature of the value, that the results of the regression analysis shows a positive direction of the correlation relationship between observed value and the predicted value that is shown by the dependent variable. Also, the $R^2$ value score of 0.632 ca be interpreted as showing that 63.2% of the dependent variable measure (SME performance) is predicted by the IVs (microfinance financial training, micro insurance, loans accessibility).

**Table 4.11: ANOVA[b]**

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 234.831 | 4 | 49.166 | 69.321 | .000[a] |
| | Residual | 12.713 | 229 | .783 | | |
| | Total | 247.544 | 233 | | | |

a. Predictors: (Constant), microfinance financial training, micro insurance, loans accessibility

b. Dependent Variable Performance of SME

The F-statistics shows a score of 69.321 showing that the regression model shows goodness of fit acceptable for the present study at 5 per cent level (Sig. F< 0.05), and thus there appears to be a statistically significant relationship between microfinance financial training, micro insurance, loans accessibility and Performance of SME.

**Table 4.12: Coefficients**

| | | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|---|
| Model | | B | Std. Error | Beta | t | Sig. |
| 1 | (Constant) | 2.700 | .367 | .278 | 5.728 | .000 |
| | Financial Training | .399 | .091 | .378 | 4.778 | .000 |
| | MFI Insurance | .288 | .077 | .281 | 3.246 | .000 |
| | Loan Accessibility | .332 | .081 | .319 | 4.432 | .000 |

a. Dependent Variable: Performance of SME

The t-value of constant highlighted here ($t = 5.728$) was significant at .000 per cent level (Sig. $F < 0.05$), this then means that the regression model was acceptably fit and thus all the IVs measured, that is, microfinance financial training, micro insurance, loans accessibility had a statistically positive influence on SME performance. The regressed results are supported in literature as Banerjee et al (2010) asserted that adoption of microfinance when motivated portends positive results for small businesses and this is supported by Crépon et al (2011) who also noted that in India the saving culture is a reason for business growth. Ruiz, (2010) in a study in Mexico also noted that access to loans by small businesses was a measure of how far the business would go in the long run. Another experiment of the same caliber done in Nepal, Prina (2011) also showed significant impacts of increasing access and cultivating adoption of financial services to savings option for women entrepreneurs.

Consequently, all the hypotheses are hereby rejected based on the results.

**Table 4.13: Hypothesis Testing Summary**

| Hypothesis | Correlation Results | Regression Results | Comments |
|---|---|---|---|
| $H_{01}$ Microfinance financial training does not have a significant influence on SMEs Performance in Kajiado County | r=0.638 | $\beta_1 = .378$ | Rejected |
| $H_{02}$: Microfinance insurance does not have a significant influence on SMEs Performance in Kajiado County | r=0.686 | $\beta_2 = .281$ | Rejected |
| $H_{03}$: Microfinance loan accessibility does not have a significant influence on SMEs Performance in Kajiado County | r=0.729 | $\beta_4 = .319$ | Rejected |

# CHAPTER FIVE

# SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This section presents the summary of findings, the conclusions thereof and the recommendations together with suggestions for further review.

## 5.2 Summary of Findings

Based on the first objective, on whether the SME owners/managers were trained by the microfinance institutions in good money management (e.g. setting financial goals, making and using a budget) which made them interact well with financial institutions. On this, majority at 73.7% disagreed. On whether the SME owners/managers were exposed to financial institutions and how they worked based on systems and procedures, 76.3% disagreed. On whether the SME owners/managers were trained in savings and investments (entrepreneurial) skills which made them interact well with financial institutions, 71.5% disagreed. Finally, when asked whether there were workshops and seminars done for SMEs to improve their understanding of financial services and its importance**,** 69.1% disagreed

Based on the second objective, on whether SMEs had an insurance cover with an MFI, 58.3% disagreed. On whether the insurance covered all the aspects of the business, 76.4% disagreed. When asked whether the SME owners/managers feared that their businesses may not be covered when the insurance was, 94.8% agreed. On whether SMEs had gotten reimbursed from the insurance cover they had, 76.3% disagreed. Finally, when asked if, the insurance cover was significant enough to help small business, slightly less than half at 45.1% disagreed

Based on the third objective, it is evidently clear that majority 72.7% agreed with the assertion SME needed capital to improve. On whether the SMEs had asked for loans from MFis, majority at 76.8% agreed. On whether they had received a loan from an MFI which had helped the business; 63.2% agreed. Based on results again, on whether the SMEs felt getting loans was easy, 58.3% disagreed, 28.3% were neutral and 13.4% agreed. Also, the results show that security and interest rates were high which finally hampered loan accessibility by SMEs

### 5.3 Conclusions

Based on the first objective, the SME owners/managers were not trained by the microfinance institutions in good money management (e.g. setting financial goals, making and using a budget) which made them interact well with financial institutions. Also, they were not exposed to financial institutions and how they worked based on systems and procedures and were also not trained in savings and investments (entrepreneurial) skills which made them interact well with financial institutions. Finally, there were no workshops and seminars done for SMEs to improve their understanding of financial services and its importance. It can thus be concluded that lack of financial training by microfinance institutions had a negative influence on performance of SMEs in Kajiado County.

Based on the second objective, SMEs had no insurance cover with an MFI and the SME owners/managers feared that their businesses may not be covered when the insurance was required. Also, some SMEs had not gotten reimbursed from the insurance cover they had and basically the insurance cover was not significant enough to help small business. It can thus be concluded that lack of micro insurance by microfinance institutions had a negative influence on performance of SMEs in Kajiado County.

Based on the third objective, SME needed capital to improve and many had asked for loans from MFis, However, few had received a loan from an MFI which had helped the business. The SMEs felt getting loans was difficult. Also, security and interest rates were high which finally hampered loan accessibility by SMEs. It can thus be concluded that lack of loan accessibility had a negative influence on performance of SMEs in Kajiado County.

## 5.4 Recommendations

The microfinance institutions' management need to engage in robust seminars and workshops in order to train SME owners/managers on effective SME management. This will help the SMEs to be empowered in financial management for potential growth of the SMEs. The SME owners/managers should on their own acquire training to help them manage their businesses better.

The microfinance institutions' management need to diversify their insurance portfolio to cover a wider scope of SME needs and operations. They also need to advertise and engage in robust information sharing about their micro insurance products to get more SMEs on Board.

The microfinance institutions' management need to demystify and strategize loan accessibility issues by reducing bottlenecks for SMEs and easing security needed to access loans.

The Government need to recalibrate existing policy that touch on loaning to SMEs to make it easy for SMEs to access loans, get trained better and overall manage their SMEs better.

## 5.5 Recommendations for Further Studies

The study recommends that further studies look at factors affecting the financial performance of SMEs and consider the SME management, recording keeping and technology adoption issues.

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# APPENDICES

## APPENDIX I: QUESTIONNAIRE

Q/No:…………….

This questionnaire is given to you so as to help the researcher get information about the influence of microfinance services on SMEs performance in Kajiado. Please as an informant complete all the questions to the best of your ability. The data received was treated considering all ethical considerations of anonymity, confidentiality, privacy and integrity.

### PART ONE-DEMOGRAPHIC DATA

1. Describe the Gender you in?

   Male ( ) Female ( )

2. Describe the Age you are in?

   [ ] 19-26 years [ ] 27-36 years [ ] 37-46 years

   [ ] 47-56years [ ] Over 56 Years

3. Describe the level of education you have?

   [ ] None [ ] KCSE [ ] Certificate [ ] Diploma [ ] Degree [ ] Post graduate

4. How many years have you owned/managed the SME?

   [ ] Below 2 [ ] 2-4

   [ ] 5 -7 [ ] 7, and above

### PART B- SMEs Performance

5. Please show the degree of agreement (by ticking [√]) with the following assertions. The Scale value is designated thus;

| | Strongly agree | Agree | Undecided | Disagree | Strongly Disagree |
|---|---|---|---|---|---|
| We post an evidently high market share of averagely over 20% in the previous year | | | | | |
| Our yearly profitability is above half a million mark or more | | | | | |
| The SME owners are contented with the SME growth levels | | | | | |
| Largely, the progress of the firm has been stable and significantly satisfactory | | | | | |

6. What are other business performance issues at your SME that must be added?

……………………………………………………………………………………………………

| PART C - FINANCIAL TRAINING | | | | | | |
|---|---|---|---|---|---|---|
| **8** | **To what extent do you agree with the following statements** | **Strongly agree** | **Agree** | **Uncertain** | **Disagree** | **Strongly disagree** |
| | I am trained by the microfinance institutions in good money management (e.g. setting financial goals, making and using a budget) which makes me interact well with financial institutions | | | | | |
| | I am well exposed to financial institutions and how they work based on systems and procedures | | | | | |
| | I am trained in savings and investments (entrepreneurial) skills which makes me interact well with financial institutions | | | | | |
| | There are workshops and seminars done for us to improve our understanding of financial services and its importance. | | | | | |

| PART D - MICRO INSURANCE | | | | | | |
|---|---|---|---|---|---|---|
| **9** | **To what extent do the following factors affect your use of microfinance services** | **No Extent At all** | **Less Extent** | **Some Extent** | **Large Extent** | **Very Large Extent** |
| | I have an insurance cover for my business with an MFI | | | | | |
| | The insurance covers all the aspects of the business | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | I fear that my business may not be covered when I need the insurance | | | | | |
| | I have gotten reimbursed from the insurance cover I have | | | | | |
| | The insurance cover is significant enough to help my small business | | | | | |
| **PART E –BUSINESS LOANS ACCESSIBILITY** | | | | | | |
| **10** | **To what extent do you agree with the following statements** | **Strongly agree** | **Agree** | **Uncertain** | **Disagree** | **Strongly disagree** |
| | My SME needs capital to improve | | | | | |
| | I have requested for a loan from an MFI | | | | | |
| | I have received a loan from an MFI which has helped my Business | | | | | |
| | Overall, I can say that getting loans from the MFI is easy | | | | | |
| | There are many regulations needed for an SME to get a loan from an MFI | | | | | |
| | The interest rate is high which discourages accessing loans from the MFI | | | | | |
| | The security required is expensive which discourages accessing loans from the MFI | | | | | |
| | Overall, there is lack of business loan accessibility from MFIs which hampers the performance of my SME. | | | | | |
| **PART F - CHALLENGES** | | | | | | |

| |
|---|
| **11**. What challenges do you face as far as microfinance services accessibility is concerned<br><br>a) ________________________________________<br><br>b) ________________________________________ |
| **PART G - SUGGESTIONS** |
| **12.** In your opinion, suggest how the challenges highlighted above may be overcome<br><br>1.________________________________________<br><br>2.________________________________________ |
| **-End-** |