



**MODERATING ROLE OF GOVERNMENT POLICIES IN THE RELATIONSHIP BETWEEN MICRO FINANCE SERVICES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KISII TOWN, KISII COUNTY, KENYA**

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**ABSTRACT**

*The purpose of the study was to investigate the role of government policies on the relationship between microfinance services and the financial performance of small and medium enterprises in Kisii Town. The specific objectives of the study were to: establish the influence of entrepreneurial training on financial performance and to determine the influence of saving mobilization on financial performance. The study targeted 575 registered small and medium enterprises in Kisii Town. The sample of 236 respondents was used by stratified sampling technique. The study sought to determine the effect of entrepreneurial training as moderated by the role of government policy on financial performance. The regression analysis showed that there was a negative association between entrepreneurship training and financial performance. From correlation analysis, there was an insignificant positive relationship between saving mobilization and financial performance. The study implied that there was a significant effect relationship between government policies and financial performance. The study recommended that small and medium enterprises should attend entrepreneurship training for them to improve financial performance.*

**Key Words:** *entrepreneurial training, saving mobilization, Government Policies, Microfinance Services, Financial Performance*

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## INTRODUCTION

Globally, microfinance institutions offer financial services to the individual's small and medium enterprises. The majority of these individuals and SMEs cannot access to normal banking services. Microfinance service provides microcredit information on small loans to poor clients. Services rendered by microfinance include mobilization of savings, checking of accounts in microinsurance, and payment system. Entrepreneurial training for the growth of the economy is part of the services provided by the microfinance (Mead, 2013).

In Washington, microfinance services broaden economic growth by enhancing the living standards of entrepreneurs. This economic growth alleviates poverty as it acts as a point of financial performance. There are several microfinance services, and the government policies contribute to the domain to achieve financial power. However, the challenges facing small and medium enterprises have not been addressed to improve their income generations. The low financial performance of small and medium enterprises is due to a lack of effective microfinance services (Karlan, 2018).

The impact of long-term saving mobilization has financial performance in Malaysia. This indicates that high savings of interest rates can be improved by collateral requirements so that credit rationing which does not occur. Microfinance services concerning saving mobilization start from saving accounts, credit provision, and insurance funds; however, only to low income earners to help them improve financial performance. Despite this, the standard of living remains unrecognized features of microfinance services from loans given lacking heavy security (Agenor, 2014).

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business to generate revenues. The term is also used as a general measure of financial performance over a given period of time and can

be used to compare similar firms across the same industry or compare industries or sectors in aggregation. The most common measure of financial performance is ratios. A ratio is simply a mathematical expression of an amount or amounts in terms of another or others. A ratio can be expressed as a percentage, as a fraction, or a stated comparison between two amounts. The financial ratios do not add any information not already existing in the amount (Wahid, 2014). The recommended measures for financial analysis that determine a firm's financial performance are grouped into five broad categories: liquidity, and solvency (Maria, Florica and Catalina, 2012).

### Statement of the Problem

The proper adoption of microfinance services enhances improved financial performance. This results from the operation efficiency of business enterprises. When microfinance services are efficient, finance managers use funds properly and reduce the cost of capital, which increases the profits of the business. Thus, the need to embrace how microfinance services offered can help the financial decision of the business concern. Microfinance services provided to small and medium enterprises are aimed at improving financial performance and maintain survival. The current scenario is that most small and medium enterprises are declining financial performance. Owners of business enterprises are facing difficulties from accessing microloans from the related finance due to low financial performance resulting in them closing down.

Kihara (2017) noted that there are different roles played in government policy in the provision of microfinance services. Thus, Omondi (2018) did a study on the effects of microfinance services and the financial performance of SMEs in Kisumu, which showed declining trends. Microfinance institutions have a large extent, tried to help the development of business by the provision of microloans, enhancing saving mobilization, and facilitating financial training, which in turn ensured improved economic life. Thus, this study sought to establish the role of government

policies on the relationship between microfinance services and the financial performance of SMEs in Kisii County, Kenya.

### **Objectives of the Study**

The main objective of the study was to establish the moderating role of government policies in the relationship between microfinance services and financial performance of small and medium enterprises in Kisii town. The study was guided by the following specific objectives;

- To establish the effect of entrepreneurial training and financial performance of small and medium enterprises in Kisii town
- To determine the effect of saving mobilization on the financial performance of small and medium enterprises in Kisii town

The following research hypotheses guided the study;

- H<sub>01</sub> Entrepreneurial training has no statistical effect on the financial performance of small and medium enterprises in Kisii town
- H<sub>02</sub> Mobilization of savings has no statistical effect on the financial performance of small and medium enterprises in Kisii town

## **LITERATURE REVIEW**

### **Agency Theory**

According to Jensen and Meckling (1976), an agency relationship is a contract that exists between one person or more than one person, the principal, and the other person (agent) to perform some duties on which it involves delegation of some decisions making authority to the agent. The theory needs more attention to this study because financial managers are appointed by the management to monitor the performance of the business.

The theory posits that management of the enterprises can intervene in microfinance services to financing capacity for business growth. They should also comply with auditors who expect to control business activities, even if the precise

microfinance services which are efficient and effective. It assumes that enterprises are usually homogeneously related in terms of transactions and governance practices. Bhatia (2003) examined this theory derived part of the positivist group from the financial contracts. It was adopted between the owners of the trade and industry stakeholders or supervisors charged to control the substantial resources (Brealey, 2018).

This theory cannot be used or relied upon the performance of all small and medium enterprise, since owners may have more information about financial reports than accountants who have knowledge on how to control activities without benefit. This agency theory cannot be argued with some enterprises which may be better performing or surpass others, since it has an inherent investor focus. It cannot be realistic to determine, or estimate agency neither cost accurately nor compare performance results made without the use of past financial statements. In this theory, the agent has more knowledge of the microfinance services as one of the challenges faced by the enterprises (Ndungu, 2013).

This theory is relevant to this study because it can be used to establish the relationship that exists between shareholders' interests and the agent's interests in microfinance services. The management at the top acts as the principles and trust the administration at the branch and subordinates in the assumptions of providing microfinance services in the business. The theory of agency indicates that the principal or owner expects to continue with microfinance services and his agents. Still, the agent interests vary with the owner leading to different minds of maintaining financial performance. The theory informs the study variable with a focus on marketing services on financial performance.

### **Empirical Literature**

Mukhtar (2014) conducted a study on the relationship between entrepreneurial training and regulation of microfinance institutions in India. The study used a descriptive design. The findings were drawn by inferential statistics such as correlations and

regression analysis. The results showed that an entrepreneur's financial performance is influenced by training.

Kundid (2017) researched on the influence of entrepreneurial training on the financial performance of Fabiano firms in California. The study used a case study design. Panel analysis was used to analyze quantitative data. Both primary data and secondary data were collected for 7 months from 4 firms sampled through census sampling. From the panel data analysis, it was reported that individual training is based on the demand for non-conventional security. This selection procedure combines new with traditional elements and dynamic incentives in default to repayment rates in Croata. This implied that entrepreneur financial training affects financial performance. The study shows there is a gap in entrepreneur financial training.

Viggena (2014) surveyed the role of an entrepreneur's financial skill training on the financial performance of firms in Japan's urban and rural areas. The study used a descriptive design. Primary data was collected using questionnaires. Both inferential and descriptive statistics were used to analyze data. The results indicated that education level, the attitude of training towards loan repayment, depend on business income. This meant that entrepreneurial financial training on how to generate income affects financial performance.

Vigenina and Kritikos (2014) conducted a study on the role of financial training on borrower's performance of retail investors in Romania. The target population was 45 firms. The study used descriptive design in gathering financial information. From the descriptive statistics, it was found that the management of cash deposit accounts is done through receipts and expenditures to indicate the level of cash available.

Akerlof (2011) carried a study on the factors influencing entrepreneurs' training on the financial growth of banks in Nigeria. The study used a cross-sectional design with 34 banks as a census sample size. The analysis of data using descriptive and factors analysis which showed that most banks are challenged from information asymmetries where the price of interest rates which cannot be explained in credit markets. Further, it was established that loan repayment is based on financial training received from microfinance services. Lack of loan processing procedures, loan ratio, and repayment criteria affect the financial growth of banks in terms of financial returns.

Akinyemi (2018) did a study on the effect of entrepreneurial training on the financial performance of SMEs in Tanzania. The study sampled 35 firms using the census. The study used a descriptive research design. The findings showed that credit obtained from NMB Bank affects Morogoro's financial performance. Further, SMEs were able to improve financial performance by increased business profit, increased sales turnover, business capital, and asset value. Also, it showed that the collateral period of age and firm size influence financial performance.

Koeh (2011) carried a study on the effect of entrepreneurial training on the performance of small and medium enterprises in Kenya. The study used a longitudinal design that was aided by factor analysis. Findings showed that micro-financial services failed to come up with training on how to repay bank loans due to various reasons such as grace period, moral hazard, and high-interest rate. In addition to MFIs, training enhances financing.

Kihara (2017) did a study on the effect of entrepreneurial training on the growth of small and medium scale enterprises in Nakuru. The study used structured questioners as the main tool for data collection. Data were analyzed using exploratory factor analysis, and descriptive analysis was done by SPSS to obtain percentages and frequency distribution tables. The findings showed that the growth of SMEs is hindered by capital access, cost,

capital market, collateral requirements, information access, capital management, and cost of registration. The study recommended that loans should be financed through the collateral requirement of SMEs, which can be easy access to loans.

McDanile (2011) did a study on the factors affecting savings mobilization and the financial performance of firms in the United States. The study adopted a case study research design. Secondary data was used. From factor analysis, it was established that saving mobilization is influenced by low-risk borrowers who cannot provide collateral. Further, it was found that increasing collateral requirements in saving mobilization had been affected by high-interest rates.

Agenoret *al*(2014) analyzed the impact of longterm saving mobilization on financial performance in Malaysia. A mixed study design was employed on a sample of 12 banks. Chi-square and correlation analysis was used to analyze data. The findings indicated that high savings of interest rates improved collateral requirements so that credit rationing does not occur.

Marguerite (2011) conducted a study on Savings Mobilization in Micro-Enterprise Finance in West Hartford Conn Kumarian. The study adopted an explanatory research design. Factor analysis was used to analyze data. The study affirms that savings mobilization is influenced by credit rating equilibrium, where the market has fully adjusted to the savings whereby banks ration credit becomes free, available information, and where demands of loans are based on individual interest rates.

Ogujiuba (2013) analyzed the determinant of saving mobilization on employment savings in Nigeria. The study found out that saving accounts worked well, but over half of the entire share of employment savings and value-added, which

constitute the most available and genuine vehicle for self-supporting business growth, as they hold the ability to use funds in the enterprise culture more than any new saving strategy. Saving mobilization represents a particular focus in a meaningful economic program that targets employment creation, sustainable income sources, poverty reduction, food security, rapid industrialization, and reversing rural-urban or urban to urban movement.

Emad (2013) conducted a study on the effect of savings management and performance of microfinance institutions in Iraq women finance trusts. The study adopted a case study research design. From the regression analysis, it was found that saving mobilization in the financial recession is one of the most significant obstacles that contended access to credit. This is additionally compounded by the fact that even where credit facilities are available, they may not be able to muster the necessary collateral to access such. This situation has led invariably too many of them closing business, occasioning loss of thousands of unskilled, semi and skilled jobs across the country.

Aryeetey (2014) conducted an analysis of the factors affecting savings mobilization in small and medium enterprises in Ghana. A cross-sectional research design was used. Descriptive statistics were used to analyze the collected primary data. Findings showed that savings enabled the financing of small scale enterprises in Ghana. Further, it was revealed that it has the same interest rate to all borrowers because they cannot distinguish between borrowers and screening borrowers ideally is too expensive. Banks are usually able to identify their borrowers up to a certain degree. Savings mobilizations improve economic growth.

Eppy, Kakuru, and Julius (2016) studied a study on the determinants of saving mobilization in commercial banks in Uganda. The study used a descriptive design. From factor analysis, it was found that bank acquisition serves as a tool for saving integrations, which creates an avenue for improving the living

standards, bring about significant local capital creation.

Kihara (2017) did a study on the impact of microfinance saving mobilization in Nairobi County. A descriptive research design was used and a target population of 2341 small and medium enterprises. Stratified sampling was used to select 241 respondents. Secondary data was obtained by a secondary data collection sheet from 2013 to 2015. The regression model established that there was a positive and significant effect of microfinance services on financial performance. Insurance and micro saving had no significant effect on financial performance.

Kamau (2012) studied the effect of microfinance saving on the financial performance of business. The study was conducted in small and medium enterprises in Nakuru East Sub County. Cross-sectional and survey research designs were used. A target population of 8130 SMEs was used. Stratified random sampling was employed to choose a sample of 91 SMEs. The study used a questionnaire to collect data. Inferential statistics such as correlations and F test and descriptive statistics such as mean and standard deviation was also used. The study confirmed that micro saving mobilization was positively correlated to financial stability and operational efficiency of SMEs.

## **METHODOLOGY**

The research design was used to identify the extent to which the relationship exists and the cause of the effect. It would also assess the changes in existing norms with different processes. There were 575 small and medium enterprises registered, as indicated in the Kisii county revenue collection office (2019). This was categorized as enterprises from green groceries, clothing and shoe vendors, food vendors, salons, cereals vendors, and poultry vendors business. Therefore, this made the number of respondents to be 575, comprising of the owners or managers

where each manager or owner represented an enterprise categorized. Sample size of 236 from the target population of 575 respondents. Questionnaires were used to collect data. This consisted of a series of questions in a manner that enabled the respondents to understand and interpret. It allowed the researcher to analyze quantitative data. Data was analyzed using descriptive statistics, that is, mean and standard deviations, while inferential statistics, that is, Pearson correlation analysis, simple regression, multiple regression analysis, were used to analyze data.

## **FINDINGS**

### **Entrepreneurial Training**

This was the first objective which sought to establish the effect of entrepreneurial training on the financial performance of small and medium enterprises. Table 1 showed when the respondent asked to indicate whether their asset management skills enabled them to understand financial status of their enterprises the majority of the respondents agreed with a mean of 4.66 and standard deviation of .725. The respondents were asked to state where giving reduced interest rates on microloans is common in microfinance services, the majority agreed with a mean of 4.26 and standard deviation of 1.108. When the respondents were asked to indicate whether financial skill improves their ability to maintain stock levels through given loans, the majority agreed with a mean of 4.10 and standard deviation of .971.

Pre-loan training enables understanding of loan repayment with a mean of 3.99, and standard deviation of .947, financial control training enable formulation of management responsibility in the enterprise with a mean of 3.98 and standard deviation of .836, regular training on deposit criteria allows me to determine expenses and receipt with a mean of 3.80 and a standard deviation of .954.

The majority of the respondents agreed that entrepreneurial training facilitate compliance and financial regulatory in business functions shown with a mean of 3.50 and standard deviation of 1.197. The

majority of the respondents were in agreement that investment promotions are promoted by entrepreneurial training with a mean of 3.48 and standard deviation of 1.202, The majority of the

respondents with a mean of 3.19 and standard deviation of 1.107 showed that post loan business management training improves financial performance.

**Table 1: Entrepreneurial Training**

Statement	Min	Max	N	Mean	Std. Deviation
Financial skill improves my ability to maintain stock levels through given loans	1	5	167	4.10	.971
I have asset management skill to understand my financial status	1	5	167	4.66	.725
Giving reduced interest rates on microloans is common in our microfinance services	1	5	167	4.26	1.108
Pre-loan training enable understanding of loan repayment	1	5	167	3.99	.947
Microloans offered after training gives flexible repayment terms	1	5	167	2.81	1.504
Post loan business management training improves financial performance	1	5	167	3.19	1.107
Regular training on deposit criteria enable me to determine expenses and receipt	1	5	167	3.80	.954
Technical, financial training is required to undertake enterprise	1	5	167	2.89	1.337
Financial control training enablesthe formulation of management responsibility in the enterprise	1	5	167	3.98	.836
Investment promotions are facilitated by entrepreneurial training	1	5	167	3.48	1.202
Entrepreneurial training facilitates compliance and financial regulatory in business functions.	1	5	167	3.50	1.197
Average of means and standard deviation	1	5	167	3.69	1.081

**Source: Field Data (2020)**

The majority of the respondents with a mean of 2.89 and a standard deviation of 1.337 disagreed that technical financial training is required to undertake an enterprise. The majority of the respondents with a mean of 2.81 and standard deviation of 1.504 disagreed that microloans offered after training give flexible loan repayment terms.

Based on the findings, a mean value of 4.66 was the highest of above average 4.0; suggested that the majority of the respondents believed that asset management skills is sufficiently facilitated financial status of the enterprise. However, a standard deviation of .725 suggested varied responses as to whether asset management is promoting the financial status of the enterprise. While a mean value of 2.81 computed, which was

below the mean average of 3.00, indicating disagreed that microloans offered after training are flexible for repayment terms. This study conflicted a study done by Koech (2011) on the effect of entrepreneurial training on the performance of small and medium enterprises in Kenya. The findings showed that micro-financial services were failed to come up with proper training on how to repay bank loans due to various repayment terms.

The standard deviation of 1.504 showed the variation in responses that the understanding of the microloans provided after training gives flexible repayment terms. This agreed with Akinyemi(2018) who did a study on the effect of entrepreneurial training on the financial performance of SMEs in Tanzania. The study found that small and medium enterprise owners were able to improve financial



performance by increased business profit, increased sales turnover, business capital, and asset value through microloans.

### Saving Mobilization

The study sought to establish the effect of saving mobilization on financial performance. The results are shown in Table 2.

**Table 2: Saving Mobilization**

Statement	Min	Max	N	Mean	Std. Deviation
There are high personal savings made by entrepreneurs	1	5	167	4.10	.754
Microfinance provides different savings products.	1	5	167	4.35	.516
The microfinance saving is easy to access and withdrawal.	1	5	167	3.51	1.005
I can withdraw from savings made	1	5	167	2.20	1.268
Micro-financial institutions give loans from the amount saved	1	5	167	3.41	1.204
I can get loans using my savings as collateral/security.	1	5	167	4.0359	.74358
I can get more loan products/asset	1	5	167	4.3293	.57501
More savings generate a high dividend made from share capital.	1	5	167	4.4132	.68763
Small deposit saving enable access to saving services	1	5	167	4.2754	.77354
There is saving charges charged in entrepreneurial saving	1	5	167	3.6467	.75313
Saving mobilization facilitates progressive lending	1	5	167	4.2156	.52778
Average of means and Standard deviation	1	5	167	3.862	.80069

**Source: Field Data (2020)**

The respondents were asked to state whether more savings generates high dividend made from share capital and the majority with a mean of 4.4132 and a standard deviation of .68763 found that more savings generates high dividend. This was followed by the results that micro finance provides different savings products with the majority of the mean value of 4.35 with a standard deviation of .516. This study concurred with Aryeetey (2014) who conducted an analysis of the factors affecting savings mobilization in small and medium enterprises in Ghana. The finding indicated that interest rate to all savings on borrowers interest since it is expensive. Banks are usually able to identify their borrowers up to a certain degree of savings and thus savings mobilizations improve economic growth.

The study were asked to state whether they can get more loan products / asset where the the majority of the respondents with mean of 4.3293 with a standard deviation of .57501 agreed. On whether small deposit saving enabled access to

saving mobilizations services; the majority of the respondents agreed with a mean of 4.2754 with a standard deviation of .77354. On whether saving mobilization facilitates progressive lending rates; the majority of the respondents agreed with a mean of 4.2156 with a standard deviation of .52778. This findings can be supported by the study of Emad (2013) who conducted a study on the effect of savings management and performance of microfinance institutions in Iraq women finance trusts. The findings showed that credit facilities are available on savings made, some of the small and medium enterprise may not be able to collect the necessary collateral to access cash. This saving mobilization has led to invariably too many closing business, occasioning loss of thousands of unskilled, semi and skilled jobs across enterprises.

The majority of the respondents with a mean of 4.10 with a standard deviation of .754 indicated that there is high personal savings made by entrepreneurs. On whether the respondents get loans using savings as collateral/security, the majority

with a mean of 4.0359 with a standard deviation of .74358 agreed. On the statement that there is saving charges charged in entrepreneurial saving; the majority of the respondents with a mean of 3.6467 with a standard deviation of .75313 not sure.

The majority of the respondents not sure that micro-financial institutions give loans from the amount saved with a mean 3.41 with standard deviation 1.204, The microfinance saving is easy to access and withdrawal had a mean of 3.51 with standard deviation of 1.005 and enterprise can withdraw from the savings made had a mean of 2.20 with standard deviation 1.268. The study

implied that more savings generate a high dividend made from share capital had a mean of 4.4132 with a standard deviation of .68763. This study done by Marguerite (2011) on savings mobilization in Micro-Enterprise Finance in West Hartford Conn Kumarian. The study affirms that savings mobilization is influenced by available information, and where demands of loans are based on individual interest rates.

The unstandardised regression coefficients value was 5.865; This means that there was a positive relationship between entrepreneurial training services and financial performance while other factors remain constant as presented in table 3.

**Table 3: Simple Regression Coefficients on Entrepreneurial Training services**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	5.865	.435		13.480	.000
1 Entrepreneurial Training services	.577	.112	.373	5.165	.000

a. Dependent Variable: Financial Performance

The coefficient value of .577 showed that a change in one unit of entrepreneurial training results in an increase in financial performance by 57.7% units.

Objective 1  $Y=5.865+.577X_1+\epsilon$ ..... Simple régression model 1

Table 4 also showed that the value of unstandardized regression coefficients is 6.810, which indicated a positive value. This meant that there was a negative association between saving mobilization services and financial performance while other factors remain constant.

**Table 4: Simple Regression Coefficients on Saving Mobilization Services**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	6.810	.933		7.302	.000
1 Savings Mobilization	-.808	.239	-.255	-3.386	.001

a. Dependent Variable: Financial Performance

**Source: Field Data (2020)**

A change in one unit of saving mobilization services results to a decrease in financial performance by 80.8% units.

Objective 2  $Y=6.810-.808X_2+\epsilon$ ..... Simple régression model 2

$H_{01}$ : Entrepreneurial training has no statistically significant effect on the financial performance of small and medium enterprises in Kisii town. The

calculated  $p = .<.05$  and the null hypothesis was rejected. The null hypothesis of the rejected region had a  $p$ -value less than or equal  $.01$  significance level. This is because there is sufficient evidence existing at  $\sigma$  value  $0.05$  significance level to conclude the association is not at zero.

$H_{02}$ : Saving mobilization has no statistical effect on the financial performance of small and medium enterprises in Kisii town. The calculated  $p = .003 < .05$  and the null hypothesis was rejected. The null hypothesis of the rejected region had the  $p$ -value less than or equal  $.01$  significance level.

### CONCLUSIONS AND RECOMMENDATIONS

From objective 1, role of entrepreneurial training on financial performance, the study concluded that most enterprises believed that asset management sufficiently facilitates financial status—microloans offered after training gave flexible repayment terms. There was a positive relationship between entrepreneurship training and financial performance in relation to the responses given. Based on the findings, entrepreneurship training was positively related to saving mobilization on business performance.

Based on the findings from objective 2, saving mobilization as moderated by the role played by the government policy affected financial performance. The study concluded that more savings generated more dividends from share capital. The enterprises can withdraw anytime their savings made.

Based on the study findings, the following recommendations were made; Entrepreneurship training on asset management should be enhanced to facilitate in improving the financial status of the enterprise. The study recommended that small and medium enterprises should attend entrepreneurship training for them to improve financial performance.

This study focused on the moderating role of government policies in the relationship between microfinance services and the financial performance of small and medium enterprises in Kisii Town- Kisii County, Kenya. Based on the findings, other studies should be carried out to determine the influence of government policies on the profitability of small and medium enterprises. Other scholars should also investigate the effect of government policies and SME's profitability on financial performance. The effect of marketing services on financial performance of firms should be further researched in order to compare the results arrived at time.

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