

**THE RELATIONSHIP BETWEEN BUSINESS ENVIROMENT AND
FINANCIAL PERFORMANCE OF SMALL, MICRO AND MEDIUM
ENTERPRISES (SMEs) IN NAKURU COUNTY**

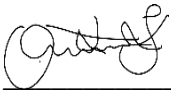
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**A RESEARCH PROPOSAL SUBMITTED IN PARTIAL FULFILMENT OF
THE REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF
BUSINESS ADMINISTRATION AT THE UNIVERSITY OF NAIROBI.**

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DECLARATION

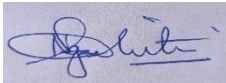
I declare that this research proposal report is my original work and has never been submitted anywhere for a degree or qualification of the same in any other university or institute of higher learning.

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

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DEDICATION

May God also bless my guardian, Francis and Janet for constant encouragement throughout my education. I also thank them for their support.

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I really appreciate all people who have brought impact to the success of my research. May God bless you all! My supervisor and moderator, thank you very much for your support and tireless effort in giving me guidance throughout my project. For reviewing my work, I really appreciate University of Nairobi Library for giving me access to learning material.

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LIST OF ABBREVIATIONS AND ACRONYMS

SME	Small Medium Enterprises
ICT	Information and Communications Technology
ISAB	International Accounting Standards Board
GDP	Gross Domestic Product
MSME	Micro and Small Enterprise Act
IFRS	International Financial Reporting Standards
ERP	Enterprise Resource Planning
KNBS	Kenya National Bureau of Statistics
PAT	Positive Accounting Theory
SPSS	Statistical package for Social Science

ABSTRACT

Most countries in the world depend on the operations of Small, Micro and Medium Enterprises as they play an important role in terms of employment and economic growth. Most people in Kenya depend on Small and Medium Enterprises (SMEs) for employment and economically prosperity, however with the limited support extended to SMEs most are unable to operate sustainably to meet the needs of the growing markets. The purpose of the study was to identify the relationship between business environment on financial performance by SMEs in Nakuru County. The study was guided by four objectives which included: relationship between the level of financial access on financial performance of SMEs, relationship between level of registration process on financial performance of SMEs, relationship between level of financial education and training on financial performance of SMEs and relationship between level of innovativeness on financial performance innovativeness of SMEs. The study was guided by three theories that is Perking Order Theory, positive accounting theory and decision usefulness theory. Descriptive survey design was adopted as the study design while systematic random sampling was used to sample the SMEs in Nakuru East and Nakuru West Sub counties. From a target population of 200 Small and Medium entrepreneurs, a sample of 133 was subjected to the research. Data was collected using questionnaire method. Data was analysed using both descriptive and inferential statistics with the help of IBM SPSS Statistics version 21. Descriptive analysis involved the use of frequencies, percentages, mean and standard deviation in order to summarize the results of the various study variables. Inferential analysis involved the application of Pearson correlation to determine the nature of relationship between the dependent and independent variables. Reliability test for this study was 0.7 hence the instrument was reliable. Three out of five SMEs are faced with shortcomings within first few months according to past surveys. The SMEs will be selected using stratified random sampling with the sample size of 200 SME in both Nakuru West and Nakuru East while the study will be adopted descriptive survey employing the use of questionnaires and interviews to collect data. Descriptive statistics is where data was analysed using percentages, frequencies, figures and tables. To establish relationship between dependent variable and independent variable, the use of statistical package for social science, data was analysed based on statistics and person's product moment correlation co-efficient. The study findings revealed that there is need to have more emphasis on banks to provide more financing opportunities to business and ensure there is continuity in training in financial education to SMEs.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small Medium Enterprises is being viewed as significant in terms of employment and growth on our gross domestic product. Formal SMEs contributes up to 45% of total employment and 33% of gross domestic product in the growing economies, a report by World Bank Group (2016) indicates so. Most large projects the government has injected large capital intensity were less likely to generate the requisite employment opportunities. To increase profit margin in Small and Medium enterprises, business organization aim to improve on their production and operation efficiency. Although accurate data is not easy to get, SMEs dominates world business stage.

The study conducted by Ademola, (Olukotun & Olore, 2012), stated that record keeping identify organisation expenses, its importance and growth for small scale enterprises. Research by Malaysian compiled data by National SME Development Council projected to expand the importance of record keeping from 5 to 6% in 2013. This has been attributed to the fact that SMEs apply record keeping maintaining relevant business information thus putting them on a projected sustained growth path. The growth path however can be destroyed by the rising cases of fraud in Malaysia where about 46% of respondents concurred that corruption in Malaysia has increased and the business and public sectors highly ranked institutions to have been affected by increased corruption. These entities have been devastated by corruption due to lack of internal control systems to detect and prevent fraudulent activities within firms. As such, it is important for businesses to establish effective internal control systems to prevent and detect fraud cases.

In accounting, bookkeeping keeps track of all income and expenses to enhance of generating profits while also collecting required financial information for tax purposes (Abdul & Adejare, 2014). These scholars opine that accounting records produces financial information relating to all transactions that indicate the financial position of a company.

The financial transactions show activities in both income and expense accounts. The financial reporting elements include property, cash received or spent that are commonly categorised as assets, liabilities and equity. On the other hand, small scale firms do recruit unskilled employees that in most instances cannot diagnose accounting challenges. The unskilled accounting personnel lack capacity to keep reliable and up to date accounting records that are used to prepare income statements to indicate the company's income and expenditures.

The study conducted by (Dyerson, Barnes & Harindranath, 2009) reiterated that SMEs applies information technology to enhance competitiveness in emerging global markets. SMEs embraces technology to inculcate efficiency and respond to the dynamic business environment. These enterprises gain knowledge and bridge competency gaps related to ICT. Organisations apply technology to drive change and to address problems that they encounter on daily basis. Information technology provides firms with quality information for decision making and to some institutions, ICT is widely used to conduct research through which they address business needs.

1.1.1 Capital Access

More than a third of micro, small and medium enterprises have unmet financial need according to the International Finance Cooperation. The current level of the global MSMEs lending is equivalent to 1.4 times.

The study conducted by Oromi & Urassa (2008) in Tanzania depicts that there were three Major groups constraints of financial access by the Small, Micro and Medium enterprises. One of the factors include low level of knowledge and skills and lack of knowledge of available financial services. The other factor includes lack of experiences by the SMEs due to competent personnel. Lastly, is the regulation environment where the transaction occurs between the lender and borrower where they lack systemic identification.

Access to finance has gradually been recognised as one of the main components of economic development. Increase in income inequalities, poverty and low growth rate is due to limited access to finance whereby external financing constraint is eased by access to finance that led to firm expansion.

It's significant to summarise, presents and interprets from time-to-time information contained in records to users to help them make timely and informed decisions (Ware, 2015). Ideally, accounting system processes the financial information about organisational activities hence it supports users in preparing audited financial statements at the end of the accounting period. According to ISAB Framework, firms prepare financial statements to determine the financial position, performance and routine changes so that managers can make sound economic decisions. Indeed, financial statements serve stakeholders with pertinent information.

1.1.2 Registration Process and Licences and SMEs Growth

In Kenya, the Small and Medium Enterprises have complained a lot concerning complex certification and registration processes require time and money. Most entrepreneurs follow short cut process which is the option left and this proves to be more expensive and they eventually suffer with penalty from the authorities. This eventually led to closure of their business. An example of an entrepreneur's running chemical related business; he/she needs to prove the safe of the product before getting a certificate from the ministry of Health of similar authority. The product should conform with the legal standard regarding composition as required by the Ministry (Republic of Kenya Sessional paper No. 2 of 1992)

1.1.3 Financial Education Training and SMEs Growth and Development

Lack of education background by most of entrepreneurs Majority who run Small and Medium Enterprises are ordinary hence they lack education background (King & McGrath, 2002). They are not fully knowledgeable to carry managerial routine for their enterprises. The main disadvantage in growth and development of SMEs is due to lack of basic skills in coordination and administration of business and entrepreneurship. To operate small businesses, education and skills are major factors that are needed. Education and skills are important but in Kenya, Small and Medium enterprises are not quite well-equipped according to research (King & McGrath, 2002). The more one is educated and trained is more likely to be successful in the SMEs. One of the informal sectors that has proved to boost economic growth in Kenya is for example Juakali sector. However, lack of adequate business skills and low level of education is mainly attributed to those running Juakali informal sector. To produce high quality product is hard for Juakali artisan. The entrepreneur must be skilled in business and know how to market, sell and financial control.

1.1.4 Infrastructure

Infrastructure is important in every city in terms of financial performance by the Small and Medium Enterprises. Infrastructure is the primary, secondary and tertiary core for production (Hirschman, 1958). Education, transport, communication, public health, power and supply are the infrastructure needed to propel growth. Infrastructure is one of the factors to be employed in terms of productivity. For growth of SMEs in particular area should be seen as final good of providing services to consumers and intermediate input. All business complains both domestic and foreign owned firms on infrastructural deficiencies encountered at an area (Obadan, 2004). The greatest difficulties to a continued business activity are for example, power failure, transport cost and other infrastructural problems inhibits SMEs growth. For business to prosper, constructing physical and social infrastructure is the main objective.

1.1.5 Entrepreneur's Innovativeness

Even if there is the introduction of a new technology success and failure of innovation is market determination (Hallberg, 1999) The factors that limit their competitiveness are government regulation policies, Lack of skilled labour, Limited external information, lack of funds, and lack of proper management and marketing. For a business to realize innovation there need to be personnel skilled workers among SMEs for growth. Lack of innovativeness in SMEs is due to lack of information and knowledge among the employees. Lack of proper information delimits SMEs progression. Furthermore, the systematic information which is available is often fragmentary (Foley & Green 1989).

1.1.6 Small and Medium Enterprises (SMEs)

According to (Miller & Nyauncho, 2014), SMEs contributes to economic growth mainly through creation of employment. SMEs are important part of the economy that cut across developed and developing nations. Going by the estimates, 80% of jobs in Kenya are created in the SME sector that's also approximated to contribute 20% of (GDP). Importantly, small and medium enterprises expand the tax base while it also drives innovation. However, despite all these contributions, SMEs are to some extent disadvantaged in the sense that they cannot fully access finances because formal financial institutions perceive them risky and costly to serve, and that they face growth challenges.

The MSME Act of 2012 suggests that micro and small enterprise consists of 1 – 9 employees with a capital not exceeding five hundred thousand. On the other hand, small enterprises consist of 10 – 49 employees with a turnover between 500,000 – 5,000,000. While medium enterprises consist of 50 – 99 employees with a turnover between 5M to 800M. Similarly, financial institutions define SMEs according to loan size, number of employees, turnover and capital employed. Other characteristics that define the structure of SMEs include separate legal entities, business registration or licencing, delegation of authority and record keeping for income statements. Small and medium enterprises therefore maintain records to track business progress and to establish the financial health of the organisation. It is against this backdrop that this study is set to establish the impact of record keeping on performance of SMEs in Nakuru County (Muchira & Jagongo, 2014).

1.1.7 Financial Performance

Unemployment is increasingly becoming an issue of concern in Kenya due to its implications and ripple effect to the economy. Lack of jobs has contributed to the increased number of self-employed businesses in the country as most jobless graduates consider them as a way of earning a living. Entrepreneurship is thus a considerable solution to socio-economic problems globally (Mairura, 2011). Most of the SMEs are characterised by low-cost skill acquisition outside formal schooling, low capital for start-ups, and reliance on local resources, family ownership and competitive market conditions.

Therefore, performance measurements are relevant to investors and stakeholders that are concerned about recouping their investments as well as accruing returns for reinvestments and for improving their livelihood (Mirza & Javed, 2013). Financial profits boost investors' income with future investments. Firms thus maintain accounting records to enhance their performance. Non-performance measure therefore hinders performance of SMEs from creating massive jobs and contributing to a nation's economic growth. These measures show the future financial performance by bridging the link that exists between business activities and financial outcome through forward looking information on performance. Similarly, performance measures determine the level of customer satisfaction and the future cash flows in an organisation (Maduekwe & Kamala, 2011).

1.1.8 Financial Performance, Bookkeeping Records and Accounting Systems

The study conducted by Kareem *et al.* (2019), stated that accounting information systems essentially provide resources to meet business requirements. SMEs attempts to manage performance using balance scorecard approach where performance is tracked using multiple contexts. However, with the global integration of product packages, markets and competition, firms should be more effective, flexible, tailor quality, lower expense and service customer needs in timely manner. Therefore, accounting information systems provide such essential resources to meet these requirements which are vital in financial decision making to guide SMEs through provision of quality information that render SMEs competitive results.

Studies conducted in the context of Spain showed that organisations innovation include technology innovation that has positive impact on small and medium enterprise performance. The studies revealed that the application of electronic management encourages sharing of knowledge and creation of new products within the company process. Information technology significantly increases public service that tailor high quality services to both large and small entities. A study that examined user needs, established that most of the firms' problems can be solved using efficient systems such as AIS as opposed to manual system to address voluminous business transactions and increased demand for quality information.

1.2 Research Problem

The study conducted by (McComick & Dorothy 1988) stated that the National Growth Domestic Product is a major contributor in SME sector. However, factors inhibiting growth and development is limited infrastructures in terms of access credit and bureaucracy registration process. It is noted that the past government had promised 1 million jobs to the unemployed youth yet they had identified SMEs as a major player in job creation among the youth. The promise of the previous regime is yet to be achieved. There are some shortcomings that inhibits small business section from becoming larger and these were the concern of the researcher and hence the essence of this study was to critically analyse and determine the relationship between financial business environment on financial performance of Small, Micro and Medium Enterprises in Nakuru County.

Nakuru west and Nakuru East has inadequate facilities as they operate in small space allocated by the County Government. They lack proper infrastructural facilities as some areas of business experiences poor drainage and sanitation which is a health hazard to the SMEs within the area. Most of the SMEs lack capacity to acquire the complex, efficient accounting information system (Thywill, Adade & Komala, 2017). Also lack of security in some areas is also a major problem yet County government either tax them on daily/monthly basis.

There is need by both National and County government to streamline infrastructural facilities based on allocation of funds so as to improve the growth of SMEs and job creation. Among the things to be done are reduce time taken to register and license a business, Education and training among SMEs in terms of innovation and use of modern technology and financial allocation to boost SMEs Business.

1.3 Study Objectives

1.3.1 General Objective

The main objective of the study is to determine the relationship between business environment on financial performance of Small, Micro and Medium Enterprises in Nakuru County.

1.3.2 Specific Objectives

- i. To determine the relationship between the level of financial access and financial performance of SMEs in Nakuru County.
- ii. To determine the relationship between level of registration process and financial performance of SMEs in Nakuru County.
- iii. To determine the relationship between level of financial education and training and financial performance of SMEs in Nakuru County.
- iv. To determine the relationship between level of innovativeness and financial performance innovativeness of SMEs in Nakuru County.

1.4 Value of the Study

The SMEs has limited financial and manpower resources and this study specifically deals with strategies they can adopt to become successful. For improving performance of the SMEs leading to success is by the government to formulate strategies and policies. Research will investigate Small, Micro and Medium Enterprises operating in Nakuru Town. The chapter will determine the level of infrastructures on financial performance of SMEs in Nakuru town. For review both empirical and theoretical literature will be subjected. Thus, the limitation to be suffered will be that the results from the study will span across SMEs in different industries and sizes implying that what some may consider as challenges may not apply to others. It is felt that such an approach will generally capture all the variables that affect records keeping from a broad perspective.

This is based on the fact that despite having their main operations in Nakuru, these SMEs provide services and products within the entire country as well as outside the country. It can also create opportunity for SMEs to appreciate the roles of the accountants. Therefore, a broader conclusion could be made to cover all SMEs which will adopt the conclusions to narrow down to their specific needs from the financial period 2018. Lastly, this study will provide additional literature for future research.

1.5 Limitations of the Study

The confidentiality policies of the businesses limited most of the respondents from answering some questions about the running of their business. This was a common suspicion with any kind of research study. To mitigate this suspicion, the researcher assured the respondents of complete confidentiality and disclosed the academic intent of the purpose of the research. An introductory letter from the university was also presented to the SMEs hence allowing the respondents to disclose the much-needed information.

Due to the busy schedule of the entrepreneurs, the researcher predicted that the entrepreneurs would be absent or not available to fill the questionnaires hence weakening the information collected. To mitigate this challenge, the researcher scheduled the data collection period to fit the schedule of the respondents.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section examines the theories correlated to the research, empirical studies from international and local contexts and finally summary of the literatures and research gaps established.

2.2 Theoretical Literature Review

Theory of this study to be discussed include, Perking order theory, decision usefulness theory and positive accounting theory.

2.2.1 Perking Order Theory

Perking order theory was pioneered by Donaldson in the year 1961 and established by (Myers & Magluf, 1984). The theory states that there is a particular hierarchy in which managers must follow in making on choice on sources of finance. There is external and internal financing where the first preferences to choose from is internal followed by external financing. Equity financing is considered as the last option as external sources of financing give debt as a priority over equity. Small Medium Enterprises depend on internal financing to external financing but the study conducted by (Agrebi, 2009) argue that this depends on how internal funding meets the firm's financial requirement at every stage.

Perking order theory starts with asymmetric information. It affects the choice between internal and external financing and also the issue of debt and equity. Internal Financing (Retain Earning) is the residual value of a company after its expenses have been paid and dividend issued to shareholders. External Financing (Debt Issuance) is the financial obligation that allows the issuer to raise funds by promising to repay the lender at certain point in future. External Financing (Equity Issuance) is the amount of stock that the company has issued bought back in the last period. Equity issuance reflects the value the value of funds through the sale of equity net of funds paid to retire the equity.

2.2.2 Decision Usefulness Theory

A study conducted by (Staubus, 1999) opined that the criteria which financial reporting and policy making is mainly centred on decision usefulness. That is, policy makers prefer reporting approach that produces useful information for making economic decisions. The IASB framework provides that the goal of external financial reporting is to present investors, creditors and other users with useful information in order to make informed investment decisions, select the right credit facility to use and to promptly allocate resources to viable investment vehicles. Therefore, accounting in business aims at providing financial information to users to enable them make right investment choices. In other words, accounting serve investors with useful information that they use in making appropriate investment decisions (Staubus, 1999).

The study conducted by (Brazel, 2005), stated that enterprise resource planning system execution influences decision usefulness of financial accounting information. As such, enterprise resource planning systems are information package that integrate information across functional areas in an organisation. These systems are implemented by firms to provide process of planning and organizing the resources with a uniform view of the firm's financial situation all the time. These integrated systems mitigate barriers between organisation roles, allowing management to access useful accounting information. Firms deploy enterprise resource planning systems to gather and disseminate timely information to managers hence enabling managers to process and analyse accounting information for to inform decisions.

Similarly, quality ERP systems are crucial for effective financial reporting in firms. The systems enhance manager's ability to access accounting information essentially required for managing financial statements that reflect true picture of the company. As such, decision usefulness and reliable accounting information should be aligned to ERP systems to secure efficiency and effectiveness in work processes. Therefore, this theory is relevant in that it assists managers in their accounting work by providing useful and significant data for making decisive choice.

2.2.3 Positive Accounting Theory

The study conducted by (Watts & Zimmerman, 1986) examine the reasons as to why accountants in an organisation apply accounting practices in different circumstances. According to this theory, it is sound to explore factors that affects the attitudes of management as far as accounting standards are concerned in order to lobby support required to effectively implement accounting activities in an organisation (Wiratana & Asri, 2020). Such factors could include; regulations, taxes, book keeping costs, management compensation plans and political costs. These factors predict that large organisations that experience low earnings as a result of altered accounting standards favours change. However, other firms in particular small and medium enterprises would oppose changes that accrue additional bookkeeping costs prone to reduce profit levels.

Additionally, positive accounting view examines the ability, understanding and accounting knowledge using accounting policies that are suitable to deal with prevailing future conditions. However, this theory assumes that the purpose of accounting theory is to explain and predict accounting practices. This also justify the aim of positive accounting theory which explains and predicts accounting practices. This theory further explains why firms use historical cost accounting and why certain organisations change accounting approaches to predict accounting practices to predict phenomenon that haven't been observed. Based on these, positive accounting theory explains that accounting practices conducted predicts causative events both in the present and in the future.

2.3 Measures of Financial Performance

The study conducted by (Burca & Ghioghe, 2014), opined that the performance is an output of activity measured according to the company type and evaluation objectives. On the other hand, profitability is a proxy of financial performance that increases a company's competitiveness in a globalised market. In finance, profits attract investors, enhance level of solvency and strengthen customer's confidence. Performance indicates how efficient a firm manages and utilises resources to achieve certain results. Thus, organisational performance shows a company's capacity to work towards achieving the target profit in order to measure performance for a particular period. It also helps managers in making decisions.

Financial leverage of an organisation is usually measured using total debts to equity ratio. This measurement indicator shows the degree to which an organisation uses the borrowed cash to offset its debts and to improve owner's financial health. Additionally, financial leverage is used because it increases the returns on investments while also using tax benefits that are related to debt financing. The current ratio measures relative liquidity which considers account differences in absolute size. Current ratio is determined in terms of the current assets divided by the current liabilities. Therefore, liquidity shows the ability to substitute resources to mirror an organisations capacity to oversee working capital that are kept at ordinary level. In this case, small and medium enterprises performance would be jeopardized because of inability to access the much-needed funds to finance operating, investing and financing activities. Most of the SMEs relies on retained earnings as a source of reinvestment.

2.4 Empirical Literature Review

This section presents previous studies that have been conducted from international, Regional and local perspectives.

Research conducted by (Abdul & Adejare, 2014) the impacts of book keeping records keeping on performance on small business firms in Nigeria. Primary data collection relied upon by a descriptive design such as use of personal interviews and questionnaire as a major instrument. A target population of 113 enterprises were selected depending on type of business, retail shop, wholesale and small-scale producers. This study revealed that SMEs keeps complete and accurate accounting records as a source of information required by users to make decisions. Small and medium enterprises that practices record keeping have been prosperous in terms of performance. Thus, the study recommends firms to place emphasis on bookkeeping to raise performance.

The study conducted by Adama & Agbim (2015) deliberated between control over allocation of financial resources, entrepreneurship training, working for oneself and loan at low interest. Generated data was generated and analysed using regression statistical method. To select element that completed the reseach of the questionnaire the study adopted survey research design and systematic sampling technique. They recommended that there is need for more awareness on microcredit relevance to education, training and skills acquisition.

A study undertaken by (Siekei, Wagoki & Kalio, 2013) in Njoro District on financial education and performance of SMEs investigated financial literacy skills imparted and their roles. To steer the research descriptive was used on survey research design. The population of the research were 467. Selected random sampling size were 82. Questionnaire was employed as a primary data collection. Research established that book keeping skills affects revenue performance on small business. This study recommends the governing authority to fund the mainstream financial literacy training programs in the country in order to equip people with skills to grow the performance of small business enterprises sector.

The study conducted by (Olango & Kerongo, 2014), explained that small and medium enterprises should keep accounting books that are used to prepare audited reports that conform to the accounting principles. Data was gathered using questionnaires and analysis conducted using SPSS and regression analysis. Study revealed that firms which practices record keeping tend to be efficient and managers makes sound economic decisions. Firms that have stable governance dispense the much-needed resources towards business growth as opposed to resource misappropriation. Besides, information asymmetry also improves investment levels in the sense that it enables stakeholders to make informed economic decisions. In conclusion, IFRS contributes to greater performance of SMEs.

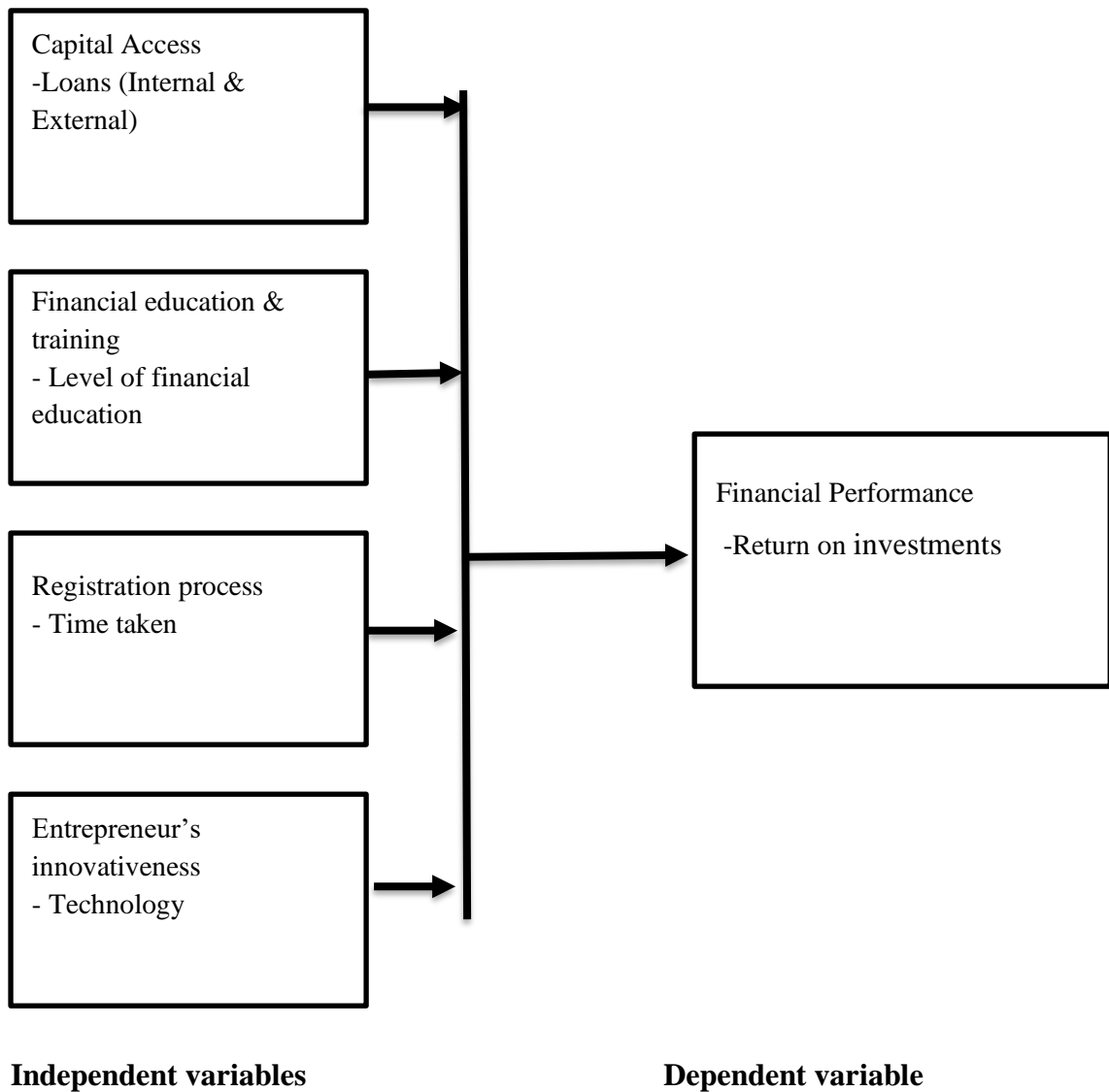
The study conducted by (Omondi & Jagongo, 2018), also studied microfinance services and financial performance of small and medium enterprises of youth SMEs in Kisumu County. Study involved 448 SMEs in Kisumu County therefore the study for the sample was 135 respondents from using questionnaires and analysis conducted with the help of SPSS. This research recommended that SMEs would perform well when owners are trained on basic financial management skills before advancing credit to ensure such resources are properly utilised. The government should also create skill training platform via the youth fund, women enterprise fund and cheaper credit facilities to propel such enterprises to success.

2.5 Summary of Literature Review

A reviewed literature regarding financial business environment and management processes for SMEs by indicating how they reflect the true picture of the business. The literatures indicated that majority of SMEs need guidance and clear policies for them to enhance success of their business enterprises. The question that lingers then is how SMEs can team up to come up with laid out plan and hold the County government of Nakuru Accountable in terms of service delivery. Most of these studies recommended SMEs and policy makers to focus on fundamental education on book-keeping and financial management to equip players with skills. These studies established that bookkeeping system helps firms to retrieve and review transactions whenever required and when need arises. Thus, this study will determine the relationship between financial business environment on financial performance of SMEs in Nakuru County.

2.6 Conceptual Framework

Conceptual framework is a diagrammatical presentation that shows the relationship between the existing research variables as presented in Figure 2.1.



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

For this section to achieve the study objectives it articulates the procedures that were followed. This chapter present the research design, study site, target population, sampling methods, data collection techniques, data analysis and ethical considerations.

3.2 Research Philosophy

In addressing research problem there should be set of beliefs and agreements that controls research understanding of the researcher (Saunders, Lewis & Thornhill, 2012). For reliable finding that can be replicated philosophical orientation helps investigators select the best appropriate method to employ when carrying the research study. (Saunders *et al.*, 2012). The research study that are grouped into four categories are Positivism, critical, interpretivism and pragmatic paradigms. Positivists use quantitative techniques to obtain objective information from the participants when conducting quantitative studies.

Quantitative techniques allow the investigators to generalize the results obtained into a larger population based on the sample size. Nevertheless, quantitative studies cannot be used with research studies seeking to understand the topic using in-depth interviews. The current study utilized the positivism paradigm linked to a quantitative research methodology to address the research objectives.

3.3 Research Design

Reliability and validity depend on the choice of research design. During the study, when selecting the research design the researcher took caution. According to (Polit & Beck, 2009), To benefit from the evidence of the study and solve various challenges research design can be explained as an overall plan to gather solutions to the research questions. Research study using inappropriate research design can lead to erroneous that produces misleading findings. The architectural backbone of any research study is the research design (Koh & Owen, 2000). This study applied descriptive research design to examine the relationship between financial business environment and financial performance of SMEs in Nakuru County. The researchers employ research design to develop and plan the study in response to the overarching research questions. Descriptive research is deemed appropriate for this study since it enhances a high-level analysis and reduces

data to a manageable form. Moreover, descriptive research cast light on the present problems through data gathering process that helps them to explain the situation more completely than when the design is not use. Moreover, descriptive studies articulate the characteristics of the sample population drawn from study.

3.4 Population of the Study

The study by (Kumar, 2005) defines population as in one problem area there is a set of all units of analysis. SMEs directory 2017 is what the population from which conclusions for the study were made. Two hundred SMEs are registered SMEs and formed the population study. Group of subjects with identical characteristics that are of interest to the investigator is called a population.

The study conducted by (Taherdoost, 2016) explained population as total items from which a sample is drawn. Population may be human subjects, items, or events. A report by Census of Establishment (2017) published by KNBS, within Nakuru East sub-county, indicated that there are approximately 120 registered SMEs and Nakuru West sub-county has around 80 registered and operation SMEs. For the study for these two sub-counties informed the sample frame.

3.5 Sampling Procedures and Technique

The computing function are the sampling techniques that provides the probability of drawing any given sample from the target population. The population under the study is where the research studies draw sample from representative. The researcher applied sample statistics to make inferences regarding the population parameters (Agresti & Finaly, 2009). Since researchers can decide to utilize random or non-random samples drawn from the population, the present research applied a random sampling approach to recruit the eligible participants into the study.

3.5.1 Sample Size Determination

The study conducted by (Israel1992), the purpose of the study, population size, precision level and allowable sample error are the factors that influence the sample size. In this study, Yamane's (1967) determine sample size formula as shown below:

$$n = \frac{N}{1 + Ne^2}$$

$$n = \frac{200}{1+200*0.05^2} \sim 133$$

Where $N = 200$ SMEs in Nakuru West and Nakuru East sub counties, $e = 0.05$; thus, giving a sample size of 133 participants. Using proportional allocation based on the population in each sub county, a proportion of $120/200 * 133 = 80$ will be recruited from Nakuru East, while Nakuru West will avail $80/200 * 133 = 53$ of the sample sizes.

3.6 Data Collection Techniques

For this study, data collection instrument used was a questionnaire. Questionnaire is a written list of question and the answers to which are recorded by respondent (Kumar, 2005). The questionnaire comprised both open and closed ended questions. For anonymity a questionnaire was most preferred by respondent. For researcher to ensure not to disrupt the responded working schedule we will use drop and pick questionnaires. The questionnaire will consist of financial access, registration process, financial training and innovativeness by SMEs.

The research study utilized structured instruments to gather quantitative data from SMEs business managers in the selected localities. Structured questionnaires were administered to collect data. Specifically, a five-point Likert scale was applied to design questionnaires to assess the participants' level of agreement with their SMEs operation constructs relative to revenues and expenses accounts, debtors and creditors accounts, statement of income, cash bookkeeping, and statement of financial position. The questionnaire had two sections: demographic information and objectives-based section. The first section required the participants to provide overall demographic population such as age, number of years in the industry, among others. The second section comprised of the constructs of SMEs financial access, registration process and education process which informs the study's specific objectives. The questionnaire was distributed to the selected participants working in the selected SMEs with Nakuru West and Nakuru East sub-counties to share their responses.

3.6.1 Validity

The study conducted by (Orodho, 2004) The accuracy with which the items generated is measured is what is supposed to be validated. The study was limited to 133 out of 200 small businesses in the County. To ensure validity of the study multiple sources of evidence was used. Professional advisor in the matter presented in consideration was also undertaken to ensure content logic. Validity is explained as the degree to which a concept can be measured in a quantitative (Heale & Twycross, 2021).

3.6.2 Reliability

The study conducted by (Mugenda and Mugenda, 1999), stated that a collection tool yield consistent results or data after repeated trails whereby reliability is a measure of the degree. Reliability is the extent to which a collection tool consistently delivers similar result if applied in the same scenario on repeated occasions. In the questionnaire the study applied systematic questions.

The researcher employed test-retest technique in which the instrument of research was administered twice to the same subject to increase the reliability of the data to be collected. The pilot test of the instrument was then done on five of the subjects to ensure that the desired data or results were obtained. By pretesting a sample of five SMEs in the study validity and reliability of research instruments was achieved. For the internal consistency a Cronbach alpha of 0.7 and above was considered reliable and sufficient. To supplement the qualitative data a construct category identifying similarities and difference emerge. To allow contrast of the correlation into variables cross tabulation was used. As inferential statistics Pearson's Correlation Co-efficient was used to establish relationships between the independent and dependent variables.

3.8 Data Analysis

The methodology in the study was used by the researcher to organize data. Using statistical package for social science software version 26.0 is where data analysis will be conducted. To organize, summarize data and present the results through tables and textual format a descriptive and inferential statistics approaches was used (Byrne, 2007). Demographic data was summarized using descriptive statistics. To assess the relationship between study variables both inferential statistics and regression analysis were employed. For analysis of the questionnaire the qualitative data was generated from open ended questions.

3.7.1 Regression Model

$$ROI = B_0 + B_{X1} + B_{X2} + B_{X3} + B_{X4} + \epsilon$$

B_0 = Constant value

$B_1 - B_4$ = Regression Coefficients

X_1 = Financial Accessibility

X_2 = Registration Process

X_3 = Education and training

X_4 = Innovativeness

ϵ = Error term

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

With the aid of close ended questionnaire this chapter will present the results of primary data that was collected. The data was analysed using descriptive statistics to generate findings on the relationship between business environment and financial performance of Small, Micro and Medium enterprises. In the form of response rate, background information and result finding this chapter will present results of analysis.

4.2 Response rate

Achieving a return rate of 97.2% with a target group of 143 respondent 139 questionnaire were correctly filled and returned. The return rate was appropriate for analysis according to Kothari (2007), For appropriate analysis a response rate of 70% and above is considered.

Table 4. 1 Response Rate

Return Rate	Frequency	Percent
Returned questionnaires	139	97.2
Unreturned questionnaires	4	2.8
Total	143	100

4.3: Reliability statistics

According to Sekaran and Bougie (2016) to represent a satisfactory level of instrument reliability, any reliability index greater than 0.7 is taken. Therefore, to be considered reliable the reliability threshold for this study was 0.7.

Table 4. 2 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.759	.760	12

4.4: Background information

The respondents in the study are achieved by the demographic of the study. Categorically, the age, gender, level of education, area of operation, business sector and duration of business engagement was asked.

4.4.1: Gender of the respondents

As depicted on the table 4.3 the research pursue data on the gender of the respondents.

Table 4. 3: Distribution by gender

Gender	Frequency	Percent
Male	79	56.8
Female	60	43.2
Total	139	100

56.8% from the research findings were male and that they were the majority while 43.2% were female. This indicated that majority of the sampled group are male.

4.4.2 Age of the Respondents

As displayed on the table 4.4 the study sought information about the age of the respondent.

Table 4. 4: Distribution of respondents by Age

Age	Frequency	Percent
21-30 Years	40	28.8
31-40 Years	64	46.0
41-50 Years	27	19.4
Above 51 Years	8	5.8
Total	139	100

The greater number of the respondents were 46% aged between 31-40 years from the study findings followed by age 21-30 at 28.8% while 41-50 years and above 51 years at 19.4% and 5.8% respectively. This gave a representation that majority of the respondents were middle aged.

4.4.3 Highest Level of Education

As depicted on table 4.5 the study sought information on the highest academic qualification of the respondents.

Table 4. 5: Distribution of Respondent by Highest Level of Education

Highest Level of Education	Frequency	Percentage
Diploma/CPA	31	22.3
Post Graduate Degree	9	6.5
Primary Education	17	12.2
Secondary Education	67	48.2
Undergraduate Degree	15	10.8
Total	139	100.0

The results from above indicated that majority of the respondents at 48.2% had achieved a secondary education, while 22.2% had Diploma/CPA. Primary Education and undergraduate and had 12.2% and 10.8% respectively while the least had Post Graduate Degree at 6.5%.

4.4.4: Sub-County of Operation

As depicted on the table 4.6 the study sought information on the sub-county of operation for the business.

Table 4. 6: Sub-County of Operation.

Sub-County	Frequency	Percent
Bahati	1	.7
Nakuru Town East	100	71.9
Nakuru Town West	38	27.3
Total	139	100

The 71.9% operate in Nakuru Town East and were majority of respondents as displayed on the study results above, 27.3% operate in Nakuru Town West while 0.7% Bahati Sub-County.

4.5: Business Sector

The study solicited information on the business sector that the respondents had engaged in, as shown in table 4.7.

Table 4. 7: Business Sector

Business Sector	Frequency	Percentage
Building & Construction	11	7.9
Hotel Tourism and Catering	14	10.1
Manufacturing	4	2.9
Mechanical and Electrical Engineering	9	6.5
Media Culture and Graphical	4	2.9
Oil, Gas and Production	2	1.4
Other Specify	55	39.6
Pharmaceutical/Health services	24	17.3
Textile, Clothing & Footwear	16	11.5
Total	139	100

Majority of respondents were at 39.6% as shown in the study above and had been engaged in other forms of business sector. The sectors mention includes retail, beauty and cosmetic industry, cyber, meat industry, transport, entertainment, furniture, supply of water, and real estate management while 17.3% of respondents had been engaged pharmaceutical/health services. 11.5% had engaged in textile, clothing and footwear; 10.1% in hotel tourism and catering; 7.9% in building and construction; 6.5% in mechanical and electronic engineering; manufacturing and media culture and graphical both at 2.9%; and oil, gas and production lowest at 1.4%.

4.6: Duration in business

The results shown in table 4.8 sought information on how long the respondents had engaged in the business.

Table 4. 8: Duration of Business

Duration Engaged	Frequency	Percentage
Below 5 years	86	61.9
6-10 Years	40	28.8

11-15 Years	10	7.2
Over 16 Years	3	2.2
Total	139	100.0

The results above indicated that majority of the respondents at 61.9% had engaged for 5 years and below while 28.8% had engaged between 6-10 years. 11-15 years and 16 years and above had 7.2% and 2.2% respectively.

4.7 Financial Access

The first objective of the study was to determine the relationship between the level of financial access and financial performance of SMEs. The data was captured on a 5-point Likert scale and a mean of 3.02 reflected neutrality in the statements with the highest level of agreement at 4.91. To achieve this, in relation to this as discussed below the respondents were asked some questions:

Table 4. 9: Financial Access

Statements		f	%	Mean	Std. Dev.
Access to financing is important for growth of SMEs	Strongly Disagree	1	.7		
	Disagree	-	-		
	Neutral	-	-		
	Agree	9	6.5		
	Strongly Agree	129	92.8		
	Total	139	100	4.91	.415
Bank Loans are easily accessible and available for use to start up a business	Strongly Disagree	51	36.7		
	Disagree	56	40.3		
	Neutral	2	1.4		
	Agree	20	14.4		
	Strongly Agree	10	7.2		
	Total	139	100	2.15	1.262
Most banks and SACCOs are reluctant to provide long term loans to SMEs	Strongly Disagree	82	59		
	Disagree	17	12.2		
	Neutral	3	2.2		
	Agree	31	22.3		

	Strongly Agree	6	4.3		
	Total	139	100	2.01	1.38
Composite Mean and Std. Dev.				3.02	1.019

Majority of the respondent with a mean of 4.91 from the study findings illustrated in table 4.9 above agreed that access to financing is important for growth of SMEs while 2.15 disagreed that bank loans are easily accessible and available for use to start up a business. In addition, a mean of 2.01 disagreed that most banks and SACCOs are reluctant to provide long term loans to SMEs.

Generally, a mean of 3.02 showed that majority of the respondents neither agreed nor disagreed with the statements on financial access.

4.8: Registration Process, Licencing and Policy

The second objective of the study was to determine the relationship between level of registration process on financial performance of SMEs. To achieve this, the respondents were asked some questions in relation to this as discussed below:

Table 4. 10: Registration Process, Licencing and Policy

	Statements	f	%	Mean	Std. Dev.	
Below are some of the Government Policy regulations when running a business, please indicate to what extent it has affected the financial performance of your business.	Business Registration Procedure	Challenging	15	10.8		
		Not Challenging	110	79.1		
		Very Challenging	14	10.1		
		Total	139	100	2.69	.647
	Licencing	Challenging	27	19.4		
		Not Challenging	102	73.4		
		Very Challenging	10	7.2		
		Total	139	100	2.86	.519
	Taxation	Challenging	58	41.7		
		Not Challenging	2	1.4		
		Very Challenging	79	56.8		
		Total	139	100	1.45	.527
	Composite Mean and Std. Dev.				2.33	.564

In the table 4.10 above are the study findings illustrated and large number of the respondents monitor that business registration set of action and licencing was not challenging in the running of their business at 2.69 and 2.86 respectively. However, taxation was indicated to be very challenging at 1.45.

Overall, a mean of 2.33 showed that the policy regulations was not very challenging to businesses.

4.9: Financial Education and Training

The other aim was to firmly set the connection between level of financial education and training on financial performance of SMEs. The respondent was asked some question in relation to this discussed below for achievement of this objective.

Table 4. 11: Financial Education and Training

Statements		f	%	Mean	Std. Dev.
Training Enabled me manage the business better	No Extent	21	15.1		
	Little Extent	6	4.3		
	Moderate Extent	3	2.2		
	Great Extent	90	64.7		
	Very Great Extent	19	13.7		
	Total	139	100	3.55	1.23
Training improved my record keeping	No Extent	22	15.8		
	Little Extent	8	5.8		
	Moderate Extent	10	7.2		
	Great Extent	73	14.4		
	Very Great Extent	26	18.7		
	Total	139	100	3.49	1.30
Training enabled me to relate well with my suppliers	No Extent	21	15.1		
	Little Extent	11	7.9		
	Moderate Extent	6	4.3		
	Great Extent	82	59.0		
	Very Great Extent	19	13.7		
	Total	139	100	3.47	1.26

Training improved my relationship with customers	No Extent	20	14.4		
	Little Extent	4	3.6		
	Moderate Extent	11	7.9		
	Great Extent	82	59.0		
	Very Great Extent	21	15.1		
Total		139	100	3.57	1.22
Training improved my level of accountability	No Extent	21	15.1		
	Little Extent	6	4.3		
	Moderate Extent	8	5.8		
	Great Extent	79	56.8		
	Very Great Extent	25	18.0		
Total		139	100	3.58	1.27
Total		139	100		
Composite Mean and Std. Dev.				3.53	1.26

Majority of respondents indicated that they have attended some form of financial training regarding how to manage/run a business at 82.2%. Topics covered were listed as follows: how to borrow loans at 76.3%, on operation of enterprise at 81.3%, how to manage business finances at 79.9%, employee supervision at 73.4% and how to keep business records at 76.3. Other skills taught include marketing and negotiating skills.

From the table 4.11 above, larger part of the respondents indicated that getting financial education and training has improved their level of accountability at a mean of 3.58, improved their level of customer relations at 3.57, enabled them manage their business better at 3.55, improved their record keeping at 3.49 and enabled them to relate well with their suppliers at 3.49. Respondents also indicated that the often calculate the profits in their businesses: daily at 48.2%, weekly at 25.2%, monthly at 23.7%, quarterly at 2.2% and yearly at 0.7%.

Generally, a mean of 3.53 showed that financial education and training improved the financial performance of their business at a moderate extent.

4.10: Innovation and Competitiveness

In this study it was to determine the relationship between level of innovativeness and financial performance innovativeness of SMEs. In relation to the discussed below the respondent was asked questions.

Table 4. 12: Innovation and Competitiveness

Statements		f	%	Mean	Std. Dev.
Pricing	No Extent	1	.7		
	Little Extent	3	2.2		
	Moderate Extent	2	1.4		
	Great Extent	72	51.1		
	Very Great Extent	62	44.6		
	Total	139	100	4.36	.69
Location	No Extent	5	3.6		
	Little Extent	16	11.5		
	Moderate Extent	2	1.4		
	Great Extent	79	56.8		
	Very Great Extent	37	26.6		
	Total	139	100	3.91	1.03
Product Quality	No Extent	8	5.8		
	Little Extent	5	3.6		
	Moderate Extent	11	7.9		
	Great Extent	66	47.5		
	Very Great Extent	49	35.3		
	Total	139	100	4.03	1.05
Availability of products	No Extent	9	6.5		
	Little Extent	5	3.6		
	Moderate Extent	12	8.6		
	Great Extent	59	42.4		
	Very Great Extent	54	38.8		
	Total	139	100	4.04	1.09
Customer Service	No Extent	4	2.9		
	Little Extent	12	8.6		
	Moderate Extent	4	2.9		
	Great Extent	73	52.5		
	Very Great Extent	46	33.1		
	Total	139	100	4.04	.98
	Total	139	100		
Composite Mean and Std. Dev.				4.08	.97

Respondents indicated that their motivation to start a business were: new way of doing things at 44.4%, availability of ready market at 26.7%, lack of employment at 18.9%, family business at 6.7% and 3.3% stated other reasons (passion and apprenticeship experience).

The use of technology as a payment method was indicated in purchase at 57.2%, distribution at 41.3% and production at 1.3%. Other areas mentioned by the respondents include payment of employees and transport services. 75.5% of the respondents also indicated that they had a business plan before starting their business. Respondents also explained how they chose the location of the business; availability of raw materials, market demand, security, affordable rent prices in the area, good infrastructure e.g., roads, availability of capital to start the business, high population of people, and few competitors in the area.

In the table 4.1.2 above, greater part of the respondents indicated that pricing affected their business as compared to other business around them to a great extent at 4.36, location to a moderate extent at 3.91, product quality to a great extent at 4.03, availability of products and customer service both at 4.04.

4.1.1 Correlation Analysis

Summarised in the table 4.1.3 the study shows the strength of relationship between the independent variables and carried out inferential statistics using correlation analysis.

Table 4. 13: Correlations

		Financial Access	Registration	Financial training	Innovation and Competitiveness
Financial Access	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	139			
Registration	Pearson Correlation	.052	1		
	Sig. (2-tailed)	.542			
	N	139	139		
Financial training	Pearson Correlation	.100	.005	1	
	Sig. (2-tailed)	.243	.958		
	N	139	139	139	
Innovation and Competitiveness	Pearson Correlation	-.257*	-0.12	0.60	1
	Sig. (2-tailed)	.002	.886	.485	
	N	139	139	139	139

In table 4.10 of the correlation matrix displayed revealed that there is a positive moderate correlation between financial access and registration which implied that a unit increase in financial access increases registration by 0.524.

There was also a positive weak correlation financial access and financial training. Financial training increases financial access by 0.10.

Furthermore, between financial access and innovation competitiveness there was also a negative weak correlation. Which implied that a unit increase in financial access decreases innovation at by 0.2

For registration and financial training there was also a positive weak correlation. This implied that a unit increase in financial training increases business registration by 0.05.

Between financial training and innovation/competitiveness there was a positive strong correlation. This implied that a unit increase in financial training increases business innovativeness/competitiveness by 0.6.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The objective of the study was summarized in line and was to investigate the relationship between financial business environment on financial performance of SMEs in Nakuru county.

5.2 Summary Findings

Majority of respondent were male. The respondent of male was at 56.8% while 43.2% were female. On academic education 48.2% had achieved a secondary education and were majority of the while 22.2% had Diploma/CPA. Primary Education and undergraduate and had 12.2% and 10.8% respectively while the least had Post Graduate Degree at 6.5%. This shows that the respondents had at least some level of education. Results from sub-county of operation indicated that majority of the respondents 71.9% operate in Nakuru Town East while 27.3% operate in Nakuru Town West. 0.7% of the entrepreneurs operate in Bahati Sub-County. The study results on business sector indicated that majority of the respondents at 39.6% had been engaged in other forms of business sector. The sectors mention includes retail, beauty and cosmetic industry, cyber, meat industry, transport, entertainment, furniture, supply of water, and real estate management while 17.3% of respondents had been engaged pharmaceutical/health services. 11.5% had engaged in textile, clothing, and footwear; 10.1% in hotel tourism and catering; 7.9% in building and construction; 6.5% in mechanical and electronic engineering; manufacturing and media, culture and graphical both at 2.9%; and oil, gas and production lowest at 1.4%. The majority of respondent who engaged in business of 5 years and below were 61.9% from the study findings while those between 6-10 years were 28.8%. 11-15 years had 7.2. 16 years and above had 2.2%.

5.3 Discussion of Findings

The major finding is what will be discussed in this section in relation to the broader objectives of the study to come up with comprehensive conclusions and recommendations.

5.3.1 Financial access and Financial Performance of SMEs

The key areas assessed reveal that the access to financing is important for the gradual increase of SMEs at a mean of 4.91, however a mean of 2.15 revealed that most banks loans are not easily accessible and available for use for business by start up by SMEs. It was also explained that most banks and SACCOs are not reluctant to provide long term loans to SMEs at a mean of 2.01, the findings of this study are consistent to a study by Mambu. (2017) that banks request SMEs to provide security for capital in the form of land title deeds or car logbook which may not always be available for entrepreneurs.

5.3.2 Registration Process and Financial performance of SMEs

The findings reveal that the process of registering businesses in Nakuru East and West was at not challenging. This can be attributed to the introduction of the New companies Act 2015, where the process and cost of registration has been streamlined by the Kenyan Government (Nduna, 2017) The duration taken by taken by entrepreneurs to get a licence for the business was found at 2-4 weeks for most of the entrepreneurs. The duration of business registration therefore was found to affect the expansion of their business to a little extent at 86.3%.

What affected the financial performance of SMEs at a large extent was taxation of government policy. Taxation was very challenging in running of their business and it was 98.5% of the respondents. The findings are consistent with research by (Jepkosgei, 2014) that high taxation by Government negatively impacts the growth and sustainability of business especially, SMEs.

5.3.3 Financial Education Training and Financial Performance of SMEs

Study findings reveal training in how to borrow loans, how to run a business, how to keep financial records and manage business financed influenced financial performance to a moderate to great extent at 3.53. At least 48.3% of the study also revealed that the greater number of the respondents had at least a secondary and this could have contributed to the responses on training and financial literacy. Previous study reveals that the lower the level of education of a business owner, the higher the need for financial education and training (REF). Financial literacy and knowledge to manage a business was found to be high among the business owners interviewed. This was also evident with the findings on frequency of calculating profits, where 48.2% indicated that they calculate their profits daily, weekly at 25.2% and monthly at 23.7%.

5.3.4 Innovation/Competitiveness and Financial Performance of SMEs

The research section revealed that the greater number of the entrepreneurs interviewed are innovative. 44.4% of the respondents indicated that the main motivation of starting a business is a new of doing this in business. Innovation was explained to mean the act of starting or introducing something new to the usual way of doing business. In Nakuru, the use of banking applications and checks in the production, purchase, payment and distribution of goods and services was found at 1.3%, 57.2%, 0.2%, 41.3% and 0.2% respectively. The use of innovations in purchase and distribution was found to be highest at 57.2 and 41.3% respectively.

Business competitiveness influences the financial performance of businesses (REF). The study findings revealed that in comparison with other surrounding businesses; pricing affected their business in a great extent at 95.7%, location at 83.4%, product quality at 82.8%, availability of products at 81.2% and customer service at 85.6%. The competitiveness of business therefore was found to influence the overall company evaluation of business to a substantial way.

5.4 Conclusion

From the above discussions, several conclusions were made:

The study revealed that financial access influences financial performance of SMEs attributed by importance of access to financing, accessibility, and availability of bank loans and SACCOs not being reluctant to provide long term loans to SMEs.

The registration process, licencing and Government policy were found to influence financial performance of SMEs attributed by business registration procedure, licencing, and taxation. Financial education and training were found to influence financial performance of SMEs where business management skills, improved record keeping, skills for relating with suppliers and level of financial accountability skills were investigated.

In addition, it can be concluded that innovation and competitiveness of a business also influence the financial performance of SMEs. This was attributed innovation in production, purchase and distribution and competitiveness in pricing, location, production quality, availability of products and customer service. In financial training,

registration, and innovation in financial performance of SMEs there was a positive correlation between financial access, financial training, registration, and innovation in the financial performance of SMEs.

5.5 Recommendations

The following suggestions are based on the study findings by the researcher.

It is indeed necessary to have more emphasis on banks to provide more financing opportunities to businesses. This will help businesses to sustain their operations and achieve more growth.

Government policies on tax for enterprises should be reviewed to ensure that more businesses are able to meet their operating costs in an effective and efficient way. The Government should therefore promote sound tax environment for SMEs to exist and thrive.

Despite results on access to financing being important for the running of businesses; SACCOs, banks and other lending institutions should relax the requirements on collateral for loans to encourage more youths to venture into entrepreneurship.

Ensure there is continuity in training in financial education to SMEs to enhance their performance and create more awareness on the gaps that exist in financial literacy.

5.6 Limitation of the study

5.7 Suggestions for further studies

Comparable research should be carried in other areas of Nakuru that were not investigated in this study; using similar or different variables to evaluate other important factors that may influence the relationship between business environment and financial performance of Small, Micro and Medium Enterprises in Nakuru.

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APPENDICES

APPENDIX A: INTRODUCTION LETTER TO THE RESEARCH PARTICIPANTS

Job Owino Oyieno

P.O Box 12252-20100,

Nakuru.

Tel: 0707-114254

Dear Sir/Madam,

RE: INTRODUCTORY LETTER FOR DATA COLLECTION

I am Job Owino Oyieno a student from University of Nairobi carrying out a study to determine the level of financial business environment on financial performance of by SMEs in Nakuru County. The research will be submitted for partial fulfilment for the award of degree of master's in business administration at university of Nairobi. I hereby request you to answer the following questions as honestly as possible. This information will be kept completely confidential and anonymous and will not be used for any other purpose apart from the stated research Thank you so much for your time and cooperation

Yours truly,

Job Owino Oyieno

APPENDIX B: QUESTIONNAIRE

I'm a final year student pursuing Master's degree in business administration at the University of Nairobi. I am carrying out a research on "Relationship between financial business environment on Financial Performance of Small, Micro and medium Enterprises (SMEs in Nakuru County). The information you give will be used exclusively for academic purposes and treated with utmost confidentiality.

SECTION A: GENERAL INFORMATION

1. What is your gender? Male Female
2. What is your age? Below 20 Years 21-30 Years
 31-40 Years 41-50 Years
 Above 51 Years
3. Indicate the highest level of education
- Primary Education
- Secondary Education
- Diploma/CPA
- Undergraduate Degree
- Post graduate Degree
4. What is your sub-county of operation?
- NTW NTE Naivasha Bahati
 Njoro Molo Rongai Subukia
 Rongai Kuresoi North Kuresoi South
5. What is the name of your business?
6. What is your business sector?

Agriculture	
Manufacturing	
Building & Construction	
Mechanical and Electrical Engineering	
Media Culture and Graphical	
Oil, Gas and Production	
Postal and Communication	
Hotel Tourism and Catering	
Pharmaceutical/Health services	

Textile, Clothing & Footwear	
Other Specify	

7. How long have you been in this business?

Below 5 Years 6-10 Years 11-15 Years
Over 16 Years

SECTION B

Financial access

8. Who owns the business?

.....

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

	1	2	3	4	5
1. Access to financing is important for growth of SMEs					
2. Bank Loans are easily accessible and available for use to start up a business					
3. Most banks and SACCOs are reluctant to provide long term loans to SMEs					

SECTION C

Registered processes, licences and policy

10. Is your business registered?

Yes No

11. If yes, how long did it take you to register your business by getting a licence?

A Week

2- 4 Weeks

A month or more

A year or more

If No give a reason

.....

12. To what extent has business registration affected the growth and expansion of your business?

	Tick
No extent	
Little extent	
Moderate extent	
Great extent	
Very great extent	

13. Below are some of government policy regulations when running a business. Please indicate to what extent it has affected the financial performance of your business

	Very Challenging	Challenging	Not Challenging
Business Registration Procedure			
Licensing			
Taxation			

Other Specify

SECTION D

Financial training

14. Have you ever attended any form of financial training regarding business management?

Yes No

15. If yes have you covered the following topics in the training?

	Tick
How to borrow loans	
How to run Business	
Management Services	
Employees Supervision	
How to keep records	

Other Please explain

16. To what extent did the knowledge you acquired from the training influence how you run your business

	No extent	Little extend	Moderate extend	Great extent	Very great extent
Enabled me manage the business better					
Improved my record keeping					
Enabled me to relate well with suppliers					
Improved my relationship with customer					
Improved my level of accountability					

17. How do you measure the profit of your Business?

Weekly Monthly Yearly

Others, please specify.....

SECTION E

Entrepreneurships

18. What motivated you to start a business?

Lack of employment	<input type="checkbox"/>
New way of doing things in business	<input type="checkbox"/>
Family business	<input type="checkbox"/>
Availability of ready market	<input type="checkbox"/>

Other specify.....

19. Do you use M-pesa or bank transfer in either of the following areas in your business?

Production	<input type="checkbox"/>	Purchase	<input type="checkbox"/>	Distribution	<input type="checkbox"/>	Payment	<input type="checkbox"/>
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Other Specify

20. How did you choose the location of business?

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
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21. Did you have a business plan before you started

.....
.....

22. Is your pricing influenced by your competitor?

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
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23. Please specify any competitor advantage you have over your competitors.

.....
.....
.....