FINANCIAL SERVICES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN CHANGAMWE SUB-COUNTY, MOMBASA COUNTY

Njuguna, D. K., & Ali, I. A.

The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 9, Iss. 2, pp 846 – 861. May 17, 2022. www.strategicjournals.com, ©Strategic Journals

FINANCIAL SERVICES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN CHANGAMWE SUB-COUNTY, MOMBASA COUNTY

[1] Njuguna, D. K., & [2] Ali, I. A.

[1] MBA Student, School Of Business and Entrepreneurship, Jomo Kenyatta University of Agriculture & Technology [JKUAT], Kenya

[2] Doctor, Lecturer, Department of Accounting and Finance, Kenyatta University [KU], Kenya

Accepted: May 7, 2022

ABSTRACT

The purpose of the study was to investigate the effect of micro-finance services on financial performance of Small and Medium Enterprises in Changamwe Sub-County, Mombasa County. The study adopted descriptive survey research design to study the relationship between the variables. The target population of the study was 312 registered SMEs with five and above employees and have been operating for more than five years within Changamwe Sub-county. Simple random sampling technique was used to select a sample size of 175 respondents with the help of Fishers formula. The study was quantitative and primary data was collected by use of a structured questionnaire which was developed based on the research objectives. Data analysis was done with the help of Statistical Package for Social Science (SPSS) version 25 tool. Descriptive statistics and inferential statistics were the data analysis techniques used. Analysed data was presented in frequency tables. The study findings established that the microfinance institutions offer credit to small businesses with high interest rate and processing fees. However, despite the cost of credit been high, the microfinance institutions offer creditors favorable repayment terms. The microfinance institutions' terms and requirements of offering credit to small businesses was punitive and locked many small businesses from getting credit facilities. This is because most of these small businesses did not keep formal business transaction records which are prerequisites for credit accessibility. The study concluded that small business owners have opened a fixed deposit account to enable small businesses accumulate savings for reinvestment. Also small business owners had formed group savings under the supervision of microfinance institutions. The group savings enables small business owners to pool funds from members to serve as collateral for credit access. The study recommended that small business owner/managers should mobilize savings through opening and maintaining fixed deposit account to enable small businesses to accumulate savings for reinvestment. In addition, the small businesses should form common interest groups under the auspice of microfinance institution to consolidate savings through funds pooling so as to enable the small businesses to access microfinance credit facility easily by using group savings as collateral.

Key Words: *credit provision, savings mobilization, microfinance advisory services and training services*

CITATION: Njuguna, D. K., & Ali, I. A. (2022). Financial services and financial performance of small and medium enterprises in Changamwe Sub-County, Mombasa County**.** *The Strategic Journal of Business & Change Management,* 9 (2), 846 – 861.

INTRODUCTION

Small and Medium Enterprises (SMEs) are recognized all over the world as backbone of modern economies because they make major contributions to global economic growth and sustainable development through employment generation, poverty alleviation, wealth creation and food security (Odongo, 2016). It is the recognition of the important roles played by SMEs that has resulted in increased attention and education on the approach to develop and sustain a viable SMEs sector. The unmet financial needs and the apparent gap of lack of financial services facing the poor in the world led to establishment of micro financial institutions (MFIs) to meet the market niche of SMEs. The irony of it is that the same problems that lead to failure of SMEs are the solutions that many microfinance institutions seemingly provide. Micro-financing gives people the means to secure finances so as to exploit emerging opportunities and make them responsible for their own future.

Micro-finance institutions are considered to be making a significant contribution in the provision of financial and non-financial services to the Micro, small and medium enterprises (MSMEs) sector. Microfinance has evolved as an economic development approach intended to benefit low income men and women (Armyx, 2016) including the self-employed. According to Asiama (2017), microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients. Financial services generally include savings and credit; however, some microfinance institutions also provide insurance and payment services. In addition to financial intermediation, many microfinance institutions provide social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group (Yang, 2016).

Microfinance institutions (MFIs) are institutions, registered to provide microfinance services such as loans, domestic funds transfer and other financial services to micro, small and medium enterprises to run and expand their business (Muogbo & Tomola, 2018). They provide financial services such as savings, loans and insurance to enterprises in the form of micro credit. According to World Bank (2017), there are around 900 microcredit institutions in 101 countries that offer loans to the world's poor. Some microfinance institution however are reluctant offering their services to people in rural areas due to poor infrastructure, high risk and high cost of operation (World Bank, 2017).

Microfinance is a source of financial services for startup entrepreneurs and small businesses owners lacking access to banking services and other forms of financial credit. Enterprises need financial and non-financial services. Microfinance services have been linked to the success of SMEs as access to capital is, a basic component for small and micro enterprises to flourish in their ambition to establish industrious capability, contest with other businesses, generate jobs, and take part in poverty mitigation (Robinson, 2016). As Agnes (2016) notes, the ability to acquire finance determines the probability of survival and level of performance of any business enterprise regardless of size.

Regionally, in Uganda, Small and Medium Enterprises have had access to financial resources from financial institutions; however, they end up in the poor financial state and leading to business collapse before its first anniversary due to lack of entrepreneurial skills, lack of adequate technical and management support services (Odongo, 2016). In Mogadishu, a study done by Yasin, (2016) established that requirement put in place by microfinance institutions prevents them from borrowing money. In addition, most enterprises are not able to meet the requirements set by the Microfinance institutions.

In Kenya, Small and Medium Enterprises is an important sub sector for the country's economy like many other developing countries since it employs about 85% of the Kenyan workforce (about 10.5 million Kenyans of the current total employment) (KNBS, 2020). However, most SMEs in Kenya face difficulties in accessing credit facilities from financial institutions due to their limited assets. This hinders growth and expansion of these SMEs leading to poor performance of SME. Further, considering the enormous potentials of the SMEs sector and despite the acknowledgement of its immense contribution to sustainable economic development, its performance still falls below expectation in the country (KNBS, 2020). This suggests that despite the existence of many SMEs support programmes from the government and MFIs that provide backing to SMEs, they continue to experience high failure rate (Omondi & Jogongo, 2018). Locally, attempts to address the reason for ailing performance for SMEs has been centered around the challenges facing SMEs which in many studies have been negative perception on SMEs ability to provide quality services, lack of adequate finances and poor management skills (Amyx , 2016).

Statement of the Problem

Kenya National Bureau of Statistics (2020) reports that nearly 60 percent of SMEs close down as a result of stock continuity failure as many SMEs owners utilize gained money from the business to cater for household needs thus strangling business restocking. Small and medium enterprises within Changamwe Sub-county are struggling to break even and this is forcing them to close shops at unprecedented rate (Julius & Rugami, 2020). Interestingly, regardless of the numerous supports from MFIs, most of the SMEs in Changamwe Sub-county rarely persist past the incubation. This is despite the enhanced availability of microcredit and other non-monetary assistance from MFIs, and the fact that previous literature links these MFIs services to SME success in Kenya.

Despite the apparent success and popularity of microfinance, no clear evidence yet exists that microfinance development have positive impacts. While there are tales and other inspiring stories purported to show that microfinance can make a real difference in the lives of those served, rigorous quantitative evidence on the nature, magnitude and balance of microfinance impact is still scarce and inconclusive (de Aghion & Morduch, 2016). Various studies have been done on microfinance institutions services and SMEs performance. Omondi and Jogongo (2018) did a study on microfinance services and financial performance of small and medium enterprises of youth SMEs in Kisumu County. Omwono, Maizs and, Toroitich (2016) investigated the effect of microfinance services on entrepreneurship development in Uasin-Gishu County Kenya. It was revealed that there was a positive effect on entrepreneurship development. Chole (2017) evaluated effects of services offered by Microfinance Institutions on MSEs Performance in Kariobangi Light Industry in Nairobi, Kenya. It is evident that the reviewed empirical studies have failed to look at how credit provision, savings mobilization and training services affect financial performance of Small and Medium Enterprises in Changamwe Sub-county. The current study seeks to bridge this literature gap be holistically examining the effect of microfinance services on financial performance of Small and Medium Enterprises in Changamwe Sub-county.

Research Objectives

The broad objective of this study was to investigate the effect of financial services on financial performance of Small and Medium Enterprises in Changamwe Sub-county, Mombasa County. The study was guided by the following specific objectives;

- To establish the effect of credit provision on financial performance of Small and Medium Enterprises in Changamwe Sub-county, Mombasa County
- To determine the effect of savings mobilization on financial performance of Small and Medium Enterprises in Changamwe Sub-county, Mombasa County
- To evaluate the effect of training services on financial performance of Small and Medium

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

Enterprises in Changamwe Sub-county, Mombasa County

- To find out the effect of finance advisory services on financial performance of Small and Medium Enterprises in Changamwe Sub-county, Mombasa County

The study sought to test the following null hypotheses at 95% level of significance;

- **H_{01}:** There is a no significant effect of credit provision on financial performance of Small and Medium Enterprises in Changamwe Sub-county, Mombasa County
- **H_{02}:** There is no significant effect of savings mobilization on financial performance of Small and Medium Enterprises in Changamwe Sub-county, Mombasa County
- **H_{03}:** There is no significant effect of training services on financial performance of Small and Medium Enterprises in Changamwe Sub-county, Mombasa County
- **H_{04}:** There is no significant effect of finance advisory services on financial performance of Small and Medium Enterprises in Changamwe Sub-county, Mombasa County

LITERATURE REVIEW

Theoretical Review

Resource Based View Theory

This theory was developed by Wernerfelt in 1984, and later improved by Barney in 1986. The resource based theory over time became the most used theory for studying and analyzing competitive advantage and performance. It states that, for organizations to attain competitive advantage and performance, the key factor lies in their resources. The theory assumes that a company operating in a particular market segment can be heterogeneous depending on the resources they are in control of. The second assumption is that heterogeneity nature of resources can be long term because the resources applied in implementing strategies of a company are partly immobile across companies (i.e., there are resources that can't be traded and aren't easy to accumulate and copy) (Bryman & Bell, 2015).

The contribution of RBV theory to management of an organization is that it enables it to determine whether there exist resources that will result to competitive advantage. The advantage is that it enables them be in a position to exploit the imperfections of the market to improve their performance. Through that the company is able to combine various resources to attain sustainable competitive advantage. The RBV theory is of great importance to a company because it enables it identify the resources that can help it attain superior performance (Berger, & Udell, 2016).

This theory is regarded as the main theory for explaining the way performance of a business is influenced by resources (Bryman & Bell, 2015). From the theory, it is evident that resources are needed for the functioning of a business and is also a necessary ingredient for performance. This study considered credit provision as a financial resource which may have effect on financial performance of small businesses.

Financial Sustainability Theory

This theory was proposed by Woller in 1999. It states that sustainability is building a successful business today and thus delivering value in the long run. According to institutionists, the main objective of an MFI is financial deepening. In this case financial deepening is explained as creation of financial intermediation that is sustainable for the poor. According to institutionists' financial sustainability, determined by profitability, need to be prioritized by all MFIs (Brau & Woller, 2016). They argue based on the fact that majority of donor dependencies are uncertain and therefore unless the MFI has the ability of sustaining itself financially it won't have the ability of serving the poor in the long run.

In order for a Small and Medium business to attain its sustainability and meet its costs it's important for them to mobilize savings (Morduch, 2016). Despite the goal of reaching the poor and alleviating poverty being important, independency of households benefiting from the loan and the microfinance will benefit greatly. There are internal and external effects of MFI sustainability. Some of the internal implications are mobilization of deposits and savings, financial performance, motivation of staff, costs of administering loans etc. while external implications are in line with fund availability for loan disbursement, grant for organizing of community (Morduch, 2016). From the theory, for proper functioning of a business there must have financial resources. This study considered savings mobilization and its effect on SMEs financial performance.

Micro-Finance Theory

Microfinance has been rendered as a tool of development that allows for the granting of financial services in the form of small loans, insurance, saving options, leasing and transfer of money to help the poor persons to expand and grow their businesses (Khandker, 2015). Microfinance services targets mostly self-employed low income individuals who are mostly traders, farmers, artisans, tailors among other small scale entrepreneurs. Microfinance institutions then becomes a somewhat panacea to the poor man and woman economic troubles and offers a way that their businesses can thrive through the services and products that the microfinance institutions offer. Services offered by microfinance institutions are largely financial and are rendered to clients mostly from the rural areas with minimal security and tangible assets and who are also mostly illiterate. This is unlike the traditional financial institutions who look at the nature and scope of security before loan access and seek to make profits in the long run (CIDA, 2015).

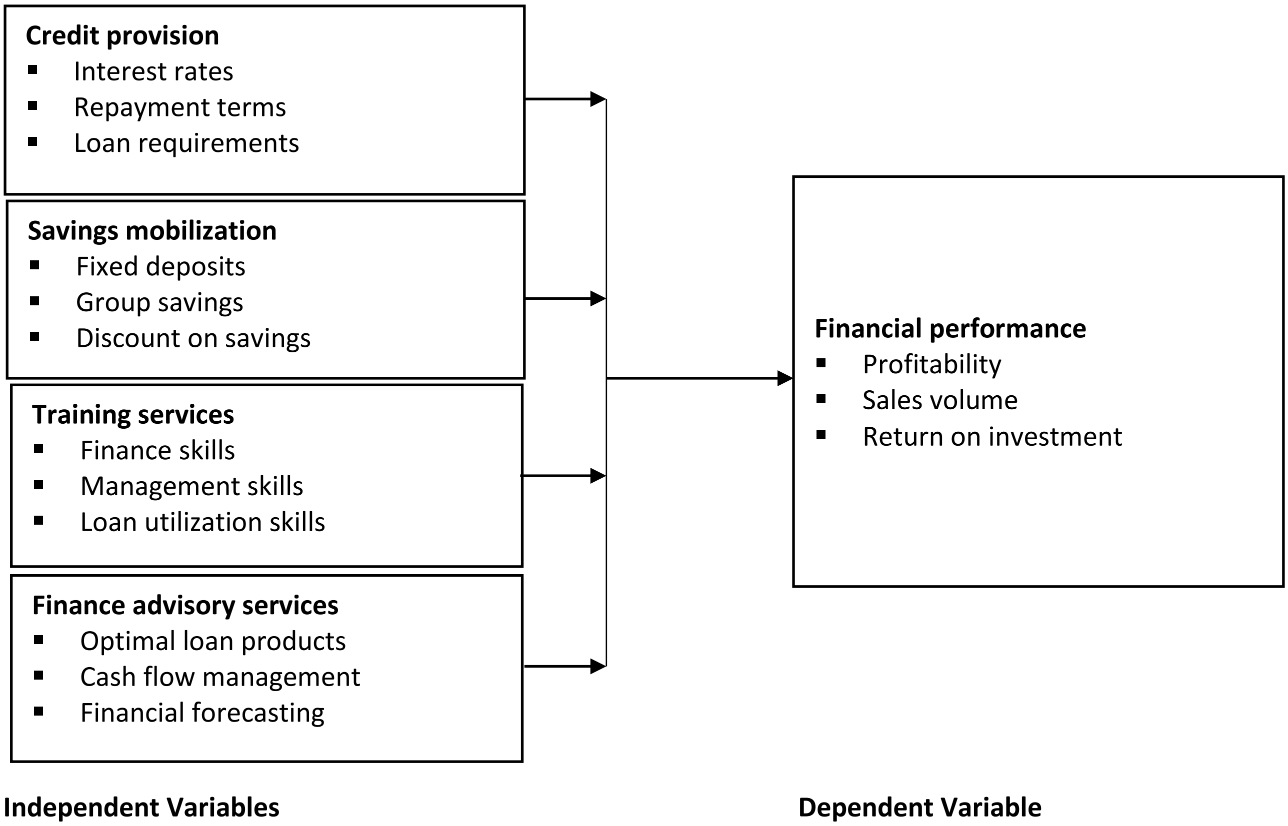

Figure 1: Conceptual Framework

Review of Literature on Variables

This section discusses the financial services which include credit provision, savings mobilization, training skills and finance advisory services. The dependent variable of the study, financial performance, is also discussed.

Credit Provision

Accessing credit is considered to be an important factor in increasing the growth of Small and Medium Enterprises (Robinson, 2016). It is thought that credit augment income levels, increases employment and thereby alleviate poverty. Poor management and accounting practices are also hampering the ability of smaller enterprises to raise finance. This is coupled with the fact that small businesses are mostly owned by individuals whose personal lifestyle may have far reaching influence on the operations and sustainability of such business. Koech (2017) observes that credit is an essential tool for promoting Small Enterprises. Credit can be considered from its ability to energize or motivate other factors of production. In such situations, credit can act as a catalyst that activates the engine of growth, enables it to mobilize its inherent potentials and to advance in the expected direction.

SMEs are less likely to be able to obtain bank loans than large firms; instead, they rely on internal funds, or cash from friends and family, to launch and initially run their enterprises. Low-income men and women have a serious hindrance in gaining access to finance from formal financial institutions. Ordinary financial intermediation is not more often than not enough to help them participate, and therefore MFIs have to adopt tools to bridge the gaps created by poverty, gender, illiteracy and remoteness.

Savings Mobilization

Savings is defined as the action of putting aside a part of current income, in order to consume or invest it later on. The money saved can be kept at home, deposited in a savings account or invested in different types of capital. Savings is a critical service for entrepreneurs who want secure and convenient deposit services that allow for small transactions and offer easy access to their funds (Gardiol, 2016). A study by Kurgat (2017) of the Kenya Women Finance Trust shows that clients preferred credit and savings services in the Microfinance Institution with their reason for saving being to expand their business (62%), education for their children (40%) and for emergencies (26%) additionally 71% of the clients viewed compulsory savings as an opportunity to save. In this study it is concluded that savings mobilization is important for the improved financial performance and outreach especially in the rural areas where access to financial services is challenging.

However, it can be argued that savings mobilization is costly and risky relative to other sources of financing and also that it would be better if entrepreneurs were helped to build assets through saving rather than to take on debt. A study by Bateman and Chang critically examined evidence on saving with microfinance institutions in Croatia and found that savings were only useful in maximization of profits for MFI managers and external shareholders. The study further argues that poverty reduction can only be done through a range of state coordinated policy interventions as happened in Malaysia, China, Taiwan, South Korea and India. It would be important to establish the role of savings on SMEs asset building with a view on possible solutions to any imperfections.

Training Services

Entrepreneurial education and training provides individuals with the ability to recognize commercial opportunities, self-esteem, knowledge and skills to act on them. It includes instruction in opportunity recognition, commercializing a concept, managing resources, and initiating a business venture. Microfinance Institutions train entrepreneurs on financial management, business planning and projection. However, Wright (2016) is not enthusiastic about the role of microfinance institution training to SMEs and thinks that these funds should be diverted to other projects desperately needed such as health of the people in

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

an organization and there is inadequate learning from the training programs offered by Microfinance Institutions funds could be used in other projects that might help the SMEs more. It could also be noted that money given to the SMEs without proper management could result in spending on social entertainment such as alcohol or gambling.

Lack of management training in the SME sector is evidently a constraint to growth as pointed out by Karuri (2015) where he states that the “lack of business management skills was the major constraint in the development of the small scale enterprises”. King and McGrath (2016) point out that majority of those who run Small enterprises are ordinary lot whose educational background is lacking. It is not sufficient to know how to produce a high quality product. The producer must also know how to sell it effectively and how to control the financial side of the business and hence they may not well equip to carry out managerial routines for their enterprises.

Finance Advisory Services

Microfinance advisory services works to address gaps in access to financial services for households by supporting the development, testing, and implementation of innovative retail financial products beyond credit. Microfinance Institutions offer advisory services to entrepreneurs on financial management, business planning and projection. However, Wright (2016) is not enthusiastic about the role of microfinance institution advisory services to SMEs and thinks that these funds should be diverted to other projects desperately needed such as health of the people in an organization and there is inadequate learning from the training programs offered by Microfinance Institutions funds could be used in other projects that might help the SMEs more.

Financial Performance

Sefiani and Bown (2017) observed that performance is the indicator used to measure set goals and objectives. The authors further alluded that business performance measures market-related items such as sales growth and market share and future positioning of the firm. Financial performance is the major outcome organizational effectiveness. Financial performance is explained as the degree to which financial objectives are being or has been accomplished. It is the process of measuring the results of a firm’s policies and operations in monetary terms. It is used to measure firm’s overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (King & McGrath, 2016).

Accounting-based considers profitability in terms of Return on Sales (ROS), Return on Assets (ROA) and Return on Equity (ROE) to measure financial performance (Murthy & Sree, 2016). ROA is a major ratio that indicates the profitability of a bank. It is a ratio of Income to its total asset. It measures the ability of an organization’s management to generate income by utilizing company assets. In other words, it shows how efficiently the resources of the company are used to generate the income. The current study will use profitability, sales volume and return on investment as financial performance metrics.

Empirical Review

Ahmad, Jadoon, Ahmad and Khan (2017) studied the effects of training that’s offered and aimed at improving agricultural production in Mansehra District. It was an examination in the way training affects agricultural production of the community members of Sarhad Rural Support Program (SRSP). The study was conducted in 4 villages in the district. This was based on a sample of 70 individuals who benefited from the training program. The study focused on the effect brought about by training on farming patterns, crop production and size and farmers income. Because of the training, there was an increase in yields of fruits and vegetables and reduction was witnessed in death rates among livestock and diseases also reduced.

Nyamwihula (2017) reviewed the impact of microfinance loans on performance of SMEs in Tanzania. A Case of NMB Borrowers in Kinondoni Municipal, Dares Salaam. The study assessed the way performance of SMEs is affected by Microfinance loans. A cross sectional design was used. The study selected a sample of 106 respondents who are clients of National Microfinance Bank (NMB) using simple random sampling. Questionnaires constructed from five Likert scale were used for gathering information pertaining to effects of loan received from NMB. Data were coded in SPSS and thereafter analyzed to generate descriptive and inferential statistics. Results from the study indicate that after the enterprises employed the loans they received over time, there was an increase witnessed in their gross profit.

Ngano (2018) carried out a study on the entrepreneurship training and performance of SMEs in ICT sector in Nairobi. Specific objectives of the study were to examine the effect of assessment of training needs and content training methods on performance of SMEs. The study adopted mixed research design to collect quantitative and qualitative data. The study targeted 270 SMEs in ICT sector. The study used systematic random sampling to choose 73 study participants. The study results revealed that training needs assessment and training content had positive influence on performance of SMEs in ICT sector.

Mutuma (2019) studied services of MFI and performance of SMEs financially; the study was conducted among enterprises located in Meru Town, Kenya. Researchers focus was on determining the impact of credit facilities, savings programs and entrepreneur training programs. To achieve this objective, the researcher adopted a descriptive research design where data was collected from 93 respondents. Primary data collected using questionnaires was used and the data was analyzed by computing descriptive and inferential, statistics which included correlation and multiple regression analysis. Results showed that MFI services and financial performance of the enterprises were strongly and positively related

METHODOLOGY

This study adopted a descriptive survey research design in which data was collected for the objectives of the study. According to Mombasa County government (2020) there were 3739 registered Small and Medium Enterprises in Changamwe Sub-county, Mombasa County. However, the current study targeted 312 registered SMEs with five and above employees and had been operating for more than five years within Changamwe Sub-county. The sampling frame for this study was registered SMEs with more than five employees and had been operating for more than five years within Changamwe Sub-county. The study adopted simple random sampling technique. The study employed a structured questionnaire to collect data from the participants. Quantitative methods of data analysis were used to analyze the data. Quantitative data was analyzed through statistical procedures. Multiple regression analysis was used because it provided estimates of net effects and explanatory power. The statistical package for social sciences, SPSS version 25 was used as data analysis tool. The regression model used was as follows:

$$Y= \alpha + \beta_1 X_1 1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y is financial performance

α is regression constant

β is regression coefficients

X_1 is credit provision

X_2 is savings mobilization

X_3 is training services

X_3 is finance advisory services

ε is error term

FINDINGS AND DISCUSSION

Descriptive Statistics

Before proceeding with the regression analysis to test the hypotheses proposed by the research model, descriptive analysis was done to provide summaries through the use of mean, and standard deviation.

The Strategic Journal of Business & Change Management. ISSN 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

Credit Provision

The respondents were asked to indicate on a five-point Likert scale their level of agreement on several statements describing the credit provision in SMEs. The results in Table 1 showed that respondents agreed that the cost of credit in form of interest rate and processing fees from MFIs was very high and that the credit repayment terms offered by MFI were favorable to my business as indicated by a mean of 4.78 and mean of 4.05 respectively. Respondents also agreed that loan terms and requirements have locked small businesses from getting loans (mean=4.63) and that they lack business transaction records which are needed for credit access (mean=4.00).

Table 1: Credit Provision

	Mean	Std deviation
The cost of credit in form of interest rate and processing fees from MFIs is very high	4.78	.449
The credit repayment terms offered by MFI are favorable to my business	4.05	.610
Loan terms and requirements have locked my business from getting loans	4.63	.527
We lack business transaction records which are needed for credit access	4.00	.282

Savings Mobilization

The respondents were asked to indicate on a five-point Likert scale their level of agreement on several statements describing savings mobilization in SMEs. The results in Table 2 showed that respondents agreed to the statement that they have opened a fixed deposit account to accumulate my savings for reinvestment (mean=4.69). Respondents also agreed to the statement that they have joined group savings in microfinance banks as indicated by a mean of 4.42. The respondents agreed to the statement that Microfinance institution offers benefits for those who save (mean=4.83). Respondents further agreed to the statement that they are able to save for future expansion in MFIs (mean=4.02). The results agree with Gardiol, (2016) who asserts that savings is a critical service for entrepreneurs who want secure and convenient deposit services that allow for small transactions and offer easy access to their funds.

Table 2: Savings Mobilization

	Mean	Std. Deviation
I have opened a fixed deposit account to accumulate my savings for reinvestment	4.69	.383
I have joined group savings in microfinance banks	4.42	.491
Microfinance institution offers benefits for those who save	4.83	.610
I am able to save for future expansion in MFIs	4.02	.705

Training Services

The respondents were asked to indicate on a five-point Likert scale their level of agreement on several statements describing the training services aspects. The results in Table 3 showed that respondents agreed to the statement that MFIs have offered small business owners with adequate financial skills training and that the trainings offered are beneficial and implemented to address my business challenges as indicated by a mean of 4.58 and mean of 4.77 respectively. Respondents also agreed to the statement that they have gained knowledge on loan utilization through trainings by MFIs (mean=4.12) and that they had gained business management knowledge and skills through training (mean=4.01). The study findings concur with Karuri (2015) where he states that the "lack of business management skills was the major constraint in the development of the small scale enterprises. The results further corroborated the findings by Ngano (2018) whose research revealed that training needs assessment and training content had positive influence on performance of SMEs in ICT sector.

Table 3: Training Services

	Mean	Std. Deviation
MFIs have offered me adequate financial skills training	4.58	.333
The trainings offered are beneficial and implemented to address my business challenges	4.77	.490
I have gained knowledge on loan utilization through trainings by MFIs	4.12	.605
I have gained business management knowledge and skills through training	4.01	1.005

Finance Advisory Services

The respondents were asked to indicate on a five-point Likert scale their level of agreement on several statements describing the finance advisory services aspects. The descriptive results in Table 4 revealed that respondents agreed to the statement that MFIs offer my business advise on the optimal loan product to apply for and that the microfinance institution provides my business with a cash flow management advisory as indicated by a mean of 4.01 and mean of 4.58 respectively. Respondents also agreed to the statement that Microfinance offers my business with financial forecasting advisory services (mean=4.96). However, the research findings disagree with Wright (2016) who argues that funds used for microfinance institution advisory services to SMEs should be diverted to other projects desperately needed such as health of the people in an organization as there is inadequate learning from the training programs offered by Microfinance Institutions funds.

Table 4: Finance Advisory Services

	Mean	Std. Deviation
MFIs offer my business advise on the optimal loan product to apply for	4.01	.490
My microfinance institution provides my business with a cash flow management advisory	4.58	1.106
Microfinance offers my business with financial forecasting advisory services	4.96	.269

Bivariate Correlation Results

The findings of the correlation analysis indicated that there is a positive correlation between credit provision and financial performance (r=0.664, p-value=0.000). Therefore, an increase in the provision of credit leads to improved financial performance. On savings mobilization, the correlation coefficient was also positive (r = 0.203, p-value < 0.05). This means that an increase in savings mobilization leads to improved financial performance.

Results of the study also showed that there is a significant positive correlation between training services and financial performance (r=0.129, p-value < 0.05) implying that an increase in training services has a positive effect on financial performance. On finance advisory services, the correlation coefficient was positive (r = 0.411, p-value < 0.000). This means that an increase in finance advisory services would lead to improved financial performance.

Table 5: Pearson Correlation

		Credit provision	Savings mobilization	Training services	Finance advisory	Financial performance
Credit provision	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	116				
Savings mobilization	Pearson Correlation	.069**	1			
	Sig. (2-tailed)	.000				
	N	116	116			
Training services	Pearson Correlation	.383**	.494**	1		
	Sig. (2-tailed)	.003	.000			
	N	116	116	116		
Finance advisory	Pearson Correlation	.771**	.648**	.570**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	116	116	116	116	
Financial performance	Pearson Correlation	.664**	.203**	.129**	.411*	1
	Sig. (2-tailed)	.000	.000	.005	.000	
	N	116	116	116	116	116

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Multiple Regression Analysis

Financial performance was regressed on credit provision, savings mobilization, training services, finance advisory services. The results of multiple regression analysis are presented as follows.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.779[a]	.607	.562	.70572	2.055

a. Predictors: (Constant), Credit provision, Savings mobilization, Training services, Finance advisory services

b. Dependent Variable: Financial performance

Table 6 revealed that the coefficient of determination (R squared) is 0.607 which implies that 60.7% of financial performance can be explained by credit provision, savings mobilization, training services, and finance advisory services. The adjusted R-square of 0.562 indicates that predictors in exclusion of the constant variable explained the change in financial performance by 56.2%, the remaining percentage can be explained by other factors excluded from the model.

Table 7: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	20.029	4	5.007	42.794	.002[b]
1	Residual	12.949	111	0.117		
	Total	32.978	115			

a. Dependent Variable: Financial performance
b. Predictors: (Constant), Credit provision, Savings mobilization, Training services, Finance advisory services

The result of Analysis of Variance for regression coefficient as shown in Table 7 revealed (F=42.794, p value = 0.002). Since the p-value is less than 0.05 it means that there exists a significant relationship between financial services (credit provision, savings mobilization, training services, and finance advisory services) and financial performance of SMEs.

Table 8: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.578	.498		1.161	.000
	Credit provision	.706	.319	.674	2.211	.036
	Savings mobilization	.192	.388	.173	.496	.004
	Training services	.063	.297	.062	.213	.001
	Finance advisory services	.417	.227		1.834	.008

a. Dependent Variable: Financial performance

Regression results in Table 8 indicated that for a 1-point increase in the financial services, financial performance was predicted to increase by 0.578, given that all the other factors are held constant at zero. Further in the model it was established that a unit increase in credit provision would lead to an increase in financial performance by 0.706. A unit increase in savings mobilization would lead to an increase in financial performance by 0.192. A unit increase in training services would lead to an increase in financial performance by 0.063 and a unit increase in finance advisory services would lead to an increase in financial performance by 0.417. All predictor variables had significance level of 0.05 and below implying that they were statistically significant in explaining the change in financial performance.

Discussion of Key Findings and Hypothesis Testing

Regression analysis formed a basis for achieving research objectives adopted in this study by considering the p values corresponding to each variable of interest. The first objective of the study sought to investigate the effect of credit provision on financial performance of SMEs. Regression analysis conducted proved that there was a positively significant effect of credit provision on the dependent variable as indicated by the values $\beta_1 = 0.706$, $t = 2.211$, $p<0.05$. The study concluded that a unit change in credit provision would lead to 0.706 unit change in financial performance. Further, since the $p<0.05$, the null hypothesis that credit provision has no significant effect on financial performance is rejected.

The second objective was to establish the effect of savings mobilization on financial performance. Regression analysis result showed a positively significant effect of savings mobilization on financial performance as indicated by the values $\beta_2 = 0.192$, $t = 0.496$, $p<0.05$. The study concluded that a unit change in savings mobilization would lead to 0.192 unit change in financial performance. The results agree with Gardiol, (2016) who asserts that savings is a critical service for entrepreneurs who want secure and convenient deposit services that allow for small transactions and offer easy access to their funds. On hypothesis testing, since $p<0.05$ null hypothesis that savings mobilization has no significant effect on financial performance is rejected.

Thirdly, the study sought to establish the effect of training services on financial performance. Regression analysis conducted showed that there was positive significant effect of training services on the dependent variable as indicated by the values $\beta_3 = 0.063$, $t = 0.213$, $p<0.05$. The study concluded that a unit change in training services would lead to 0.063 unit change in financial performance. The study findings concurred with Karuri (2015) where he states that the "lack of business management skills was the major constraint in the development of the small scale enterprises. On hypothesis testing, since $p<0.05$, the null hypothesis that training services has no significant effect on financial performance is rejected.

Finally, the study sought to investigate the effect of finance advisory services on financial performance. Regression analysis conducted showed that there was positive significant effect of finance advisory services on financial performance as indicated by the values $\beta_4 = 0.417$, $t = 1.834$, $p<0.05$. The study concluded that a unit change in finance advisory services would lead to 0.417 unit change in financial performance. The findings disagree with Wright (2016) who argues that funds used for microfinance institution advisory services to SMEs should be diverted to other projects desperately needed such as health of the people in an organization as there is inadequate learning from the training programs offered by Microfinance Institutions funds. On hypothesis testing, since $p<0.05$, the null hypothesis that finance advisory services has no significant effect on financial performance is rejected.

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that the microfinance institutions offer credit to small businesses with high interest rate and processing fees. However, despite the cost of credit been high, the microfinance institutions offer creditors favorable repayment terms. This means that the repayment period is adequately spread over a considerable time to make ease in repayment. It is concluded that the microfinance institutions' terms and requirements of offering credit to small businesses is punitive and locks many small businesses from getting credit facilities. This is because most of these small businesses do not keep formal business transaction records which are prerequisites for credit accessibility.

The study concluded that small business owners have opened a fixed deposit account to enable small businesses accumulate savings for reinvestment. Also it is concluded that small business owners have formed group savings under the supervision of microfinance institutions. The group savings enables small business owners to pool funds from members to serve as collateral for credit access. The microfinance institutions provide benefits and value to the small business owners who save with the MFIs and these savings enable small businesses to expand.

The study concluded that microfinance institutions provide adequate financial skills trainings to small business owners and managers. These trainings on financial skills have proved beneficial to small business owners in addressing challenges of the business. Respondents also agreed to the statement that they have gained knowledge on loan utilization through trainings by MFIs and that they have gained business management knowledge and skills through training.

The study concluded that microfinance institutions provide finance advisory to small businesses usually in the form of optimal loan product sufficient for the small businesses. The microfinance institutions also provide finance advisory in the form of cash flow management and planning to the small businesses and they also offer financial forecasting services to the small businesses.

The study recommended that small business owners and managers should seek credit from those microfinance institutions which offer credit at low interest rate. This would enable small businesses to repay the loans with ease. The small businesses should from groups powerful enough to lobby MFIs to offer credit facilities at a cheaper cost with flexible repayment plans to avoid sucking small businesses in abyss of debt. The microfinance institutions should lessen the credit terms and requirements when lending to small businesses since it was revealed to be the stumbling block to small businesses access to credit. The small businesses should be encouraged to keep formal business transaction records to facilitate accessibility to MFI loans.

The study recommended that small business owner/managers should mobilize savings through opening and maintaining fixed deposit account to enable small businesses to accumulate savings for reinvestment. In addition, the small businesses should form common interest groups under the auspice of microfinance institution to consolidate savings through funds pooling so as to enable the small businesses to access microfinance credit facility easily by using group savings as collateral. Also through savings, the small businesses are able to access microfinance services which are essential for the small businesses growth.

The study recommended that small business owners/managers should be trained on how to manage and invest funds. Through the MFIs, small businesses should assess training on financial skills so as to assure prudence in financial management of the small businesses. In addition, training opportunities have the potential to ensure loan management is done effectively by the small businesses and that the business owners/managers gain essential skills in managing the businesses.

The study recommended that the small businesses should take advantage of the finance advisory services offered by the microfinance institutions which in most cases is usually offered at zero cost. The advisory on optimal loan for the small business and cash flow management, the two greatest bottle necks for the growth of small businesses, by the microfinance institutions will ensure the survival of the small businesses. In addition, the service of financial forecasting which is pivotal for the performance of small businesses should be provided to the small businesses.

Areas for Further Research

This research provided empirical evidence on financial services in the context of SMEs financial performance. The research, however, was limited to credit provision, training services, finance advisory services and savings mobilization which accounted for 60.7% variation in financial performance of Small and Medium Enterprises. Therefore, the study recommends another study be undertaken to include other possible financial services parameters which may affect financial performance of not only small businesses but also other firms in high risk sectors like hotels in Kenya.

REFERENCES

Asiama J., (2017). *Microfinance in Ghana: An Overview*. Department of Research, Bank of Ghana. Pp1-15

Armyx C. (2016). Small Business Challenges - The perception problem: sized does not matter. *Washington business Journal*, 66-68.

Bass, J & Henderson, K. (2017). *Innovations in Microfinance: The Microfinance experience with savings mobilization*. (p.10).Weidemann Associates, Inc.

Berger, A. N. & Udell, G. F. (2016). The economics of small business finance: the roles of private equity and debt markets in the financial growth circle. *Journal of Banking and Finance,* 9(22), 873-897.

Bryman & Bell (2015), Is the resource-based 'view' a useful perspective for strategic management research. *The Academy of Management Review*, 26(1)

Cooper, D. R., & Schindler, P. S. (2015). *Business Research Methods* (2nd ed.). London: Mc Graw-Hill.

Creswell, J. W. (2015). *Research design: Qualitative, quantitative and Mixed Methods approaches* (2nd edition). New Delhi: Sage Publication, Inc.

Gardial, D. I. (2016). *Mobilizing savings key issues and good practices in savings promotion*. (p.3).Sweden: Swiss Agency for Development and Cooperation.

Hala, H. E. H. (2018). Impact of Microfinance on Entrepreneurial Development: The Case of Egypt. *International Journal of Business and Social Science*, 9 (90), 68- 76.

Kenya National Bureau of Statistics (KNBS) (2020). *Micro and Small Enterprise- Kenya National Bureau of Statistics*. Retrieved from http://www.statistics.knbs.or.ke

King, K. & McGrath S. (2016) Globalisation, Enterprise and Knowledge: Educational Training and Development, *International Review of Education*, Vol. 50(1), 74 76(3).

Khandker, S. R. (2015). *Micro-finance and poverty: Evidence using panel data from Bangladesh.* The World Bank Economic Review, 19(2), 263–286.

Koech, C. (2017). *A survey of the financial contraints hindering growth of SMEs in Kenya. The case of Kamukunji District in Nairobi County*. Unpublished Thesis, University of Nairobi, Kenya.

Kombo, D.K., & Tromp, D.L.A. (2013). *Proposal and Thesis Writing: An Introduction.* Paulines Publications Africa, Don Bosco Printing Press, Nairobi Kenya.

Kothari, C. (2014). *Research Methodology: Methods & Techniques.* 2nd edition. New age International Publishers, New Delhi, India.

Kurgat, P. (2017). *The role of savings in Microfinance Institutions a case of KWFT.* (Unpublished Master's Thesis), Solvay Brussels School of Economics and Management.

Ledgerwood, J. (2016). *Microfinance handbook: An institutional and financial perspective.* World Bank: Washington, D.C.

Muogbo, U., S., & Tomola, O. (2018). The Impact of Microfinance Bank on Entrepreneurship Development in Nigeria. *Journal of Business and Economic Development*, 3(2), 51-61.

Mutuma, K. G. (2019), Microfinance services and financial performance of SMEs in Meru Town. *International Journal of Scientific and Education Research*, 3(03), Pp. 78-92.

Odongo, J. (2016), Lending terms and financial performance of Small and Medium Enterprises in Uganda: A case of Soroti District. *Research Journal of Finance and Accounting*, 5(2), Pp. 78-91.

Ojo, O. (2017). *Impact of microfinance on entrepreneurial development: The case of Nigeria.* The International Conference on Economics and Administration, Faculty of Administration and Business, University of Bucharest, Romania ICEA – FAA Bucharest, 14-15th November.

Omondi, R. I. A. & Jagongo, A. (2018). Microfinance services and financial performance of small and medium enterprises of youth SMEs in Kisumu County, Kenya. *International Academic Journal of Economics and Finance, 3*(1), 24-43.

Omwono, G., Maizs, E., K., & Toroitich, K. K.(2016). Effect of Microfinance Services on Entrepreneurship Development in Uasin-Gishu County Kenya. *International Journal of Research in Business Studies and Management,* 3 (8), 1-14.

Robinson, M. (2016), *The Paradigm Shift From credit Delivery to Sustainable Financial Intermediation,* In Mwangi S Kimenyi, Robert C Wieland and J D Von Pischke (eds), 1998, Strategic Issues in Microfinance. Ashgate Publishing: Aldershot.

Sefiani, Y. & Bown, R. (2017). What influences the success of manufacturing SMEs? A perspective from tangier. *International Journal of Business and Social Science*, *4*(7), 15-29.

Sekaran, A. (2016). *Research Methods for Business Students*. London: Pearson.

World Bank, (2017), *Microfinance handbook: An institutional and financial perspective.* The World Bank publications, USA

Wright, (2016). *Analysis of the effects of Microfinance on poverty reduction*. Retrieved from http://www.microfinancegateway.org

Yang, L. (2016). *Making Strategy Work: A Literature Review on the Factors Influencing Strategy Implementation.* ICA Working Paper 2/2008. Lugano Switzerland Institute of Corporate Communication.

Yasin, A. (2013). The Accessibility of Microfinance for Small Businesses in Mogadishu, Somalia. *International Journal of Humanities and Social Science*, 11(3), 172- 173