ISSN 2348-3156 (Print)
International Journal of Social Science and Humanities Research ISSN 2348-3164 (online)
Vol. 11, Issue 1, pp: (257-262), Month: January - March 2023, Available at: www.researchpublish.com

EFFECT OF CREDIT ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KERICHO COUNTY, KENYA

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DOI: https://doi.org/10.5281/zenodo.7785151

Published Date: 30-March-2023

Abstract: **Small and Medium Enterprises' performance is crucial in the economy. It is a source of employment to over 55% Kenyan and contribute 22% of Gross Domestic Product. However, in every five Small and Medium Entrepreneurs three fails within the first three years. Some of the symptoms include lack of sufficient finance, poor business knowledge and wrong investment decisions. There this study investigated the effect of credit on the performance of small and medium enterprises in Kericho County, Kenya. Descriptive survey research design was used with target of 395 SMEs enterprises in Kericho where a sample of 199 SMEs was selected using stratification random sampling technique. Questionnaires were used for collecting data from the SMEs. The data was evaluated in standard deviation and means using descriptive statistics. It also used multiple regression analysis to calculate inferential statistics. The findings indicated that SMEs were able to benefit from ease of access and flexible evaluation of loan provided by MFI. The results also revealed that group loan and asset funding were the main financial support in access to financing for growing SMEs. Credit finance had positive significant effect on the performance of SMEs (P<0.05). The study concluded that financial support in terms of credit, savings, training and insurance had positive significant effect on the performance of SMEs in Kericho County. The study recommended that MFI should consider business proposal-based financing to enable start-ups to gain more access to credit.**

Keywords: **Credit, SME Performance.**

1. INTRODUCTION

SMEs plays a crucial role in the macro economy, which is the main source of employment contributing to greater than 55% of all workforce and 22% of the GDP of Kenya. Despite the sector's importance in Kenya, findings demonstrate that three out of every five establishments were unsuccessful during its existence's few months (Kenya National Bureau of Statistics, 2007). Many nations attribute SMEs' failure to a lack of development infrastructure and environmental factors such as unfavorable tax regimes and legal systems, local small markets, and corruption have hindered SME's development.

Despite the existence of options such as loan facilities, availability of market, from MFIs, and the WEF or YEDF, among others, a small percentage of youth group MSEs have taken use of them only. Competition, instability, and managerial issues were among the most pressing issues confronting young businesses. According to Maru and Chemjor, (2013) most MFI has intervene through credit, saving and training as method to empowering SMEs. There are arising MFI in the rural and informal sector that aims at reducing problems encountered by SMEs in starting and running business. According to Nduta (2013), most MFI provide credit facilities to small and medium enterprise and has enabled SMEs to access finance as well as training and advisory in management of there business. In order to mitigate the credit risk most MFI appraise as well as monitor closely the funded business.

Credit facilities provided by MFIs assists SMEs to access credit. According to Nduta (2013), the MFIs ensure that the following measure are established to manage finance through collection policies, credit risk control and client appraisals.

MFIs must assess the viability of repayment of loan to avoid loan defaulting. However, gaining a partner is frequently means of getting someone into the firm, the one who has the capital required for launch that you may not have to return interest on (Tele, 2011). Hence, before borrowing equity finance must be explored.

Capacity building through seminars and workshops to improve managers' management and mitigation approaches should be maintained to keep youth enterprises performing well (Okungu, 2012). Global Financial Education (GFEP) initiative project managers, a program that is large-scale in financial education aiming for individuals below and just above the line of poverty in nations that is developing, include Training via Microfinance Opportunities and Freedom from Hunger. Through classroom teaching, GFEP impacted clients over 64,000 (Murei, 2011). The initiative just released a new module aimed for teenage and younger adult audiences, which educates how to effectively manage funds through budgeting and savings. These abilities are fundamental for younger people transitioning from dependent to independent economic and social responsibilities, as well as personal financial management (Commack, 2007).

Insurance is increasing used to reduce uncertainty and risk in highly competitive environment. This has developed numerous insurance products, investment and saving plans, reduce risk as well flexible premium to fit SMEs. This is possible since customer of insurance company premiums act as pool finance that can be used to settle risk (Atieno, 2014). This service assists the SMEs in reducing or avoiding the risk associated with the item insured or investment. Cash surrender value life insurance plans are a money source that you may borrow, and the rates of interest are sometimes lesser than rates in market.

The majority of shareholders in a variety of industries had completed high school. The findings demonstrate that an enterprise owner's educational attainment is related to the firm’s nature. Those that are more technically like ICT, education, administrative and service support activities, insurance and financial activities, and social work and human health activities all include business proprietors with post-secondary knowledge. All of the operators/owners of enterprises supply industries in the steam, gas, electricity and air conditioning said they had at least a secondary education (Micro Small & Medium Establishment Report, 2016).

Financial institutions are crucial in the growth of business through provision of financial support service. Business gain financial supports from commercial banks, micro-financial institutions and SACCOs. According Maru and Chemjor (2013), microfinance institutions are useful in provision of social and financial intermediation services to assist business. The intervention of micro-finance through training, savings and credit is crucial in empowerment of women and youth enterprises. Commercial banks have products targeting established large-scale business based on low risk than small and medium enterprises. Hence, micro-finance institution has developed financial supporting service that would empower small and medium business which include savings, credit, training and insurance (Okungu, 2012).

Credit facilities provided by micro-financial institution is essential in establishment and growth of business. Credit facilities are affected by economic factors, government policy, interest rate and social status. Other factor includes collection policies, risk of credit and client appraisal (Nduta, 2013). Micro-finance should provide affordable loans to businesses. Small and Medium Enterprises settles for flexible loan, affordable interest rates and easy lean repayment from financial institution (Waithanji, 2014).

Performance of Small and Medium-Enterprises (SMEs) relates to a measure of outputs based on the intended outputs. The study used revenue, capital, investments and risk management to measure performance of SMEs. SMEs require financial support service in terms of credit, savings, insurance and training in order to enhance their outputs in this competitive environment. Performance is multifaced concept that measure whether the organization achieve the set objective and goals.

According to Khrawish (2011) pointed that SMEs growth in revenue and investment is related with increase in returns of investment based on available resource. There revenue as well as return of investment related to a measure of performance in SMEs. It is also important to measure capital as result of availability of credit facilities to the SMEs. Growth in capital is the measure of available resource that have enhanced the performance of SMEs. Insurance is crucial aspect to SMEs as means of reducting risk associated with asset in the business. The reduction of risk can be achieved if more business seek insurance cover for there property.

Small and Medium Enterprise plays an important role in the growth of economy through employment, source of resources and market for products. However, there are many challenges that affect SMEs from lack of awareness on source finance, lack of technical knowledge, low level of awareness on financial fundings and lack of training (Kimando, Njogu, & Kihoro, 2012). SMEs are underfunded from government programs as well as from MFIs and commercial banks in Kenya. This is because MFIs and commercial banks treats most SMEs credits as high risk.

Kericho County is an agriculturally based county with tea, coffee, maize and cattle where most of SMEs focus in hotel, Jua Kali, food supply and cloths industry. The SMEs in the county are struggling based on lack ability to reduce cost of production, risk and high lending cost according to Ismail & Atheru (2017). The challenges have affect the SMEs where out of five, three failed within the first three years (UNDESA, 2018). This has been attributed to unaccessible financial support from financial institutions as well as government (Gyimah & Boachie, 2018). Therefore, there is need to examine the performance of SMEs in Kericho County.

STATEMENT OF THE PROBLEM

Small and Medium Enterprise has been means of income and employment to Kenya government. Nevertheless, three out of five businesses operation within the first three years fails (UNDESA, 2018). This have led to concern on why the Small and Medium Enterprise fails. Some of the challenges are access to finance, poor managerial skills, lack experiences and risk. Which are associated with limitation in financial support service offered to SMEs which includes credit, savings, training and insurance.

Empirical demonstrates are that the poor may profit from micro finance from both social and economic well¬being point-of-view. Research done in insurance in relation to financial support services offered to SMEs related on performance of insurance companies (Atieno, 2014; Mururi, 2015). However, there are other research done in different scope from Kenya (Meher, 2017) done in Ethiopia. Other gaps were methodological gaps where the current research used descriptive survey that deploy the use of questionnaires (Gregson, Mazdeh, Raby, & Saunder, 2018; Meher, 2017).

Despite the efforts deployed towards financial support service offered by micro-finance targeting SMEs, there are still challenge facing them as well as informal sector. However, restricted access to financing, property technology, and technical skills hampered their incorporation into the official mainstream financial system. As a result, the researcher is conducting an investigation to examine the influence of credit on Kericho County' Small and Medium Enterprises' performance.

2. LITERATURE REVIEW

Theoretical Literature Review

The study was guided by the Credit theory of money which is also known as debt theories of money, are financial economic notions that were first proposed in 1914 to explain the link between money and credit. Some advocates of these concept, including Alfred Mitchell-Innes, argue that credit/debit and money are the similar entity when viewed from various perspectives (Jackson, Greenham, & Ryan-Collins, 2014). In ages when currency is not supported at least by a commodity like gold, assert that credit (debt) is the basic character of money. The assumption that currency emerged as an account unit for debt and the belief that cash production implies the concurrent generation of debt are two prominent strands of thinking among these hypotheses.

Some of credit notions of money proponents claim that, even in systems where commodity money is commonly used, money is better understood as debt. Others contend that money only correlates to credit under a fiat money system, and that all kinds of currency, such as cash, may be considered types of loan currency. This theory supports the credit support as an important aspect in improvement of performance of SMEs. The theory is crucial in explaining the role played by credit as mean of generating cash money that can be invested and returned with an interest.

Empirical Literature Review

Nduta, (2013) researched on the outcome of credit administration on the financial performance of MFI in Kenya. Descriptive survey approach was adopted in the study with 59 MFIs with member of AMFI. In Kenya, Census was utilized of 59 MFIs in who are member of AMFI. The facts was attained using questionnaire. It was found that collection policy, credit risk control and client appraisal was found to significantly affect the financial performance. There was strong relationship between collection policies, risk control of credit and client appraisal with MFIs' financial performance. Collection procedures had highest influence on financial performance especially, the stringent procedures which assisted in recovery of debt than lenient policies. The current study has used credit as one of the variable understudy in relation to SMEs rather that financial performance of MFIs.

Waithanji, (2014) research on Micro-finance loan on the SMEs' financial performance in Kiambu County. The investigation used descriptive survey method of research to extract data from 2,061 SMEs where a random sample of 60 SMEs were choosen using simple random sampling technique. The investigation discoveries disclosed that a positive association between access to loa affected SMEs' financial performance. It settled that MFIs was sought by SMEs based on easy lean repayment, affordable interest rates and flexible amout offered as loan. This has enabled growth of SMEs from the credit facilities offered to them. This research is concentrates on SMEs which differs from Nduta's (2013) which focused much on MFIs. The current study differs from both research since it focuses on SMEs.

Maru and Chemjor (2013) investigated on women proprietors' micro-finance intervention and empowerment in Kenya's rural constituencies. Microfinance Institution (MFIs) provide member with both financial and social intermediation services to help business according to this examination. The intention of the investigation is to found the impact of women proprietors' micro-finance intervention and empowerment in Mogotio Sub-County in Kenya. It concentrated on credit, savings and training on the women empowerment in Mogotio Contituency. Causal survey was used with 80 member of Microfinance Institutions within the region. Questionnaires were used to collect data and was evaluated using linear multiple regression model. The investigation found that micro finance interventions affected the women empowerment. Credit and training had positive significance effect on women entrepreneurs while saving had no significant effect on women entrepreneurs. It concluded that credit and training are important in order to empower women. It recommended that enterprenuers should develop products that benefit women rather than other stakeholders. This research only focused three variable but did not investigate deposit as some of the Microfinance Institution role in society.

3. RESEARCH METHODOLOGY

Descriptive survey research design was used with target of 395 SMEs enterprises in Kericho where a sample of 199 SMEs was selected using stratification random sampling technique. Questionnaires were used for collecting data from the SMEs. Data collection was examined for consistency using Cronbach Alpha where result from a pilot with be used with a threshold of 0.7 for research instrument to be reliable. While, validity of the instrument was achieved through interrogation by supervisors. The obtained findings were depicted in charts, frequency tables, and graphs. The data was evaluated in standard deviation and means using descriptive statistics. It also used multiple regression analysis to calculate inferential statistics.

4. FINDINGS

The descriptive statistics results of credit are presented in Table 1.

Table 1: Descriptive Statistics of Access to Credit

CREDIT	SD=1	D=2	N=3	A=4	SA=5	Mean	STD
There is ease in credit access for Small and Medium Enterprises	1(0.6%)	8(4.5%)	58(32.8%)	92(52.0%)	18(10.2%)	3.67	0.744
Business evaluation for loan done by Micro-Financial Institution has been made flexible for Small and Medium Enterprises.	0(0.0%)	6(3.4%)	54(30.5%)	91(51.4%)	26(14.7%)	3.77	0.735
Group loans have encouraged financial growth for Small and Medium Enterprises.	0(0.0%)	5(2.8%)	18(10.2%)	114(64.4%)	40(22.6%)	4.07	0.662
There is asset funding for Small and Medium Enterprises that wants to grow their business.	0(0.0%)	4(2.3%)	34(19.2%)	95(53.7%)	44(24.9%)	4.01	0.731
Small and Medium Enterprises has improved the net profit due access to credit facilities.	0(0.0%)	5(2.8%)	13(7.3%)	112(63.3%)	47(26.6%)	4.14	0.660

Source: Research Data (2022)

According to the result, there was an ease in credit access for Small and Medium Enterprises as revealed by majority of 92(52.0%) respondents agreed. Those respondents who were neutral were 58(32.8%) while 18(10.2%) strongly agreed, 8(4.5%) disagreed and 1(0.6%) strongly disagreed. It implied that majority were of the opinion that there was ease in credit access by SMEs in Kericho County (M=3.67, STD=0.744).

As per the results there were 91(51.4%) respondents agreed that business evaluation for loan done by Micro-Financial Institution was flexible for Small and Medium Enterprises. Even though 54 (30.5%) and 6(3.4%) respondents were neutral and disagreed respectively, there were 26(14.7%) respondents who strongly agreed. This indicated that majority were of the opinion that MFI was flexible while evaluating loans for SMEs (M=3.77, STD=0.735). Majority of 114(64.4%) respondents agree that group loans encouraged financial growth for Small and Medium Enterprises. This was followed by respondents who strongly agreed were 40(22.6%), neutral were 18(10.2%) and disagreed were 5(2.8%). Group loans were much favourable for SMEs as means of accessing loan as revealed (M=4.07, STD=0.662).

The results indicated that 95(53.7%) agreed and 44(24.9%) of responsible strongly agreed that there was asset funding for Small and Medium Enterprises which assisted in the growth of business. Despite, 4(2.3%) strongly disagreed and 34(19.2%) disagreed majority indicated SMEs benefited from asset funding (M= 4.01, STD=0.731). This implies that asset funding has enabled assisted the growth of SMEs.

Small and Medium Enterprises had improved the net profit due access to credit facilities as revealed by 112(63.3%) agreed and 47(26.6%) strongly agreed. On the contrary 5(2.8%) strongly disagreed and 13(7.3%) disagreed that it. Therefore, the access of credit facilities has enhanced net profit of SMEs (M=4.14, STD=0.660). Waithanji (2014) concurs with current study that SMEs had grown due to access of credit from MFI. However, SMEs focused on the affordable interest rates, flexible amount and ease lean repayment

5. RESULTS OF INFERENTIAL STATISTICS

Correlation analysis

Table 2: Correlation Analysis

		Credit	Performance
Credit	Pearson Correlation	0.709	1
	Sig. (2-tailed)		
Performance	Pearson Correlation	0.000	
	Sig. (2-tailed) N	177	177

The results indicated that credit support services offered by MFI was strongly and positively related with performance of SMEs (R=709). The finding agree with Nduta, (2013) who researched on the outcome of credit administration on the financial performance of MFI in Kenya and established a positive significant relationship between credit and performance of SMEs.

Results of Regression Analysis

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	$.886^{a}$	.785	.780	.20319

The summary model results in table 3 indicated that there was strong relationship between financial support services in terms of credit with performance of SMEs (R=0.886). Credit contributed to 78.5% of the performance SMEs where other factors attributed to the remaining 21.5% (R Square = 0.785). Therefore, the remainder of 21.5% accounted for other financial services apart from credit.

Table 4: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	100.013	1	100.013	1451.146	$.001^{b}$
1	Residual	12.061	175	.0689		
	Total	112.074	176			

ANOVA results in table 4 revealed that credit provided by MFI had significant relationship with performance of SMEs (F=1451.146>Mean square value=100.013, P=0.000<0.05)

Table 5: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t-Statistics	Significant value (P)
		β	Std. Error	Beta		
1	(Constant)	.511	.139		3.676	.000
	Credit	.253	.037	.332	6.752	.000

The results in table 4.12 indicated that the multiple linear regression model was given by;

$$Y = 0.511 + 0.253\ (\text{credit})$$

Which revealed that a unit increase of credit facilities support service render to SMEs there were 25.3% increase in performance (β_1= 0.332).

6. CONCLUSIONS

The study concluded that credit access support service had positive significant influence on the performance of SMEs. This was attributed by ability of MFI to offer loan facilities that are flexible in evaluation and ease of access by SMEs. The loan products that were available for access by SMEs were group loans and asset fundings. This improved accessibility of funds mainly for growth of the SMEs.

7. RECOMMENDATIONS

The study recommended that MFI should also consider start-ups loan since majority of business start-ups are from personal savings. The loan that are provided require either group financing or asset financing which fits business that have growth with tangible evaluable assets and profitability. There is root for improving access to business that are starting-up by developing products that are based on business proposal that are well planned to enable those who lack capital to start-up. This will be a game changer for the women and youth who are disadvantaged from lack of capital and employments. This will solve the problem of unemployment for youth graduate who lack job but have ideas that are implementable.

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