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**ASSESSMENT OF MFI FUNDING ON THE PERFORMANCE  
OF SMALL AND MEDIUM ENTERPRISES IN MURANG'A  
COUNTY**

**BY  
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**A RESEARCH PROJECT SUBMITTED IN PARTIAL  
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## DECLARATION

This project is my original work and has not been presented for examination in any other university.

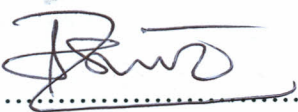
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This research project has been submitted for examination with my approval as  
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Dr. Mary Namusonge  
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This research project has been submitted for examination with my approval as the  
chairman of the department.

Sign.......... Date.....16/12/13.....  
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## **DEDICATION**

To my loving mom, Rose Wambui, sons, Steve and Moses and those who cherish education.

## ACKNOWLEDGEMENT

First of all I would like to thank God almighty who has brought me this far. He has provided me with strength, knowledge and vitality that enabled me to make this Project a reality.

Second, I wish to thank my family more so my children for their moral support and encouragement and their understanding when I was not there for them during the period I was working to come up with this Project. I wouldn't have made it this far without them.

My sincere gratitude also goes to my supervisor Dr. Mary Namusonge, associate supervisor Dr. Jagongo and Mr. Antony D. Bojana for editing the final project. I salute you.

God bless you all.

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## ACRONYMS

GDP	Growth Domestic Product
MDG	Millennium development goals
MF	Microfinance
MFI	Micro Finance Institutions
NGO	Non-profit Organizations
NSE	Nairobi Stock Exchange
SHG	Self help group
SME	Small and Medium Enterprises

## ABSTRACT

The fundamental purpose of this study was to assess the impact of Micro finance Institutions (MFIs) funding on the performance of Small and Medium Enterprises in rural Murang'a. Simple random sampling technique was employed in selecting the 50 SMEs that constituted the sample size of the research. Structured questionnaire was designed to facilitate the acquisition of relevant data which involves simple percentage graphical charts. Illustrations were tactically applied in data presentations and analysis. The findings of the study reveal that MFIs funding benefitted the SMEs even though only few of them were capable enough to secure the loan amount needed. Interestingly, majority of the SMEs acknowledge positive contributions of MFI funding towards promoting their performance and it is recommended that further research be carried out in the same and countries in order to show whether there's any link between MFI funding and performance on SMEs.

## CHAPTER ONE: INTRODUCTION

### 1.1 Background to the Study

Microfinance has several competing definitions. For instance, (Morduch, 2000) defined microfinance as the provision of financial services and loans to the poor in which a sum of money loaned out is repaid in small installments over a certain period of time (Morduch, 2000). However, microfinance is generally an umbrella term that refers to the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income households and their micro-enterprises (Sharma, 2001). These borrowers usually lack credit histories, collateral, or both, and thus, do not have access to financing from mainstream commercial banks (Banerjee & Duflo, 2007). For this reason, MFIs are seen as playing a role in the creation of economic opportunity, and in poverty alleviation.

Microfinance aims to bring financial service to poor people as to provide small-scale financial services primarily savings, credit and insurance to people performing small or micro business activities such as farming, fishing, herding or micro-enterprises producing, recycling, repairing or selling goods (Lalitha, 2008). Microfinance emerged as a noble substitute for informal credit and an effective and powerful instrument for poverty reduction among people who are economically active but financially constrained and vulnerable in various countries (Japanica Intersectoral, 2003; Morduch & Haley, 2002). It covers a broad range of financial services including loans, deposits and payment services, and insurance to the poor and low-income households and their micro-enterprises.

#### 1.1.2 History of Microfinance

Microfinance dates back when money lenders were performing the role of formal financial institutions. The informal financial institutions are; village banks, cooperative credit unions and social venture capital funds that provide savings and credit services for SMEs. They mobilize rural savings and have simple procedures that originate from local cultures (Germidis et al., 1991). They fund SMEs in developing countries where are more likely to fail (Maloney, 2003).

History of micro financing can be traced to the middle of the 1800s when theorist Lysander Spooner was writing over the benefits from small credits to entrepreneurs and farmers of as a way getting the people out of poverty. One of the earliest micro-credit organization providing small loans to rural poor dwellers with no collateral is the Irish Loan Fund system initiated in the early 1700s by Jonathan swift. His idea began slowly in 1840s and became a widespread institution of about 300 branches all over Ireland in less than one decade. The principal purpose was to advance small loans based on some trust for short periods. The Irish loan fund attracted about 20 percent of all Irish SMEs leading to growth of SMEs every year. In the 1800s various types of longer and more formal savings and credit institutions began to emerge known as people's banks credit unions and savings and credit cooperative. They were motivated to assist the rural population to break out of their dependence on money lenders and improve their welfare. From 1870, the unions rapidly expanded over a large cooperative movement and quickly spread to other countries in Europe and North America and eventually supported by the cooperative movement in developed countries and donors and also to developing countries.

### **1.1.3 Types of Microfinance Institutions**

According to Dacheva (2010), microfinance services are provided by three types of sources: formal institutions, such as rural banks and cooperatives; semi-formal institutions, such as nongovernment organizations; and informal sources such as money lenders and shopkeepers. Institutional micro-finance is defined to include microfinance services provided by both formal and semi-formal institutions. Micro-finance institutions are defined as institutions whose major business is the provision of microfinance services.

Regarding formal microfinance, we have Development and Microfinance Banks, Non-bank financial institutions, contractual savings institutions (Pension funds and insurance companies) and Commercial Banks in the formal sector. Multipurpose cooperatives, cooperative quasi-banks, employee savings funds, Village banks, development projects, and credit unions, which are owned and managed by their users, fall in the semi-formal sector. Representative of the Informal financial sector are non-governmental organizations (NGOs), and very informal private lenders – individual moneylenders, traders and shopkeepers. The difference between the

categories for the purpose of the paper would be that Institutions that fall in the Formal Financial Sector are regulated, while those in the Informal Financial Sector are not regulated.

#### **1.1.4 Small and Medium Enterprise in Kenya**

Small and medium enterprises (SMEs) are dynamic entities where some grow into larger enterprises; some stabilize without changing the scale of operation, while others disappear. The Sessional Paper No. 2 on small enterprise and Jua Kali development in Kenya (GoK, 2004) set out a comprehensive policy framework to promote the growth and catalyze the transition of SME. This was to be achieved by enhancing direct assistance to these enterprises by primarily facilitating access to finance, credit, and information to this sector. Micro Enterprises were then expected to register positive growth.

The support and recognition of the role and importance of micro and small enterprises in Kenya dates back to the colonial period. Active participation in this sector by the government began in 1992 when the government developed the first Sessional Paper No. 2 on Unemployment where the government identified its primary challenge as its ability to find ways to help accelerate the expansion of SMEs as a strategic avenue of job creation in Kenya (GoK, 2004). In Sessional Paper No. 1, 2005 on Economic Management for Renewed Growth acknowledged the increasing importance of the informal sector in economic development with respect to employment creation, particularly in the face of the economic crisis and structural adjustment policies that were prevailing at that time (GoK, 2002). In 1989, the government published a document entitled, "A Strategy for Small and Medium Enterprises (SMEs) Development in Kenya Towards the year 2000, which focused on the constraints the sector was experiencing. Sessional Paper No. 2 of 2006 on Small enterprises and Jua Kali Development in Kenya set out a policy framework to enhance assistance to individual entrepreneurs and small scale enterprises. This was expected to precipitate the transition of micro and small enterprises into medium-sized enterprises by among other strategies, facilitating easy access to credit and information to this sector (GoK, 2006).

The National Poverty Eradication Plan 1999 – 2015 recognized that the SME sector employed 70.2 percent of the total national working population by 1999. The Plan expected the sector to

expand at growth rate of 6 percent per annum, through provision of finance incentives from banks and MFIs to maintain the survival livelihoods for the economically disadvantaged in the population. In this regard, the Economic Survey (2004) showed the tremendous growth of the informal sector in the creation of job opportunities. Out of a total recorded national employment figure of 7,338,500 persons, the informal sector accounted for 5,545,200 jobs as compared to 1,793,300 jobs in the formal sector. In full recognition of this fact, the government declared its intention to create job opportunities by diversification of SMEs through capacity building using micro finance programs. This is a clearly achievable poverty-eradication strategy considering that the micro enterprise sector alone needs to register a growth of 10 percent per year across the board to be able to generate 550,638 job opportunities per year.

According to recent study there has been formation of GEMS, Growth Enterprise Market Segments, mid cap segment which are expected not to diversify arenas of long-term capital for SMEs but raise standard within capital markets through additional listing. The midcap, being key drivers of vision 2030, has with focus on SMEs designed to play a role as engine for economic growth, poverty eradication and employment creation. Hence have been seen the need for MFIs to create counter to tap into new pool of funds for the SMEs at cheap rates. Kenya as of now has about 1.6 million registered SMEs consisting about 96% of all business enterprises. Have seen to employ 5.1million people accounting 75% of total labour to contribute 20% to Kenya's GDP.

### **1.1.5 Microfinance Sector in Kenya**

The microfinance industry started in Kenya about 20 years ago, but it only gained the status of an industry in the past ten years, where it is generally categorized along two lines (Hospes et al., 2002, pp. 23-5). First and most common is the formal versus informal. Formal providers are registered by Kenyan law. Informal providers are subject to self-regulation or group-based rules. Second, microfinance in Kenya can be categorized as client- or member-based. In member-based organizations, members provide the resources as well as constituting the main target group for the loans. These are cooperatives. In client-based organizations, the customers are distinct from the owners. Customers are not involved with the management of the organization.

The potential of using institutional credit and other financial services for poverty alleviation in Kenya is quite significant. About 18 million people, or 60% of the population, are poor and mostly out of the scope of formal banking services (Omino, 2005). According to the National Micro and Small Enterprise Baseline Survey of 1999, there are close to 1.3 million MSEs employing nearly 2.3 million people or 20% of the country's total employment and contributing 18% of overall GDP and 25% of non-agricultural GDP (CBS-ICEG-K-Rep, 1999). Despite this important contribution, only 10.4% of the micro and small enterprises (MSEs) receive credit and other financial services. The formal banking sector in Kenya over the years has regarded the informal sector as risky and not commercially viable (Omino, 2005).

The government of Kenya recognizes that greater access to, and sustainable flow of financial services, particularly credit, to the low-income households and MSEs is critical to poverty alleviation. Therefore, an appropriate policy, legal and regulatory framework to promote a viable and sustainable system of microfinance in the country was developed via the Deposit Taking Micro Finance Bill (Omino, 2005). In drafting the Bill, the Government has consulted with stakeholders to get their views on the best way to create the required enabling environment for the microfinance sub-sector. The bill was subsequently signed into Law on December 29, 2006 as Kenya's Microfinance Act, (2006), bringing the MFIs that intend to take deposits from the public under CBK supervision and regulation. While specific prudential regulations have been developed for the MFIs that are registered with the CBK as Deposit Taking Microfinance (DTMs) Institutions, the treatment of Non-deposit taking regulation was delegated to the Minister for Finance under section 3(2) of the same Act (CBK, 2008).

#### **1.1.6 MFI and SME Development in Rural Areas**

Banks have failed to provide credit to the poor and most found in developing countries and to be more specific in the rural areas. The reasons given by Von Pischke (2001) are that their policies are not meant to favour the poor. The poor are mostly illiterate and banks lack skills to target these rural customers. In these areas, the population density is very low causing high transaction cost by the financial institutions since they need to move for long distances and also takes time to meet the customers. SMEs in developing countries are considered to be too unstable by banks to invest in. Due to this instability, the banks consider SMEs to have high risk and the costs these banks suffer to monitor the activities of the SMEs are high. Bhattacharya et

al., (2000) identify that banks are reluctant to lend to SMEs since investing in SME activities is considered by banks to be very risky. They find it risky in the sense that if invested in, and in an event of unfavourable business conditions, they have low financial power, assets, and easily go bankrupt.

The cost of borrowing from banks is very high and this prevents SMEs to borrow from these institutions but these costs to borrow are sometimes subsidized by the government. The application process for a loan is long and difficult for SMEs to meet the demands. The collateral demanded by banks for a loan is based on fixed assets and which are very high in order to hinder these businesses to acquire loans. They cannot afford these collaterals which include; estates, and other fixed assets valued usually at 200% of the loan (Meagher, 1998). The major setback that prevents SMEs to get funding from external sources is the problem of information asymmetry. That is the magnitude of the deviation of the correct information that is needed by the lending institution.

Banks use cash flows and profitability to measure or to assess the worthiness of a business. This is a very expensive and not a good method to measure the credit strength of rural SMEs. Production and distribution in the rural areas are influenced by social factors that are often neglected by enterprises in developing countries (Otero et al., 2004). Agriculture dominates rural activities in developing countries and is dependent on the weather conditions for its output.

## **1.2 Statement of the Problem**

Giving credit to SMEs has been met with great criticism and conception that they cannot be good clients of financial institutions due to their questionable performance, though this has been challenged by well-documented experiences of Yunus, (2003). The banks being the domineering forces behind loan and credit provision have failed to maximize and provide cash flows to SMEs as they view them as poor clients who cannot repay, hence charge high interest rates which many cannot afford. This is blamed on poor corporate governance and regulatory constraints which leave no room for SME innovation and motivation. Despite this negative view by the banks, MFIs have gone to show that the SMEs can use small loans productively, repay them and hence improve their performance.

The government, on the other hand, has seen the need for SME funding and has provided favourable policies for the MFIs to offer loans to improve SMEs performance. While this direction is recommendable, however, most SMEs performance is poor, (Joana, 1999). The assessment of this funding is yet to be known, especially so, its effect in rural areas where few studies are not well-documented, (Mwaniki, 2006).

Few if any, studies have researched on the impact of MFIs funding on SMEs performance in rural Murang'a. They show that loans are being provided yet SMEs experience low productivity and profits which is an indicator of low performance, (Khandler, 1998). Therefore, the aim of this study is to assess the impact of MFIs funding on performance of SMEs in rural Murang'a.

### **1.3 Objectives of the Study**

The general objective of this study was to assess the effect of funding by MFIs on the performance of small and medium enterprises in rural Murang'a.

#### **1.3.1 Specific Objectives**

The specific objectives were to;

- i. Find out if the capital loans provided by MFIs are effectively utilized by SMEs.
- ii. Investigate if SMEs with the help of the loans obtained from MFIs achieved significant training.
- iii. Determine if financial management has led to positive business performance since acquisition of credit from the MFIs.
- iv. Find out how technology impacts on performance after acquiring loans from microfinance institutions in Murang'a

### **1.4 Research Questions**

The research questions sought to answer the questions such as have the;

- i. Financed SMEs been able to pay the loan acquired from MFIs?
- ii. MSEs been able to increase in profitability after acquisition?

- iii. Are SMEs financially stable after receiving credit from them?
- iv. What are the challenges facing SMEs performance after acquisition of credit from MFIs in Murang'a?

### **1.5 Significance of the Study**

The performance of SMEs in Murang'a County remains important in employment creation and improvement of the living standard of the business persons. The findings of this study will, therefore, be beneficial to the:

**Management:** The study findings will be of great importance to the management of MFIs since they will address the most critical factors pertaining to MFI funding on the performance of SMEs in the rural regions. This will overcome management challenges of the funding that might be affecting their enterprises' performance.

**Investors:** The study will be important to investors who increasingly rely on services provided by SMEs. This will help them to build confidence when investing in them as their performance excels or understand areas to improve for their success after taking loans.

**Policy-makers:** The study findings will be of critical importance to the government as it will bring into light various policies which are detrimental to the performance of SMEs in Murang'a and address these factors according to the research recommendations. It will be useful to the government agents for further planning of rural SMEs development funding.

**Researchers and Scholars:** They will gain both theoretical and practical experience to carry out further research on factors that hinder the performance of SMEs in Murang'a County.

### **1.6 Scope of the Study**

The study focused on the role of MFI funding on the performance of SMEs in Murang'a County. The study concentrated on the SMEs that accessed loans from the MFIs. This study undertook to research on activities within the scope of the issues addressed by the research objectives. This ensured that all the study findings contribute towards achievement of the main objective of the study. The study reviewed the past activities explained by the literature review of the study.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction

This chapter consists of three sections. The first section discusses the theoretical literature related to the study concerning SME funding by MFIs. The second section examined empirical literature related to the concepts in the research. The third section revisits the critical literature review related to the four objectives. Literature summary, research gap, and conceptual framework are also examined at the end of the chapter.

### 2.2 Theoretical Literature Related to the Study

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance (Robinson, 2008). In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management (Ledgerwood, 1999). There are different providers of microfinance (MF) services and some of them are, NGOs, savings and loans cooperatives, credit unions, government banks, commercial banks or non bank financial institutions. The target group of MFIs are self-employed low income entrepreneurs who are; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans blacksmith etc (Ledgerwood, 1999).

The micro finance industry in Kenya has experienced rapid growth over the years in an attempt to meet the large demand from the estimated 38 percent of Kenyan's lacking access to financial services ([www.kenyabureauofstatistics.com](http://www.kenyabureauofstatistics.com)). The demand for micro-finance service in Kenya is high yet the industry is only able to meet about 20 percent of their demand. Micro financial sectors in Kenya have rapidly expanded as a source of credit for small scale businesses.

As the twenty first century unveils, the interest and resources devoted to micro finances continue to grow. Using credit delivery approaches that reduce the transaction costs of small-scale lending, there are now thousands of micro credit programmes in both developing and

developed countries (World Bank 2000). The growth of MFIs has been accompanied by several debates including a concern that micro credit encourages the poor to take on detrimentally high levels of indebtedness (Hulme and Mosley, 2006). At the same time, there has been increasing recognition that the SMEs need more than credit; they need a full range of micro finance services, including savings and insurance services. As the industry matures, MFIs have been challenged to become financially self sufficient. In some ways, the push towards financial sustainability for the MF industry completes a circle. What begun as effort to help the poor benefit from their own businesses has shifted over time to focus on sound business practice within the micro finance industry that increases the financial management options (Sebstad & Chen, 1996). Khandler, 1998) questions whether financially sustainable micro finance industry will continue to provide financial services to the original clientele.

In addition, (Sebstad, 1998) asserts that in the push for financial sustainability, there may be a client creep away from the lower income clients. This raises a number of questions, do the clients of MFI benefit from the credit or other services they receive? Do micro finance programs reach the poor? Are the benefits experienced more within the micro enterprise, or do they spill over into the household or to the individual entrepreneur more generally? (Snodgrass, 1996). These concerns have provided an impetus to the search for methods of assessing the influence of micro finance in the poverty levels of clients at individual and enterprise level (Sebstad, 2000).

The answers to these basic questions are of interest to financiers and practitioners who need to know where to focus their efforts in order to effectively help specific groups. They need to know whether their programmes have succeeded in eliminating fundamental growth barriers in the delicate growth dynamics of SMEs, especially barriers arising from the lack of easy access to credit critically needed to fund SME growth. They also need to establish whether access to credit has catalyzed growth and transition of the micro enterprise, and the extent to which the growth is attributable to their microfinance interventions (Sebstad & Cohen, 2000). It is not until recently that microfinance had gained recognition thanks to the noble prize winner Yunus Muhammad of the Grameen Bank and James Mwangi of Equity Bank. It should be noted that microfinance is a main tool that fosters development in developing countries. The lack of

financial power contributes to societal problems which emanate from poverty leading to lack of good healthcare system, education, nutrition. Microfinance target the poor considered risky by commercial banks (Zeller & Sharma, 1998).

The UN policy framework on the global impact of MF as a tool to induce growth cannot be gainsaid. United Nations' General Assembly declared the year 2005 as the international year of Micro Credit (UN, 2010). This resolution required member states to commit themselves to launching a global movement which would reach 100 million of the world's poorest families with micro credit facilities for self-employment. The General Assembly fully recognized the role of MF in the growth of SME as a global phenomenon of poverty alleviation, poverty eradication and wealth creation among the world's poorest (UN, 2010).

### **2.3 Empirical Literature**

A study of thirteen MFIs in seven countries carried out concludes that household income tends to increase at a decreasing rate as the income and asset position of the debtors is improved. Diagne and Zeller (2001) in their study in Malawi suggest that microfinance do not have any significant effect in household income meaning no effect on SME development. Investing in SME activities has no effect in raising household income because the infrastructure and market is not developed.

Low-income earners have a serious hindrance in gaining access to finance from formal financial institutions. Ordinary financial intermediation is not more often than not enough to help them participate, and therefore MFIs have to adopt tools to bridge the gaps created by poverty, gender, illiteracy and remoteness. The clients also need to be trained so as to have the skills for specific production and business management as well as better access to markets so as to make profitable use of the financial resource they receive (Bennett, 2004). In providing effective financial services to the poor requires social intermediation. This is "the process of creating social capital as a support to sustainable financial intermediation with poor and disadvantaged groups or individuals" (Bennett, 2004). Some microfinance institutions provide services such as skills training, marketing, bookkeeping, and production to develop enterprises. Social services such as health care, education and literacy training are also provided by some MFIs and both

enterprise development and social services can improve the ability of the low-income earners to operate enterprises either directly or indirectly (Legerwood, 1999).

The services provided to microfinance clients can be stated into: Financial intermediation or the provision of financial products and services such as savings, credit, insurance, credit cards, and payment systems should not require ongoing subsidies. Social intermediation is the process of building human and social capital needed by sustainable financial intermediation for the poor. Subsidies should be eliminated but social intermediation may require subsidies for a longer period than financial intermediation.

Enterprise development services or non-financial services that assist micro entrepreneurs include skills development, business training, marketing and technology services, and subsector analysis. This may or may not require subsidies and depends on the ability and willingness of the clients to pay for these services.

Social services or non-financial services that focus on advancing the welfare of micro entrepreneurs and this include education, health, nutrition, and literacy training. These social services are like to require ongoing subsidies and are always provided by donor supporting NGOs or the state (Bennett, 2004; Legerwood, 1999).

## **2.4 Critical Literature Review Related to the Four Objectives**

### **2.4.1 Performance**

Investorwords (2011) defines performance as the results of activities of an organization or investment over a given period. Lumpkin and Dess (1996) point out that it is essential to recognize the multidimensional nature of the performance construct. Thus, research that only considers a single dimension or a narrow range of the performance construct (for example, multiple indicators of profitability) may result in misleading descriptive and normative theory building. Research should include multiple performance measures. Such measures could include traditional accounting measures such as sales growth, market share, and profitability. In addition, factors such as overall satisfaction and non-financial goals of the owners are also very important in evaluating performance, especially among privately held firms. This is consistent

with the view of Zahra (1993) that both financial and non-financial measures should be used to assess organizational performance.

Hudson et al. (2001), Phillips et al., (2003) and Chong (2008) assert that SMEs may be differentiated from larger companies by a number of key characteristics such as personalized management, with little devolution of authority, severe resource limitations in terms of management, manpower and finance, reliance on a small number of customers, and operating in limited markets; flat, flexible structures and reactive, fire fighting mentality. The significant differences in the structure and philosophy of SMEs indicate a need to assess the performance of SMEs differently from large firms. The resource limitations associated with SMEs indicate that the dimensions of quality and time are critical to ensure that waste levels are kept low, and that a high level of productivity performance is attained. Similarly, the reliance on a small number of customers suggests that to remain competitive, SMEs must ensure that customer satisfaction remains high and that they can be flexible enough to respond rapidly to changes in the market.

Chong (2008) declares that there are four main approaches to measure the performance of organizations. These are the goal approach, system resource approach, stakeholder approach and competitive value approach. The goal approach measures the extent an organization attains its goals while the system resource approach assesses the ability of an organization obtaining its resources. For the stakeholder approach and the competitive value approach, these evaluate performance of an organization based on its ability to meet the needs and expectations of the external stakeholders including the customers, suppliers, competitors. Among these, goal approach is most commonly used method due to its simplicity, understandability and internally focused. Information is easily accessible by the owners managers for the evaluation process. The goal approach is a better fit for the SMEs where targets are being set internally based on the owners- managers' interests and capability to achieve.

According to Richard et al. (2008), the goal approach directs the owners-managers to focus their attentions on the financial (objective) and non-financial measures (subjective). Financial measures include profits, revenues, returns on investment (ROI), returns on sales and returns on

equity, sales growth, and profitability growth. Non-financial measures include overall performance of the firm relative to competitors, employment of additional employees, customer satisfaction, employee satisfaction, customer loyalty, brand awareness and owner's satisfaction with way the business is progressing. Atieno (2009) notes that financial measures are objective, simple and easy to understand and compute. However, financial measures suffer from being historical and are not readily available in the public domain especially for SMEs. In addition, profits are subject to manipulations and interpretations. The solution to the limitations of financial measures is to apply the non-financial measures, though subjective in nature, as supplements to the financial measures. The combinations of these two measures help the owners-managers to gain a wider perspective on measuring and comparing their performance. Meilan (2010) agrees that this is a holistic approach and Balanced Scorecard approach to performance evaluation for SMEs.

#### **2.4.2 Financial Sustainability of SMEs**

The financial sector in providing finances for SMEs can be evaluated in three vital dimensions: financial sustainability, outreach, and welfare effect (Zeller and Mayer, 2002). They went further to say that microfinance triangle is the main policy objective of these microfinance institutions which are aimed towards development. The internationally agreed objectives of development are the Millennium Development Goals (MDGs). These MDGs are to alleviate poverty and this is done in many dimensions of welfare such as increasing access to education, health, nutrition, women's empowerment and basic needs. The financial sector can contribute to the development of SMEs either directly or indirectly. The direct influence is by increasing the access to financial services to the poor. There are three distinguished ways on how to access financial services that can influence income-generation activities and consumption stabilization of the poor (Zeller et al, 1997). The indirect method is by supporting a sustainable financial system as a prerequisite for social and economic growth.

The main objectives of MFIs are prioritized differently. Researchers like (Otero & Rhyne, 2004) argue that increasing access to reach the poorest of the poor and sustainability are compatible objectives. Others argue that there may be a trade-off between outreach to the poorest and attaining financial sustainability which is as a result of MFIs transaction costs. This

makes unit cost for smaller savings and smaller loans high as compared to larger financial transactions. This rule of reducing unit transaction costs with larger transaction size generates the trade-off between better outreach to the poor and financial sustainability, regardless of the borrowing technology used (Zeller & Mayer, 2002). The financial sustainability of the financial institutions and the poor is two of the three policy objectives of Micro Financing (MF). Welfare effect is the third policy objective that relates to the development finance can be increased through non-financial services such as SMEs, marketing services, or training of borrowers that raise the profitability of loan financed projects. The MF effect assessment studies reviewed suggested that the poorest amongst the poor can gain from microfinance by having a constant consumption through the management of their savings and borrowing habits.

#### **2.4.3 Challenges Facing SMEs in Kenya**

It is recognized that SMEs face unique challenges, which impact their performance and profitability and hence, diminish their ability to contribute effectively to sustainable development. These are:

**Lack of Managerial Training and Experience:** Many SMEs owners develop their own approach to management, through process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept. A consequence of poor managerial ability is that SME owners are ill-prepared to face changes in the business environment and to plan appropriate changes in technology. Majority of those who run SMEs are ordinary lot whose educational background is lacking. Hence, they may not be equipped to carry out managerial routines for their enterprises (King & McGrath, 2002).

**Inadequate Training and Skills:** Research shows that majority of SME owners in Murang'a are not quite well-equipped in terms of training and skills. The study suggests that those with more training and skills are more likely to be successful in the SME sector (King & McGrath, 2002). As such, for small businesses to do well in Murang'a, people need to be well informed in terms of skills and management. SMEs in ICT appear to be doing well with the sprouting of many commercial colleges offering various computer applications. Further, studies show that most of

those running SMEs in this sector have at least attained college level education (Wanjohi & Mugure, 2008).

**Lack of Credit:** Credit constraints operate in variety of ways in Murang'a where undeveloped capital market forces entrepreneurs rely on borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short-term finance. There are other financial challenges that face small enterprises which include the high cost of credit, high bank charges and fees. Financial constraint remains a major challenge facing SMEs in Murang'a (Wanjohi & Mugure, 2008).

**Technological Change:** Change of technology has posed a great challenge to small businesses since mid-1990s creating concern about the effect of technological change on the work of micro and small enterprises. Even with change in technology, many SMEs appear to be unfamiliar with new technologies. Those who seem to be well-positioned, are most often unaware of this technology and if they know, it is not either locally available.

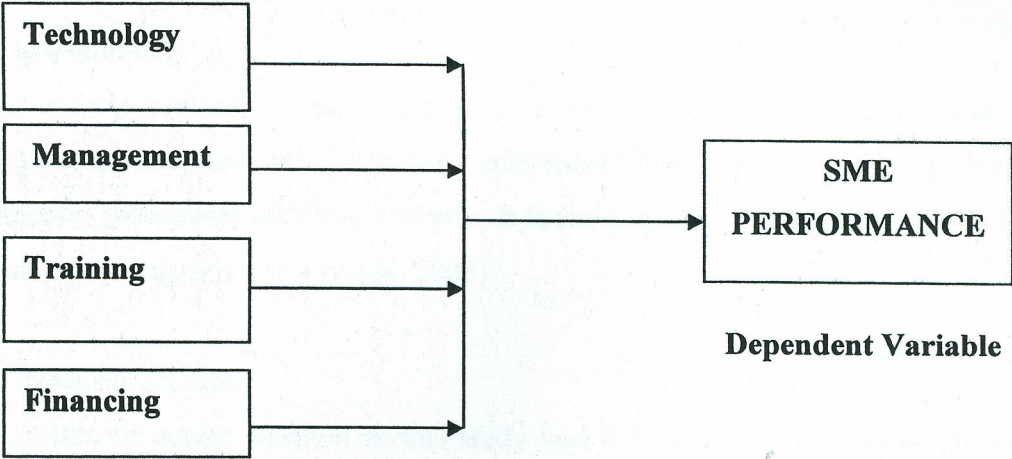
## **2.5 Literature Summary and Research Gaps**

Despite the many studies that have been carried out in this field here are still some gaps that are yet to be explored. These include how efficient are the loans provided to the SMEs in contributing to their performance and financial sustainability. Also, it is not proved yet by the researchers how well the SMEs utilize the loans they are given to the advantage of their business. This is because once they receive the loans, the MFIs do not necessarily follow up or monitor to ensure that the entire amount granted as loan is strictly put in business. Few studies have focused on the wages paid by SMEs and the poverty level of their employees (Hughes, 2000). Bigsten (2006), in a review of the literature developed from the World Bank's Research Programme on Enterprise Development in the 1990s, concluded that wages were higher in larger SMEs than in smaller ones, although they are not able to explain the source of difference.

## **2.6 Conceptual Framework**

The model below illustrates some of the MFI funding which affect SME Performance. It shows that SMEs Performance depends on the kind of funding and credit accessibility.

**Figure 2.1: The conceptual framework**



**Independent Variables**

Source: Researcher, 2013

## CHAPTER THREE: RESEARCH METHODOLOGY

### 3.1 Introduction

This chapter presents research design methodology that comprises research design, target population, sampling and sampling techniques, instruments of data collection, and data collection procedures and data analysis. It is the conceptual structure within which research is conducted (Mugenda & Mugenda, 2003).

### 3.2 Research Design

The research design adopted in this study was descriptive survey approach that was used to assess the MFI funding of small and medium enterprises in rural Murang'a County. This type of descriptive research gives a systematic collection and analysis of data in order to answer questions concerning the current status of a programme, proposal or activity as they are. (Mugenda & Mugenda, 2003). This also borrows from (Kombo & Tromp, 2006) assertion that a descriptive design is a description of the state affairs, as it exists. Descriptive research design is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals (Mugenda & Mugenda, 2003).

### 3.3 Target Population

Mugenda and Mugenda (2003) defines target population as all members of a real or hypothetical set of people, events or objects to which an investigator wishes to generalize the results of a research study. In this study, the target population consisted of 500 SME owner managers from Murang'a County. It sought to assess the effect of the SMEs performance after credit acquisition from MFIs. The researcher gathered information from individuals from MFI clients in Murang'a.

### 3.4 Sample size

A sample is a subject of the target population which the researcher intends to generalize the findings (Mugenda & Mugenda, 2003). In this study, a total of 50 respondents was selected to represent the SMEs involving; 5 kiosk owners, 3 tailors, 8 farmers, 6 hawkers, 6 Jua Kali artisans, 4 hair stylists, 4 grocery vendors, 4 commercial colleges, 4 wholesalers and 2 barbers.

**Table 3.1 Sample frame**

<b>Category</b>	<b>Population</b>	<b>Percentage</b>	<b>Sample</b>
Kiosk owners	54	10	6
Tailors	34	10	3
Farmers	88	10	9
Hawkers	64	10	7
Jua kali Artisans	64	10	6
Salons	44	10	5
Grocery vendors	44	10	4
Commercial colleges	40	10	4
Wholesalers	44	10	4
Barbers	24	10	2
<b>Total</b>	<b>500</b>		<b>50</b>

**Source: Research Data 2013**

### **3.5 Sampling Technique**

To get a representative sample for the study, the researcher used stratified sampling procedure. The study adopted the simple random sampling method where 50 SMEs were considered, one respondent was selected from each SME since most of the SMEs were found to be managed solely by the owners. All of them responded making the response rate of 100%

### **3.6 Data Collection Instruments**

The researcher used questionnaires and interviews to collect data.

### **3.7 Reliability Analysis**

The most common reliability coefficient is the Cronbach's alpha which estimates internal consistency by determining how all items on a test relate to all other items and to the total test-internal coherence of data. The reliability is expressed as a coefficient between 0 and 1.00. The higher the coefficient, the more reliable is the test.

In this study, to ensure the reliability of the instrument Cronbach's Alpha was used. Cronbach Alpha value is widely used to verify the reliability of the construct. Therefore, Cronbach Alpha was used to test the reliability of the proposed constructs. The findings indicated that Managerial skills had a coefficient of 0.904, entrepreneurial skills had a coefficient of 0.903, Innovativeness of 0.898, Structural capital of 0.869 and Customer capital of 0.829. All constructs depicted that the value of Cronbach's Alpha are above the suggested value of 0.5 thus the study was reliable (Nunnally & Bernstein, 1994; Nunnally, 1974). On the basis of reliability test it was supposed that the scales used in this study is reliable to capture the constructs.

**Table 3.1: Response rate**

	<b>Successfully filled and returned/collected</b>	<b>Unsuccessful</b>	<b>Total</b>
<b>Total</b>	36 (70%)	14 (30%)	50(100%)

### 3.7 Questionnaires

A largely pre-coded quantitative questionnaire was used to gather information from respondents. These questionnaires drew on survey tools used in other studies conducted internationally on this subject, which was adopted to reflect the cultural and environmental context in Murang'a County. The questionnaire were tested and refined on the basis of a comprehensive pilot or pre-test exercise. The questionnaire were given to all owner managers as respondents across the age spectrum of 18 years and above, and explore perceptions and feelings, general experiences, as well as knowledge on SMEs related to the funding issues they face.

### **3.8 Interview Schedules**

This interview schedules were used to collect data from SMEs clients. This enabled the researcher to obtain more authentic information beyond the limited questionnaire since respondents tend to give more and adequate information besides enabling the researcher has the advantage of comparing both the answers given and the body language hence assisted the researcher to determine the authenticity of the information.

### **3.9 Reliability and Validity**

Joppe (2000) defines reliability as the extent to which results are consistent over time and an accurate representation of the total population under study and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable.

On the other hand, validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. Therefore with the given definition, the researcher was keen on the consistence and accuracy of the results. She checked out on whether there's truthfulness in the results.

### **3.9 Data Collection Process**

The researcher's letter of introduction was produced in order to arrest any suspicions and elicit serious response. The researcher administered the questionnaires personally with assistants because the group was large. The researcher thus got to explain the purpose of the study and personally answer respondents questions. A face to face interaction with the respondents became an effective way to elicit the co-operation of the respondents in data collection.

### **3.10 Data Analysis and Presentation**

The data from the respondents were edited, coded and tallied according to their themes and were analyzed by use of descriptive statistics such as means, frequencies, and percentages. The results were presented in tables of frequency distributions, percentages, pie charts, bar graphs and figures. Qualitative data were analyzed and reported thematically.

## **CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATIONS**

### **4.1 Introduction**

The chapter represents the empirical findings and results of the application of the variables using techniques mentioned in chapter three. Specifically, the data analysis was in line with specific objectives where patterns were investigated, interpreted and implications drawn on them.

### **4.2 Response Rate**

From the data collected, out of the 46 questionnaires administered, 32 were filled and returned, which represents 70% response rate. This response rate is considered satisfactory to make conclusions for the study. Mugenda and Mugenda (2003) observe that a 50% response rate is adequate, 60% good and above, while 70% rated very good. This collaborates with Bailey's (2000) assertion that a response rate of 50% is adequate, while a response rate greater than 70% is very good. This implies that based on this assertion, the response rate in this case of 70% is therefore very good.

The recorded high response rate can be attributed to the data collection procedures, where the researcher pre-notified the potential participants (business owners/ managers/ directors or business partner) of the intended survey, utilized a self-administered questionnaire where the respondents completed and these were picked shortly after and made follow up calls to clarify queries as well as prompt the respondents to fill the questionnaires.

### **4.3 Demographic Data**

The study sought to establish the demographic data of the respondents. The researcher begun by a general analysis on the demographic data got from the respondents which included;- the gender, age, marital status, nature of business, duration of business existence, position held by

respondents, academic qualification of the respondents, number of competitors and the type of business ownership. This research targeted 50 participants in regard to establishing the influence of MFI funding on performance of SMEs and 50 questionnaires were generated.

#### **4.3.1 Gender Distribution**

The descriptive statistics of the study indicated that 28 (60 %) of the respondents were men while the remaining 16 (40%) were women.

#### **4.3.2 Age Bracket of the Respondents**

The age of the entrepreneurs can be considered as a measure for knowledge of the world. In the survey, the respondents were asked to state the age category they were in. Out of the targeted 46 business owners/ managers/ directors or business partners, 21 (46.6%) of the respondents were between 26-36 years of age, 10 (22.5%) of the respondents were between 36-45 years of age, 9 (19.4%) of the respondents were between 18-25 years of age, 4 (8.9%) of them were between 46-55 years of age, while only 1(2.6%) was over 50 years old. This result illustrates that SME owners are generally active between the ages of 18- 50. It is also in agreement with the findings by Price (2006) who maintained that there are two natural age peaks correlated to entrepreneurship, namely the late twenties and mid-forties. The study findings are almost similar to a study done in America by Muijanack, Vroonhof and Zoetmer (2003) who determined that the optimum age for entrepreneurs was 25-35. The age of 25-35 is, therefore, the age at which entrepreneurial capacity of the respondents was active.

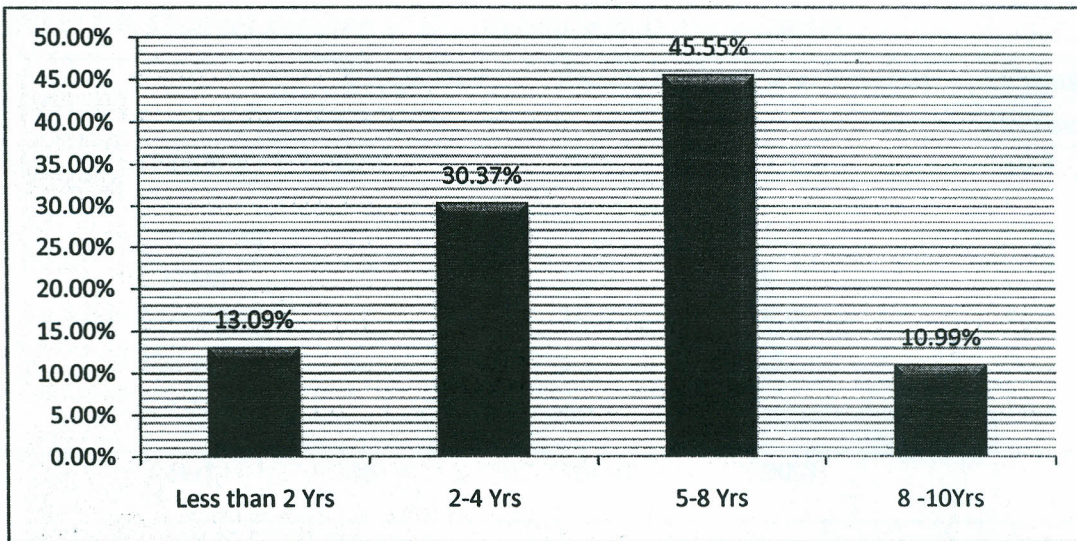
**Table 4.3: Age bracket of the respondents**

		<b>Frequency</b>	<b>Percent</b>
Valid	18-25	9	19.4
	26-36	21	46.6
	36-45	10	22.5
	46-55	4	8.9
	Over 55	1	2.6
	<b>Total</b>	<b>46</b>	<b>100.0</b>

### **4.3.3 Duration of Time Business has been in Operation**

21 (45.55%) of the respondents have been in operation for between 5 and 10 years, 14 (30.37%) have been in operation for between 2 and 5 years, 6 (13.09) have been in operation for less than 2 years, 5 (10.99%) have been in operation for between 8 and 10 years. This result indicates that the majority of SMEs in Murang'a (45.55%) have been operational for less than ten years.

This result is consistent with previous empirical studies on the age of SMEs in South Africa. Rwigema & Karugu (1999), in a study of SMEs in Johannesburg, stipulate that forty seven percent (47%) of enterprises surveyed had operated between one and ten years. The high rate of unemployment in Murang'a since 2007 is the primary motivation for starting SMEs.



**Figure 4.1: Duration of time the respondents' businesses had been in existence**

#### 4.3.4 Current Position of the Respondents in the SMEs

Eighteen (39.8%) of the respondents indicated that they owned their SMEs. This result is in agreement to a study that was conducted in Cyprus by Bruce et al., (1998) which showed that more than eighty percent (80%) of small manufacturing enterprises are family operated or managed. This result is also consistent with the National Small Business Act of South Africa of 1996 as amended in 2003 which expects small businesses to be managed by their owners. Nine (19.9%) of the respondents were partners, 9 (19.4%) were managers, 5 (11.5%) were Co-owners, 3(6.3%) were executives and only 1 (3.1%) was a director.

Poor time management, a lack of confidence and ineffective leadership and management are amongst the many people-related issues that owner-managed businesses face. This scenario has an influence on the success of SMEs. The study findings are presented on table 4.5 below.

**Table 4.4: Current position of the respondents in the business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Owner	18	39.8	39.8	39.8
	Co-owner	5	11.5	11.5	51.3
	Partner	10	19.9	19.9	71.2
	Manager	10	19.4	19.4	90.6
	Executive	2	6.3	6.3	96.9
	Director	1	3.1	3.1	100.0
	<b>Total</b>	<b>46</b>	<b>100.0</b>	<b>100.0</b>	

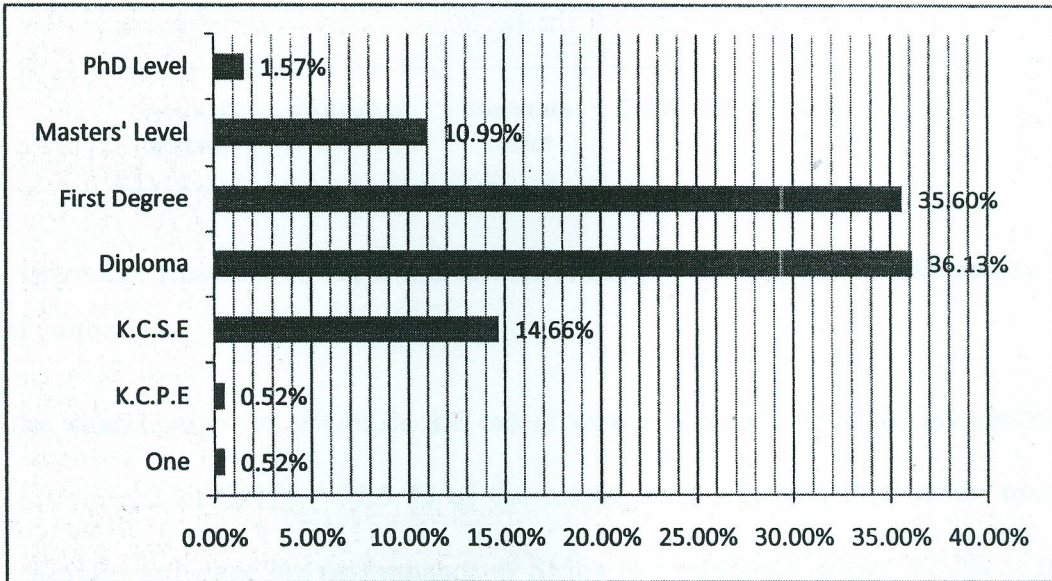
#### 4.3.5 Academic Qualifications of the Respondents

From the descriptive statistics shown in table figure 4.5, 17 (36.13%) of the respondents were reported to be diploma holders, 16 (35.60%) of them were holders of a first degree, 7 (14.66%) of them had reached secondary school, 5 (10.99%) had a masters degree, 1 (1.57%) was a Ph.D holder, 1 (0.52%) respondent had reached class eight, while the remaining 1 (0.52%) respondent had dropped in primary before doing their exams.

Previous empirical studies appear to be in agreement with this result. Marten (2005:12) in a study on the success of small businesses in Canada, found that the education of the owner is positively related to the success of the business. Small businesses operated by people with at a minimum of a secondary education, had their revenues grow more than twice as fast compared to enterprises managed by individuals with less than a high school education. Driver et al., (2001) argue that in South Africa, individuals with a matric or those with a tertiary education are, significantly, more likely to own a small business than those without matric.

As per this studies' findings, majority of the respondents were well above diploma level, which supports studies by King and McGrath (2002) who indicated that in today's constantly

fluctuating business environment, education is one of the factors that impact positively on growth of firms and that those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to such unexpected fluctuations. This shows that the academic qualification affects the growth of Small and medium enterprises in Murang'a.

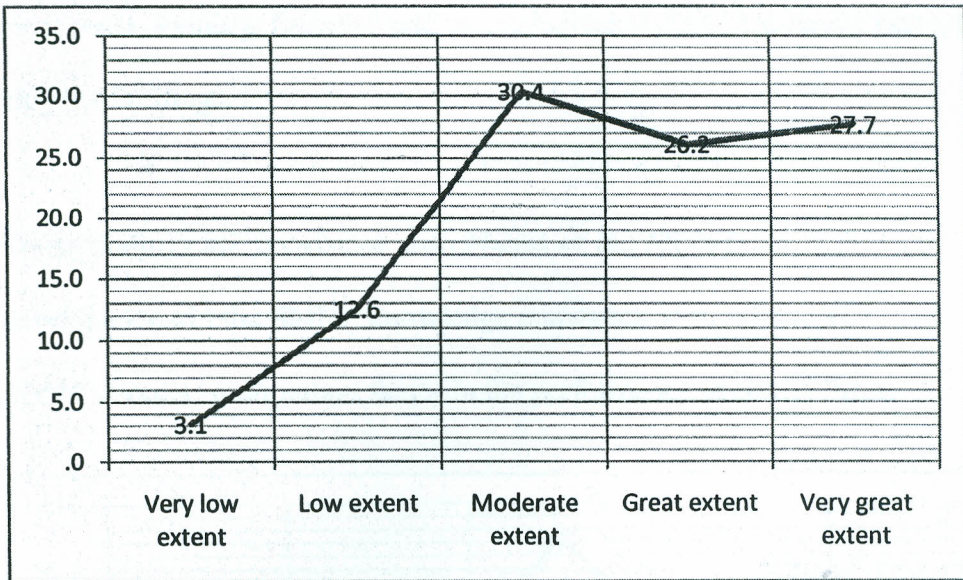


**Figure 4.2: Academic qualifications of the participants of the survey**

#### 4.4 Study Variables

##### 4.4.1 Managerial Skills

The study sought to investigate the influence of managerial skills on growth of small and medium enterprises. Specifically, the study focused on technical skills, interpersonal skills and the employee's level of education.



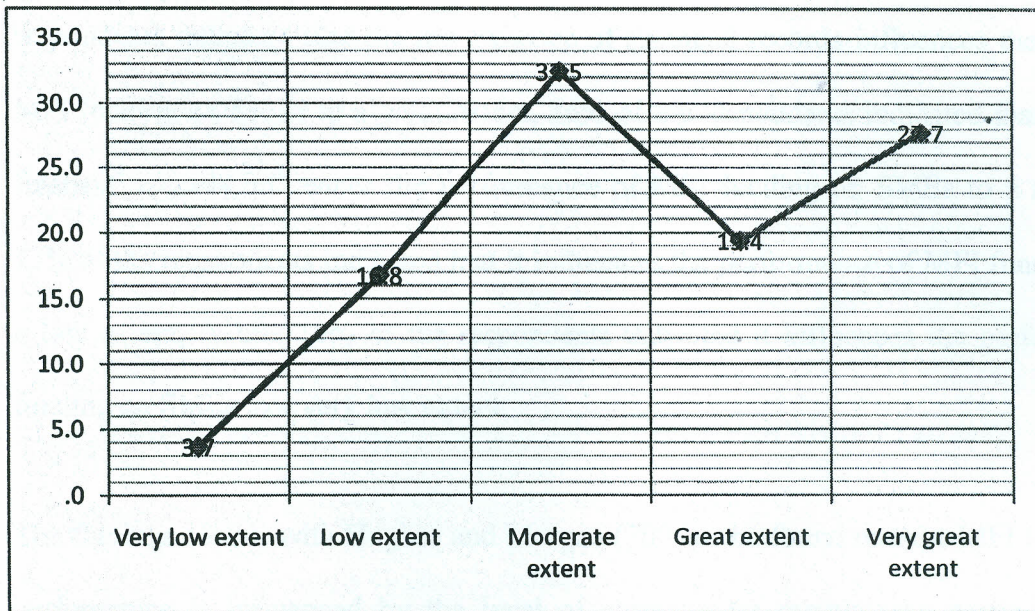
**Figure 4.3: Extent training skills influence the performance of SMES owner manager level of education**

The study sought to establish the extent owner manger's level of education influence the performance of SMEs. 32.5 % of the respondents indicated that owner manger's level of education influence the performance of SMEs to a moderate extent, 27.7% of the respondents indicated that owner manger's level of education influence the performance of SMEs to a very great extent, 19.4% of the respondents indicated that owner manger's level of education influences the performance of SMEs to a great extent. 16.8 % of the respondents indicated that owner manger's level of education influence the performance of SMEs to a low extent, while 3.7% of the respondents indicated that owner manager' level of education influences the performance of SMEs to a very low extent.

The findings collaborate with the findings of (Svendsen, 2006) who found that Entrepreneurship training is about developing people with increased probability to succeed when creating and developing a business. Entrepreneurship training seeks to provide business owners with the

managerial, training, financial and technological skills to encourage entrepreneurial success in a variety of settings.

These findings are consistent with Nunes et al., (2006) who report that informal systems are developed to aid the SMEs' knowledge management activities. The findings show that the level of education is an important factor in the performance of SMEs firms.



**Figure 4.4: Extent that owner manager's level of education influence the performance of SMEs**

#### 4.4.2 TrainingSkills

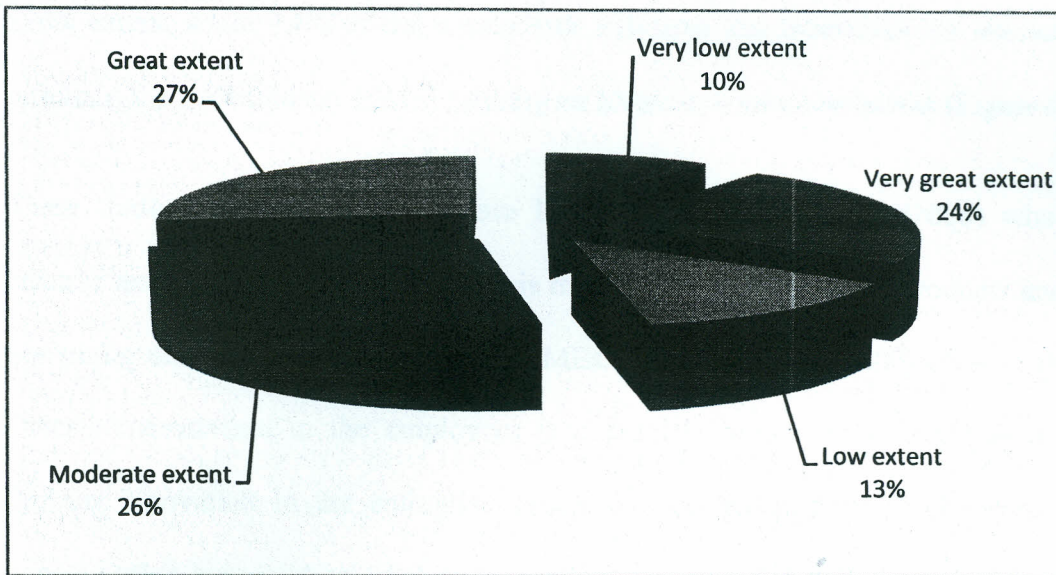
The study sought to investigate the influences of training on performance of Small and Medium Enterprises. Specifically, the study focused on risk-taking propensity, careful budgeting skills to ensure that financial records, human relation skills, clear goals and objective setting skills, business operating skills, skills to detect changes in the market, skills to act quickly, skills to

provide attractive range of products, skills to obtain market share that suits the size and capability.

#### **4.4.3 Financial Records**

The study sought to find out the extent to which maintenance of financial records influences the performance of SMEs. Figure 4.12 below, depicts that 24% of the respondents indicated that it influences the performance of MFI funding on SMEs to a very great extent, 27% of the respondents indicated that the maintenance of financial records influences the performance of MFI funding on SMEs to a great extent, 26% of the respondents indicated that maintenance of financial records influences the performance of MFI funding on SMEs to a moderate extent, 13% of the respondents indicated that it influences the performance of MFI funding on SMEs to a low extent,. While 10% of the respondents indicated it influences the performance of MFI funding on SMEs to a very low extent.

The findings concur with Hughes and Morgan (2007) who found that the MFI funding on SMEs performance is influenced by the level of entrepreneur maintaining accurate and complete records. Drury (2000) reveals that proper financial records help the SMEs to be in a position of meeting short-term obligations. The inferences from the study shows that the performance of MFI funding on SMEs is influenced by the entrepreneurs capacity to maintain liquidity position of the firm through current ratio and acid test ratio which helps the entrepreneurs to be in a position to meet short term obligations.



**Figure 4.5: Maintenance of financial records**

#### **4.4.3 Technology**

The study sought to investigate the influences of technology on MFI funding of small and medium enterprises in Murang'a. Specifically, the study focused on owner manager's use of technology.

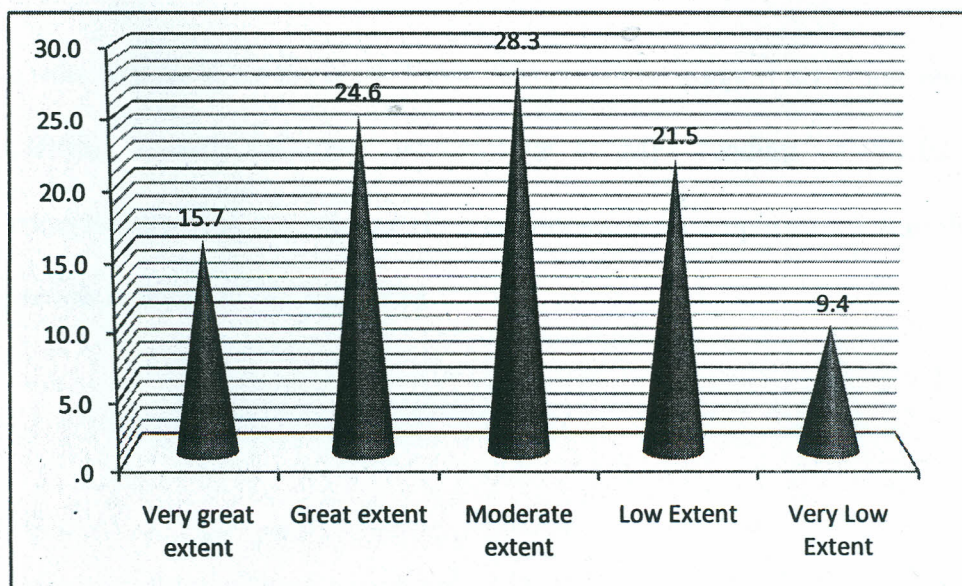
##### **Provision of Incentives for owner managers using technology**

The study sought to find out the extent to which incentives for innovative owner manager influence the MFI funding on the performance of SMEs in Murang'a. From Figure 4.13, 15.7% of the respondents indicated that incentives for innovative employee influence the performance of MFI funding on SMEs to some extent, 24.6% of the respondents indicated that incentives for innovative employee influence the performance of MFI funding on SMEs to a great extent, 28.3% of the respondents indicated that incentives for innovative employee influence the performance of MFI funding on SMEs to a moderate extent, 21.5% of the respondents indicated that incentives for innovative employee influence the performance of MFI funding on SMEs to

a low extent, while 9.4% of the respondents indicated that incentives for innovative employee influence the performance of MFI funding on SMEs to a very low extent (Figure 4.9).

These findings correspond with those by Hyrsky and Tuunanen (2006) who found that a creative and innovative employee who is motivated to develop new products and new markets has strong association to the growth of SMEs. Gans and Scott (2000) observe that recognition through incentivizes to the employees is a crucial component to building a sustained and thriving innovation in the enterprise which is a prerequisite for SMEs performance where compensation is pegged on employees creativity associated with emergence of new markets and new products.

The study infers that incentives for innovative employee influence the performance of MFI funding on SMEs in Murang'a as depicted by the comparison of the findings of the study and available literature. This reveals that entrepreneurs who provide incentives to innovative employees are likely to encourage the employees to be creative and thus lead to emergence of new products and new markets and hence influence the performance of MFI funding on SMEs.

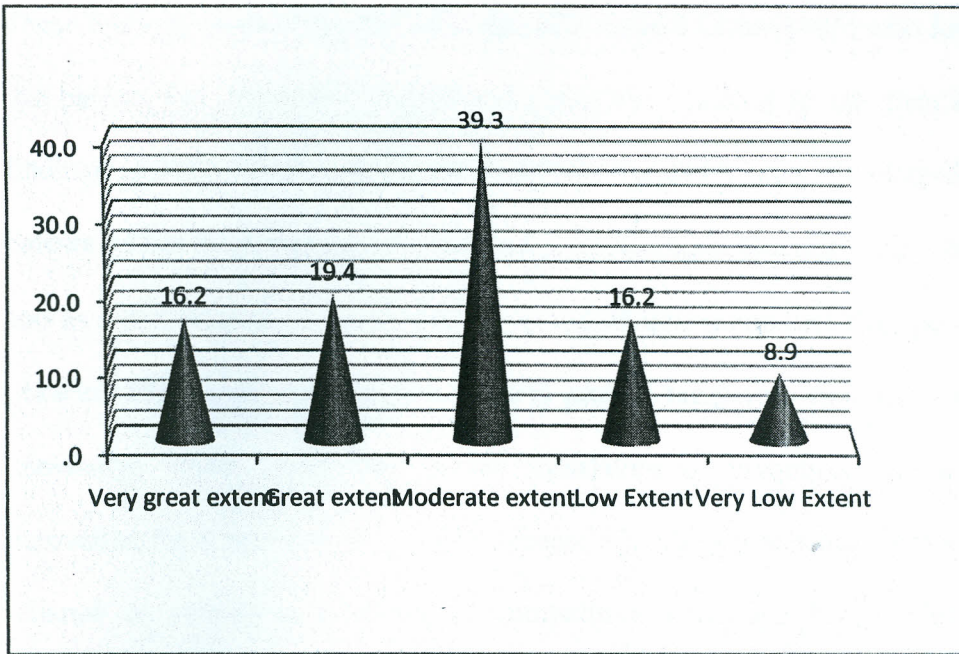


#### **Figure 4.6: Provision of incentives for innovative employee Entrepreneurs Support on Employees' Innovation**

The study sought to find out the extent entrepreneurs' support on employees' innovation influence performance of MFI funding on SMEs. From Figure 4.14, 16.2% of the respondents indicated that entrepreneurs' support on employees' innovation influence performance of MFI funding on SMEs to a very great extent, 19.4% of the respondents indicated that entrepreneurs' support on employees' innovation influence the performance of MFI funding on SMEs to a great extent, 39.3% of the respondents indicated that entrepreneurs' support on employees' innovation influence the performance of MFI funding on SMEs to a moderate extent while 8.9% of the respondents indicated that entrepreneurs' support on employees' innovation influence the performance of MFI funding on SMEs to a very low extent.

The study contradicts with the findings of Amabile (2003), Hennessey and Amabile 2008 who have disclosed evidence to the contrary indicating that material rewards are detrimental to innovation. The findings concur to those of Baer (1997) who showed that entrepreneurs' support on employees' innovation through material rewards such as bonuses and pay increases encourage innovation.

It can, therefore, be concluded that entrepreneurs' support on employees' innovation through material rewards influence performance of MFI funding on SMEs. This further shows entrepreneurs who provide enabling environment for employees within the enterprise increases growth capacity of the enterprise.

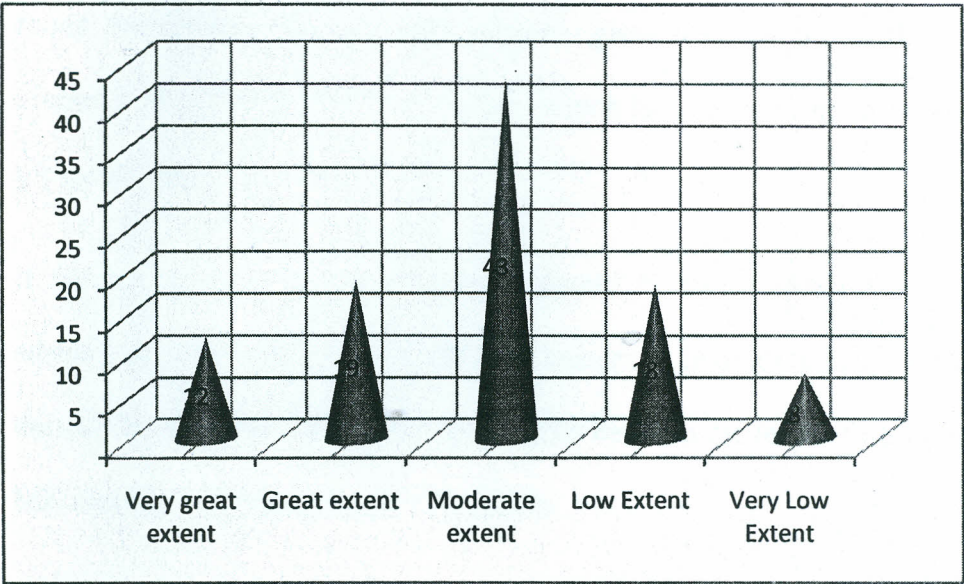


**Figure 4.6: Entrepreneurs support on employees' innovation**

#### **Number of Patents within the Enterprise**

The study sought to find out the extent to which number of patents within the enterprise influence the performance of MFI funding on SMEs, 12% of the respondents indicated that number of patents within the enterprise influence the performance of MFI funding on SMEs to a very great extent, 19% of the respondents indicated that number of patents within the enterprise influence the performance of MFI funding on SMEs to a great extent, 43% of the respondents indicated that number of patents within the enterprise influence the performance of MFI funding on SMEs to a moderate extent, 18% of the respondents indicated that number of patents within the enterprise influence the performance of MFI funding on SMEs to a low extent, while 8% of the respondents indicated that number of patents within the enterprise influence the performance of MFI funding on SMEs to a very low extent as shown in the figure 4.15 below.

These findings concur with the findings of König and Licht (1995) who found that inclination to use patents for innovation protection is positively related to the firm's performance. These findings correspond with those by Gambardella (2007) who established that the numbers of patents within the enterprise are beneficial because they generate an incentive to invest in R&D and as a consequence increase the likelihood of innovation and firm performance. Bessen and Maskin (2009) also observed that patents grant a temporary monopoly on the exploitation of knowledge which could lead to the translation of invention into successful commercial innovation for a firm and as a result increases firm's performance. Inference shows that SMEs reliance on patents as a source of competitive advantage has a relationship to the SMEs performance therefore entrepreneurs should encourage the use of patents in order to protect their innovation which is associated with long term sustainability and SMEs performance.



**Figure 4.8: Number of patents within the enterprise**

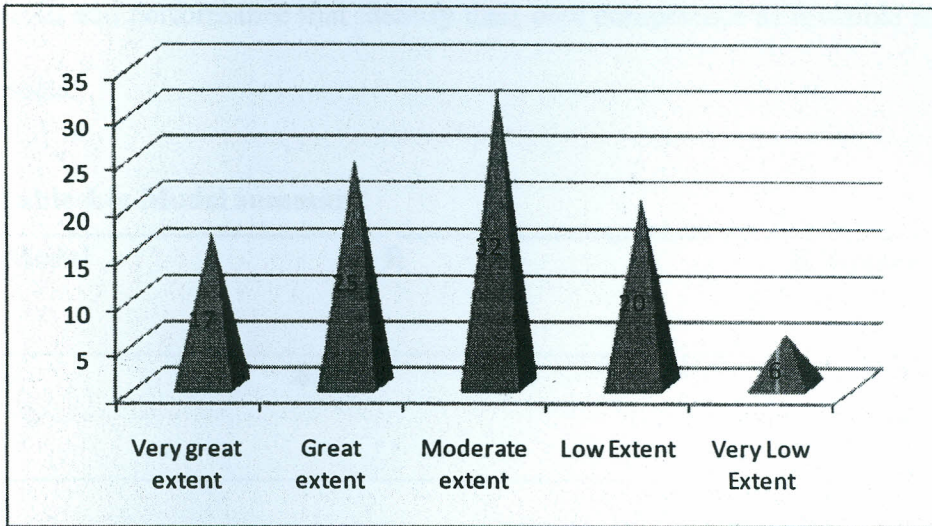
**The Level of New Product to Total Sales**

The study sought to find the extent to which the level of new product sales to total sales , 17% of the respondents indicated that the level of new product sales to total sales influence the

performance of MFI funding on SMEs as 25% of the respondents indicated that percentage of the level of new product sales to total sales influence the performance of MFI funding on SMEs to a great extent, 32% of the respondents indicated that the level of new product sales to total sales the performance of MFI funding on SMEs to a moderate extent, 20% of the respondents indicated that the the level of new product sales to total sales influence the performance of MFI funding on SMEs to a low extent, while 6% of the respondents indicated that the level of new product sales to total sales influences the performance of MFI funding on SMEs as shown in the figure 4.13 below.

These findings concur with the findings of Littunen, V. (2010) who found that introduction of new products in comparison to the revenues of enterprise is a major significance to SMEs performance and competitiveness. The findings are in line with those by Kusar (2004) who found that SMEs can successfully enter, grow and remain in the global market through investment in research and development which leads to new products and hence competitive of the enterprise.

It can be inferred that entrepreneurs should invest in research and development such as advertisement and getting feedback from customers in order to bring products that are needed in the market. Therefore, there is a relationship between the level of new product to total sales and MFI funding on the performance of SMEs.



**Figure 4.9: The level of new product to total sales**

#### 4.7 Regression Analysis

The linear regression analysis models relationship between the dependent variable which is MFI funding on performance of SMEs and independent variables which are managerial skills, training, financial skills and technology. The coefficient of determination  $R^2$  and correlation coefficient ( $r$ ) shows the degree of association between variables and MFI funding on performance of SMES in Murang'a. The results of the linear regression indicate that  $R^2=.704$  and  $R= .839$  this is an indication that there is a strong relationship between managerial skills, training, technology, financial skills and MFI funding on the performance of SMEs in Murang'a.

The findings concur with those of Marr, (2008) who postulates MFI funding on the performance of SMEs to be key factors for company success and important levers for value creation. Their core competence is invisible assets rather than visible assets. Hsu and Fang , (2010) revealed that MFI funding on performance of SMEs is becoming a crucial factor for a firm's long-term

profit and performance that identify their core competence as invisible assets rather than visible assets.

**Table 4.6: Model summary**

Model	R	R Square
1	.839	.704

Table 4.7 indicates that P value = 0.000 which is less than 5%. This shows that the overall model is significant. It further implies that managerial skills, training, technology, and financial skills have a significant effect on MFI funding on the performance of SMES in Murang'a. According to Daud and Yusoff (2010) indicated that performance of SMES in a knowledge-based economy are recognized as the most important source of competitive advantage particularly for SMEs.

**Table 4.7: ANOVA**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1809.028	5	361.806	87.391	.000
	Residual	761.775	315	4.140		
	Total	2570.803	320			

a. Dependent Variable: PERFORMANCE  
b. Predictors: (Constant), management skills, technology, financial Skills, training

**Table 4.8: Coefficients**

<b>Coefficients<sup>a</sup></b>				
<b>Model</b>	<b>Unstandardized Coefficients B</b>	<b>Standardized Coefficients Beta</b>	<b>t</b>	<b>Sig.</b>
(Constant)	-.119		-.168	.867
Managerial skills	.101	.374	6.255	.000
Training	-.020	-.075	1.849	.066
Technology	.006	.009	.210	.834
Financial skills	-.012	.150	.211	.103

a. Dependent Variable: PERFORMANCE

## **CHAPTER FIVE: SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

The chapter summarizes the data collected and the statistical analysis discussions done with reference to the objectives and research questions of the study. Data were interpreted and the results of the findings were correlated with both empirical and theoretical literature available. The conclusion directly relates to the specific objectives/research questions. The recommendations were deduced from conclusion and discussion of the findings.

### **5.2 Summary of the Findings**

The findings of the study reveal that managerial skills of the owner/managers positively influence MFI funding on performance of small and medium enterprises in Murang'a. Seventy-eight decimal nine per centum (78.9%) of the corresponding change in MFI funding on performance of SMEs can be explained by a unit change in managerial skills. This further indicates that owner/manager utilization of high financial management skills as an element of MFI funding has a significant impact on the performance of SMEs in Murang'a.

The study found out that training on entrepreneurial skills have a great positive influence of the MFI funding on performance of SMEs in Murang'a. According to the findings, fifty-six decimal eight per centum (56.8%) correspondence on MFI funding on performance of SMEs can be explained by a unit change in training entrepreneurial skills.

The findings of the study also indicate that technology innovativeness influences the MFI funding on performance of SMEs in Murang'a. According to the findings, Seventy four decimal

six per centum (74.6%) correspondence on performance of SMEs can be explained by a unit change in technology. One can therefore deduce that the tendency of owner/manager to engaged in and support new ideas, novelty, experimentation and creative processes using technology results in new products, services or technological processes which has a great influence on the MFI funding on performance of SMEs.

### **5.3 Conclusions**

The crux of this study was to explore the influence of MFI funding on the performance of SMEs in Murang'a. The output given from the findings indicate that there is a significant positive relationship between MFI funding and performance on SMEs namely Credit, Managerial skills (MS), Training skills (TS) and Technology (T) with performance of SMEs.

The findings also indicated that managerial skills have been a major contributor towards MFI funding on the performance of SMEs in Murang'a. This is in line with Kamath (2008) who found that managerial skills appeared as the major contributor towards the performance of SMEs. The results also revealed that the training skills and technology, have positive relationship with MFI funding on performance of SMEs in Murang'a. The findings demonstrated that MFI funding on performance of SMEs can be used to mobilize, assemble, and manage all intangible resources in order to enhance MFI funding on performance of SMEs in Murang'a and this concur with the findings of other studies (Bontiset *al.*, 2000; Salina and Wan Fadzilah, 2008; Chen *etal.*,2005; Kamath, 2008;). Undoubtedly, MFI funding has contribution towards the performance of SMEs.

The findings emphasize the importance of the elements of MFI funding on performance of SMEs which comprise of managerial skills, training skills, and technology in Murang'a. This is

a pointer that as MFI funding increases, it is expected that performance of SMEs will be enhanced.

#### **5.4 Recommendations**

The study is a justification of the fact that an entrepreneur with good managerial skills, excellent training, sufficient capital and modern technology has a deep understanding of the Small and Medium sized enterprises which catapults their performance to a large extent.

Specifically, the study recommends:

- i. Owner/managers of small and medium enterprises should possess managerial skills to effectively plan, lead, organize and control the enterprise effectively leading to increased performance.
- ii. Better control in production cost while maintaining competitive prices results in continued profitability of a firm and therefore good performance. Owner/managers should be efficient financial managers with a control on the SMEs cost of operation to help provide proper book-keeping and competitive prices which fit the SMEs' client needs.

#### **5.5 Recommendations for Further Research**

This study is a millstone for future research in this area, particularly in Murang'a. The findings emphasize the importance of the elements of performance of SMEs, which comprise managerial skills, financial skills, training and technology, in the MFI funding on performance of SMEs in Murang'a. As MFI funding on SMEs increases, it is expected that performance of SMEs will be enhanced. Available and future research will need to be carried out in other industries and countries in order to show if the link between MFI funding and performance on SMEs can be generalized.

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## APPENDIX I: LETTER OF INTRODUCTION

NJOKI MWANGI-NDUNG'U  
KENYATTA UNIVERSITY  
P.O. BOX 43844  
NAIROBI.  
2<sup>nd</sup> SEPTEMBER 2013.

Dear Respondents,

**RE: ASSESSMENT OF MFI FUNDING ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN RURAL MURANG'A.**

I am a student at Kenyatta University pursuing MSc. Entrepreneurship course and conducting a research on the above topic. You have been selected to take part in this research study.

Please fill in the questionnaire provided. Your response will be treated confidentially and for purposes of research only.

Do not write your name or personal details or even the name of your business. Thank you in advance.

Njoki Mwangi

## APPENDIX II: RESEARCH QUESTIONNAIRE

### SECTION A: Characteristics of respondents

- 1) What is your age?
  - (a) 18 - 25 [ ]
  - (b) 26 - 35 [ ]
  - (c) 36 - 45 [ ]
  - (d) 46 - 55 [ ]
- 2) What is your gender? (a) Male [ ] (b) Female [ ]
- 3) What is your highest academic qualification?
  - (a) Certificate [ ]
  - (b) Diploma [ ]
  - (c) Bachelors degree [ ]
  - (d) Masters degree [ ]
  - e) Others Specify .....
- 4) What category of staff are you in the SME?
  - (a) Management [ ]
  - (b) Non Management [ ]
- 5) For how long have you been in the SMEs sector?
  - (a) Less that 2 years [ ]
  - (b) 2-5 years [ ]
  - (c) 5-10 years [ ]
  - (d) More than 10 years [ ]

### SECTION B: SMEs Performance

#### Technology

1. To what extent does training influence SME performance in your county?
  - To a very great extent [ ]
  - To a great extent [ ]
  - To a moderate extent [ ]
  - To a little extent [ ]
  - To no extent [ ]

2. Training must support an SMEs strategies. In the light of this statement rate your level of agreement to the following statements about innovativeness as a factor that influences MFI funding on SMEs performance in Murang'a.

Statement	1	2	3	4	5
Installation of new systems poses challenge in the change management					
Lack of proper knowledge poses a challenge in change management					
A mismatch between software tools and company needs challenges change management in the institution					
Compatibility of the different systems causes a challenge in management					
Roadblocks to collaboration between departments also fails the implementation of change management					
Others, (Specify.....)					

**Financing**

3. To what extent does financing affect SMEs performance in Murang'a?

- To a very great extent [ ]
- To a great extent [ ]
- To a moderate extent [ ]
- To a little extent [ ]
- To no extent [ ]

4. Managing the strategy-culture relationship therefore requires sensitivity to the interaction between changes necessary to implement strategy and compatibility or fit between those change and the financing. In light of this statement, rate your level of agreement to the following statements about financing and SMEs performance in Murang'a. Use a scale of 1 to 5 where 1 is strongly agree and 5 is strongly disagree.

Statement	1	2	3	4	5
The institution's financing is consistent with the SMEs performance strategy					
The institution's financing is a powerful driving force in implementation of change management					
The institution's financing provides overall framework for strategy implementation					
Others, (Specify.....)					

The firm's mission, strategy and key long term objectives are strongly influenced by the personal goals and values of its management. To what extent do you agree with the statement?

Strongly agree [ ]

Agree [ ]

Neutral [ ]

Disagree [ ]

Strongly disagree [ ]

### Managerial skills

5. To what extent do the following characteristics of the managerial skills contribute to reforms in SMEs performance in Murang'a County?

Statement	1	2	3	4	5
Managerial abilities					
Education background					
Previous track record					
Experience					
Personality					
Temperament					
Others, (Specify.....)					