

Ownership
Characteristics And
Financial Performance
Of Micro And Small
Enterprises In Starehe,
Nairobi City County,
Kenya

John Mwangi Ngureh

Department of Accounting and Finance, Kenyatta University

Eddie Simiyu Mungami (Ph.D)

Department of Accounting and Finance, Kenyatta University

Mungai John Njangiru (Ph.D)

Department of Accounting and Finance, Kenyatta University

ABSTRACT

Micro and Small Enterprise immensely contribute to economic development around the world, in Africa and also in Kenya. Micro and Small Enterprises play a significant role in creation of employment, income generation and are seedbed for medium and large enterprises. Micro and Small Enterprises face many challenges limiting their financial performance and survival as measured by return on assets and growth in sales, including lack of markets, competition, lack of skilled manpower, and poor management practices. In Kenya, Micro and Small Enterprises failure rate is 67%. In Nairobi City County Micro and Small Enterprises financial economic performance measured by growth in sales declined from 95.7% in 2011 to 87.2% in 2017. This study investigated the effect of ownership characteristics on the financial performance of Micro and Small Enterprises in Starehe, Nairobi City County, Kenya. The study was anchored on Trade-off theory, Pecking-Order theory, Resource-based theory and financial constraint theory to give direction and support to this study. The study adopted positivism research philosophy and a descriptive survey design. The research used stratified random sampling to select 384 Micro and Small Enterprises determined from a target population of 21,869 Licensed by Nairobi City County. Primary data (cross sectional) were used in the study, and was collected by administering a questionnaire with closed end-ended questions, with a rating scale of 1-5. Confirmatory Factor Analysis was used to ascertain the validity of the measurement model before commencing Structural Equation Modeling to test the hypotheses under study through Amos software. Data was analyzed using descriptive statistics (mean, frequency distribution standard deviation) and inferential statistics (Multivariate analysis-Structural Equation Modeling). Diagnostic tests included Keizer-meyer-olkin test, Berletts test of sperecity, Normality test and Multi-collinearity test. Data results were presented inform of tables, graphs, charts and percentages. The study found a positive significant relationship between ownership characteristics and financial performance of Micro and Small Enterprises in Starehe. The study recommended that the government should enhance entrepreneurship skills to Micro and Small Enterprise owners and managers.

Key Words: Collateral, Financing decisions, financial performance, Micro and small enterprises failure, Micro-enterprises, Ownership characteristics, Poor business financial performance

1. INTRODUCTION**1.1 BACKGROUND TO THE STUDY**

In low and middle income countries, Micro and Small Enterprises (MSEs) serve as drivers of economic growth (Otego, 2016). By advantage of their size, basic investment and their capacity to create jobs, active MSEs, have proved their ability to accelerate economic growth. According to International Labor Organization (2016), access to capital for investment has been a major impediment to performance of MSEs and will continue to constrain business financial performance.

Kenya National Bureau of Statistics (KNBS) Economic survey (2017) stated that MSEs in Kenya face many challenges which affect their financial performance resulting in decline in return on assets and sales volume. Society for Economic Development Report (2016) notes that, the ownership abilities inhibits financial performance of MSE sector. The challenges restricting MSEs acquisition of financial services include, poor financial preference decisions, lack of security, inappropriate legal and authoritative framework. Kenya National Bureau of Statistics Survey (2017) indicated that many MSEs in Kenya barely survive past their third year of operation. Many of those that continue to operate become dormant at the small level and do not develop into medium level or even large businesses. Lack of funds and improper management are cited as key reasons for closure and stagnation of MSEs.

According to Kenya economic survey (2017), MSEs in Starehe Sub-County (SBC), financial performance measured by growth in sales was, in 2011 (95.7%), 2012 (95.4%), 2013 (88.7.7%), 2014 (87.7%), 2015 (87.3), and declined to 2016 (87.2%). These ratios show a gradual decline in financial performance of MSEs in Starehe sub-County. Accordingly to this survey, financial performance of SBC in MSEs is anemic as indicated by decrease in their growth rate from 5.4% in 2015 to 4.3% in 2016.

Government of Kenya (2016) vision 2030, strategised to deliver 10% annual growth from 2012 by transforming Kenya's current level of economic performance by improving financial services to small businesses and encouraging more entrepreneurship risk taking activities. Savings is expected to rise from 17% to 30% of Gross Domestic Product by increasing bank deposits from 44% to 80% of borrowed capital. The Government will decrease the proportion of population without access to finance from 85% to below 70% through Micro and Small Enterprise development by the year 2030.

1.1.1 FINANCING PREFERENCE DETERMINANT-OWNERSHIP CHARACTERISTICS

Gebregziabher (2009) in a study of financing preference determinants of MSEs owners in Tigray, Ethiopia revealed major financing preference determinants, namely; acquisition type, ownership type, firms characteristics, causes for starting business and education level. Bhaird (2010) stated that in small businesses, entrepreneurial desires and beliefs play an important role in financing preference decisions. Low and Mazzarol (2016) found that characteristics of the entrepreneur play a key role in financing preference decisions.

Irwin and Scott (2010) observed that, the ownership characteristics of the firm make a difference to the firm's ability to access external finance, an important ingredient to a firm's financial performance. Older entrepreneurs tend to rely more on retained profits while younger entrepreneurs tend to use bank loans, own savings and family sources. Mijid (2009) found that, higher loan denial rates and lower loan application rates among female firm owners. According to Harrison and Mason (2007), there are differences between women and men entrepreneurs with respect to access to finance which can be categorized into abilities, preferences, competition and discrimination. Mohan and Aslam (2011) in their study of financial preferences of investment decisions in

Micro Small and Medium Enterprises in India found that, firm age, entrepreneur ability, infrastructure, perception, attitude, gender and many others, greatly influenced the investment decision of small enterprises.

1.1.2 FINANCIAL PERFORMANCE OF MSES

According to Ndede (2015), how well a MSE uses assets of the business to generate revenue is a rod of measuring its financial performance. Financial Performance is described by Ndede (2015) as an activity or accomplishment considered in relation to how successful it is and is related to volume of sales for a given capacity of business. Financial performance is measured and observed overtime in the organization (Mohan & Mohamed 2012). According to Ndede (2015), it can be observed that good financial performance has the same meaning as business financial success.

Otengo (2016) in a study conducted in Nairobi City County, found that there was a positive association between ownership characteristics and use of commercial advisory from regulatory framework. This relationship impacted on positive development and growth of Nairobi City County businesses. Accordingly, the owner received information on new markets and sources of funds.

Schayek (2011) asserted that, financial performance of a firm may be measured using operational or objective measures. Financial performance measures are key financial performance indicators, hence they are derived from a firms financial statements. Prior to 1980s, financial indicators such as return on investment, sales per employees, profit and productivity were the sole measurement rod of financial performance. Ahamad (2014) investigated 160 small businesses in Malasia affirmed that the most commonly used financial performance measures include sales growth, operating income, cashflow measure and return on investment.

Garrigos, Galdon, and Gil (2015) also categorised financial performance measurement into four, namely: Profit which include, return on investment, return on sales, return on assets; wealth creation; market share, growth in term of sales, and stakeholder satisfaction which include employees satisfaction, customer satisfaction and competitive position which include overall competitive position and success rate in launching new product. The research study investigated competitive strategies and performance in Spanish hospitality firms. According to Garrigos *et al.*, (2015), there is no consensus as to how financial performance should be measured in all organizations.

This study used level of profit and growth in sales to measure MSEs financial performance.

1.1.3 OWNERSHIP CHARACTERISTICS AND FINANCIAL PERFORMANCE OF MSES

Makhbul (2011) found that, the factors influencing business financial performance include, entrepreneurship capabilities and financial preferences, professional and education background. Theo, Mwillock and Konether (2013) summarised the factors influencing financial performance as individual characteristics, parental influence, business motivation, business strategies, business characteristics, entrepreneurial networking and motives of starting the business.

Irwin and Scott (2010) suggested that, personal characteristics of the firms owner (education, gender and ethnicity) influence their ability in raising business finance required for its better financial performance. Low and Mazzol (2016) found that, the characteristics of the entrepreneur influence the financing decisions of the firm. Newman (2010) suggested four categories of financing preference determinants related to entrepreneur, namely, owners' strategy, owners psychology and owners human capital and network all of which were found to have a positive association with firms' financial performance.

2. STATEMENT OF THE PROBLEM

Kenya National Bureau of Statistics (KNBS) (2017) indicated that many MSEs in Kenya have poor business financial performance as some of them stagnate, others close down and never develop to the Medium and large stage of business development because of low return on investment caused by inabilities of ownership characteristics. According to Kenya National Bureau of Statistics (2017), 46.3% of MSEs close within one year of opening, 15% close within two years, 9.5% close within three years, 5.3% close within four years, 3.9% close within five years, 11.2% close between 6-10 years, 3.9% close between 11-15 years, while those closing after fifteen years of operation are 4.9% because of decline of return on assets and low sales volumes. When MSEs close, there is loss of employment and reduced contribution to economic growth.

National MSEs survey (2016) indicated that MSEs in Kenya face many obstacles which limit their financial performance and survival. National MSEs survey (2016) indicates MSEs failure rate as 67% occurring due to shortage of operating funds (29.6%), personal reasons (22.9%), too few customers (15.3%), shortage of stock (6.2%), too many competitors (4.5%), legal problems/government regulations (3.3%), theft or insecurity (3.2%), sickness (3.2%), huge business debt (2.8%), and starting another business (2.1%).

Financial performance of MSEs is also dependent on ownership characteristics. Several studies have investigated to some extent ownership characteristics. For instance, Mugo (2012), investigated factors affecting entrepreneur's performance in Nairobi Central Business District and found that, lack of access to finance because of owners education and training is one of the major challenges causing poor financial performance and high mortality rates of MSEs in Kenya. Mburu (2012), investigated factors that cause failure of small businesses in Kenya, found that, MSEs face unique challenges including, lack of basic business management experience, limited access to credit and inadequate support from government, which influence firm's financial performance. Mbugua, Njeru, and Tiriba (2014), investigated the factors affecting performance of Micro and Small Enterprises in Limuru, Kiambu County and found that access to finance, managerial experience and access to infrastructure affected financial performance of a business.

Previous studies (Mugo 2012, Mburu 2012, Mbugua et al., 2014, and Ssekajudo 2015) reviewed did not capture owners ability to have fixed assets for the business variable influencing financial performance of a business.

All these studies on performance of small businesses indicate that there is a knowledge gap. Unlike previous studies reviewed this research uses Structural Equation Modelling to analyze data. This study fills this methodological gap.

2.1 OBJECTIVE OF THE STUDY

The objective of the study is to determine the effect of ownership characteristics on financial performance of MSEs in Starehe Nairobi City County, Kenya.

3. LITERATURE REVIEW

3.1 THEORETICAL REVIEW

The theories reviewed in this section include, trade-off theory, pecking order theory, entrepreneurial theories resource based theory and financial constraint theory.

3.1.1 TRADE-OFF THEORY

This approach proposed by kraus and litzenberger (1973) stipulated that, capital structure is generally composed of debt and part equity. The entrepreneur chooses how much debt finance and how much equity finance to use by balancing costs and benefits. Lean and tucker (2001) argue that a finance gap exists for small firms owing to their disadvantaged position in the market of bank finance which is caused by information asymmetry that exists between the provider and the recipient of finance. This problem has intensified in recent years by centralization of bank lending decisions and the introduction of computerized credit scoring.

3.1.2 PECKING ORDER THEORY

The pecking order theory by Myers (1984) proposed that financing is continuous starting with the cheapest source to the most expensive, hence firms and individuals use personal funds before acquiring external debt. Ownership characteristics influence the decision of MSE owners to finance their business activities in a certain order, that is, use of internal sources followed by debt.

3.1.3 RESOURCE-BASED THEORY

The Resource-based theory (RBT) stipulated by Barney (1991) advances the reasons why firms in the same industry differ in financial performance. Alvarez and Barney (2007) stipulated that if an entrepreneur has all resources to take advantage of an opportunity there is little need for organization.

3.1.4 FINANCIAL CONSTRAINT THEORY

This theory proposed by Evans and Javanovic (1989) stipulated the relationship between individual wealth and entrepreneurship. According to Evans and Javanovic (1989), individuals with adequate financing capital are more able to effectively exploit entrepreneurial opportunity. Financial Capital Liquidity theory (Alvarez & Busen'tz, 2001) fosters financial constraint theory as predictor of opportunity based entrepreneurship. Access to financial

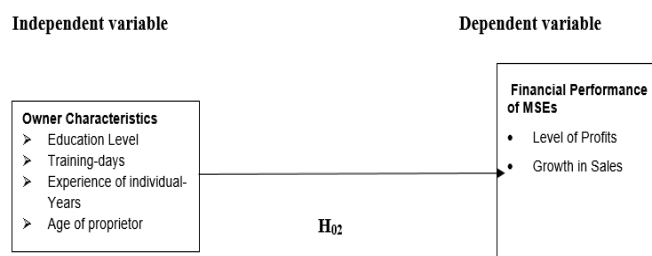
and human assets enhances an entrepreneurs ability to detect opportunities and act upon them (Davidson & Honning 2003).

3.2 EMPIRICAL REVIEW

Irwin and Scott (2010) investigated barriers faced by Micro and Small Enterprises in raising bank finance, and found that, personal characteristics of the owner of an Micro and Small Enterprise makes a difference to the firm's ability and likelihood of obtaining external finance. Brixiova and Kangoye (2012) investigated Start-up capital and women entrepreneurship (evidence from Switzerland) and found that, male and female entrepreneurs differ in ways of financing their businesses

Coleman (2011) examined the role of human resource and financial capital in the profitability and growth of women owned small firms and found that, women were being charged high interest rates than men entrepreneurs. The study found that, entrepreneur's age determined financing preferences and younger entrepreneurs were less likely to invest more capital than older ones. Nofsinger and Wang (2011) examined determinants of start-up firm and found that, experience of the entrepreneur, quality of investor protection are factors explaining financing levels available to MSEs. Vos, Yeh, and Carter (2007) investigated small business financing and found that loan application has a positive relationship with business experience. Tambwe (2015) examined the appulse of entrepreneurship training on MSE performance in Tanzania. The study found that entrepreneurship training affected financial performance of a MSE positively and and it also had a positive significant relationship with MSE financial performance.

3.3 CONCEPTUAL FRAMEWORK



2.1: Conceptual Framework

Source: Researcher, 2018

4. RESEARCH METHODOLOGY

4.1 RESEARCH PHILOSOPHY

Positivism research methodology was adopted in this research, which is an approach to the study of society that relies specifically on scientific evidence such as statistics to reveal the true nature of how the society operates (Saunders, Lewis & Thornhill, 2009). The authors indicate that, positivism is adopted when working with observable social realities which can be generalized. Accordingly, the hypotheses were tested, then rejected or not rejected.

4.2 RESEARCH DESIGN

The design adopted by the study is descriptive survey research design. According to Cooper and Schindler, (2008) descriptive survey design is used because it explores relationships between variables, it ensures complete description of the current status of the phenomenon under study, ensures minimum bias in data collection. It also allows data collection from population in an economical way. Luvai and Maende (2014) stated that, the variables of interest in descriptive survey research design cannot be manipulated as in experimental research, and ensures that the environment remains the same when data is being collected. According to Kothari (2004), descriptive survey research design is used when the problem has been well designed. According to Mugenda and Mugenda (2003) and Saunders, Lewis and Thornhill, (2007), there is no single approach that exists in isolation and hence different approaches should be mixed and matched to achieve optimal results.

4.3 EMPIRICAL MODEL

The study utilized Structural Equation Modeling (SEM), a prediction, covariance-based Model to test the hypotheses under study through AMOS software advocated by (Byne, 2001).

The predictive power of the predictor variables, are tested from the following hypothesized general model in Structural Equation Modeling language;

$$SEM (X_1 \leftarrow Y) (X_2 \leftarrow Y) (X_3 \leftarrow Y) (X_4 \leftarrow Y) (M_1/X_i Y) \dots \dots \dots (3.4)$$

Where $(X_i \leftarrow Y)$ Means that X_i affects Y . $(M_1/X_i Y)$ Means M_1 mediates X_i and Y .

To examine the influence of Financing Preference Determinants on financial performance of MSEs, the study formulated equations 3.4.1, 3.4.2, and 3.4.3., (Fairchild & MacKinnon, 2009).

Where i. $Y = C + B_1 X_1 + e \dots \dots \dots (3.4.1)$

ii. $Y = C + B_1 X_1 + B_2 X_2 + e \dots \dots \dots (3.4.2)$

iii. $Y = C + B_1 X_1 + B_2 X_2 + B_3 X_3 + e \dots \dots \dots (3.4.3)$

The moderation effect of regulatory framework on the association of Financing Preference Determinants on performance of Micro and Small Enterprises was established by the study formulating equation 3.4.4., (Fairchild & MacKinnon, 2009).

iv. $Y = C + B_1 X_1 + B_2 X_2 + B_4 X_4 + B_5 X_1 X_4 + B_6 X_2 X_4 + e \dots \dots \dots (3.4.4)$

This study used the best method available in SEM to test interaction known as orthogonalizing method (Hensler & Chin, 2010).

The mediation influence of Risk Taking on the association of Financing Preference Determinants and financial performance of MSEs was established by the study formulating equations 3.4.5 and 3.4.6., (Fairchild & Mackinnon, 2009).

$$V. i. M = C + B_8X_1 + e \quad ii. Y = C + B_9M + e \quad iii. Y = C + B_{10}X_1 + B_{11}M + e \dots (3.4.5)$$

$$Vi. i. M = C + B_{12}X_2 + e \quad ii. Y = C + B_{13}M + e \quad iii. Y = C + B_{14}X_2 + B_{15}M + e \dots (3.4.6)$$

Where Y is Financial Performance

C = Constant, X₁ = Financing Costs, X₂ = Ownership Characteristics,

X₃ = Firm's Characteristics, X₄ = Regulatory Framework (Moderator)

M = Risk Taking (Mediator), B_i = Path Coefficient (coefficient of beta), e is error term.

4.4 STUDY LOCALE

This study was conducted in Starehe Sub-County of Nairobi City County (NCC). Starehe Sub-County is one of the twelve Sub-counties that make Nairobi City County (NCC, 2018). Starehe Sub-County has six administrative wards, namely; Kariokor, Nairobi central, Nairobi South, Ngara, Land Mawe, and Pangani wards. Starehe sub-county provides a variety of Micro and Small Enterprises and was an ideal location for this type of research.

4.5 TARGET POPULATION

Target population is defined as all the members of a real or hypothetical set of items, events or objects to which a researcher wishes to generalize the results of a research study (Mugenda & Mugenda, 2003). The target population of the study was 21,869 Licensed MSEs in Starehe Sub-county by Nairobi City County (KNBS, 2016). The MSEs were clustered into seven economic zones, namely; Trade, Transport Telecommunications and Storage, Catering, Professional and Technical Services, Education, Health and Entertainment, and Manufacturing. Table 3.1 presented the population per business sector.

Table 3.1: Target Population Starehe Sub-County

Sector	No of MSEs	Weighted percentage
Trade	13,209	60.4%
Transport, Telecommunications and storage	1,312	6%
Agri-businesses, Forestry and Natural resources	66	0.3%
Catering	1,596	7.3%
Professional and Technical services	3,936	18%
Education, Health and entertainment	439	2%
Manufacturing	1,312	6%
Total	21,869	100%

Source: KNBS (2017)

4.6 SAMPLING DESIGN

The Micro and Small Enterprises were clustered into six economic zones, namely; Trade; Transport Telecommunications and storage; Agri-business, Forestry and Natural resources; Professional and Technical services; Education, Health and Entertainment; and Manufacturing. Stratified random sampling technique was

used to arrive at the number of respondents in each of the six economic zones (Table 3.1). The sample size was determined using formula of determining representative sample in large proportions sample Cochran (1963). The Cochran's formula is appropriate with large populations of more than 10,000 objects.

$$n = Z.Z * P (1-P) / d.d..... (3.6.1)$$

Where n is the desired sample size.

Z is the standard normal deviate set at 1.96 for 95% confidence level.

P is the percentage of picking a choice in target population expressed as a decimal of 0.5 used for sample size needed.

Where d is the level of statistical significance (degree of accuracy required) set at 0.05

Hence, $n = (1.96) (1.96) (0.5) (1-0.5) / (0.05) (0.05) = 384$ Micro and Small Enterprises.

Table 3.2 shows stratified random sampling technique to pick respondents per sector.

Table 3.2: Sampling Frame

Sector	No of MSEs	Sampling Rate = (MSEs/Total)100%	Sampling Rate * 384 = Sector Size
Trade	13,209	60.4%	232
Transport, Telecommunications & Storage	1,312	6%	23
Agri-businesses Forestry & Natural resources	66	0.3%	1
Catering	1,596	7.3%	28
Professional and Technical services	3,936	18%	69
Education Health & Entertainment	439	2%	8
Manufacturing	1,311	6%	23
TOTAL	21,869	100%	384

Source: Researcher, (2018)

4.7 DATA COLLECTION INSTRUMENT

The data was gathered through structured questionnaires. Heize, (2009), stated that, a questionnaire is a research apparatus consisting of a series of questions and added prompts for the purpose of gathering data from respondents. The questionnaire is semi-structured for qualitative and quantitative data respectively. Structured Questionnaire was preferred as data was gathered in a consistent manner, making them more impartial than interviews; data was collected very fast and from a large proportion of a set (Mugenda & Mugenda, 2003).

5. RESEARCH FINDINGS AND DISCUSSIONS

5.1 DESCRIPTIVE STATISTICS FINDINGS FOR OWNERSHIP CHARACTERISTICS

The study sought to assess the effect of ownership characteristics on the financial performance of MSEs in Starehe. The respondents were requested to indicate there opinions on ownership characteristics statements (education, training, experience and age) on a Likert scale. The results were presented in table 4.1.

Table 4.1: Effect of ownership characteristics on financial performance

Variables	N	Mean	Std. deviation
Owner's age	303	2.47	1.201
Owner's Education	303	3.61	1.134
Owner's Experience	303	3.51	1.255
The gender of the owner	303	2.64	1.248
The amount of start-up capital	303	3.19	1.226
Confidence of lenders due to higher education levels making an MSE to obtain more conventional finance.	303	3.10	1.065
More training and experience making an MSE to obtain more conventional capital for better performance of the firm	303	3.70	0.917

Source: Survey Data 2019

On the basis of table 4.1 the largest part of respondents with (mean score = 3.7) indicated that more training and experience is necessary to obtain more conventional capital for better performance of the firm. Respondents with mean score of 3.61 indicated that owner's education has an effect on financial performance of the firm. Respondents with a mean score of 3.51 indicated that the owners experience has substantial effect on financial performance of the firm. The variables amount of start-up capital and confidence of lenders due to higher education have a mean score greater than 3 clearly indicating that they have an influence on financial performance of the firm. These statistics indicate that owner's age, the gender of the owner the start-up capital and confidence of the lenders due to higher education levels making an MSE to obtain more conventional finance influences financial performance of an MSE more than owner's education, owners experience and more training and experience making a MSE to obtain more conventional capital for better performance of the firm. Table 4.2 presents ownership characteristics and their likelihood of contributing to financial performance of the firm in percentage.

Table 4.2: Effects of ownership characteristics on financial performance in percentages

	Age	Educa tion	Experience	Gender	Startup Capital	Confiden ce	More training & experience
No effect	32%	7%	4%	27%	15%	9%	3%
Minimal	11%	12%	26%	13%	15%	15%	7%
Moderate	40%	15%	15%	34%	16%	46%	22%
Strong	12%	47%	26%	19%	46%	20%	53%
Strongest	5%	19%	29%	7%	8%	10%	15%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Survey data 2019

Table 4.2 indicates that the larger part of the respondents (53%) strongly are of opinion that more training and experience makes a Micro and Small Enterprise to obtain more conventional capital for better performance of the firm. The respondents 47% strongly indicate that education of the owner contributes to financial performance of the firm. The respondents 46% had a strong indication that start-up capital contributes to financial performance of the firm. The respondents 40% moderately indicate that age influences financial performance of the firm. Only 32% of the respondents indicate that age of the owner has no effect on financial

performance of the firm. The respondents 4% indicated that experience has no effect on financial performance of the firm. The respondents 5% had strongest indication that age influences financial performance of the firm. The respondents 7% had an indication that education has no effect on financial performance of the firm. Only 3% of the respondents indicated that more training and experience making a Micro and Small Enterprise to obtain more conventional capital for better performance of the firm has no effect on financial performance of the firm. From the statistics confidence of lenders due to higher education levels making an MSE more conventional finance (10%), start-up capital (8%), gender (7%), age (5%) had strongest indication of influence on financial performance.

5.2 FINANCIAL PERFORMANCE

The respondents were requested to indicate the level of MSEs profit for the years (2014, 2015, 2016, 2017), the value of the business in 2017, the amount of capital invested in 2017 and also the level of the sales (2014, 2015, 2016, 2017). The results are indicated in table 4.3.

Table 4.3: Descriptive statistics for financial performance

Variable	N	Mean	Standard deviation
Indicate level of your MSE business profit in 2014	303	1.63	.682
Indicate level of your MSE business profit in 2015	303	2.08	.833
Indicate level of your MSE business profit in 2016	303	2.37	.910
Indicate level of your MSE business profit in 2017	303	2.50	.996
What is value of your assets in 2017	303	1.86	.727
What is your capital invested in 2017	303	2.08	.881
Indicate your total sales in 2014	303	2.01	.935
Indicate your total sales in 2015	303	2.16	.781
Indicate your total sales in 2016	303	2.50	.845
Indicate your total sales in 2017	303	2.69	.943

Source: Survey Data 2019

On the basis of table 4.3 the larger part of respondents with a mean score of 2.50 indicated the highest level of profits was in 2017 as the mean score is 2.50 followed by the level of profits in 2016 as the mean score is 2.37. From table 4.3 the larger part of the respondents indicated that the level of sales is highest in 2017 as their mean score is 2.69 and the level of sales in 2016 is second with a mean score of 2.50. The best financial performance was recorded in 2017 as indicated from statistics in table 4.5. Table 4.4 presents financial performance indicators (profit and sales) for the years 2014 to 2017 in percentages.

Table 4.4: Financial performance indicators 2014 to 2017 in percentages

KSH	2014p	2015p	2016p	2017p	2014s	2015s	2016s	2017s
0-50000	47%	29%	22%	22%	40%	18%	10%	8%
500001-100000	43%	34%	28%	20%	24%	54%	42%	40%
100001-200000	9%	36%	42%	43%	33%	23%	35%	27%
Over 200001	1%	1%	8%	16%	4%	6%	13%	25%
Total	100	100	100	100	100	100	100	100

Source: Survey data 2019

Table 4.4 indicated that 43% of the respondents recorded profit between Ksh100001-20000 in 2017 and 16% of the respondents recorded profit over Ksh 20000 in the same year of 2017. In 2014, most businesses recorded low profits. Table 4.4 indicated that 54% of the respondents reorded sales of between Ksh 50001-100000 in 2015 and 40% of the respondents recorded sales of between Ksh 50001-100000 in 2017. In the year 2017, 25% of the respondents recorded sales above Ksh 20000. The statistics in table 4.4 indicates that the best financial performance was recored in 2017.

5.3 CONFIRMATORY FACTOR ANALYSIS MEASUREMENT MODEL

This measurement model is based on conceptual framework. It consists of 2 constructs, namely; Ownership characteristics (OC) and financial performance (FP) as shown in table 4.5.

Table 4.5: Latent constructs and items/ parcels used in the analysis

Latent constructs	Number of items	Code name/parcel
Ownership characteristics (OC)	7	q35
Financial performance (FP)	10	q30, q31, q32, & q33

Source: Survey data 2019

From table 4.5 Ownership Charactristics had 7 observed variables, namely, owner’s age, owner’s education, owner’s experience, the gender of the owner, the amount of start-up capital, confidence of lenders due to higher education levels making a MSE to obtain more conventional finance and more training and experience making a MSE to obtain more conventional capital for better performance of the firm.

From table 4.5 Financial Performance had 10 observed variables, namely, the business profit for the year 2014, business profit for the year 2015, the level of business profit in 2016, the level of business profit in 2017, what is the value of your assets now?, what is your total capital invested now?, what is your total business in 2014?, what is your total business sales in 2015, what was you total business sales in 2015? and what was your total business sales in 2017? These obseved variables are presented in figure 4.2. According to Byrne (2013), the proposed initial measurement model should be modified to fit the data. Hence, further analysis of the latent variables was conducted using one factor congeneric model.

5.4 ONE FACTOR CONGENERIC MODEL RESULTS

According to Cunningham (2008), one factor congeneric model examination is used by decomposing the full measurement into a number of measurement models or multi-factor models based on each latent construct (Kline, 2011). Modification of proposed measurement models are discussed in sections 4.4.1 and 4.4.2.

5.4.1 EXAMINATION OF ONE FACTOR CONGENERIC MODEL FOR OC

The latent variable subjected to one factor congeneric measurement was ownership characteristics. Figure 4.1 presents the items in the one factor congeneric model for ownership characteristics. The unobserved valuable (Ownership Characteristics) is loaded with seven observable variables, namely; q35a, q35b, q35c, q35d, q35e, q35f, q35g, each variable associated with measurement error.

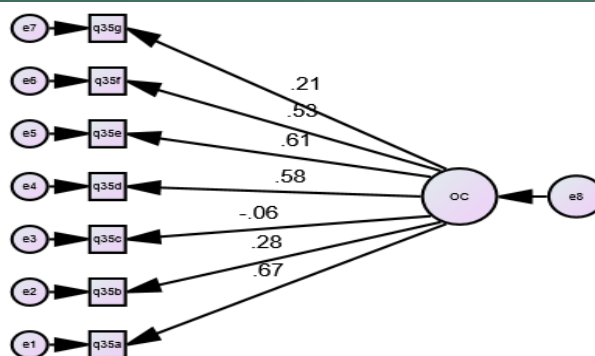


Figure 4.1: Estimated initial congeneric measurement model for (OC)

Source: Survey data 2017

Factor loading for all the variables in Ownership Characteristic congeneric model are also shown in figure 4.1. Table 4.6: Shows goodness of fit indexes for the Ownership Characteristic (OC) congeneric model.

Table 4.6: Goodness of fit indexes for OC Congeneric congeneric model

Category	Index name	Index value	Comment
Absolute fit	Chi-square	116.704	Required level achieved
	RMSEA	0.127	Required level not achieved
Incremental fit	RFI	0.507	Required level not achieved
	NFI	1.00	Required level achieved
Parsimonious fit	Chisq/df	5.835	Required level not achieved

Source: Survey data 2019

Table 4.6 shows that all goodness of fit indexes has not achieved the required level of acceptance and hence the proposed model does not fit the data. Thus the result of the assessment of the measurement model did not show a solid evidence of unidimensionality, convergent validity and reliability. To achieve fitness indexes, modification need to be carried out in the model. The variables q35a and q35e have factor loadings have more than recommended value of 0.60. The study decided to test variables q35d and q35e as they have factor loadings of more than 0.50 and they may not affect the model results since the data size is more than 200 (Cunningham, 2008). Factors q35b, q35c and q35g were deleted before proceeding to next analysis. To test the modified model fit, Amos specification search was carried out. Table 4.7 shows the goodness of fit indexes for the new modified model.

Table 4.7: Goodness of fit indexes for the new OC congeneric model.

Category	Index name	Index value	Comment
Absolute fit	Chi-square	0.0	Required level achieved
	RMSEA	0.0	Required level not achieved
Incremental fit	RFI	1.0	Required level achieved
	NFI	1.00	Required level achieved
Parsimonious fit	Chisq/df	0.0	Required level achieved

Source: Survey data 2019

Table 4.7 showed chi-square value of 0.00, RMSEA value of 0.00, and RFI value of 1.0, NFI of 1.0 and chisq/df of 0.0. These values presented a good data fit. The model is ready for structural equation modeling.

5.4.2 EXAMINATION OF ONE FACTOR CONGENERIC MODEL FOR FINANCIAL PERFORMANCE

The congeneric measurement model to be examined was for financial performance as latent variable. The unobserved variable FP was loaded with ten observable variable, namely; Q30a, q30b, q30c, q30d, q31, q32, q33a, q33b, q33c q33d, each variable is associated with measurement error. The results are presented in figure 4.3.

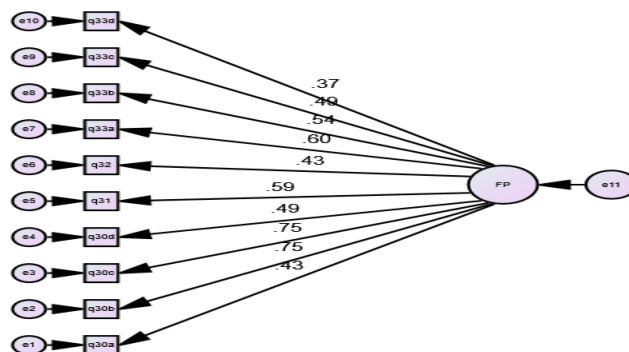


Figure 4.3: Estimated initial congeneric measurement model for financial performance with factor loadings shown thereof.

Source: Survey data 2017

Figure 4.3 shows the estimated initial congeneric model for financial performance with ten observed variables and each one of them associated with a measurement error and factor loadings shown thereof.

To indicate whether the model fits the data, the goodness of fitness indexes were considered. Table 4.7 presents the goodness of fit indexes for financial performance congeneric model.

Table 4.7: Goodness of fit indexes for Financial Performance Congeneric Model

Category	Index Name	Index value	Comment
Absolute Fit	Chi-square	436.243	Required level achieved
	RMSEA	0.195	Require level not achieved
Incremental Fit	RFI	0.483	Required level not achieved
	NFI	1.00	Required level achieved
Parsimonious Fit	Chisq/df	12.464	Required level not achieved

Source: Survey data

Table 4.7 shows that not all fitness indexes have achieved the required level of acceptance and hence the proposed model does not fit the data. To achieve the fitness indexes, modification was carried out in the model by deleting all items with a factor loading less than 0.6. To test the model fit, Amos specification test was carried out. Table 4.8 shows the goodness of fit indexes for the new modified model.

Table 4.8: Goodness of fit index for new modified FP Congeneric Model

Category	Index Name	Index value	Comment
Absolute Fit	Chi-square	0.1	Required level achieved
	RMSEA	0.0	Require level achieved
Incremental Fit	RFI	1.0	Required level achieved
	NFI	1.0	Required level achieved
	TLI	1.0	Required level achieved
Parsimonious Fit	Chisq/df	0.064	Required level achieved

Source: Survey data 2019

The goodness of fit index values in table 4.8 showed a solid evidence of unidimensionality, convergent validity and reliability. The model is ready for Structural Equation Modeling.

5.5 STRUCTURAL EQUATION MODEL RESULTS FOR OWNERSHIP CHARACTERISTICS

The Amos output for ownership characteristics on financial performance are shown on table 4.9. These is the direct relationship in which if there is a change in one variable, there is also likely to have a corresponding change in the other variable.

Table 4.9: Amos output for Ownership Characteristics

Relationship	S.E	Beta value	Critical ratio	P-value
OC-----> FP	0.079	0.19	2.105	0.035

Source: Survey data 2019

5.6 OWNERSHIP CHARACTERISTIC AND FINANCIAL PERFORMANCE

The objective of this study was to determine the effects of ownership characteristic on financial performance of MSEs in Starehe. From existing literature, a number of ownership characteristic indicators were identified, which included education level, training, experience of individual in years and age of the proprietor. The Beta value for the path from ownership characteristics to financial performance is 0.19. The most important test in hypothesis testing is the critical ratio or the t- value (markus, 2012). If the p-value is less than or equal to 0.05 (≤ 0.05) and CR is over +/- 1.96, the association is considered significant Figure 4.5 presents the path coefficient Ownership Characteristics to Financial Performance.

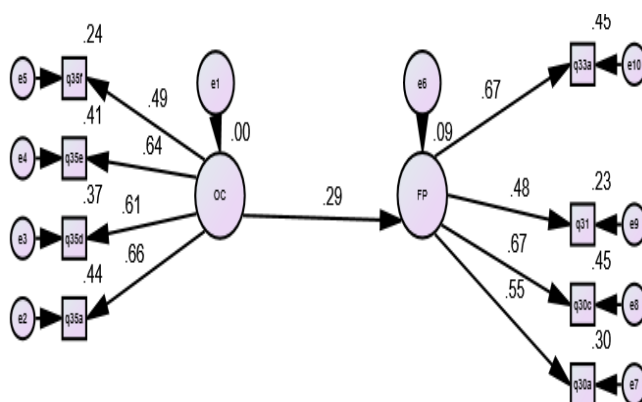


Figure 4.5: Path coefficient OC to FP

Source: Survey data 2017

The null hypothesis states that ownership characteristic has no significant effect on financial performance of MSEs in Starehe, Nairobi City County, Kenya. Results in table 4.9 indicate that the probability of getting a critical ratio of 2.105 in absolute value is less than 0.035. Thus the regression weight for ownership characteristics in prediction of financial performance of MSEs is significantly different at 0.01 level (two-tailed). The result demonstrated a significant positive path from ownership characteristic to financial performance ($B = 0.17$, $t = 2.105$, $P = 0.035$ ($P < 0.05$)). Thus the study failed to accept the null hypothesis. This implied that ownership characteristics positively influence the financial performances of MSEs. In other words, the beta coefficient for the effect financing costs, on financial performance of Micro and Small Enterprises of 0.17 means that for every unit increase in financial costs the financial performance increased by 0.160. The result of this study showed that education, experience, startup, confidence of lenders and more training and experience have mean score greater than 3.1 thus a positive influence on financial performance. The study showed that respondents for education (47%), experience (29%), start-up (46%), confidence of lenders (46%), more training and experience (53%) indicating positive influence on financial performance. The result of this research is consistent with prior researchers finding (Heslina, *et al.* 2016, Ababiya Zemach and Lemecha, 2015, Ochole, 2013, Tabwe, 2015; Mbugua *et al.*, 2014, Shaffie, 2012). However, the results are inconsistency with the finding of Gebra (2009).

6. RECOMMENDATIONS OF THE STUDY

The Kenya government and Central Bank of Kenya launched MSEs loan product with five Commercial Banks; Commercial Bank of Africa, the Co-operative Bank of Kenya, Commercial Bank of Kenya limited and NIC Group PLC. The product is a mobile based credit product for MSEs known as Stawi. Currently it is pilot based (Thirty thousand traders) and interested parties can now access between thirty thousand shillings and two hundred fifty thousand shillings, the repayment period is between one month and twelve months at an interest rate of nine per cent yearly accompanied by a facility fee four per cent, a 0.7 percent insurance fee based on the disbursed amount and an excise duty that is twenty percent of facility fee. The Kenya government should ensure the MSE owners are aware of this product.

The suggested merger or amalgamation of Micro and Small Enterprises based lending facilities (Uwezo fund, Youth enterprise fund, Women development fund) to form Biashara Kenya Fund should allow the funding to move from group based lending to individual based lending in order to increase sources of funds for MSEs especially now that interest rates capping has been removed. The money borrowed will be used for business only with applicants expected to prove they have existing business. The fund will start with two billion shillings

and will lend money to intermediaries such as commercial banks who will in turn lend to special group at a maximum rate of ten percent. The fund will only lend to women, youth and persons with disability.

The study also found that the characteristics of the owner of the business had a positive significant relationship with financial performance of Micro and Small Enterprises. There is therefore need to give training and provide workshops to business owners. This will increase entrepreneurs' know how to do business. This will increase knowledge of the owner to know when he is making a profit or a loss. It will facilitate knowledge of asset management so as to use them in the most profitable way. Further, the government through MSE Authority should develop online, mobile phone based training targeting Micro and Small Enterprises owners' skills in book-keeping and preparation of financial statements to reduce time spent attending business seminars and workshops.

7. REFERENCES

- Ahmad, K. (2014). *The Adoption of Management Accounting Practices in Malaysian SMEs*. Unpublished doctor of philosophy thesis, Exeter, University of Exeter.
- Byrne, B. (2001). *Structural Equation Modeling with AMOS: Basic concepts, Applications and Programming*. Manwah, NY: Lawrence Erlbaum Associates, Publishers.
- Coleman, S. (2011). *The role of Human and Financial Capital in the Profitability and Growth of Women-Owned Small Firms*, Journal of Small Business Management, 45(3), 303-319.
- Cunningham, E. (2008). *A practical guide to structural equation modelling using Amos*. Melbourne Statsline.
- Dittmar, A., & Thakor, V. (2007). *Why do firms issue equity?* Journal of finance 62(1), 1-54.
- Garrigos, F., Galdon, J., & Gil, L., (2015). *The economic sustainability of tourism growth leakage calculation*. Tourism economics, 21(4), 721-739.
- Heslina, O., Payan R., Taba I., & Pabo I., (2016). *Factors affecting business performance of MSME in creative economic sector in Makasa Indonesia*. Scientific research journal Vol. 4.
- Irwin, D., & Scoot, J. (2010). *Barriers faced by SMEs in raising Bank Finance*. International Journal of Entrepreneurial Behavior and Research 16(3), 245-259.
- KNBS (2017). *Economic Survey (2016) Highlights*. Kenya Bureau of Statistics Nairobi.
- Kline, R. (2011). *Principles of practice of SEM*. New York, the Guilford Press.
- Lin, G., Wen, Z., & Lin. H., (2010). *Structural equation models of the latent interactions: Clarification of orthogonalizing and double mean centering strategies*. Structural equation modeling, 17(3), 374-391.
- Luvai O., & Maende J. (2014). *Perceived relationship between teachers acquisition of Higher Degrees and Students Academic performance in Kakamega Central District, Kenya*. International Journal of Education & Research Vol.2 No 4.
- Mbugua, S., Njeru, A., & Tiriba, O. (2014). *Factors affecting performance of MSEs in Limuru, Kiambu County*. International journal of Scientific and Research publications. Volume 4, issue 12.
- Mburu, S. (2012). *Factors that cause failure of SMEs in Kenya*. Kenpro Publishers.
- Mohan S., & Muhammed M. (2012). *Financial Preferences of investment decisions in Micro and Small Medium enterprises, India*.
- Mugenda, O. and Mugenda, A., (2003). *Research Methods: Quantitative and. Qualitative Approaches*. Nairobi: Acts Press.
- Mugo, W. (2012). *Factors affecting entrepreneur's performance in Kenya: A case of Nairobi women groups in the Central business district*; UON (2012).

Mungami, E. (2013). *Determinants of lease financing decisions by non-financial firms quoted in Nairobi Security Exchange*. Kenyatta University. <https://ir.-library.ku.ac.ke/retrieved> on 16th September 2019

Myers N., Soyean A., & Ying J. (2011). *Sample size and power estimates, a confirmatory Factor Analytical Model in Exercise and Sport. A Monte Carlo Approach*. Research quarterly for Exercise and sport Vol .82. No 3. Pp412-423.

Riel, A., Liljander, V., & Polsa, P. (2009). *Modelling consumer responses to an apparel store brand; an integrative model of IT business value*. MIS Quarterly, 28(2) pp283-322.

Saunders, M., Lewis, P., & Thornhill, A. (2009). *Research methods for Business student*, 5th Edition, Great Britain, Prentice hall.

South Africa police service (SAPS), (2009). *Crime Statistics*. <http://www.saps.org>. September 14th 2010.

Tabwe, M. (2015). *The impact of entrepreneurship Training on MSEs performance in Tanzania*. Business Education journal Vol.1 No. 1.

Turyahebwa, R., Sunday, A., & Ssekajudo, D., (2013). *Financial management practices of SME in western Uganda*. African journal of business management. Vol. 7(38). pp 3875-3885.

Vos, e., Yeh, A., Carter, S. (2007). *The happy story of small business financing*. Journal of Banking and finance, 31(9) 2648-2672.

APPENDIX I: RESEARCH QUESTIONNAIRE FOR ENTERPRISES

The purpose of this questionnaire is to examine effect of the financing preference determinants on financial performance of micro and small enterprises in Starehe, Nairobi City County.

SECTION A: GENERAL INFORMATION

1. Fill your details in the table below

State your gender	State your age in years	State your highest level of education	State your marital status	State your sector of business operation	State your relationship with Business
Male	18-28yrs	KCPE/KCE	Single	Trade	Owner
Female	19-38yrs	KCSE	Married	Transport, Telecommunications & Storage	Manager
	39-48yrs	Diploma	Divorced	Agri-businesses, Forestry & Natural Resources	Both owner & Manager
	49-58yrs	1 st Degree	Separated	Catering	Other
	59yrs and above	Masters	Widowed	Education, Health & entertainment	
		PhD		Manufacturing	

SECTION C: OWNERSHIP CHARACTERISTICS

2. On a scale of 1-5 with 5 being the strongest influence please rate the following factors as to their likelihood of contributing to financial performance of your firm.

1-no effect: 2-minimal effect: 3- moderate effect: 4- strong effect: 5- Strongest effect.

Statement	1	2	3	4	5
Owner's age					
Owner's Education					
Owner's experience					
The gender of the owner					
The amount of start-up capital					
Confidence of lenders due to higher education levels making an MSE to obtain more conventional finance					
More training and experience making an MSE to obtain more conventional capital for better performance of the firm					

3. Any other comment you would like to make about ownership characteristics influencing your firms financial performance

.....

SECTION H: FINANCIAL PERFORMANCE

4. Indicate the level of your MSE business profit(KSH) by filling the table below

YEAR	Less 50,000	50,000-100,000	100,001-200,000	Over 200,000
2014				
2015				
2016				
2017				

5. What is the value of your assets now? (ksh)

Below 100,000 100,000-200,000 200,001-500,000 above 500, 000

6. What is your total capital invested now? (ksh)

Below 50,000 50,001-200,000 200,001-300,000 300,001-400,000 400,001- 500,000 Above 50,000

7. Indicate your total sales by filling the table below(KSH)

YEAR	Less 50,000	50,000-100,000	100,001-200,000	200,000-300,000	Above 300,000
2014					
2015					
2016					
2017					

8. Any other comment you would like to make about your business performance?

Thank you for filling this questionnaire

APPENDIX II: LEVEL OF ACCEPTANCE FOR FITNESS INDICES

Category	Index name	Acceptance range	Comments
Absolute fit	Chi-square	$P > 0.05$	Sensitive to sample size >200
	RMSEA (root mean square of error)	$RMSEA < 0.08$	0.05 to 0.1
Incremental fit	GFI (goodness of fit index)	$GFI > 0.9$	Value of 0.95 is a good fit
	CFI (comparative fit index)	$CFI > 0.9$	Value of 0.95 is a good fit
	TLI (Tucker-Lewis index)	$TLI > 0.9$	Value of 0.95 is a good fit
Parsimonious Fit	NFI (normal fit index)	$NFI > 0.9$	Value of 0.95 is a good fit
	Chisq/df	$Chisq/df < 5.0$	Value should be less than 5.0

Adapted from Zainudin, (2014)