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The Effects of Financial Institutions Intervention on the Growth of Small Enterprises in Kenya: A Survey of Public Service Transporters in Kisii Municipality

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Abstract
The small enterprises (SEs) play an important role in the Kenyan Economy. According to the Economic Survey, the sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation. Approximately 80% of Kenya enterprises are Small enterprises which are highly attractive to banks. There has not been clear understanding of the key drivers of small enterprises growth. Kisii town is a home of 20 financial institutions, all of which offer almost the same financial services to the small entrepreneurs within the Municipality and yet there is a mixture of growth and lack of it in small enterprises in the municipality. This project was to investigate the effects of the financial institutions intervention in growth of Small Enterprises in Kisii Municipality. The specific objectives were: To establish the role of credit provision on growth of Small enterprises in Kisii Municipality, to determine the adequacy of financial training offered by financial institutions in helping the small enterprises to grow, to determine the role of marketing information on growth of small enterprises in Kisii Municipality. From the sampling frame a representative sample of 90 respondents were obtained randomly and a survey was conducted on this sample using both structured and un-structured interview schedules. Data from the respondents was analyzed and translated into useful information using the statistical package for social sciences (SPSS) and the Minitab statistical software. Frequency distributions and multiple regression analysis were used to draw conclusions. Most of the businesses were more than a year in operation before the credit was granted. The study also established that most of the businesses obtained loans from banks. More than half of the sample had accessed credit from a bank. Second is micro credit financing institutions where the respondents reported to have got loans from SACCO, Chamas and friends and relatives also play a significant role in the provision of these services. The study revealed that interests could be expensive but manageable. The survey established that accessibility and availability of micro credit are positively related to financial performance of Small enterprises. The study concludes that accessibility to credit affects financial performance of Small enterprises positively. The easier it is to access credit, the higher the financial performance of the Small enterprises. However, access to credit is not that easier from the financial institutions considering the many requirements one has to meet before the credit is approved to the entrepreneur for use in the business. The study concludes that availability of credit positively affects financial performance of small and medium businesses. This is an indication that as credit becomes more available, the financial performance of business becomes better and hence a chance for business growth. Financial training was found to be playing a crucial role in growth of small enterprises, especially in assisting the businesses to repay back their loans in order to get more credit in future. The research further found out that the accessibility to marketing information and its availability to the entrepreneurs also affects the transporters in a positive way in their performance of the businesses.The study recommends that the government and financial institutions should make micro credit more accessible and available to enhance growth and development of Small enterprises through increased profitability as it was found that accessibility and availability of microcredit have positive impact on the performance of Small enterprises.The study also recommends that the government through it central bank should have financial policy that will help offer better interest rate that will enhances the accessibility of credit and enhance reduction of interest rates so as to uplift the financial performance of Small enterprises as it was found that high interest rates had a negative relationship with financial performance of Small enterprises.The study recommends further on financial training as it was found to be playing a crucial role in growth of small enterprises, especially in assisting the businesses to repay back their loans in order to get more credit in future. The researcher further recommends for the accessibility to marketing information and its availability to the entrepreneurs in order to positively assist the entrepreneurs in their day to day activities which was found to affect the financial performance of SMEs. The results of this study are expected to assist the county government and stakeholders to formulate and implement appropriate policies aimed at developing and empowering Small entrepreneurs.
Keywords : Enterprise, Experience, Finance, Demand, Competition, Entrepreneur

INTRODUCTION

Credit provision is absolutely crucial to the success of Small enterprises'; it directly impacts on their day-to-day operations, and, in turn, their profitability (Lam & Burton, 2005).Credit can have a negative effect on firm survival. In unstable economies with high macroeconomic volatility, a sudden increase in nominal interest rates can put a firm in financial difficulties which can force it to downsize or even close down. (Nkurunziza, 2004). This was observed in Kenya when nominal interest rates doubled in this year. In a study covering four Southern African countries: Botswana, Malawi, Swaziland and Zimbabwe, access to formal credit helps firms to survive only in Malawi (McPherson, 1995) this is hanging…. In Swaziland and Botswana, the firms that borrowed from informal sources had higher chances of closing down than firms that had never borrowed from any source. In Indonesia, when the financial sector was liberalized, many inefficient firms that had been flavored by government and getting credit at low interest rates simply collapsed (Harris et al. 1994). These illustrative results show that using credit in a volatile economy can precipitate the failure of firms.

In reference to Kenya, the Small scale enterprise marketing is an important part of the business banking marketing. Findings of the Strategic Business Advisors Africa Ltd. (*SME Banking Sector, 2007*) revealed that there are about 2.2 million small and medium enterprises in Kenya of which 23 percent had bank accounts. The definition given by the Central Bureau of statistics, 2004 is that" Small Enterprises constitute of semi organized and an unregulated activity largely undertaken by self-employed persons in the open marketings, stalls, in undeveloped plots or streets within urban areas and centers. They often pay fees to the municipal or local councils.

Small-scale enterprises play an important role in the Kenyan economy and are accorded high priority in the development policy (GOK, 2007). They offer many advantages including the creation of jobs in both the rural and urban areas, support for larger industries including the agricultural sector and the utilization of local resources. These types of businesses require very little capital to create jobs, rely primarily on family savings and often provide their own skill financial training at no cost to the government (Maitha*et al*., 1997).

The focus of the study is on the role of financial institutions on the growth of Small Enterprises in Kisii Municipality. In addition, this study will seek to identify location of the institutions and how it affects the choice of these institutions by Small Scale entrepreneurs for their funding and hence their growth. Credit provision is absolutely crucial to the success of Small enterprises, it directly impacts on their day-to-day operations, and, in turn, their profitability (Lam & Burton, 2005).In reference to Kenya, the Small enterprise marketing is an important part of the business banking marketing.

In The Economic Strategy for Wealth and Employment Creation (GoK, 2008) points out that the Government is convinced that employment creation is the most effective strategy for halting the increasing poverty. Whereas a mix of political, economic and social strategies are needed to bring about the required changes, there is a general consensus that development of micro and small enterprises constitutes one of the main pillars in this endeavor as they are expected to serve as the breeding ground or seedbed from which large firms will emerge. For this and other reasons, donor communities, private sector organizations and the government have continually provided financial and technical support to small enterprises. In addition, a number of related efforts and support interventions have been directed towards this sector to enable it to create job opportunities, which will improve the overall economy and assist in poverty reduction.

More recently are the Assistance to Small Enterprises Program (GOK, 2007), the Kenya policy paper on development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction (GOK, 2005), the Youth Enterprise Development Fund(GOK, 2007) and the Women Development Fund (GOK, 2006).Some of the interventions identified includes provision for financial training, the creation of an enabling environment, improvement of the necessary infrastructure, provision of extension services, establishment of rural business centers for information dissemination and research**.**

1.4 Objectives

The general objective of this study was to find out the effects of financial institutions interventions on the growth of small enterprises in Kisii Municipality.

Specific objectives

The specific objectives of this research will include the following:-

i) To determine the effect of credit on the growth of Small enterprises in the transport industry
ii) To find out the effect of financial training on the growth of transport indusrty
iii) To determine the effect of marketing information on the growth of transport industry

Research Questions

The specific objectives stated above guided the following key study questions:

- How does credit provision influence the growth of public transport business in Kisii Town?
- What effect of financial training from financial institutions has on growth of pubic transport business in Kisii Municipality?

- What is the effect of marketing information on the growth of pubic transport business of small enterprises in Kisii Municipality?

1.5 Significance of the Study

This study is important in a number of ways: First, the study ventured into a field critical to the development of Small Enterprise. In particular, this study focused on the growth and development of entrepreneurs operating Small enterprises, whose role has been underestimated both at the local and national level, resulting in little effort being directed at developing and exploiting the inherent potential. The findings of this survey can be used to inform financial institutions on suitable products for these businesses, with a special emphasis of improving the entrepreneurs' welfare through their businesses. The study is useful to the government in policy making regarding the financing of the Small and Medium Enterprises through microfinances and other financial institutions. The policy makers will obtain knowledge on the best mechanisms that should be adopted to finance the Small and Medium enterprises. This study is therefore to act as a guide in designing appropriate policies that will guide MFIs in financing the Small and Medium Enterprises.The study is also significant to scholars who can find it useful in providing information on the effects of microcredit financing on financial performance of Small and Medium Enterprises in Kisii Municipality and in Kenya as a whole. It can also be of significant to researchers as it provides basis upon which further studies can be carried out on broad subject's microcredit financing of Small and Medium Enterprises and it can also provide reference to scholars.

Research that focuses on understanding the banking needs of the Small scale enterprises sector provides a foundation from which banks can develop marketinging strategies directed towards the retention of this customer segment. This research will therefore endeavor to fill in the information gap, useful not only to the banking sector but also to the entrepreneurs in their choice of credit from Banks and other financial institutions for their finances. Researchers and policy makers will tap from the information provided for additional knowledge and planning purposes.

Finally, the study is justified on the grounds that the information availed can assist the Kisii County, Kenya government and other stakeholders in policy formulation and in the development of appropriate approaches for future interventions, so as to effectively cater for entrepreneurs in Small Enterprises sector. It is hoped that this study will add to the available body of knowledge and increase the understanding of how to best empower entrepreneurs in the Small enterprise sector, so that they in turn can contribute more meaningfully to economic development.

1.6 Scope of the study

This research covered transporters in the Small enterprise sector within the Municipality of Kisii including Daraja Mbili, Kisii Stage Marketing and Municipality Marketing. The study attempted to investigate the effects of financial institutions on the growth of Small enterprises in the Kisii Municipality. In addition, the study explored into ways on how the entrepreneurs have responded to the challenges they face when assessing the services.

1.7 Limitations of the study

The study was based in a specific cultural background set-up which limits its generalizability to other small scale enterprises in other regions of the country. Efforts were made to get as representative and reliable data as possible. In a number of cases, research works that are undertaken on entrepreneurs operating small enterprises suffer greatly from data shortages, in addition to the question of reliability of the data. This problem is mainly attributed to the fact that most entrepreneurs in this sector hardly pay enough attention to documentation of records on various business aspects. Nevertheless, in this study, the researcher paid due attention to manage and limit the impact associated to the foregoing challenges. Keeping the study within the contextual aspects of Kisii Municipality was itself a limitation when inferences ware being made. However, the ethnic and cultural mix, varied sizes and nature of businesses managed by the entrepreneurs are expected to neutralize these potential shortcomings.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviewed relevant literature on small enterprises establishment, growth and diversification from books, journals and working documents by business developers and banks. The review explored research works and other secondary data relevant to the study to establish sound understanding of what has been done in the area by other researcher in order to identify knowledge gaps. It also provided a basis for an appropriate conceptual framework for the study. It will cover the following themes:

2.2 Banking Services and Small Enterprises

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted.

Banking services can be defined as intangible products that are labor- or skill-intensive, and tangible products such as computers and buildings are used mainly to support this provision of labor (Joo-Gim Heaney, Ronald E. Goldsmith, 1999). Earlier studies point to quality of services, personnel, Price, appropriate products as key determinants of bank choice amongst the small and micro enterprises (Zineldin,1996), (Nielsen et al,1998) (Madill et al,2002) (Moran,2003) Sethna,1992). Kisii town has got a number of banks and other financial institutions operating as many more continue coming to the town some with other even operating two branches.

2.3 Theoretical Development of SMES

From the foregoing, the entrepreneurship concept has its foundations in such disciplines as sociology, economics and psychology. As such, a multidisciplinary approach is preferred in order to have a fair appreciation of the field of entrepreneurship and its contributions to economic development. There are numerous known theories that have been advanced in the attempt to define who an entrepreneur is and which border on one or more of the following: (a) sociological attributes of an entrepreneur, largely advanced by social scientists, (b) psychological attributes of an entrepreneur, largely advanced by socio-psychologists, and, (c) economic attributes of an entrepreneur, largely advanced by economists.

Majority of businesses in Kenya are small enterprises with less than 10 employees, while 70 percent of them are one person operated. The Kenya Labour Force Survey Report (GOK Labour Force Survey, 2003) indicates that the sector covers all semi-organized and unregulated activities that are small scale in terms of employment. The report notes that the activities are largely undertaken by self-employed persons, singularly or with very few workers, in the open marketings, in marketing stalls, in both developed and undeveloped premises, in residential houses or on street pavements.

The sector is a major source of employment and income and about 48 per cent of SE operators are women. By the end of the year 2008, informal employment was estimated at 7.9 million accounting for 79.8 per cent of total wage employment, and 85.9 per cent of private sector employment. The contribution of SEs is more than double that of medium and large manufacturing sector that stands at 7% of the GDP (GOK, 2003a).

Although some studies have been conducted over the years, it was only in the 1990s that nation-wide studies with a focus on baseline surveys started to be implemented in the country. The first national baseline survey of MSEs in Kenya was conducted in October 1993 by Development Alternatives Inc. in collaboration with the Kenya Rural Enterprise Program (K-REP) and the Central Bureau of Statistics (CBS). Other surveys followed in 1995 and in 1999. The 1999 National MSE Baseline Survey found that there were about 1.3 million MSEs countrywide, employing some 2.4 million people (CBS 1999). Findings from these studies underscored the important role that MSEs play in Kenya's development process, particularly in the context of generating employment and income opportunities for the majority of the poor people throughout the country. The Seventh Development Plan of Kenya (1993 - 1997) stresses the importance of entrepreneurship in Kenya, and concedes that all aspects of human development benefit from entrepreneurship (GOK, 1996).

The Government of Kenya also recognizes the important contribution of the informal sector to the country's industrialization process. The generation of employment leads to the reduction of unemployment problems and is the primary means of strengthening the country's economy (GOK, 1997). If the objective to industrialize by the year 2020 and Vision 2030 is to be achieved, then the Kenya government has the obligation to encourage the micro and small enterprises sector to play a major role in providing additional jobs. In particular, more effort needs to be directed to developing the largely underestimated and underutilized potential of women entrepreneurs.The current Development Plan points out that various rules and regulations that affect the operation and growth of the sector have been reviewed. Other policy responses have included: elimination of trade licensing at central government level; harmonizing, rationalization and implementation of Single Business Permit (SBP); and ongoing review of labour laws; relaxing business regulations; broadening access to finance and the proposed enactment of MSE Act (ROK, Development Plan 2002).

The 1999 MSE Baseline Survey showed that the average employment size of MSEs in Kenya was about 1.8 persons, with male workers constituting a lion's share of these employments in major parts of the country except in the rural towns where female workers dominated (ICEG et al., 1999). It further showed that women entrepreneurs had lower levels of education than their male counterparts, and that about 10% of all the entrepreneurs had no formal education. These findings are corroborated by Wegulo (1998) whose results showed that comparatively, men operators in MSEs had higher educational attainment than their women counterparts, and that a number of operators had no formal education at all. These results, however, are contradicted by Bosire (2000), who found that most of the operators had formal education up to form four.

Nevertheless, the entrepreneurs were less prepared to deal with several marketing-information-related constraints they encountered in their businesses. The constraints facing the MSE sector, as noted in the survey, also seemed to vary by sub-sectors. For instance, access to marketing opportunities was cited as the most severe problem affecting all sectors, it was observed to be most severe in the trade, manufacturing and construction sub-sectors, while also accessibility to electricity and poor access to water supply were severe problems in the manufacturing sub-sector, they were less frequently cited by other entrepreneurs in the trade sub-sector. Interference from local authorities, insecurity and lack of space were cited as problems predominantly within the trade sub-sector. However the entrepreneurs of this Municipality seem to be above these constraints and have real moved very fast to an extent where the banks are competing against one another in serving this sector and even others opening their second branches like Cooperative bank and soon Kenya Commercial bank.

In a study conducted among 25 Kenyans entrepreneurs, Neshamba (2000) found that the owner-managers' previous work experience and skills acquired on the job are important factors contributing to business success and growth. Other factors are: knowing the marketing and understanding the needs of customers, access to capital, assistance from family members, net working with friends, from former school and colleges. Finally, hard work as evidenced by long working hours, contribute to the success of an entrepreneur (Neshamba, 2000). Further findings based on a survey provided by the Kenya Management Assistance Program (K-MAP), the availability of capital, possession of business skills previous experience and support of family members are essential for business success in Kenya (Pratt, 2001).In the study on small and micro-enterprises in Thika town, Nyang'au (1998) concluded that management is the most important factor affecting the performance of the MSEs, leading to either success or failure. While Nyang'au noted the determinants of performance as including the keeping of financial records, advertising, financial management and innovativeness on the part of the entrepreneur, Munene (1999), in a study of small scale enterprises in Mombasa summarized such determinants of performance as: management skills, marketinging systems, competence of employees and customer care. It is the management's responsibility to formulate the necessary financial controls in the business, so as to have all necessary financial records kept. Decisions of what style and type of marketing to adopt, size of the marketing budget, what and when to advertise, pricing policy, staffing and employee financial training policy are all management functions in the entrepreneur's docket (Munene, 1999).

2.4 Conceptual Frame Work

Conceptualization of service quality consists of five dimensions: reliability, responsiveness, assurance, empathy and tangibles. Rust and Oliver (1994) contend that service quality consists of three dimensions: service product, (technical quality), service delivery, (functional quality), and the service environment. To this construct, pricing and personnel have been found to add to the quality of services offered by banks (Zachariah Boulanouar, 2007 & Madill et al, 2002). It is on the foregoing premise that the conceptual framework (Fig2.1) has been drawn. Storey (1994) identifies some factors which influence business performance among which are; credit and financial training. The purpose of the research will be to determine how each independent variables (credit provision, financial training, marketing information and interest rates) and interactions on the growth of small-scale enterprises in the Municipality. (Dependent variable).

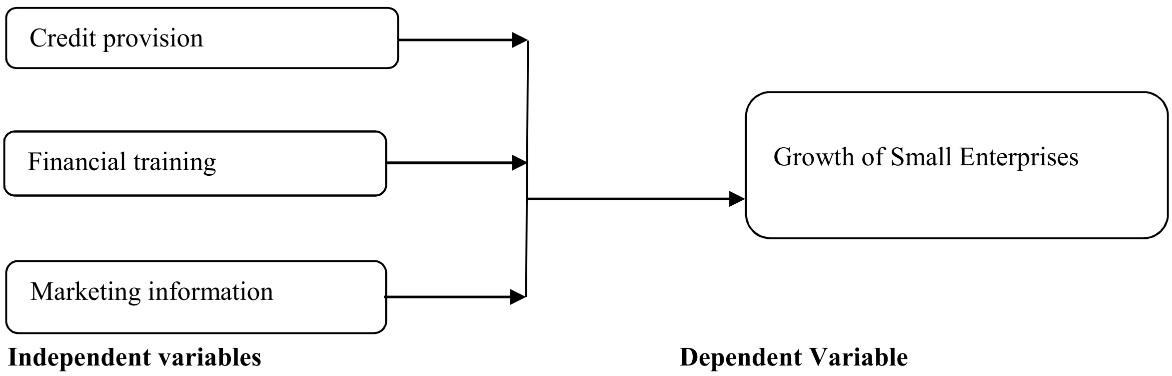

Figure 2.1: Conceptual Framework

2.5.0 Emprical Literature

2.5.1 Credit provision

Credit can have a negative effect on firm survival. In unstable economies with high macroeconomic volatility, a sudden increase in nominal interest rates can put a firm in financial difficulties which can force it to downsize or even close down. This was observed in Kenya when nominal interest rates doubled in a period of one year in the 1990s (see Nkurunziza, 2004). In a study covering four Southern African countries: Botswana, Malawi, Swaziland and Zimbabwe, access to formal credit helps firms to survive only in Malawi (McPherson, 1995). In

Swaziland and Botswana, the firms that borrowed from informal sources had higher chances of closing down than firms that had never borrowed from any source. In Indonesia, when the financial sector was liberalised, many inefficient firms that had been favoured by government and getting credit at low interest rates simply collapsed (Harris et al. 1994). These illustrative results show that using credit in a volatile economy can precipitate the failure of firms. However, good use of credit facilities from the banks have assisted the growth of many firms

Ensuring adequate access to finance so that Small Enterprises can grow and achieve their full potential is central to achieving the objectives of the renewed Lisbon partnership for growth and jobs. Kauffmann (2005) suggests that securing suitable financing remains an obstacle for Small and Medium Enterprises, especially for the growth of innovative Small and Medium Enterprises, whose technology and business models are not understood by many more traditional financial institutions and start-up enterprises and very young firms, which lack a track record and collateral against which to raise debt finance (Cousin, 2007).

2.5.2 Financial training of the entrepreneurs

Most studies conducted on SEs, for instance Naituli (2003), Pratt (2001), Neshamba (2000) and McComick (1996) agree on the crucial role of financial training and management to the successful performance of enterprises. Factors affecting the performance of a business can be divided into two categories: (a) management competence and (b) environmental factors. Management competence encompasses functional knowledge, management skills and managerial behavior. Thus, competencies such as marketing, financial control, financial training and networking among others, are management functions, although in many studies, the success of the informal sector hinges on the managerial skills of the entrepreneurs who are attracted to the sector due to the relative low investment and service costs required. However the quality of services and goods produced by this sector is much lower than those produced in more formal settings (Kithyo et al., 2004). This can be attributed to the use of low-cost, low quality materials and also lack of relevant or sufficient skills by the various practitioners in the sector. This is evident from the fact that most entrepreneurs in Kenya have come up through apprenticeship, and thus lack sufficient knowledge, skills and technical financial training that is necessary to undertake businesses in the modern and highly competitive marketing.

It is the management's responsibility to formulate the necessary financial controls in the business, so as to have all necessary financial records kept. Decisions of what style and type of marketing to adopt, size of the marketing budget, what and when to advertise, pricing policy, staffing and employee financial training policy are all management functions in the entrepreneur's docket (Munene, 1999).

Storey (1994) identifies some factors which influence business performance among which are; ownership, past performance, people/management and location. It is important to note that although the factor of location may be viewed as environmental, it is a management decision where to locate one's business. Kupferberg (1998) who studied humanistic entrepreneurship and entrepreneurial career commitment, concluded that the most important factors of success among humanistic entrepreneurs were: (a) a successful record of previous work history, (b) strong analytical skills acquired in a broad humanistic education, (c) early investment in personal reputation and broad biographical experience outside the narrow field of the profession, (d) early socialization experiences functioning as biographical resources in the discovery of successful business ideas, (e) a financial training in how to communicate effectively with customers in an increasingly global and knowledge - based economy.

2.5.3 Marketing Information

In their study of 52 small-scale entrepreneurs in Kenya, Gichira and Dickson (1987) found out that the majority had little understanding of marketing principles. They had problems related to their promotions, advertising and had no pricing policy. Mbugua (1999) argues that due to poor marketing research, there is frequently a big discrepancy between the supply of, and the demand for MSE products or services. Over-supply often occasioned by too many enterprises producing too many similar products, leads to dead stock and business stagnation. On the other hand, failure to respond to marketing demand with the desired products in good time often takes business away from the MSEs to more established firms which are better placed to gauge marketing trends.

Marketing information is among the factors expected to hinder the growth potential of MSEs (Ishengoma and Kappel, 2007). Access to marketing information is expected to increase MSEs' marketing knowledge about the behavior of their customers, price, and the best sources of inputs. Through counseling and consultancy services, MSEs can solve some of the technical problems they face. Their participation in networking activities may enable them to obtain more marketinging information about the behavior of their customers, in terms of honoring their debts; new customers; and business partners. All of the above are expected to decrease MSEs' transaction costs, increase their internal sources of finance for upgrading their assets, and raise their sales levels and productivity – hence leading to growth.

Increased access to information and knowledge of practices proven to enhance the production capabilities of micro-enterprises is crucial to creating business expansion opportunities. There is a need for a better understanding of the mechanisms contributing to micro-enterprise growth in general.

2.5.5 Small Enterprises Growth

Entrepreneurs' performance, indicated by: return on assets, marginal profits and sales growth rate is fundamentally dependent on the entrepreneur. In starting and running a new business, the role of the entrepreneur is vital as the whole process is often heavily dependent on him or her. In part, the know-how in the business is a result of personal contacts and networks the entrepreneur has in relation to other businesses (Niitykangas 1992). Thus, the overall performance of a business can be explained in terms of the characteristics of the entrepreneur. Previous research has suggested that effective management of a relationship can affect client/customer perceptions of quality of service (Ennew and Binks, 1996; Gronroos, 1996; Parasuraman et al., 1988). The satisfaction of the SE consumer will be dependent, at least in part, on the way the bank interacts with the customer and manages the relationship (Ennew and Binks, 1999; Gronroos, 1990; 1996). Such a view is not new; other studies have reported the importance of relationship management in affecting MSE perceptions of quality of service.

2.6 Research Gaps

While previous researchers have provided valuable and detailed insights into business development services and the performance of SSEs, and most of these studies have concentrated on the provision of financial training as the main non-financial service to be provided to the SSEs, the missing gap appears in the little empirical studies' that have tried to expand on the business development services to include the provision of technical services and networking services so as to create a wider perspective on the level of provision of business development services and their collective effect on the performance of SSEs in Kenya. To date there are little tests of associations between the level of provision of the business development services and the performance of SSEs that have been conducted in Kenya. This study will therefore focus on the effect of financial institutions intervention on growth of SSEs. The study will be guided by the conceptual framework explained earier.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction.

This chapter provides the methods and procedures which were be followed in conducting the study. These include research design, the target population and size, the research instruments for the data collection, the sampling technique and method to be used for data analysis. Leedy (1993) defines research methodology as the approach by which the meaning of data is extracted and that it is a continuous process.

3.2 Research Design

An exploratory research design will be used in conducting study. The nature of research necessitated the use of qualitative and quantities techniques. This is because the study focused on both subjective and objective assessment of Small Enterprises growth due to services they get from financial institutions and Banks. Explanatory designs have been documented (Mugenda& Mugenda,2003), (Kothari,2002) and advanced as best method for social scientists whose interest is collecting original data for the purpose of describing a population, which is too large to observe directly.

3.3 Study Area

The proposed study on the role of financial institutions on the growth of small scale enterprises was conducted in Kisii Municipality, Kisii County. The Municipality occupies an area of 126.1 square kilometers and according to the 2009 population census results; it has a total population of 114615 persons. The municipality hosts Kisii town which is a major urban center in the South Nyanza region. Kisii town hosts a variety of businesses including manufacturing, trading (wholesale and retail), service, transportation and agricultural types.

3.4 Target population

The Population of this study constituted of 90 transport owners in Kisii municipality. With major focus on three key marketing points, the stage marketing major for long-range and away from town transport, the municipal Marketing a key point for taxis and Daraja marketing which majors in town service transport**.** The researcher used 10% to select sample respondents 90 respondents from the entreprepreneurs in the region who formed the sample population size for this study. According to Mugenda and Mugenda (2003), a representative sample is one that is at least 10%-20% of the population.

3.4 Sample size and Sampling techniques

The sampling frame for the planned research was 900 small enterprises cutting across the main three marketing locations. The sample size was computed as shown by the formula below:

$$n = \frac{NC^2}{C^2 + (N-1)e^2} = \frac{900 * 0.5^2}{0.5^2 + (900-1) * 0.03^2} = 90$$

Where n is the sample size
N is the population
C is the Coefficient of variation (0.5)
e is the level of precision (0.03)
(Nassiuma, 2000)

From the sampling frame a representative sample of 90 respondents was obtained. However, stratified random sampling technique used in selecting study zones. The key component behind all probability sampling approaches is randomization (Kombe and Tromp, 2006). In probability sampling; subjects are randomly selected with each unit in the population having an equal chance of being selected. This sampling technique enables the researcher to generalize his findings and make inferences from a sample, thus enabling one to draw conclusions about a population. However, stratified random sampling technique was used in selecting study zones. The key component behind all probability sampling approaches is randomization. In probability sampling; subjects are randomly selected with each unit in the population having an equal chance of being selected. This sampling technique enables the researcher to generalize his findings and make inferences from a sample, thus enabling one to draw conclusions about a population.

The sampling frame comprised 900 small enterprise entrepreneurs operating in Kisii town. This population was then divided into four distinct strata based on the sub-sector activities undertaken by the various entrepreneurs: Motorcycles, Taxi, Matatus and buses and Tracks. The use of stratified random sampling means that the sample is more likely to be representative and one can hope that each of the strata is represented proportionately within the sample (Saunders et al., 2000). This technique is used to group population into homogeneous subsets that share similar characteristics and ensure equitable representation of the population. It also accounts for the difference in subgroup characteristics. A minimum of 5% sample from each specific sub-sector, where applicable, was then randomly selected. The objective was to investigate at least 5% sample of the universe, both collectively and as per type of activity or sub-sector. However for populations of less than cases, as in the tracks sub-sector, Henry (1990) advises collection of data on the entire population. A sample of 90 entrepreneurs were surveyed and interviewed.

The distribution of these entrepreneurs by type of activity, and the sample selected thereof is presented in Table 3.1

Table 3.1: Distribution of entrepreneurs by type of activity

Type of activity	Number	Percentage	Sample Size	Percentage
Motorcycles	686	76	51	57
Taxi	160	18	28	31
Matatus and buses	52	6	8	8
Tracks	2	1	3	3
TOTAL	900	100	90	100

3.5 Sampling Technique

Multistage sampling technique will be used to obtain ninety respondents from the above stated as follows:-

i) Stratification based on the three marketing points (Stage, Municipal Market and Darajambili market) enterprises representatives will be based on the weight as indicated in table 1. Darajambili with a total of 250 enterprises will be represented by 25 respondents, Municipal Marketing by 35, and Stage marketing with 300 will have representation of 30 given a total of 90 respondents.

ii) Secondly, a simple random sampling technique will be conducted which will give each enterprises in the respective marketing points an equal chance to represent the entire population

3.6 Pilot Testing

Testing for clarity, and capturing of the key objectives, time taken to complete and translate a questionnaire is important. Madrigal (1999) and Busha (1990) define validity as the degree to which the method of collecting information results in accurate information. To maximize on the degree of validity, he insists on the most precise research instrument. On the same note, Fleiss (1986) asserts that it is imperative that instruments for data collection be as accurate as possible.

3.7 Data collection instruments and Procedures

The researcher used primary sources to collect data for this study due to its nearness to truth and ease for control over errors. A structured questionnaire was used to collect the data from the respondents; the questionnaires were administered by the researcher. However, for the purpose of this study a structured closed questionnaire was used. The instrument allows the researcher to fill in the information during a face to face contact with the respondents. This enabled the researcher to explore all aspects relating to choice of the financial institutions and banks by the respondents for various information and financial training. It also enhanced information collection from the less educated respondents who were not being able to fill the questionnaires on their own. Price, (2002) maintains that closed questionnaires controls respondents from giving irrelevant information. The validity and reliability for the questionnaires was subjected to expert judgment, Nickmias and Nickmias, (2002). Data information was obtained from journals and reports from various institutions.

3.8 Data Analysis and Presentation

Primary data collected was coded and analyzed with the help of the Statistical Package for Social Sciences (SPSS). The analysis used descriptive statistics such as mean scores and standard deviations.The results was presented using tables, graphs and charts for ease of understanding.

Secondly, the data was coded and keyed in to an Excel Computer based application Programme to analyze the relationship between the independent and dependent variables as fore stated.

The colleceted data was analyzed using descriptive statistics such as frequencies, percentages, weighted averages and mean deviation. Descriptive statistics allowed for the generalization of the data so as to give an account of the characteristics of the population as represented by the sample. Analyzed data was presented in tables and graphs. The use of tables was to allow for orderly arrangement of data. Statistical software package for social sciences (SPSS) was used to generate the required descriptive and inferential statistics for analysis.

Tables and graphical presentation were present the data collected for ease of understanding and analysis.

CHAPTER 4

4.0 FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis and discusses key findings. The main objective of this chapter is the presentation and analysis of the findings on the effects of Financial Institutions Intervention on growth of Small Enterprises in Kenya, a Survey of transport industry in Kisii Municipality. Tables and charts have been used to present the findings. The chapter also aims to investigate the sample characteristics of the 90 Small businesses who were interviewed in this survey. This chapter investigated sample characteristics, provide descriptive statistics on the responses for each variable and the relationship between different variables and lastly apply a range of statistical methods to answer the research questions as described in chapter 1. It is organized into four parts: characteristics of the respondents, business characteristics, research findings and discussion of the findings.

4.2 Characteristics of Respondents

4.2.2 Age of Respondents

The ages of respondents were as shown in table 4.1

Table 4.1 Distribution of Respondents as per age group (N=90)

Age group	Frequency	Percent
Below 18 years	**29**	**33**
20-25	**33**	**37**
26-30	**22**	**24**
31-35	**4**	**4**
40 and above	**2**	**2**
Total	**90**	**100**

As can be seen in the table the, respondents' age ranged from 20 to 40 years as indicated in Table 4.2 which also shows that majority (70.0%) of the respondents were in the age group of below 18 years, while only 1.7% were above 40 years. From the findings, it can be concluded that the entrepreneurs in Kisii Municipality town are generally youthful with 82% of them being under 45 years. At the start of any business, age is not as crucial as adequate financial training and preparation. However with adequate financial training and preparation, the earlier one starts business the better. Age is related to business success if it includes both chronological age and entrepreneurial age, implying that the older an entrepreneur, the more experience in business he / she has.

The dominance of the youth in the enterprises in the Municipality may be explained in the context of lack of employment for the youth, as well as the introduction of motor cycles as a form of transport in the country. Notably, the formal sector retiring category (over 60 years) does not seem to have made a major impact in the small enterprises in the municipality, which would have brought along experiences, responsibilities and skills. However in this study, only 1.7% of the respondents are aged 40 years and above who were mostly in the long distance transport and track drivers.

4.2.3 Education Level of the Respondents

Generally speaking, an entrepreneur's education is an important aspect in the general performance of an enterprise. In this study, the education attainment is measured by the number of years of formal schooling. The results reveal that 44 (48.8%) of the entrepreneurs, had attained form four level of education and 20 (28.5%) were primary school leavers. Those with diploma level of education, were 8 (9%); 15(17%) of the entrepreneurs recorded as having no formal education. On the other hand, 3 (3%) of the business owners had a university degree.

Table 4.3 shows the distribution of the respondents and their level of education. The educational attainment by the respondents is an indication that, persons with relatively higher levels of education are gradually appreciating an enterprise culture. In this study about 12% of the entrepreneurs had attained post-secondary level of education. This phenomenon may be in part due to unemployment situation in this country.

Table 4.3: Respondent's Formal Education Level (N=90)

Level of Formal Education	Frequency	Percent
No Formal Education	40	17
Primary	20	23
Secondary Education	44	49
Diploma level	8	9
University	3	3
Total	**90**	**100**

4.2.4 Experience of the Respondents

More than one third (37%) of the investigated entrepreneurs had operated their businesses for over ten years. Those who had an experience of five to ten years were; 31 (34%). Those who have operated their businesses between one and two years and three to five years were 9(10%) each, while those who had operated for only one year were 8 (9%) as shown in Table 4.4

Table 4.4: Experience of the Entrepreneurs (N=90)

Experience	Frequency	Percentage
Less 1 year	8	9
1-2 years	9	10
3-5 years	9	10
5-10 years	31	34
Over 10 years	33	37
Total	**90**	**100**

Entrepreneurs with vast experiences in managing business are more capable of finding ways to cope with business challenges. The importance of experience for entrepreneurs success is also underscored by other experts note that prominent reasons behind business failures are managerial and experiential in capabilities. Another study found that 30% of successful entrepreneurs had no work experiences. This implies that although prior experience is important, it is not critical for business success.

4.2.5 Sample Characteristics

The study further revealed that 86% of the respondent agreed that they were the sole makers of the decision pertaining to their business operation, while 14% of the respondents were not the sole decision makers in their business operation while 3 (3%) decisions are made for them to follow and act on them. The above information is shows on the table 4.5 below.

Table 4.5: Decision making of the respondents

Are you the sole decision maker on the operations of this business	n=90	%
Yes	77	86
No But I contribute to the decision making	10	11
The decision is made by others and I follow instructions	3	3

4.3. Start-up Capital and Loan information

From the Table 4.6 below, personal savings were the main source of capital for 47% of the entrepreneurs interviewed. Borrowing from merry-go-rounds (chamaas) and self-help groups were the main sources for 18% respondents, while the formal financial institutions funded 14%. Other sources of startup capital were Co-operative loans (5%), friends (6%), family members, (5%) and from spouses (7%). Youthful entrepreneurs who participated in this research claimed that access to the youth enterprise development fund difficult, with little information on how to access the fund. They further observed that even a number of those among them who had knowledge of credit sources, were ignorant of the requirements by many of the credit giving institutions. Information about the financial institutions was more available although a good number of the participants were a bit afraid of the consequences of unpaid loans.

It is worth noting that only 14% of the entrepreneurs borrowed money wholly from financiers compared to 47% who used their own savings.

Table 4.6: Sources for start-up capital (N=90)

Main source of start-up capital	Frequency	Percent
Personal savings	42	47
Borrowed from merry-go-round	16	18
Borrowed from financiers	12	14
Sponsored by spouse	6	7
Borrowed from friends	5	5
Cooperative credit	5	5
Borrowed from family members	4	4

4.3.1: Contribution of the credit to growth of Small Enterprises

The survey sought to find out the contribution of credit for growth and performance of small enterprises. It was necessary to understand the contribution of the credit for the enterprepreneurs in the municipality. The table below shows the contribution of the credit to the growth of small enterprises in Kisii Town based on the sales volume.

Table 4.1: **Contributions of the Creidt to Small Enterprises based on sales volume in Kisii Municipality**

Credit contribution to growth	N=90	%
No change in sale volume	5	6
Slight change in sales volume	13	42
Moderately change in sales volume	38	38
High increase in sales volume	34	14

From the table above, 6% of the respondents had no change in the sales after they got the credit from the banks. 42% of the respondents had a slight positive growth in sales volume of their sales contributed by the credit accessed from the financial institutions. 38% of the respondents had a moderate positive growth in sales volume while 14% had a high sales volume after the access to credit.

4.4 Financial training for entrepreneurs from financial institutions and sales volume

From the respondent on availability of financial trainings from financial institutions, the study found that 42% of the respondent had moderate increase of sales volume after financial trainings from financial institutions, 28% of the respondent had high increase of sales volume after financial trainings, 14% had an increase of sales volume after financial trainings and 6% of the respondent said there was no change of sales volume after financial trainings from the financial institutions. The above information is shows in the table 4.7 below.

Table 4.7: Financial trainings for Entrepreneurs

Financial trainings Availability	N=90	%
No change in sale volume	5	6
Slight change in sales volume	13	14
Moderately change in sales volume	38	42
High increase in sales volume	34	38

4.5 Marketing information

4.5.1 Changes in profit margins after the availability of marketing information from financial institutions.

Most financial institutions take time to give marketing information to their clients; this is by virtue that most of these financial institutions have got already well analyzed marketing information probably from their marketing department.44% of those participated in the study responded that the availability of the information from financial institutions had increased their profit margins slightly while 32 % were in agreement that the availability of marketing information from financial institutions has moderately increased their profit margins. Only 8% were not in agreement that there is any increase of profit margins after the use of the market information and 16 % said that such information is had enabled their businesses to experience a very high profit margins. The table 4.8 below shows the availability of marketing information from financial institutions and its effects on the profit margins.

Table 4.8: Availability of marketing information on profit margins

Profit margin and marketing information	n=90	%
No increase of profit margins	7	8
Very high increase of profit margins	14	16
Moderately increase of profit margin	29	32
An increase in profit margin	40	44

4.6. Changes in sales volume afer application of marketing information from financial institutions

For the purpose of this survey, the process was associated with the positive changes after the application of financial trainings from the financial institutions. The researcher asked whether business owner had experienced an increase in the sales volume after the application of market information the had from the financial institutions. Table 4.8 below shows that only 14 % had not experienced the increase of the sales volume after the marketing information, 26 % had a slight increase of sales volume after the marketing information from the financial institutions while a whole 42% had experienced a high increase of sales after the marketing information and 18% had a very high increase of sales volume due to the application of the marketing information form the financial institutions.

Table 4.8: **Opinion of the sales volume after marketing information**

	N=90	%
No increase in sales	13	14
Slight increase in sales	23	26
High increase in sales	38	42
Very high increase in sales	16	18

4.6.1 Growth in Number of employees

While asking the questions on the growth based on the number of employees, employees were found to be an indicator of growth of the entrepreneur. The respondents were asked to share their expectations; if they had added any employee from the time they had marketing information. Table 4.9 show that 4% said that they they have added one employee, 28% had added 2 more employees, 30% had added 3 more employees while 28% had added 4 or more employees into their business after they had applied marketing information they got from the financial institutions.

Table 4.9: Opinion on the addition of the employees after application of marketing information

Opinion on no of employees	**N=90**	**%**
1 Employee	13	14
2 Employees	25	28
3Employees	27	30
4 or more employees	25	28

4.6.2 Evaluation and Reasons for Success(growth)

Entrepreneurs' self assessment indicates that most of them (69%) perceive their businesses as successful/having grown while (31%) indicated their businesses as being un-successful. This is in terms of being better than they started and being able to provide for their families as illustrated by table 4.10.

Table 4.10: Entrepreneurs' Rating of their Business (N=240)

How do you rate your business	**Frequency**	**Percentage**
Successful	63	69
Un-successful	27	31
TOTAL	**90**	**100**

The reasons advanced by the entrepreneurs for their success, include; ability to get credit from banks(83%), long period of up to 72 months to repay the loans (77%), efficient utilization of marketing information from the banks

(87%), effective financial trainings from the banks (69%), and affordable interest rates on credit from the banks (64%). In addition to these reasons, many entrepreneurs also attribute their success to their ability to cope with the challenges they faced.

Table 4.11: Reasons given by entrepreneurs for business success/growth (N=90)

Reasons	Frequency	Percentage
Well use of credit from banks	75	83
Long repayment period of credit taken from banks	69	77
Efficient utilization of marketing information from banks	78	87
Effective financial trainings from banks	62	69
Affordable interest rates on credit	58	64

4.6.3 The various contributions to the growth of businesses

The study further revealed that 41% of the respondent agreed that credit was the most important for their growth as a business , while 33% of the respondents were of the opinion that financial trainings was the most important for the growth of their business and operation while 26% are for the marketing information as the most important aspect that helps them in their business growth. The above information is shows on the table 4.5 below.

Table 4.5: Decision on the important aspects of growth for the entrepreneurs

Most important aspect of in business growth	n=90	%
Credit	37	41
Financial training	30	33
Markert information	23	26

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the findings and makes conclusions and recommendations from the data collected and analyzed. The study sought responses basing the questions on the objectives of the study. The researcher intended to analyze and find out the effects of financial institutions intervention on growth of Small enterprises in Kenya. A Survey of transport industry in Kisii Municipality. 90 respondents were interviewed of whom 86% were the sole decision makers and the rest had influence or little say in the decision making. Therefore, the data collected was from entrepreneurs who knew the business operations and history very well. The specific objectives were: To establish the role of credit provision on growth of Small enterprises in Kisii Municipality, to determine the adequacy of financial trainings offered by financial institutions in helping the small enterprises to grow, to determine the role of marketing information on growth of small enterprises in Kisii Municipality. From an enumerated population of 900 entrepreneurs, a sample of 90 was selected randomly and a survey was conducted on this sample using both structured and un-structured questionnaire. Data from the respondents was analyzed and translated into useful information using the Statistical Package for Social Sciences (SPSS).

The study investigated four main area that affect the growth of small enterprises that is: accessibility to loans, availability of financial trainings, accessibility to marketing information and interest rates on the loans. From the findings, 71% of the entrepreneurs operated as sole proprietors and were therefore the main decision makers in their business. Personal savings was the main source of business start-up capital at (46%) while 45 (50%) had accessed credit from the banks for their growth.

5.2 Summary of Findings

The study established that most credit financial institutions take the age of a business seriously before granting them credit. Most of the businesses were more than a year in operation before the credit was granted. It is therefore evident that most of the financial institutions will not give a loan to a business when it is starting.

The study revealed that 6% of the respondents had no change in the sales after they got the credit from the banks. 42% of the respondents had a slight positive growth in sales volume of their sales contributed by the credit accessed from the financial institutions. 38% of the respondents had a moderate positive growth in sales volume while 14% had a high sales volume after the access to credit.

On availability of financial trainings from financial institutions, the study found that 42% of the respondent had moderate increase of sales volume after financial trainings from financial institutions, 28% of the respondent had high increase of sales volume after financial trainings, 14% had an increase of sales volume after financial trainings and 6% of the respondent said there was no change of sales volume after financial trainings from the financial institutions.

44% of those participated in the study responded that the availability of the information from financial institutions had increased their profit margins slightly while 32 % were in agreement that the availability of marketing information from financial institutions has moderately increased their profit margins. Only 8% were not in agreement that there is any increase of profit margins after the use of the market information and 16 % said that such information is had enabled their businesses to experience a very high profit margins. Availability of marketing information from financial institutions and its effects on the profit margins.

The study revealed that on the growth based on the number of employees, employees were found to be an indicator of growth of the entrepreneur. The respondents were asked to share their expectations; if they had added any employee from the time they had marketing information. 4% said that they they have added one employee, 28% had added 2 more employees, 30% had added 3 more employees while 28% had added 4 or more employees into their business after they had applied marketing information they got from the financial institutions.

5.3 Conclusion

The study concludes that accessibility to credit affects financial performance of Small enterprises positively. The easier it is to access credit, the higher the financial performance of the Small enterprises. However, access to credit is not that easier from the financial institutions considering the many requirements one has to meet before the credit is approved to the entrepreneur for use in the business.

The study also concludes that availability of credit positively affects financial performance of small and medium businesses. Most respondents said that once loans were applied for, it took the expected time for them to receive the money and this affected their business positively. This is an indication that as credit becomes more available, the financial performance of business becomes better and hence a chance for business growth.

The study further concludes that the interest paid on micro credit facilities were affordable. The interest rates would however affect financial performance of the businesses negatively. As the interest rate increases, the credit facility becomes more expensive and eats into the business profits.

Financial trainings was found to be playing a crucial role in growth of small enterprises, especially in assisting the businesses to repay back their loans in order to get more credit in future. The research further found out that the accessibility to marketing information and its availability to the entrepreneurs also affects the transporters in a positive way in their performance of the businesses. The study further revealed that 41% of the respondent agreed that credit was the most important for their growth as a business , while 33% of the respondents were of the opinion that financial trainings was the most important for the growth of their business and operation while 26% are for the marketing information as the most important aspect that helps them in their business growth.

5.4 Recommendations

The study recommends that the government and financial institutions should make micro credit more accessible and available to enhance growth and development of Small enterprises through increased profitability as it was found that accessibility and availability of microcredit have positive impact on the performance of Small enterprises.

The study also recommends that the government through it central bank should have financial policy that will help offer better interest rate that will enhances the accessibility of microcredit and enhance reduction of interest rates so as to uplift the financial performance of Small enterprises as it was found that high interest rates had a negative relationship with financial performance of Small enterprises.

The study recommends further on financial training as it was found to be playing a crucial role in growth of small enterprises, especially in assisting the businesses to repay back their loans in order to get more credit in future. The research further recommends for the accessibility to marketing information and its availability to the entrepreneurs in order to positively assist the entrepreneurs in their day to day activities which was found to affect the financial performance of SMEs.

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