

**FACTORS AFFECTING THE PERFORMANCE OF ISLAMIC
SMALL AND MEDIUM ENTERPRISES IN EASTLEIGH BUSINESS
DISTRICT, NAIROBI COUNTY, KENYA**

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DECLARATION

This research project is my original work and to the best of my knowledge has not been presented in any institution or university for academic purpose(s).

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

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DEDICATION

To my parents and my entire family for their unending dedication and commitment in my education

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LIST OF ABBREVIATION

AMA –	Advanced Measurement Approach
BIA –	Basic Indicator Approach
GDP-	Gross Domestic Product
NBC –	National Bank of Commerce
NMB -	National Microfinance Bank
NPLs –	Non –Performing Loans
SMEs –	Small and Medium Enterprises
ROA -	Return on Assets
ROE -	Return on Equity

ABSTRACT

Business operating environment is characterized by dynamism that calls for constant adjustments of all business functions, strategies and alignment of the same to ensure sustainable growth of these organizations. Despite these changes, SMEs, in an attempt to remain competitive in this kind of environment have opted to applying various strategies to ensure that they are not pushed out of business by their competitors and larger-sized firms. To ascertain the determining factors of the performance of Islamic SMEs in Eastleigh is a Nairobi County's environ situated East of Central Business District (CBD) and in Kamukunji Constituency. The study population embroiled all Islamic SMEs in Eastleigh which are 1000 enterprises. The researcher piled up a record of all the SMEs and the most suitable SMEs were picked for the study. The sample size that embroiled 91 respondents was utilized in the research. Secondary data on the performance of SMEs for financial years 2012-2017 was be obtained from the financial statements. The study similarly utilized on primary data sourced by way of semi-structured questionnaire with open as well as closed ended questions. It was grounded on a 5-point Likert scale which was utilized to measure answers on questionnaire elements. The findings from research demonstrated a positive association between the aspects and performance. Sharia compliance index (SCI) had a correlation of 0.545 with ROA. Access to Islamic financial products (ATF) had a correlation of 0.646 while SIZE had a correlation of 0.684. The relationships are both significant at a significant level less than 5%.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Presently, several new generations bear a concept to create certain new ventures even if it is merely an undersized enterprise in the market. The source of money put into it is among the essential aspects to be borne in mind when establishing a new venture. The funds ought to be taken into account by businessperson to grow or boost certain enterprises either in new venture or a current one in the market in order to considerably impinge on the economy. An entrepreneur could possibly use a number of instruments to fund the enterprise. Among the instruments that small entrepreneur utilize embroil microcredit initiatives either in traditional or Islamic establishments. SMEs bear a share in several nations across the globe. SMEs are essential pertaining to entrepreneurial abilities, novelty as well as job creation (Kinyua, 2014). World Bank Group (2015) affirm that prescribed SMEs constitute 45% overall employment as well as 33% Gross Domestic Product (GDP) in developing nations.

World Bank Group (2015) note that there exist nearly 365-445 million with 285-345 million entailing informal ventures. A remarkable upsurge has been observed in SMEs stake in Kenya's GDP from 13% over the last few decades and presently nearly 25% constituting more than 85% job openings. Kenya is the most developed nation in East African region with industrial segment making up 14% of the region's of GDP (World Bank, 2016). Although SMEs offer ways out to numerous economic glitches, they similarly encounter problems that impede their growth. Among the key issues entail obtainability of

funds; Ryan et al (2014) pointed out SMEs' inhibited access to external funds with financial establishments constraining financing to them relative to outsized businesses. Eniola & Entebang (2015) ascertained that detrimental policies of the government impinged adversely on SMEs performance with declining provision of overall lending by commercial as well as commercial financial corporations to SMEs.

Islamic finance essential in fostering improvement of financial sector and extends financial inclusion. Through widening of the choice as well as access to financial instruments, Islamic finance is essential in enhancing financial access as well as promote the inclusion of those underprivileged with regards to financial services. Bank loaning to SMEs appears to be designed for Islamic banking undertakings hinged on relationship loaning rather than more traditional kinds of loan funding. A major competitive significance of this concept is purely cost benefit owing to cut evaluation costs. Though, the type of the contract could similarly give prospects for improved growth as well as extra quality benefit hinged on the keeping of collateral, superior managerial knowledge as well as lessened information disproportionateness. Islamic banking as well as utilization Islamic financial instruments has substantially seen growth in the past few years. A wholesome cost benefit ought to offer Islamic banks a position in the marketplace for providing SMEs with credit. An extra quality benefit implies that this benefit could possibly be more powerful because the market stake of Islamic banks may possibly upsurge considerably in norm taking the entire marketplace (Shaban, Duygun, & Fry, 2016)

Eastleigh is a well-known business hub in Nairobi County, Kenya. It's located in Kamukunji Constituency, East of Central Business District. Just like other SMEs in Kenya, SMEs in Eastleigh face challenges like inadequate resources, fast changes in technology and access to finance but the operating environment have been made more challenging due to increase in insecurity caused by terror attacks, decline in customers due to fear, poor waste management, pollution, bad roads and cut throat competition.

1.1.1 Factors Affecting Islamic Small and Medium Enterprises

SMEs in the entire globe, particularly in emerging economies are encountering several problems, and obtainability of formal funding is among the key hindrances they encounter. Consistent with the IFC study, nearly 45 to 55 % of the prescribed SMEs in the developing economies are not able to formally obtain credit notwithstanding them requiring it (International Islamic Financial Centre, 2016). The funding gap widens in view of the SMEs, additionally, nearly 55-68 % of SMEs in emerging economies are either financially under-funded or not totally funded, leading to mislaid prospect to attain their maximum capability (World Bank Group & Islamic Development Bank, 2015).

Obtainability of funds is a universal issue that ought to be tackled more comprehensively by numerous linked organizations. The worldwide problem could possibly be handled by way of inventive as well as varied financial instruments provision. With regards to inventive as well as varied funding sources for SMEs as well as MSMEs, single prospect is to outline the power and possibility of sharing funding for instance Islamic finance.

Numerous socio-economic instruments that could be also exploited by Islamic finance embroil; waqf, zakat as well as qard al-hassan (generous loan) together with socio-economic financial products developed to offer financial aid to the underprivileged for instance Shariah-compliant SMEs (International Islamic Financial Centre, 2016).

The concept of Islamic banking and finance is normally viewed from the perspective of the proscription of gharar (uncertainty) and liberty of contract. As stated by shariah, gharar is any aspect of gamble comprising disproportionate information, ambiguity, risk or even conjecture resulting in unlawful profits, for instance is disqualified by the religious and accordingly by the worldly percepts of Islam. Islam provides complete liberty of contracts to economic go-betweens provided the subsequent contract is within the limits stipulated by shariah that majorly dismiss riba (interest) and gharar. Given the liberty of contracts as well as the knowledge of gharar, Islam is completely aware of risk resulting from financial as well as commercial aspects extrinsic to business formation. Amongst the Islamic financing approaches as well as financial products that encompass risks are murabahah, mudharaba, as well as musharakah. In traditional banks, depositors have a predetermined entitlement upon the assets of the bank, as per fixed interest rates alongside their capital return. The traditional bank hence ought to service its debts to depositors regardless of its definite effectiveness (realized profit). Thus, any improbability in the revenue streams created by as well as adjustment in the bank's assets value is shouldered by the stakeholders only. Contrary, Islamic banks, are regulated on the norm of risk sharing. This relates to the fund sources and could similarly relate to the fund uses. Pertaining to mudharabah, profit sharing investment account holders (in form of traditional interest bearing bank deposit

accounts) are basically shareholders having a kind of restricted term equity investment. Their ROI in the bank is undefined, as they share in the bank's profit beside the stockholders. This similarly subjects the investment account bearers to the risk of misplacing some or all of their first investment.

Islamic finance focus attention on partnership-style financing, that can be essential in enhancing financial access for the underprivileged as well as undersized enterprises. It could as well enable enhancement of agricultural finance, resulting in enhanced food security. Incidentally, Islamic finance is essential in meeting the needs of individuals who presently are not using traditional finance owing to religious explanations. Among nearly the 1.6 billion Muslims worldwide, merely 14% make use of banks. It could aid in reducing the whole gap in financial access, as non-Muslims are not forbidden from making use of Islamic financial facilities. Though, the Islamic financial structure, functioning beside the traditional sector, is similarly subjected to generally similar universal risk aspects as well as unpredictability as its traditional counterpart, notwithstanding its continued growth impetus.

1.1.2 Islamic Small and Medium Enterprises

The definition of the Islamic SMEs is actually an idea and perspective from Islamic point of view on the firm and enterprise. Most of the Islamic scholars agree that Islam and business are inter-related. In Al-Quran has mention on the relation of Islam and business which focus on the ethics, roles, responsibility, prohibition and benefit. One of the example is from Huda (2012) "Allah prohibit riba and permissible trading" Based on Sarker and

Awal (1999), firm from Islamic context have two objective which is work for the falah or known as welfare obligation and at the same time looking on the profit maximization.

The term Small and medium enterprises (SMEs) embroils several definitions, that vary in relation to aspects for instance nation's geographic area, development level and enterprise culture. Even within nations, meanings could differ. The precise needs as well as setting of their program portfolios usually determine such meanings. Numerous standards applied to describe SMEs, for instance the workers number, annual sales, asset size, or annual productivity (Elasrag, 2010). SMEs are commonly acknowledged as the economy drivers and the major GDP contributors worldwide, comprising those nations in Africa as well as East Africa region particularly Kenya. These enterprises create job prospects for both skilled as well as unskilled individual. Though, market situations for instance stringent processes in accessing credit facilities from banks as well as monitoring environments are not usually foster their growth, hence becoming the major hitches they encounter.

Several SMEs are undersized ventures having below 10 workers, whereas 70% of them are a single individual, own account labor force. This implies several SMEs businesspersons operate below the economy, with a substantial proportion constituting the 53% of Kenyans living below the poverty line and are basically for survival and do economically collegial undertakings in town as well as countryside (Kihonge, 2014).

Approximately 60-70% of the businesses in Nairobi are SMEs. The growths of SMEs business are thereby mainly dependent on lending or financing offered by commercial

banks that exist in the city. Although these have had an impact on the SME growths, more and more business has been dwindling downwards due to exorbitant interest rates that have locked out many business. Some businesses also collapsed due to unfavorable market conditions. Other condition such as complex credit procedures, provisions of collaterals for facilities to be borrowed has been the hindrances for SMEs to accesses financing.

1.1.3 Small and Medium Sized Enterprises in Eastleigh

Eastleigh is a environ of Nairobi County, Kenya situated East of Central Business District and in Kamukunji Constituency. In Eastleigh one can find almost anything money can buy and at a cheaper price making it one of the most well-known markets in Kenya. Eastleigh has a few large enterprises but many small and medium sized enterprises, the enterprises ranges from: retail stores varying between small-scale vending on streets and big shopping malls, medical clinics and hospitals, transport companies, insurance companies, import and export businesses, property agents forex exchange, supermarkets, night lodges, hotels and restaurants, small and large wholesalers and pharmaceuticals among others.

SMEs in Eastleigh serve most of East and Central Africa with traders and customers coming from as far as Tanzania, Ghana, Burundi and Rwanda. It's estimated that businesses make over \$100 million dollars a month and contributes close to 25% of tax revenue collected by Nairobi County this is because of the large number of SMEs enterprises operating in the area. According to Wehliye (2014) Crisis Group's Horn of Africa Project Director estimates the Somali owned businesses in Eastleigh bring in an nearly \$780 million annually in foreign currency to Kenya's national treasury.

Despite of the numerous potential the market offers, SMEs in that part are faced with numerous challenges. There is poor waste management, bad roads, and insecurity, economic crisis caused by terror attacks leading to businesses performing poorly, fewer customers caused by insecurity and cut throat competition. These challenges and changes in the business environment add to the already tough times faced by SMEs in Eastleigh business district.

1.2 Research Problem

With the socioeconomic worth of SMEs, their significance as well as influence are not proportionately met with backing systems as well as networks that would foster the progression of present SMEs, and the setting up of new ones, and which would enhance their socioeconomic worth even more. SMEs worldwide particularly in emerging economies encounter problems that are, to a great level, identical and comprise restricted financial access, huge transaction costs, as well as inadequate capable personnel, detrimental legal as well as regulatory situations, inadequate technological as well as markets access (World Bank Group & Islamic Development Bank, 2015). An economy's performance as well as impending prospects is an issue of growing attention amongst policymakers at both local and global scope. This indicates that several nations, SMEs make up the vast widely held enterprises and are key employment. Sources. Additionally, SMEs, mainly start-up, have continues to be net jobs growth contributors since the 2008 financial crunch, and the reason for focused attention on SMEs performance turns out to be well-defined (International Trade Centre, 2015). SMEs are key in employment creation

as well as revenue generation; they constitute nearly 70% of all employment prospects globally.

Owing to the socioeconomic contribution of SMEs, their significance as well as influence are not proportionately met with backing systems as well as networks that would foster the progression of present SMEs, and the setting up of new ones, and which would enhance their socioeconomic worth even more. SMEs worldwide particularly in emerging economies encounter problems that are, to a great level, identical and comprise restricted financial access, huge transaction costs, as well as inadequate capable personnel, detrimental legal as well as regulatory situations, inadequate technological as well as markets access. Hove, Sibanda and Pooe (2014) established that Islamic banking bore a positive and significant influence on business drive as well as enterprise competitiveness in South Africa. The study indicated that through Islamic banking, SMEs were able to access credit at lower interest rates through customer relationship management and profiling. In another study, Tuitoek (2012) established that offering sharia compliant products have improved the financial performance of in Kenyan commercial banks. Salim (2014) identified numerous ways of funding employed by Islamic banking including diminishing Musharaka, Ijara and Murababa.

Islam, Yousuf and Rahman (2014) performed a comparative investigation of traditional and Islamic banks by looking at SME financing in Bangladesh. The findings indicated that outlay of SMEs credit by each of the considered traditional bank showed nearly 1.5 times upsurge from 2009-2011 as compared to outlay of SMEs credit by all Islamic banks that

portrayed nearly 1.35 times upsurge. These studies explored other aspects of Islamic banking from different contexts which therefore limit their application in the current study. This therefore leaves a research gap that this research pursued to bridge by analyzing the factors affecting SMEs in Eastleigh. Eastleigh is a suburb of Nairobi County in Kamukunji Constituency

1.3 Research Objective

To measure the factors impinging on the performance of Islamic SMEs in Eastleigh. Eastleigh is a suburb of Nairobi County, Kenya situated East of CBD and in Kamukunji Constituency.

1.4 Value of the Study

The research may offer worthy benefits from hypothetical as well as real-world perspective. From a hypothetical stance, it adds to the broad apprehending of the dynamics impinging the SMEs' performance.

The study will be of value to players in the following areas. First, the study supports the existing theories of open systems where by organizations are environment dependent and environment serving. Small and medium sized enterprises being open systems are exposed to turbulent and uncertain environment hence the need to adopt response strategies aligning them with the environment if they are to survive and succeed.

Second, to the policy makers the study will help them appreciate the importance of taking cognizance of the environment while developing policies affecting SMEs and other organizations. Policies should be flexible so as to adapt to changes in business environment, policy makers should always develop policies addressing the need of being environment dependent. Policies makers in the industry should also develop policies aligned with the environment to succeed.

Finally the regulator (Central Bank of Kenya) may use this study to design and improve on the current management framework for all SMEs in Kenya. The research could similarly augment the current form of understanding on Islamic finance. This may benefit academicians and other researchers by providing materials that form the basis for further research on Islamic finance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This part illustrates hypothetical as well as experimental material from literature on subjects pertaining to the study problem. It summarizes the literature from other scholars who have undertaken their research in the similar theme of Islamic SMEs.

2.2 Theoretical Review

This investigation will analyze the profit as well as loss sharing concept, concept of Islamic banking, entrepreneurship and innovation concept of Islamic banking.

2.2.1 Profit and Loss Sharing Theory

Mechanisms like mudarabah and musharakah are deemed the basis of the Islamic banking concept (Faraq, 2010). Pertaining to banking under mudarabah, the Islamic bank takes finances from account holders under risk-sharing provisions. The bank either openly puts in these finances in gainful investing or outspreads them to businesspersons on the basis of dividing risk. The bank divide up the earnings or loss suffered on mudarabah schemes with its account holders (Gamal, 2006).

In musharakah, the Islamic bank gives the account holders' finances to a shared enterprise with the customer (businessperson). Usually, the Islamic bank lets the consumer control all the undertakings of a Musharakah enterprise (Hassan & Mervyn, 2009). The Islamic bank and the customer equally divide the profit or loss from the Musharakah venture. In a normal

PLS agreement, an Islamic bank gives an enterprise the risk capital under which proficient managers are in charge of strategic as well as operational decision making. The bank divides incomes and is accountable to monetary loss. No severe issue exists with this agreement if the bank can, and is permitted, to scrutinize the undertakings of the enterprise. The profit and loss sharing theory has been faulted as a result of lack of proper monitoring mechanisms particularly in circumstance of Mudarabah that does not give any control privileges to the venture capitalist (Iqbal, 2011).

Literature of the Profit and Loss sharing dates back in 1986. According to Saleh (1986), there are three privileges and one obligation of the venture capitalist in a Mudaraba agreement. The privileges comprise making sure that the borrowing businessperson (enterprise) conforms to the contract requirements, sharing gains, as well as limited liability in loss situation. The single obligation is administering over the capital in Mudaraba. He as well underlines two privileges and two duties of the borrower. Privileges comprise operating the enterprise with a proper level of freedom, as well as decisions on bookkeeping. The obligations are conformity to the contract requirements, as well as Mudaraba business liquidation at the contract's expiration.

The present Mudaraba use as a means of funding certainly needs beyond such initial description of privileges and obligations. Research by Okpara (2009) notes the importance of creating consistent PLS contracts, or guidelines, with regard to the legal outlines of Islamic states. A noticeable aspect of these guidelines ought to be description of the privileges as well as duties of different groups within the enterprises structure. Comparable

regulations ought to outline the sections pertaining to the borrowing enterprise's performance relative to other enterprises in the same industry and, perhaps, other enterprises.

2.2.2 Theory of Islamic banking

The Islamic banking concept is hinged on the notion that interest is stringently prohibited in Islam, and as such Islamic traditions offer the needed direction in which to establish the functioning of banks (Hassan & Lewis, 2007). According to Ahmad (2006), the Islamic banking concept is hinged fundamentally on the principle that interest, which is stringently prohibited in Islam, is neither an essential nor a desired ground for the undertakings of banking processes, and as such Islamic traditions offer better grounds for establishing the functioning of banks. The basic assume that has directed all hypothetical material on Islamic banking is that whereas interest is prohibited in Islam, business as well as revenues is allowed. The fundamental law in Islamic principle is that unfair deals or biased conventions that encompass gamble are not allowed (Hassan & Lewis, 2007).

Hypothetical material on Islamic banking embroils several factors pertaining to the working processes of Islamic banks as well as the potential socioeconomic implications of the use of the new structure (Ahmad, 2006). Islam seeks to establish a culture guided by fairness as well as justice (Holy Qur'an 2:239). Thus, Islamic banking concept has progressed on the grounds that direction for every established development in an Islamic culture ought to originate from the doctrines of Shari'ah. The aspects of Islamic banking guidelines have, then, to originate from the traditions of Islam (Ahmad, 2006). For

instance, if a credit offers the creditor a static yield regardless of the result of the debtor's enterprise. It is considerably reasonable to bear a division of the gains as well as losses. Equality in this situation has two aspects: the venture capitalist holds a privilege to reward, however this reward ought to be proportionate to the risk as well as work put and therefore be overseen by the yield on the specific venture for which finances are given (Hassan & Lewis, 2007).

2.2.3 Entrepreneurship and innovation theory

The concept was familiarized and advanced by Joseph Schumpeter (1838-1950). The initial concept emphasized on innovation's role on entrepreneurship, economy as well as social revolution. Schumpeter contended that, the economy by way of fixed lenses considered the dissemination of particular resources across various infrastructures. Schumpeter's view of economic development is perceived as a course of qualitative transformation compelled by novelty happening in historical time. Giving instances of invention, Schumpeter stated novel products, production methods, resource sources, markets exploitation, as well as means to organize enterprise. He termed innovation as a new combination of current assets. Through these combinations, he described the entrepreneurial meaning. For effective innovations, he stated the key part that entrepreneurs play. Specifically, the occurrence of sluggishness or opposition to innovative ways at each society level that entrepreneurs had to battle so as to become successful in their goals. Rafinejad, (2007) terms the Schumpeter's concept as the one that lays emphasis on innovation overlooking risk taking as well as an entrepreneur controlling capabilities. The theory of entrepreneurship is key to this research since it defines the association between novelty and entrepreneurship.

Novelties as understood in the concept bring about economic as well as social transformation. Contrariwise, novelty has offers prospects through which businesspersons could possibly develop novel products, new production ways, new resources, new markets and new ways to consolidate enterprise. In the study perspective, mobile banking offers prospects for banking establishments to establish new ways of undertaking business, which are likely to foster economic as well as social transformations within the customer fraternity. This is revealed in the manner in which banks presented new product and services because of the innovation, trends of embracing the novelties amongst clients as well as challenges faced in the adoption.

2.3. Factors Affecting Islamic Small and Medium Enterprises

Performance of SMEs is the capability to create sustainable profitability (Wild, Shaw & Chiappetta, 2009). Muthini (2005) did a research on the contributing factors of SMEs profitability in Kenya by empirically evaluating the link between internal and external determinants over profitability over a period of ten years (2002 to 2012).

2.3.1. Access to Finances

The key generally specified difficulty for SMEs is their inability to obtain credit/ finance. Financial limitations function in numerous ways where different capital market influences businesspersons to depend on self-funding or from groups of people, is inadequate to allow SMEs to optimally do their operations. Lacking access to long-term funding for SMEs has compelled numerous Kenyan SMEs to depend high cost short term funds. The numerous

funding problems encountered by SMEs embroil: high credit cost, huge bank costs and fees as well as lack of appropriate set-up (Kauffmann, 2005).

Wanjohi and Mugure (2008) established the level entrepreneurs' demand for loans amongst the common and small earning enterprises as various creditors for pyramid schemes established, pledging hope amongst the 'small business people,' that they could pull through to the financial liberty by way soft credit. The motive for choosing these schemes amongst a substantial number of businesspersons was primarily to look for funds and soft loans bearing low interest rates while generating revenues. Financial constriction is still a key problem that SMEs in Kenya encounter.

2.3.2 Risk Management

A number of financial establishments depend on conventional banking methods to ascertain and mark sustainable SMEs. Financial establishments should include appropriate credit assessment procedures (for instance behavioral recording, credit recording, as well as cash flow and program based loaning) and create robust primary cautionary methods as well as collections structures to target as well as manage SMEs effectively, price products more efficiently, as well as lessen exposure to risk. Simplify loan request procedures for SMEs: SMEs encounter problems in requesting for credit owing to the quantity of papers necessary as well as the extensive consent course (beyond a month).

Numerous SMEs don't have the credentials needed to request for a credit. The financial necessities of SMEs are crucial relative to those of big businesses. Consequently, the consent course ought to be reduced. Islamic banks ought to simplify procedures and consider establishing interactions with SMEs (current as well as potential clients), that would ensure prompt provision of loans. So as to obtain the necessary capabilities for sustainable, profitable, as well as high performing Islamic SME portfolio, banks could possibly require to look for professional support.

2.3.3 Products and Services

Conventional products can now enable banks to obtain the needed measure for a gainful Islamic SME selection. Therefore, it would be key to modify current corporate as well as retail banking products and, more decisively, develop product plans as well as portfolio methods. Proposing no- borrowing services: Islamic banks ought to expand offerings of products as well as services by giving non-borrowing services for instance cash administration, payroll administration, payments, collections, as well as enterprise finance help. Internet banking as well as mobile banking services ought to similarly be taken into account alongside requirements for SME-specific debit cards with day-to-day parameters.

2.3.4 Availability of Business Information

For the SMEs sector in emerging economies, Kenya being an example to witness sustainable growth as well as development levels, accessibility to business information services has been recognized to be an instance that requires from governments' as well as enterprise services providers' attention. Numerous Africa SMEs particularly Kenya,

function in a situation where the information is insufficient owing to inadequate enterprise support services as well as unsound IT infrastructures (Oshikoya and Hussain, 2007). Information access has nevertheless is still not offered similar attention compared to other constrictions to enhance SMEs performance for instance to funds, markets and technological access (Kauffmann, 2005).

SMEs' obtainability of business data services presently has been boosted with the development of numerous ICTs. In industrialized economies, SMEs benefit from availability of business information services owing to well-developed ICT infrastructure and as well as obtainability computer hardware and software whereas in emerging economies numerous challenges prevail on ICT infrastructure as well as IT hardware and software costs.

2.3.5 Management Efficiency

Management Efficiency is an essential internal aspect that impinges profitability of the bank. It is characterized by various financial ratios for instance loan growth rate, total asset growth, as well as revenues growth rate. Operational efficiency in management of the operating costs is also an aspect of quality management. Management performance is usually conveyed qualitatively using particular assessment of management systems, control systems, organizational discipline as well as employee quality. However, some financial ratios of the financial reports are a representation of management efficiency. The management's capacity to efficiently organize its resources, revenue maximization, cutting operating overheads could be assessed by financial ratios. Among ratios employed in

evaluating managing quality is operating revenue to revenue percentage (Rahman et al. in Ilhomovich, 2009). The greater the operating incomes to aggregate returns the greater the management proficiency with regards to operational proficiency as well as revenue generation. Another key ratio is that representation management eminence is costs to asset ratio. The ratio of operating costs to total asset should be adversely linked to profitability. Management quality in hence, establishes the operating costs and sequentially impinges on effectiveness (Athanasoglou et al.2005).

2.3.6 Liquidity Management

Liquidity is similarly an aspect that evaluates bank performance level. Liquidity is the bank's capacity to realize its debts, majorly account holders. Dang (2011) notes that satisfactory liquidity level is absolutely associated to profitability of bank. The commonly employed financial ratios replicating bank's liquidity position consistent with Dang are client deposit to total asset as well as total credit to client deposits. Some academics employ various financial ratio to evaluate liquidity. For instance Ilhomovich (2009) utilized cash to deposit ratio to assess Malaysian banks' liquidity level. Though, the research undertaken in China and Malaysia pointed out that banks' liquidity level lacks a link with their performances (Said and Tumin, 2011).

2.3.7 Credit Terms

Credit terms refers to the standards that commercial banks apply in determining the ability of clients to repay their loans and when it matures. Credit terms help financial institutions in gauging the credit worthiness of the customers while hedging against the risk of loss in case of non-repayment from the side of the borrower. Funds for SMEs growth from

different financial institutions come with different terms. Credit terms usually state the credit period, the credit limit, the interest rate, and method of calculating interest and frequency of loan installments especially in a non-Muslim banking institution (Wachira, 2015).

Availability of conducive credit terms influences the uptake of loans among SMEs in Kenya and this positively affects their growth and financial performance. Most SMEs tend to greatly benefit from the Islamic banking system since the credit terms are conducive and convenient. This is because Islamic banks are simply permitted to amass the sum equal to the lent principal sum (Aburime & Alio, 2009) and as such, the credit is almost interest free.

2.3.8 Macroeconomic Factors

The stability of macroeconomic policy, GDP, Interests and Inflation rates as well as political instability are among the macroeconomic aspects that impinge on banks' performance. For example, GDP trend impinges on the banks asset demand. In the falling GDP growth credit demand declines which sequentially negatively influences banks' profitability. Contrariwise, in an accelerating economy characterized by optimistic GDP growth, credit call is high owing to the environment of business phase. In booms the credit call is high relative to downturn (Athanasoglou et al., 2005). They similarly note with regards to the Greece scenario that the link between inflation level and banks effectiveness is still controversial. The link's direction is not defined (Vong & Chan, 2009).

2.4. Review on Empirical Studies

Kadubo (2010) verified the factors impinging on the growth of Kenyan Islamic banking. The research adopted a case study of four Kenyan Islamic conforming banks, which included Dubai Bank, First Community Bank, Gulf African Bank, KCB Ltd and Barclays Bank Ltd. A sample of 33 clients, depositors in their individual banks as well as 11 executives were involved. Data was sourced by way of questionnaires. The results pointed out that Islamic banking compliant was determined by religious conformity and clients requirements being satisfied. It similarly verified that constant evaluation as well as enhancement of Shari'ah compliant products alongside differentiating market position would result in far-reaching improvement as well as Islamic banking products' marketing. The research determined that the aspects impinging on growth of Kenyan Islamic banking products are simply religious conformity and clients requirements being satisfied.

Daud, Yussof and Abideen (2011) examined the discernments of Nigerian Muslim Youths in Malaysia on the apparent responsibility required from the Central Bank of Nigeria in the institution and setting-up of IBs in Nigeria. The study sought the students' discernments in three Malaysian universities namely; Universiti Utara Malaysia, Kolej Universiti Insaniah and International Islamic University Malaysia. The sample of the study comprised 100 students. Among the issued questionnaires 85 were completed and returned. The data obtained was analyzed by way of the SPSS version 18. The results pointed out that the responsibility of the Central Bank of Nigeria in the instituting and operation of IBs in Nigeria is not substantial. Also it was verified that of Nigerian Central Bank ought to support sufficient research in IBs, the legal framework of IBs should be further

strengthened and that the Central Bank of Nigeria ought to work together with the Judiciary for the instituting Shari'ah courts to decide IBs cases. Alam (2015) states that SMEs' limited access to finance reflects the interaction of demand, supply, regulatory, institutional, and other policy factors that are a hindrance for the growth of SMEs. Growth is also hindered in those countries with well-established Islamic banking by the lack of appropriate Islamic finance offerings for SMEs. On average, around 35% of SMEs in Middle East, North Africa and Pakistan according to the study are not borrowing money to grow their businesses despite the significant demand due to the lack of Islamic finance. Several researches have been undertaken on Islamic banking and its influence on growth of SMEs under various factors.

Abdulkadir (2016) wrote a paper on Islamic Finance in Sub-Saharan Africa - new impetus, and projections for growth in the continent and stated that some of the challenges in regions businesses include the lack of funding and the necessity to have an inclusive financial services access. Inadequacy of funds to start or accelerate the growth of a business is a hindrance to the development of many SMEs and entrepreneurs. This can be countered by using Islamic banking as a stimulant for financial inclusion in Africa and it becoming a key financial capital source for small businesses and entities.

Yusuf and Mobolaji (2012) explored the Nigerian experience of Islamic micro insurance in alleviating poverty impartial of the Central Bank. The study adopted a case study of the Al-Baraka microfinance Bank in Lagos and analyzed its performance and role since its launch. The focus was whether the Shariah-compliance is a positive aspect the realization of the goal of alleviating poverty by the government. To obtain a comprehensive insight of

the capability of Nigerian Islamic micro-insurance, qualitative study using explorative study was undertaken. The study utilized both primary and secondary data to explore the Al-Baraka microfinance house's performance. The study findings established that Islamic Micro Insurance Company was doing better than its conventional counterparts were.

Akinyi (2015) states that credit access for working capital as well as long-term venture drive is still among the key challenges that SMEs encounter in their processes whether in Kenya and other emerging economies. The working capital to channel entrepreneurs' ideas to actions is a huge constraint to SMEs. Using bank financing SMEs can get the funds they need to for start-up and development. In this case Islamic Banking is even better for start-up capital since it has low interest rates that do not steer entrepreneurs to seek informal forms of lending.

Alam (2015) identifies that most SMEs approach banks for working capital requirements. This is very instrumental in the growth of a particular business as it enables a business owner to launch his/her idea and nature it into growth. Nondi and Achoki (2006) conducted a study of financial management issues in Kenyan restaurants; established that 26% of these entities indicated lack of working capital to be the key issue they encounter in their undertakings. The study further identified that the provision of working capital by banks would be effective in enhancing the financial performance of the business.

Alhafi (2015) in the study titled SMEs opportunities for Islamic Banks indicated that most Islamic banks have branding and marketing lapses of SME products as many SMEs are uninformed of the disposal of those products from the financial establishments. Consequently, Islamic banks have not been capable of properly servicing the SMEs despite having the appropriate products for SMEs. With the right focus and the right use of these processes, products and services, Islamic banks can tap this huge potential.

Chong and Liu (2009) researched on whether Islamic banks are indeed interest-free, using Malaysian experiences as a case study. Their findings suggest that gains and loss sharing schemes is indeed the distinguishing characteristic of Islamic banking although they tend not to be as important as a mode of financing on the assets side of the financial statement. While the financing arrangement on the deposit-side is theoretically a profit- and loss-sharing contract, pay-outs tend to be closely pegged to rates on conventional deposits. They also found that there exists little dissimilarity in substance between Islamic and traditional banks. Unlike conventional banks, Islamic banks do earn fees and commissions relating to services beyond traditional deposit and loan financing activities.

A research undertaken on the determining factors of growth of Kenyan Islamic banking by Kadubo (2010), established Islamic banking was determined by religious conformity as well as clients' requirements being satisfied. It similarly pointed out that constant assessment as well as enhancement of sharia compliant products alongside differentiating market position will result radical growth as well as promotion of Islamic banking products.

Mustafa (2013) explored the effects of Islamic banks on financial development among Muslims in Kenya. The research employed a descriptive research design and a sample of 384 Muslims was utilized. Questionnaires were employed to collect data. The regression model was adopted to establish the association between the variables. The research established that lack of access to financial information service affected the growth of Islamic banking. In addition, the study ascertained that government policies, regulations, and technological changes affected the development of the financial institutions. Further, the study found out that customers face issues of amassing capital, obtaining funds and loans and recommended that is need for enhanced support for knowledge visits to boost the information stream, the government ought to establish policies on businesspersons' training.

Saida (2014) investigated the factors that impact adoption of Islamic banking and financial services in Kenya. The study adopted a descriptive survey design. A sample of 125 respondents from four Islamic and traditional banks in Nairobi was utilized. The results pointed out that vast number respondents were aware and well-informed of Islamic banking as well as financial products. Religious attachment was revealed to be a key drive for selecting Islamic banking as well as financial services. Other drives entailed: offering of low-cost products; banks' convenient locations as well as other ethical motives. The ease of banking followed by the interest levels ranked top amongst respondents with regards to services differentiation by various banks. Customers similarly opted for banking establishments: holding higher confidentiality levels, offering financial guidance, offering

prompt as well as well-organized transactions. They were also least focused on whether the bank offered Islamic banking or financial services.

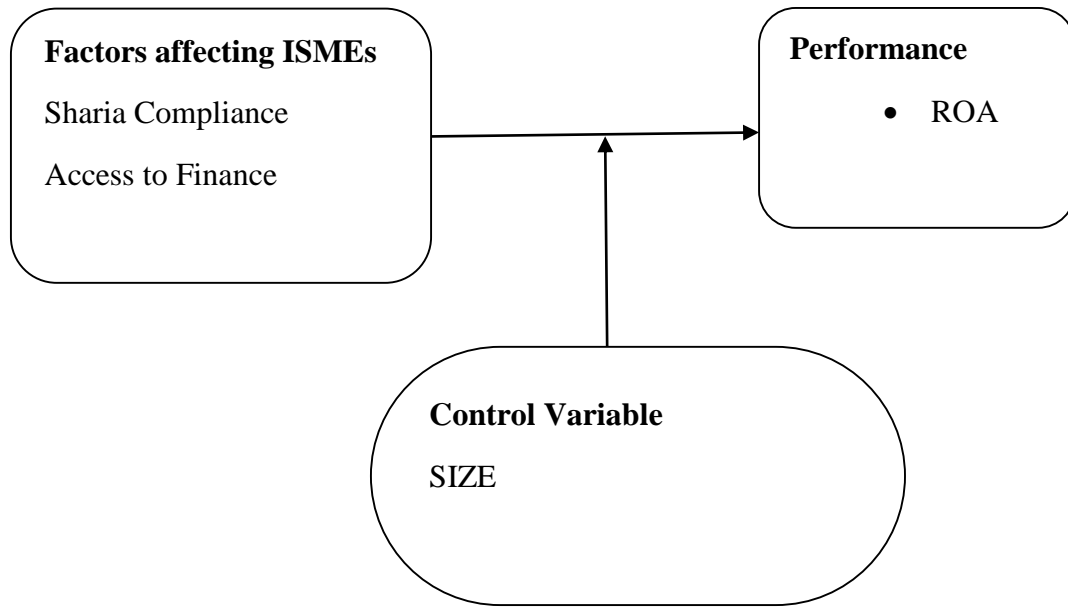
Wako et al. (2014) conducted a study that sought to ascertain the challenges influencing Kenyan Islamic banks performance. The research adopted descriptive survey to obtain employees views on the challenges impelling Islamic banks' performance. The target population comprised 250 Islamic banking employees in Nairobi. This study adopted random sampling method. It found out that global economy changes, advancement in information technology, the difficulties of legal and institutional framework, weak risk assessment and management, unsound corporate governance standards as well as unsound personnel practices were major factors affecting Islamic commercial banks performance in Kenya. There is adequate scope of literature established around numerous Islamic banking aspects broadly and particularly on GCC.

2.5. Conceptual Framework

Saunders (2007) state that conceptual framework, are organized from a series of comprehensive concepts that enable a researcher to appropriately ascertain the problem under investigation, structure their questions and identify appropriate literature. As stated by Young (2009), conceptual framework is a clear illustration that indicating the link between the study variables. The major elements are theories or variables and the supposed link among them.

Independent Variable

Dependent Variable



2.6. Summary of the Literature Review

This part has looked at the literature from different scholars on the research objectives. It covers sections the factors impinging on the performance of SMEs in terms of Islamic banking products, financial access as well as the financial performance. The subsequent is section illustrates research methodology distinctly describing the approaches adopted to source the needed information, research design as well as the manner in which data analysis was undertaken.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This part discusses an outline of different methods and tools used gathering data to attain the goal of the research. It illustrates the research design, it state the target population, sample design, highlight procedure of data gathering as well as analysis.

3.2. Research Design

Consistent with Orodho (2003) research design is a plan, arrangement as well as scheme of study to find answers to research questions as well as control variance. A research design is the outline, or blueprint utilized in generating answer to study problems. A descriptive investigation was employed to perform the research. It is a way of gathering material through interviews or dissemination of questionnaire to respondents sample (Orodho, 2003). Descriptive research embroils obtaining information that explain occurrences and then arranges, presents and illustrates the data obtained (Glass & Hopkins, 1984). Their aim is to establish "what is," hence observational as well as survey approaches are often employed in gathering descriptive information (Borg & Gall, 1989).

3.3. Target Population of the Study

Cooper and Schindler (2003), term population as the subject which is evaluated hence it is an element of assessment. It is where the assessment is drawn. A sample is the subgroup of characters from a population which is utilized to obtain an evaluation of the features of the whole population. This study population encompassed all the 1000 Islamic SMEs in

Eastleigh business district. The researcher pile up a record of all the SMEs and the most suitable SMEs were picked as the respondent for this research.

3.4 Sampling

Cooper and Schindler (2008) state that sample size is the smaller unit of the larger population. The significance of having a sample size owing to it being cost-effective for the researcher in obtaining data. This research sourced sampling frame from Ministry of Industrialization and Trade Development. When the investigator confines examinations the population, it could be inefficient as it produces outcomes that are an insufficient demonstration of the whole population size while too big population size could be uneconomical (Cooper and Schindler, 2008). With a 90% confidence level the margin of error is 10%. To get an adequate sample size in relation to the study aim, the researcher utilized Yamane's formula which is:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n=the sample size, **N**= the population size and **e** = the margin of error (Yamane, 1967).

$$N=1000/1+1000(.1)^2=91$$

A sample size of 91 respondents will be appropriate to examine as well as attain the specific study objectives.

3.4. Data Collection

The study utilized primary and secondary sources of data. Secondary data was sourced by the data collection form that that was administered to the management of the SMEs. Secondary data from published financial statements was be used. Secondary data on the performance of SMEs for financial years 2012-2017 was be obtained from the financial statements. The study also relied on primary data that was sourced by way of semi-structured questionnaire that had open as well as closed ended questions and was on the basis of a 5-point Likert scale. This scale was utilized to measure answers on the questionnaire elements. The 5-point Likert scale was utilized for the predictor as well as the predicted variables. This scale was picked to make sure that respondents make a certain picking instead of preference to an impersonal response. The questionnaire intended for this research embroiled of three parts: Shariah compliance, access to finance and financial performance of SMEs.

3.5. Data Analysis

Burns and Grove (2003) describe data analysis as a way of decreasing and consolidating data to yield results that need researcher's elucidation. This involves coding, editing, data entry, as well as evaluation of the entire procedure of data processing. The data collected was scrutinized by way of descriptive statistics and the outcomes was exhibited with the aid of descriptive analysis for instance mean, frequency distribution, percentages as well as standard deviations. Data analysis was undertaken with the aid of the Statistical Package for Social Sciences (SPSS). Inferential statistics for instance multiple regressions and

Pearson correlation would be used. Multiple regressions was employed to verify the nature of association between the study variables.

3.5.1 Analytical Model

Regression analysis was performed using an econometric model below.

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

Where:

Y= Return on Assets (Dependent variable)

α = Constant Term Y-intercept

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Beta coefficients

ϵ = Error term.

X_1 = Shariah Compliance (Likert Scale)

X_2 = Access to finance (Likert Scale)

X_3 = Size (Total Assets-Control Variable)

3.5.2 Test of Significance

The coefficient of determination R² is calculated to ascertain the model's explanatory strength and how well data fit into the statistical model. The F statistic is calculated to ascertain the models' significance in entirety. Analysis of variance (ANOVA) tests is utilized to measure experimental data to test the variables for statistical significance.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The study's overall aim was to determine the aspects affecting the performance of SMEs in Eastleigh in Nairobi County. The outcomes of the research were summarized under the sub-sections: data analysis, descriptive statistics, correlation analysis, regression analysis, results and discussion. Percentages, frequency distributions, mean, standard deviations and correlation values were utilized in presenting the findings.

4.2 Data presentation

4.2.1 Response rate

As presented in figure 4:1 below, the study targeted 91 SMEs in Eastleigh Nairobi County. Data was obtained and analyzed from 70 respondents of the target population. From the analysis more than 50% of the respondents were able to answer the questionnaire as required, therefore adequate for reporting (Mugenda & Mugenda, 1999). Questionnaire completion rates is the percentage of the sample that took part as anticipated in the entire research process. In the study, out of 91 questionnaires administered 70(77%) filled in and returned, this questionnaires return rates was considered sufficient for the research.

4.3 The Demographic Information

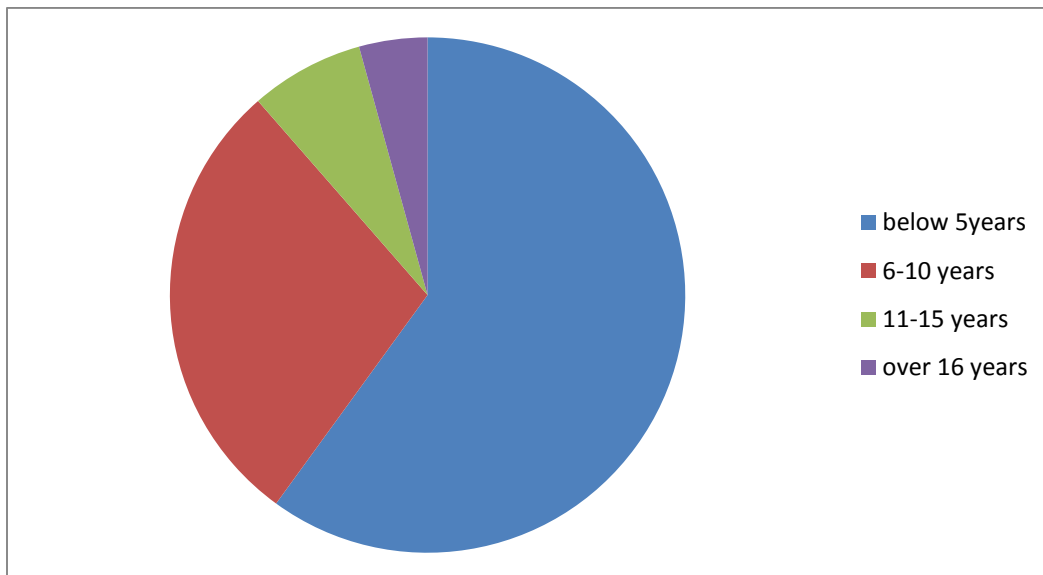
Table 4.1: Gender

FACTOR	FREQUENCY	PERCENTAGE
Male	45.	64
	25	
Female		36
TOTAL	70	100

Source: Research Findings (2018)

The figure 4.1 points out the highest number of respondents were male with 45(64%) while 36(36%) were female respondents. The results pointed out that bulk of the respondents constituted male respondents.

Figure 4.1: Age of Business



Source: Research Findings (2018)

When they were asked about their age of business the responses were as follows 42(47%) below 5 years, 20(31%) 6-10 years, 5(22%) 11-15 years and 3 over 16 years. From the findings there is an indication that bulk of the SMEs are below 5 years and not many of them are above 16 years.

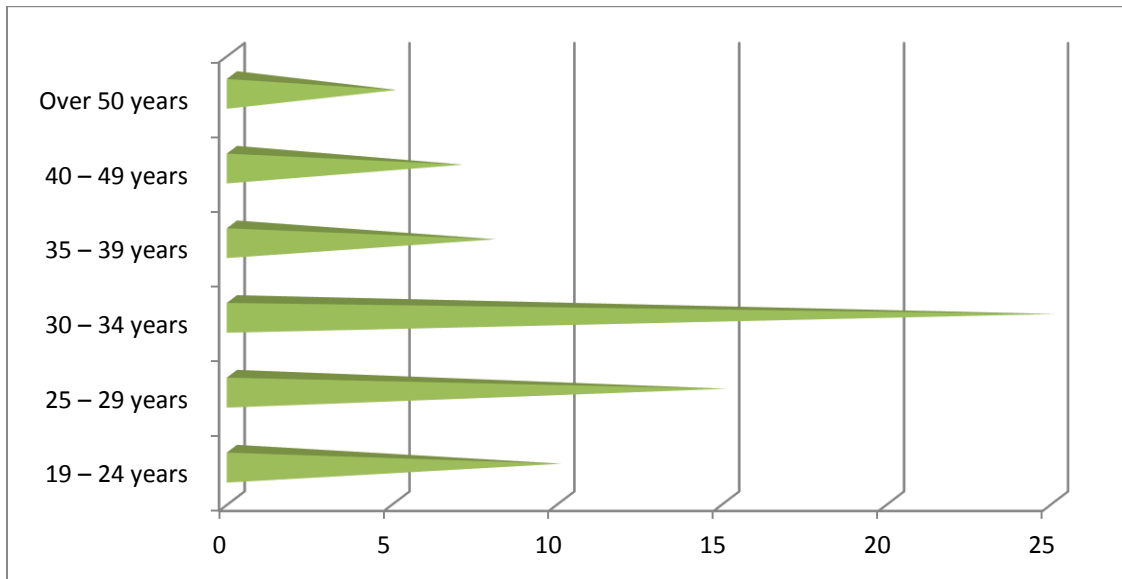
Table 4.2: Age of Repondents

FACTOR	FREQUENCY	PERCENTAGE
19 – 24 years	10	14%
25 – 29 years	15	21%
30 – 34 years	25	36%
35 – 39 years	8	11%
40 – 49 years	7	10%
Over 50 years	5	7%
TOTAL	70	100%

Source: Research Findings (2018)

As per table 4.2 above 10(14%) were drawn from the age group of 19 – 24 years while 15(21%) were drawn from 25 -29 years and 25(36%) were drawn from the age group of 30 – 34 years. This results pointed out that large numbers of respondents were drawn from the age group of 30 – 34 years.

Figure 4.2: Age of Respondents



Source: Research Findings (2018)

Figure 4.3: Nature of Business

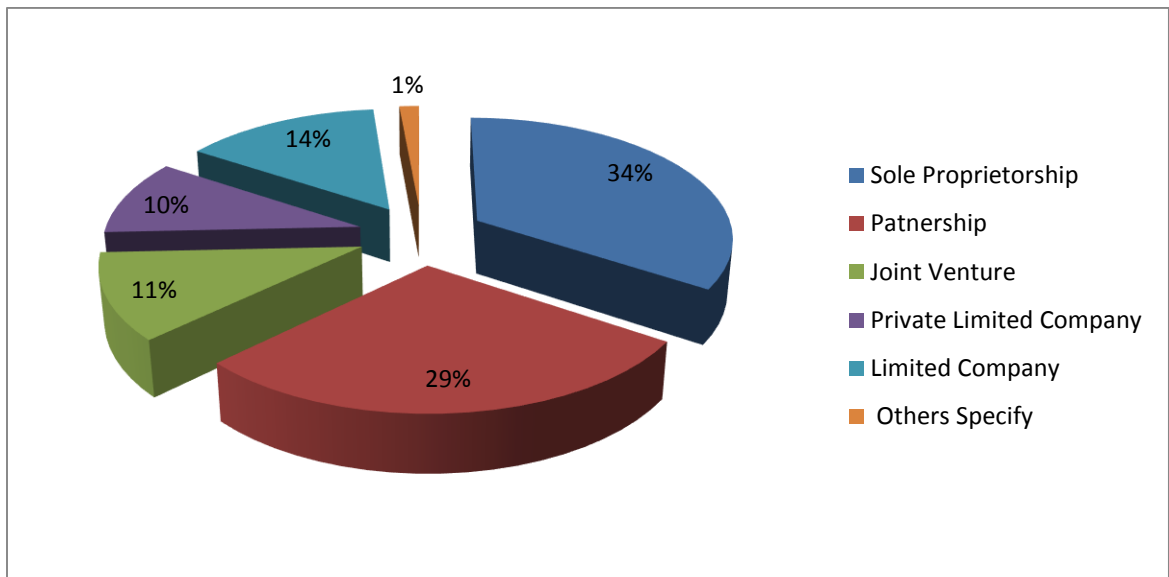


Figure 4.4 indicates that majority of the SMEs are sole proprietors at 34%, followed by partnerships at 29%, limited company was 14%, private limited companies was 10%, joint ventures was 11% while others were 1%.

4.4 Data Analysis

This was by descriptive statistics, utilizing charts so as to comprehend the sample in question. The statistical methods applied assumed that variables were normally distributed. Multivariate statistics were adopted with the supposition that the pattern of variables assumes a multivariate normal distribution. Because there was undeviating examination for multivariate normality, the study tested each variable separately and assumed that they are multivariate normal if they are separately normal.

Primary and secondary data on SMEs was considered in the analysis for the period 2012-2017. Different factors formed the formed independent variables under study. The analysis is discussed below.

4.5 Descriptive statistics

Descriptive methods embroiled maximum, standard error of estimate, minimum, mean, skewness and kurtosis. Mean is an extent of central tendency for describing the most usual value in a series of values. The standard error is a statistical word determining the precision in a series of values. Skewness determines evenness, or more specifically, the absence of evenness. A distribution, or data set, is balanced if it appears similar to the left as well as right from the center. Kurtosis determines whether the data are peaky or level for a normal distribution (Cooper and Schindler 2008). The mean and the standard deviation of the factors affecting SMEs in Eastleigh for the period of study is in the following Table 4.3

Table 4.3: Sheriah Compliance

No	Questions	Mean	Std Dev
1	Are you able to take loan with no interest	4.61	1.351
2	Are you able to agree to infinite liability	4.81	0.154
3	If you provide simply capital, are you able to divide gain as well as loss	4.98	0.025
4	Are you prepared to uncover your enterprise's secrets for scrutiny	4.53	0.257
5	Do you have accurate financial records of your enterprise	4.26	1.215
6	Is your enterprise Shariah compliant	4.91	1.113
7	Do you trade in strong beverages, pork and dead animals	5.00	0.025
8	Are you able to provide collateral security if you are offered a credit	4.56	0.025
9	Do you illustrate your merchandises to your clients	4.58	0.251
10	Do you allow your customers to ascertain your merchandises' contents	4.56	0.258
11	Are you able to divide loss on the proportion of funds if loss is suffered	5.00	0.584
12	If Shariah financial establishments are accessible, can you back them and feel more contented	5.00	1.124

From the above table there is an indication that most of the SMEs are shariah compliance. The highest mean was 5.00 and the lowest mean was 4.26. The highest standard deviation was 1.215 and the lowest standard deviation 0.025.

Table 4.4: Access to Finance

No	Questions	Mean	Std Dev
1	The Profit and Loss Sharing (PLS) principle (mudharabah) creates a clear engagement among the bank and clients leading growth of client base	4.82	0.035
2	The clients are attracted to Islamic Banking products because of Islamic partnerships (Murabaha)	4.91	0.105
3	Obtainability of finances is key for SMEs growth.	4.90	0.125
4	Bank credit are readily obtainable and existing for utilization to start up an enterprise	4.63	0.157
5	Sum of credit funds obtained by way of semiformal financial sectors has positively influenced my enterprise	4.72	0.215
6	Many financial establishments are unwilling to offer longstanding loans to SMEs.	4.93	0.123
7	Lessening of funding costs, application fees, interest rates, credit insurance premium, legal fees among others has enabled SMEs to obtain financing	4.98	0.025

From the above table there is an indication that most of the SMEs have a access to Islamic finance, the highest mean was 4.98 i.e. Lessening of funding costs, application fees, interest rates, credit insurance premium, legal fees among others has enabled SMEs to obtain financing. The lowest mean was standard deviation 4.63 i.e. Bank credit is readily obtainable and existing for utilization to start up an enterprise.

4.6 Correlation Analysis

The Pearson product-moment correlation coefficient is an extent of the power of a linear link between two variables and is pointed out by r . The Pearson correlation coefficient, r , follows a series of figure sfrom +1 to -1. A figure of 0 points out that there is no link between the two variables. A figure above 0 points out a positive link, that is, as the figure of one variable increases the other variable similarly increases. A figure below 0 points out a negative link, that is, as the figure of one variable increases the figure of another decreases.

Table 4.5 below explains the correlation matrix.

Table 4.5: Correlations Matrix

		ROA	SCI	ATF	SIZE
ROA	Pearson Correlation				
	Sig. (2-tailed)	1			
	N				
SCI	Pearson Correlation	.545			
	Sig. (2-tailed)	.005	1		
	N	70			
AF	Pearson Correlation	.651**	0.548		
	Sig. (2-tailed)	.000	.001	1	
	N	70	70		
SIZE	Pearson Correlation	.684**	.776**	.459	
	Sig. (2-tailed)	.000	.000	.014	1
	N	70	70	70	

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

The findings from study as pointed out in table 4.5 demonstrate a positive link between the factors and performance. Sharia compliance index (SCI) had a correlation of 0.545 with ROA. Access to Islamic financial products (ATF) had a correlation of 0.646 while SIZE had a correlation of 0.684. The relationships are both significant at a significant level less than 5%.

4.7 Regression Analysis

The research was conducted to establish the link between the factors affecting performance of SMEs in Eastleigh Nairobi County. The analysis adopted the statistical package for social sciences (SPSS) to measure the extents of the research's multiple regressions. The research measured the independent variables with the aid of questionnaires and the dependent variable also using questionnaires. Below are the findings:

4.7.1 Model Summary

The model summary indicates the summary of the regression analysis as pointed out in the regression model. The outcomes are in the table 4.6 below;

Table 4.6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.884 ^a	.615	.494	1.52813

a. Predictors: (Constant), SCI,AT , SIZE

The model summary (Table 4.5) indicated that there was a compelling link between the dependent and the independent variables. The value of R Square was 0.615 indicating that 61.5 % of the changes in performance are described by the independent variables for the study i.e. Sharia compliance, access to fiancé and size of the SMEs.

Table 4.7: Regression results

Model		Unstandardized coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	Constant	0.536	0.115	0.213	11.62	0.002
	SCI	0.613	0.133	0.137	10.23	0.003
	ATF	0.778	0.268	0.031	7.14	0.004
	SIZE	0.665	0.159	0.045	8.670	0.005

The Beta coefficients determine of the input of every variable to the model. A great value points out that a unit variation in this predictor variable bears a great influence on the criterion variable. The Regression coefficient value of SCI was 0.613, ATF was 0.778 and SIZE control was 0.665. The p-values were less than .05.

Regression analysis is performed using of an econometric model below.

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

Where:

Y= ROA (Dependent variable)

α = Constant Term Y-intercept

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Beta coefficients

ϵ = Error term.

X_1 = Shariah Compliance (Likert Scale)

X_2 = Access to finance (Likert Scale)

X_3 = Size (Total Assets-Control Variable)

Therefore:

$$Y = 0.536 + 0.613X_1 + 0.778X_2 + 0.665X_3 + \epsilon$$

4.7.2 Analysis of Variance

The study performed an scrutiny of Variance, so as to measure the influence of factors affecting performance of SMEs in Eastleigh Nairobi County:

Table 4.8: Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	143.019	3	68.049	29.436	.000 ^a
	Residual	86.276	67	2.305		
	Total	229.295	70			

a. Predictors: (Constant), SCI,AT P,SIZE

b. Dependent Variable: ROA

The Analysis of Variance (ANOVA) reveals the influence of the factors affecting performance of SMEs in Eastleigh Nairobi County. The level of significant as pointed out by the P values (0.000) i.e. below 0.05 and F value (29.436).

4.8 Discussion of Research findings

The multiple linear regression models points out that every independent variable has positive coefficient. The regression outcomes point out that a positive link exists between dependent variable (performance) and independent variables (sharia compliance and access to finance). From the results there is an indication that there was a compelling association between the study variables. The value of R Square was 0.615 indicating that 61.5 % of the changes in performance are described by the independent variables for the study i.e. Sharia compliance, access to fiancé and size of the SMEs.

The t statistics enables ascertaining the comparative impact of every model's variable. As a model concerning valuable predictors, we try to find t values well less than -0.5 or over +0.5. Here, the highly significant variable was sharia compliance and access to funding.

The study establishes that innovation is central to the new products development. The findings of this study support the observation by Madrid, Garcia and Van (2009) that innovation is as a critical component of competitive advantage. Competitive edge is the single most important factor that has a significant effect on the survival, progress and accomplishment of a small enterprises. Businesses that is unable to fund innovation or pursue mechanisms to integrate innovation in their operation strategy, faces a likelihood of stalling or facing strong market competition with slim chances of excelling (Madrid, Garcia and Van, 2009).

The findings in this study support the observation by Al-Mahrouq (2010), which the biggest challenge that SME's face is the access to financing whether as a startup capital or capital for expansion. The findings support the assessment by Griffith (2012), that the most critical factor that contributes to the failure of any business is the lack capital to run the business. Access to funds can be attributed in different contexts for small businesses. SME's could face a shortfall in securing restocking needed to continue the flow of business, also SME's are susceptible to low returns which can significantly deplete its finances even the critical one needed to pay employee salaries. These are some of the factors that can easily cause the collapse of a business.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This part illustrates the overview, inferences as well as commendations of the study. The main aim of this investigation was to evaluate the influence of the various factors affecting the performance of SMEs in Eastleigh Nairobi County.

5.2 Summary of the Study

The study revealed Shari'ah compliance moderately influenced the performance of SMEs in Eastleigh Nairobi County. As observed from the investigation's findings, zero application interest (Riba) on credit moderately attracted new clients to the bank. It found that the supervision of banking operations by the Shari'ah Supervisory Board moderately attracted the clients to Islamic banks and availability of good Shari'ah Governance had a moderate influence on the attraction of clients as well. However, it was found that the presence of Islamic principles did not influence the attraction of clients. Knowledge and experience of staff on Islamic finance principles was found to moderately help in attracting and retaining clients.

The findings in this study support the observation by Al-Mahrouq (2010), which the biggest challenge that SME's face is the access to financing whether as a startup capital or capital for expansion. The findings support the assessment by Griffith (2012), that the most critical factor that contributes to the failure of any business is the lack capital to run the business. Access to funds can be attributed in different contexts for small businesses.

SME's could face a shortfall in securing restocking needed to continue the flow of business, also SME's are susceptible to low returns which can significantly deplete its finances even the critical one needed to pay employee salaries. These are some of the factors that can easily cause the collapse of a business.

The study found that at 0.05, significance level, there is adequate confirmation to settle that; Shari'ah compliance, customer satisfaction, financing options and product quality are useful in predicting Growth of client base of SMEs indicated that there was a compelling link between the study variables. The value of R Square was 0.615 indicating that 61.5 % of the changes in performance are pointed out by the independent variables for the study i.e. Sharia compliance, access to fiancé and size of the SMEs.

5.3 Conclusion

The study concludes that Shari'ah compliance moderately influences the performance of SMEs. enya. The factor of Shari'ah compliance influencing growth of SMEs in Eastleigh include; prohibition of gharar (uncertainty, riba(interest), murabahah, mudharaba, and musharakah. The indicators of financing options are, PLS principle (mudharabah) creates some clear engagement among the bank and clients that had moderate influence; Islamic partnerships (Murabaha) which has high influence; and joint venture (Musharakah) option that has high influence. The principle of interest free lending and availability of credit causes that has high influence and leasing contract (Ijarah) whereby Islamic bank leases an asset for a particular rent as well as duration to the customer which has moderate influence.

Islamic banking products are vital banking services in the rapid economic growth of the capital markets. Lack of access to cheap and affordable capital especially loan capital or working capital for startup has been highlighted as the key constraint to economic growth and development of many countries and since commercial banks are key pillars of economic development through financial intermediation. Islamic financial products such as Musharaka may promote sharing of financial knowledge especially to investors who may be having inadequate financial training.

The study concludes that SMEs face challenges disqualified them from growth and expansion. This included inadequate finances, lack of financial administration abilities and lack of market for their products as the hindrances to the growth and development of their enterprises. In bid to reduce these challenges the Islamic banks had established the use of mobile banking, customer relation innovations and new marketing strategies to increase the level of awareness on SME products among their banking institutions.

5.4 Recommendations

The research verified that there is a substantial link between the different financing modes and return on assets. Therefore, each SME always evaluate its Islamic financing modes availability, uptake and contribution to its profits. All Islamic banks channel their loans through any of the modes under study and this underpins the significance of the different modes to profitability of SMEs. Some financing modes have never been offered or practised in Kenya. These include Salam Bai bi-thamin ajil and Istisnaa. Sukuk was only offered once (2008). There is a need for commercial banks to consider introduction this

financing modes to avail customer's variety in choosing financing modes for their facilities. The Central Bank of Kenya (CBK) should consider putting regulations in place in consultation with different Shariah and Islamic banking practitioners that will enable issuance of Sukuks and trading in Kenya.

5.5 Limitations of the Study

Islamic SMEs and Islamic banking is relatively a new concept in the context of Kenya. Hence, there was little information in relation to Islamic financial products for SMEs. The extent of this investigation was narrowed to SMEs in Eastleigh Nairobi County.

Thus the study outcomes could possibly not take a broad view of SMEs and companies in Kenya. In addition, the study was undertaken in Nairobi hence the findings may not be generalized. The study findings are hard to match owing to dissimilarities in the SMEs with regards to business type, industry or time in operation. Therefore it would be remarkable to inspect whether there are dissimilarities in the extent of financial planning with regard to industry affiliation.

5.6 Suggestion for Further Studies

The study proposes that the same kind of study be done on the large enterprises which have different practices and use different strategies to increase their market share and the effect of the performance of SMEs.

The study collected data from the SMEs which are operating in Eastleigh Nairobi County. However, the findings on the factors influencing performance of SMEs in in Eastleigh Nairobi County, different compared with other regions. Thus a similar study should be undertaken in other regions to get a better understanding of the factors affecting performance of SMEs.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER

Bishar Ahmed Kanyara

P.O Box 6787-00200,

Nairobi, Kenya.

Dear respondent,

RE: INTRODUCTION LETTER

I am a postgraduate student pursuing Master of Business Administration (MBA) degree at the School of Business, University of Nairobi. As part of the requirement for the award of the degree, I am expected to carry out and submit a research project. I am conducting a study on factors affecting the performance of small and medium sized enterprises in Eastleigh business district in Nairobi County. In this respect, I kindly request you to provide objective answers to the following questions that will be vital information for this study. The information provided will be kept confidential and it will only be used for the intended purpose of the study.

Thank you in advance.

Yours faithfully,

Bishar Ahmed Kanyara

APPENDIX II: QUESTIONNAIRE

This study is a requirement for the partial fulfillment for the award of the degree of Master of Business Administration (MBA) program at the University of Nairobi. The purpose of this study is to investigate the factors affecting the financial performance of small and medium sized enterprises in Eastleigh business district, Nairobi County, Kenya. Kindly answer all the questions either by ticking in the boxes or writing in the spaces provided

SECTION A: BACKGROUND INFORMATION

1. Name of the respondent (optional).....
2. Gender
 - (a) Male []
 - (b) Female []
3. Nature of business
 - (a) Sole Proprietorship
 - (b) Patnership
 - (c) Joint Venture
 - (d) Private Limited Company
 - (e) Public Limited Company
 - (f) Others Specify:
4. How long have you been in business?
 - (a) 0-5 yrs []
 - (b) 6-10 yrs []
 - (c) 11-15 yrs []
 - (d) Over 16yrs []

SECTION B: SHARIAH COMPLIANCE

Please indicate your level of agreement with the following statements. Tick the correct answer in the space corresponding to the answer.

Scale: Strongly Disagree =1; Disagree = 2; Neither =3; Agree = 4; Strongly Agree = 5

Shari'ah Compliance Indicator	1	2	3	4	5
Can you take loan without interest					
Can you accept unlimited liability					
If you contribute only capital, can you share profit and loss					
Are you ready to expose the secrets of your business for monitoring					
Do you keep proper accounts of your business					
Is your business Shariah compliant					
Do you sell pork, alcoholic drinks, dead animals and their likes					
Can you give collateral security if you are given loan					
Do you describe your goods to your customers					
Do you leave your buyers to identify the contents of your goods					
Can you share loss on the ratio of capital contributed if loss is incurred					
If Shariah financial institutions are available, would you support them and feel more comfortable					

SECTION C: ACCESS TO FINANCE

Please indicate your level of agreement with the following statements. Tick the correct answer in the space corresponding to the answer.

Scale: Strongly Disagree =1; Disagree = 2; Neither =3; Agree = 4; Strongly Agree = 5

Access to Finance	1	2	3	4	5
The Profit and Loss Sharing (PLS) principle (mudharabah) creates a clear engagement among the bank and clients leading growth of client base					
The clients are attracted to Islamic Banking products because of Islamic partnerships (Murabaha)					

Access to financing is important for growth of SMEs.					
Bank loans are easily accessible and available for use to start up a business					
Total credit finance accessed through semiformal financial sectors has positively affected my business					
Most financial institutions are reluctant to provide long-term credit to SMEs.					
Reduction on the cost of finance, that is interest rates, application fees, loan insurance premium, legal fees etc has made it easy for SMES to access financing					

SECTION D: FINANCIAL PERFROMANCE

Indicate the extent to which you agree with the following statements by using a scale of 1 to 5 where 1= strongly disagree and 5 = strongly agree.

Financial Performance	1	2	3	4	5
We have superior firm performance					
Information and communication skills are effectively affecting our business performance positively					
The business has experienced an increase in total revenue over the last 2 years.					
The business has experienced an increase in total revenue over the last 2 years.					

Thank You

APPENDIX III: DATA COLLECTION SCHEDULE

1. Name of SMEs.....

2. Year of Establishment.....

FINANCIAL PERFORMANCE

	2013	2014	2015	2016	2017
Financial performance in terms of (ROA)					
Total Assets					
Net Income					
Inflation Rate					
GDP Rate					