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Research Paper

Business Financing and Financial Performance of Small and Medium Enterprises in Turkana County, Kenya

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ABSTRACT

The purpose of this study was to examine the effect of business financing on the financial performance of small and medium enterprises in Turkana County, Kenya. Specifically, the study: examined the effect of commercial loan financing on the financial performance of small and medium enterprises; established the effect of trade credit financing on the financial performance of small and medium enterprises in Turkana County. A descriptive survey research design was used. The study was anchored on the information asymmetry theory and the financial intermediation theory. The target population comprised 325 small and medium enterprises in Turkana County. Stratified random sampling was used to select 83 small and medium enterprises for the study. The study used questionnaires as survey instruments for data collection which were administered to group chairpersons/ managers. Analysis of data was done using descriptive and inferential statistics. The study findings revealed the existence of a statistically significant regression effect of independent variables on financial performance of Small and Medium Enterprises in Turkana County. The study employed the F-distribution (F = 32.980) in predicting the dependent variable which indicated that the model significantly predicted how the independent variables affected the dependent variable (Financial Performance of Small and Medium Enterprises in Turkana County) which indicated an overall statistically significant model with commercial loan financing 54.9%, (t~3.056) of financial performance; and trade credit financing 67.2% (t~4.381) of financial performance of small and medium enterprises in Turkana County, Kenya. The study further recommended on each of the variables for management and policy consideration in future decision-making processes. The findings were expected to be of great assistance to management of other businesses. The study was also expected to add to existing literature in the finance field.

Keywords: Business Financing, Financial Performance, Commercial Loan Financing, Trade Credit Financing

INTRODUCTION

The meaning of the term SME varies from country to country; however, most definitions are composed by either the number of employees and/or capital requirement as a classification factor (Van der Vaart, 2018). A common definition of SMEs includes registered businesses with less than 250 employees (Kozak, 2017). Currently the SME Department of the World Bank defines Small Enterprises as those having up to 50 employees, with total assets and total sales of up to $3 million while Medium Enterprise is those that have up to 300 employees, having total assets and total sales of up to $ 15 million per annum (Ayyagari, Demirguc-Kunt & Vojislav, 2020). The definition used to describe the SME sector in Kenya is based on employment size and include both paid and unpaid workers (Gok 2020). A micro-enterprise is defined as having no more than 10 employees; a small enterprise with 11-50 employees and a medium/large enterprise with more than 50 employees.

The findings of the 2019 National Micro and small Enterprises Baseline Survey estimated that there were about 1.8 million SMEs in Kenya, employing an estimated 3.4 million people. The average income of the enterprises surveyed was about Kenya shillings 30,000 per month, which was greater than the minimum legal monthly wage for skilled employees by far. The financing of small and medium sized enterprises has been of great interest both to policy makers, private sectors and researchers.

The small and medium-sized enterprise (SME) sector is important to national economies because it contributes significantly to employment and GDP, and because its growth is linked with the formalizing of an economy. In many countries, the majority of jobs are provided by SMEs. In the 30 high-income countries of the Organization for Economic Cooperation and Development (OECD), SMEs with fewer than 250 employees represent over two-thirds of formal employment (Manini, Abdillahi, Wanyama & Simiyu, 2023). In high-income countries, and some middle-income countries, the sector accounts for over half of national output (OECD, 2019). In global surveys, including the World Bank's Enterprise Surveys and Investment Climate Assessments, SMEs report that the cost of finance is their greatest obstacle to growth and rank access to finance as another key obstacle (Beck, 2021). SMEs are more financially constrained than large firms and in addition, lack access to external finance which is a key obstacle to firm growth (Schiffer & Weder, 2021).

The SME market has been perceived in the past by banks as risky, costly, and difficult to serve. However, banks are finding effective solutions to the challenges such as determining credit risk and lowering operating costs, and are profitably serving the SME sector. For these banks, unmet SME demand for financial services has become an indicator of opportunity to expand their market share and increase profit (De la Torre, 2019). Banks have begun to target SMEs as a profitable segment. For example, 91 banks in 45 developed and developing countries were found to overwhelmingly perceive the SME sector as a large market with good prospects (Beck, Asli-Demirgüç-Kunt, & Maria, 2018). The significant expansion in lending to small and medium enterprises in the developed world over the last couple of decades may be one reason why only 30 percent of OECD (developed) countries report a gap in bank financing of SMEs. This is compared with 70 percent of non-OECD (developing) countries responding to an OECD survey of government policy experts (OECD, 2019).

In China, Small and medium-sized enterprises have played an active role in economic growth. 99.6% of enterprises in China are SMEs. These enterprises account for 59% of GDP, 60% of total sales, 48.2% of taxes, and about 75% of employment in urban areas (NBS, 2022). SMEs' participation in international trade and outward investment is also very significant, representing 68.85% of the total import and export values and about 80% of outward investment (Yan, Minggao, Zong & Ying, 2022). In contrast to its contribution to the economy, the difficulty of SMEs to obtain external financing from formal financial institutions is widely recognized. Lin (2023) documented that no more than 0.5 million of over 40 million SMEs could obtain bank loans in 2020. In other words, over 98% of

SMEs have no access to bank lending. The World Bank Investment Climate Survey for China also indicated that SMEs in China are facing greater credit constraints and have more limited access to bank loans than in other Asian countries.

In low-income countries too, SMEs play a sizable role, though the informal economy is more dominant (Maina, 2020). According to Sacerdoti (2019), among the reasons for lack of access to credit from banks in Sub-Saharan Africa is inability of borrowers to provide accurate information on their financial status, absence of reliable and updated company and land registries, weak claim recovery and collateral realization process. According to Kapila and Mead (2022), in order to strengthen this position of SMEs, access to financial and non-financial services should be made available to them because they contribute to the performance and expansion of these enterprises. SME contributes to about 90% of the total job creation (Kofi, Kala & Tanyeh, 2023) therefore access to credit is important for the growth and development of Small and Medium-sized Enterprises (SMEs) in Ghana. Bank lending is the leading factor stifling the growth of small businesses in Ghana. Very demanding requirements, in addition to the bureaucratic lending procedures by the formal financial institutions is the biggest challenge to credit access by SMEs. This is also what leads most SMEs to resort to informal financial institutions such as savings and loans companies, traditional money lenders, friends and relatives (Association of Ghana Industries, 2023).

In Tanzania, SMEs play a significant role in job creation, poverty reduction and reducing inequality in the economy. The sector employs over 33% of the labor force (Kira, 2023). When taking the informal sector together with the formal sector, the total contribution of the sector to GDP is about 63%. Moreover, about 700,000 job seekers enter the labor market each year. The formal sector absorbs only 40,000 annually. The implication is that the remaining excess annual labor supply of about 660,000 are absorbed by SMEs or left unemployed (Kira, 2023). Bank lending has been mentioned to be top most challenge to many SMEs. Given the commercial orientation of the conventional financial system, it may not be surprising to see that banks are not lending to SMEs. This is because SMEs are risky in nature (either perceived or real or both), small in size, have high transaction costs per service and may lack transparency in their operations. Therefore, reckless lending to this market segment may jeopardize the core business of the formal banking system (Nyankomo, 2021). As part of the solution, the recent resurgence of development finance institutions including microfinance has played a key role as an alternative financing mechanism in this market segment (Nyankomo, 2021).

The Kenya government in the Vision 2030 plan has identified the SMEs as an important priority. In order to achieve performance, adequate sources of finance are needed for SMEs (Kuria & Willy, 2020). Bank lending to small and medium sized enterprises (SMEs) is important to allow SMEs to start up and finance investment for growth. There has been widespread comment regarding the continued difficulty SMEs perceive in obtaining bank financing since the financial crisis of 2008 (Armstrong, 2023). In Kenya, the SMEs employs about 5.1 million people representing 74% of the total national employment and also contribute about 88% of the total job creation at any one time; they also contribute in the Gross Domestic Product of the country, whereby they contribute about 24.5% to the GDP (Maina, 2020). There is a concern that banking systems are not providing enough support to new economic initiatives and in particular to the expansion of SMEs and agricultural sector. Faster economic growth will not be possible without deepening of the financial system and in particular, more financial support from the banking sector to the SMEs (Manini *et al*., 2023)

Banks remain highly liquid and reluctant to expand credit other than to most credit worthy borrowers which in most cases excludes the SMEs (Sacerdoti, 2019). Empirical studies in Kenya (Njoki, Lilian & Bichanga, 2021) assessed the impact of micro finance institutions funding on performance of SMEs found that there was a significant positive relationship between FI funding and performance on SMEs namely Credit with performance of SMEs. Ayuma, Namusonge and Mike (2020) also found out that SMEs still seek for alternative bank financing. This therefore, demonstrates that bank lending influences performance of SMEs.

Statement of the Problem

Kenya's transition to market economy and the accompanying reform measures in the financial sector during the past decades has brought about a general policy environment and an overall regulatory framework (GoK, 2020). This encourages formal institution to provide financial services to different groups of businesses, including low-income segments of the population and SMEs in both urban and rural areas. In spite of the generally fast pace by which access to financial services for SME is being developed, significant segments of the SME sector do not yet benefit from the expansion and deepening of outreach (Thaimuta & Meronge, 2022). SMEs play an important role in the development process and continue to be the forefront of policy debates not only in developing countries but also in developed countries. There are various advantages claimed for SME, including the encouragement of entrepreneurship, and wealth creation (Sacerdoti, 2019).

In developed and developing economies SMEs contribute on average 60% of formal employment (Oguta *et al.*, 2018). However, the ability of SME to grow depends highly on their potential to invest in restructuring and innovation (Ayyagari *et al.*, 2020). The rate of SMEs failure in developing countries as well as developed countries is alarming. 33% to 41% of new SMEs fail within the first five years of their business operation due to lack of finances (Thaimuta & Meronge, 2022). Three out of five SMEs fail within their first three years of operation in Kenya (Manini *et al.*, 2023). It is therefore widely recognized that 'business financing and lending gap' exists in the provision of modest amounts of finance to SMEs since all investments need capital. SMEs continue to face constraints caused by many common factors including commercial bank's lending policies.

In line with this argument, business financing has influence on performance of SMEs (Sabana, 2023). In contrast, Ifeakachukwu *et al.*, (2022) found that commercial loan financing to the SME sector had insignificant impact on their performance. Such contradictory and inconclusive evidence by different scholars have conflicting implications for practice and theory development, hence the need for further research. Small and medium enterprises (SMEs) in many countries have received a lot of attention and support from governments and other stakeholders (Wang, 2022), however their financial performance is still wanting according to Xiao (2019); many have stagnated at the same level, they have remained small and others are on the verge of collapsing. They have shown a lot of volatility in returns, growth and have failed to break even in their trading activities. They still experience a large financing gap and they have problems in financing and refinancing their business operations. In Kenya, there is still a large financing gap among the SMEs. Their financial performance can be described as stagnant, failing and three out of five SMEs hardly make it past a few months after their creation (Chepkemoi, 2023).

Kihimbo, Ayako, Omoke and Otuya, (2019) identified financing as being among the major problems facing SMEs in Kakamega Municipality. They hampered the ability of SMEs to grow and survive, threatened their financial performance, hence they would hardly make it into the league of successful enterprises to reckon with. Many SMEs have performed poorly in their start-up period and have difficulties in funding their operations (Njeru, Namusonge & Kihoro, 2022). Berger and Udell (2020) opined that more research needed to be undertaken in the area of SMEs financing to unearth what ails them as the firms have shown a comparatively poor financial performance. The specific problem of this study was poor financial performance of SMEs in Turkana County, Kenya.

General Objective

The general objective of the study was to examine the effect of business financing on financial performance of Small and Medium Enterprises (SMEs) in Turkana County, Kenya.

Specific Objectives

The study was based on the following specific objectives;

1. To examine the effect of commercial loan financing on the financial performance of small and medium enterprises in Turkana County, Kenya.
2. To establish the effect of trade credit financing on the financial performance of small and medium enterprises in Turkana County, Kenya.

LITERATURE REVIEW

Theoretical Framework

The study was anchored on the following theories; information asymmetry theory and financial intermediation theory.

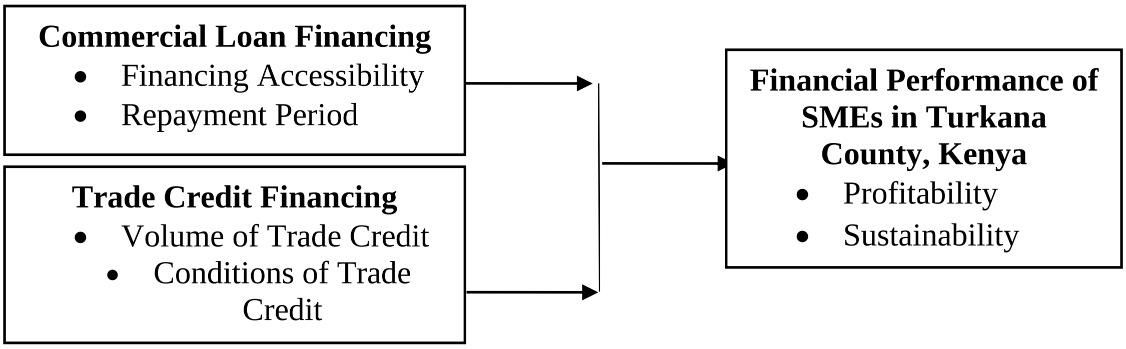
Information Asymmetry Theory

Information asymmetry is a situation where one party to an economic transaction possesses more information than the other party (Smarika & Sangeetha, 2021). This theory was first introduced by Akerlofs in 1970 in his paper entitled "The markets for Lemons: Quality Uncertainty and the Market Mechanism" (Akerlof, 1970). Information imperfection occurs when one party to a transaction has more and timely information than the other party. The theory is based on the fact that formal institutions are not able to compete successfully with informal lenders because such formal financial institutions lack better information about the borrowers than the informal lenders.

This theory suggests that it's difficult for lenders and financial analysts to make accurate decision due to the information asymmetry between the borrowers and the lenders. The theory assumes that lenders can't effectively differentiate between high risk and low risk loan applicants. Due to asymmetry, information involved between the borrowers and lenders, each of the party involved needs to mitigate the risk of the decision made while transacting with each other. The lenders may request for adequate collateral as a way of mitigating the risk involved. In case of default due to such asymmetric information, they dispose the collateral attached to recover their investments. This is the reason for high importance of collateral requirement for SMEs. High credit risk which causes minimal access to banks credit is compensated by the information conveyance of collateral which significantly improves access to finance for SMEs. This theory helped to explain why SMEs are considered risky borrowers and hence lose out on formal lenders who request for collateral to lend, collaterals that SMEs may not be having.

Conceptual Framework

The study conceptual framework is a diagrammatic representation of the relationship between the study dependent variable (financial performance of SMEs in Turkana County) and the independent variables (commercial loans financing and trade credit financing). The variables relationship was as presented below:



Commercial Loan Financing and Financial Performance

Commercial loan financing describes the funds borrowed from private individuals, banks, co-operatives, microfinance institutions and other lenders to support SMEs business operations (Munyuny, 2023). The funds are borrowed under the terms and conditions of the lending party and the borrowing SME is normally required to pay back the principal amount plus interest. Commercial loan financing is measured by funds usage, sustainability of funds and repayment period.

Timoshenko (2022) argues that commercial loans constitute a major source of external funding for the Latvian SMEs. In 2019, it rose from 33% to 40% in 2022, signifying its importance as a financing option favored by entrepreneurs in the SMEs business. This prompted the Latvian government to come up with programs that would see the operators in the sector access more funding from commercial banks. In such cases, the government takes the position of a guarantor to institutions advancing loans to SMEs by covering all costs in cases where the SMEs become bankrupt. The Parliamentary Act has seen many firms access more funds to start and operate their business. Vo, Wabwoba and Atandi (2021) observed that firms at start-up stage had reservations in sending loan requests to banks in Vietnam. They either assumed that they did not urgently require commercial loans or it was hard to attain approval for formal loans due their stage in business cycle. However, their counterparts; those that were in operation for some times (about 86%) found it very appealing to use commercial loans to launch expansion programs and keep their business activities in operation than other forms of financing. Mishra and Soota (2020) recognized commercial loans as a vital source of financing that can be utilized by firms to expand their projects, modernize and renovate their existing equipment and carrying out technological updates.

Abouzeedan (2023) stated that the Small Business Administration (SBA), an American government agency, participates in SMEs funding by encouraging and motivating banks and other financial institutions to lend to SMEs and start-up ventures by guaranteeing up to 90% of the loan amount to qualified borrowers. The study believed that commercial loans remains a principal source of financing for SMEs in Sweden into the unforeseeable future even though SMEs continue facing competition from large businesses for the same funds. Agbozo and Yeboah (2022) observes that 53% of respondents intimated to be using commercial loans as a key source of financing with 35% indicating that access to loan had risen over the period and loans were mostly preferred as they basically depended on the good relationship between the borrowers and the lenders. Xiao (2021) claimed that SMEs that utilized commercial loans reduced financial distress allowing them to finance more projects hence, generating more cash flows. Quianoo (2021) outlined reasons that may push SMEs to seek commercial loan funding as to finance activities such as opening new branches, commencing new investment projects among other factors. Commercial loans are mostly suited for SMEs financial needs as they were more realistic and reliable in European countries as they lacked options such as those available to large enterprises such as issuing shares and debentures in the capital markets.

Egbuna and Agali (2023) observed that 20% of respondents in the study indicated that they obtained their commercial loans from banks and 22.9% sourced from friends and relatives at a fair interest in Nigeria. Osoro and Muturi (2019) still observed that 50% of respondents in the SMEs obtained their initial capital as commercial loans from Micro-Finance Institutions (MFIs) and 20% acquired their loans from friends in Kisii, Kenya. Kihimbo *et al.*, (2019) claimed that among the SMES in Kakamega Municipality in Kenya, commercial loans were some of the sources of beginning capital. These loans were acquired from friends, Commercial banks and MFIs. All these prior studies allude to the fact that commercial loans have been utilized by SMEs to finance business operations ranging from start-up capital and capital to finance continuing activities at various levels of business cycles.

Commercial bank lending sets the objectives, standards, and parameters that guide loan officers in granting loans and management of the loan portfolio. The lending policy provides a framework within which the credit risk arising from lending will be originated and managed in order to minimize the risk of financial loss (Othieno, 2020). Carpenter and Petersen, (2022) argue that firms whose financial needs exceed their internal resources may be constrained to pursue potential opportunities for growth. The insufficient internally generated liquidity is therefore one of the factors which are frequently cited as the causes of small and medium business failure in developing economies. Makokha (2020) revealed that inadequacy of capital hinders the expansion of businesses. His study further found that larger loans enabled MSEs to graduate to medium enterprises. Appropriate loan sizes for clients matching their needs, realistic interest rates, savings as a prerequisite, regular, short and immediate repayment periods and achieving scale can contribute to the sustainability of small and medium enterprises in Turkana County.

Rosenberg, Gonzalex and Sushma (2019) supported that financial institutions prefer large loans because the administrative costs decrease proportionately to the size of the loan. SMEs consider small loans amount to meet immediate needs because SMEs don’t have capacity or experience to handle large sums of money in their businesses and even can lead to business failure. Short-term debt is the best financing tool because it is perceived to be cheaper (Jun & Jen, 2023). Short term debt adapts more easily and facilitates bank relations between the firm and the lender due to frequent renewals and hence firms might obtain credit condition benefits. Short term debt loans solve the problem of underinvestment because management is more frequently monitored due to periodic credit renewal. Ozkan (2020) argued that short term debt can mitigate agency conflicts between shareholders and debt holders. SMEs in their limited asset base have no potential of securing long term loans as a major instrument of debt financing hence giving it a major constraint in borrowing funds to finance their operations. This in turn limits sources of financing available to SMEs. Pelham (2020) argued that long term debts provide small firms with more competitive advantages when compared with large firms.

Loans are given depending on savings with financial institution and the SMEs previous loan repayment. Most of these loans are lent out depending on the collection convenience, payment and flexibility with experienced clients. Financial institutions tend to meet their client’s working capital by giving short term loans and limit long term loans. Financial institutions cite weak SME management and governance, unreliable financial information on SME operations, lack of medium- and long-term resources for typical SME lending, and complicated procedures to register and seize collateral as the main constraints to funding SMEs with large loans amount (Odongo, 2021).

Trade Credit financing and Financial Performance

According to Munyuny (2023), trade credit refers to the credit extended to SMEs by their suppliers whom they have purchased goods or services from on a credit basis for a given period of time after which they pay later when the credit period expires. Taketa and Udell (2020) asserted that trade credit in Japan accounted for 22.67% of debt financing sourced by non-farm, non-financial and non-real estate for profit SMEs and in the United States of America in the same segment, it was about one-third. This is almost equal to commercial bank financing to the same segment in the United States. In economies with less well established financial systems and with weak legal systems that make financial contracts difficult to enforce, SMEs and other firms might find trade credit a very useful tool and an alternative form of financing that can fill the prevailing financing gap. The size of trade credit extended to SMEs is determined by the type and nature of the product in question. Trade credit will be high if the product is less divestible hence non-standardized. The study contented that during the Japanese financial crisis, trade credit was more extensively used compared to all other financing options combined. Trade credit is of great importance in developing countries especially for firms that are less credit-worthy in the eyes of other forms of lending and lenders in the financial markets. Munyuny (2023) claims that trade credit was an important source of funding as it enabled firms to cut down on the transaction costs, led to reduction on risk, allowed enterprises to benefit on discounts and was an important tool in correcting market imperfection in emerging economies and in times of financial crisis in developed economies.

Timoshenko (2022) claimed that trade credit application was on the upsurge among Latvian SMEs. Its usage increased by 13% from 2019 to 2021. A view that is shared by Abouzeedan (2023) when commenting that short term credit is heavily depended on by SMEs especially trade credit as it is highly flexible and less volatile. This is because renewal can be done as many times and it can be easily converted into long-term finance. Wafula and Miroga (2020) observed that SMEs that utilized trade credit expanded their operations faster in emerging economies where financial institutions were underdeveloped. Firms can also utilize it whenever they are facing emergencies that they were unprepared to handle during liquidity crisis in the short-run both in the first and third world economies (Munyuny, 2023). Agbozo and Yeboah (2022) found that in Ghana 83% of respondents agreed that they used trade credit as a form of financing and 67% agreed that accessibility to trade credit had improved over the years. It was mostly utilized by SMEs as traders preferred to use it as a refinancing tool with a view to patronizing their product chain of distribution. Kihimbo *et al*., (2019) observed that 6.7% of SMEs in Kakamega Municipality used trade credit as their initial capital to finance up to 10% of their new business ventures. There is all indication that trade credit has been widely used as a source of financing in both developing and developed world; as a main source, as an alternative and complementary source of capital; hence the need for this study to explore its effect on financial performance of SMEs in Turkana Count.

MATERIALS & METHODS

Research Design

The study was based on descriptive survey research design. Descriptive survey tries to collect information from a representative group upon which inferences are drawn about the behaviors of the entire target population. Its main aim is to find reasons why a particular activity is happening (Zikmund, Babin, Carr & Griffin, 2020).

The merits of descriptive surveys are that they enhance rapid collection of data, are economical, efficient, accurate means of assessing information about a population and are less rigid in their application (Zikmund *et al*., 2020). This research design was employed because the study was a fact finding enquiry hence required a description of the state of affairs of the current situation after which the results would be generalizable to the whole target population (Kihimbo *et al*., 2019).

Target Population

Target population is a composition of units from which a sample is to be selected (Mugenda & Mugenda, 2019). The study focused on a lead person each from the 325 SMEs that were registered and licensed by the County government of Turkana to operate the businesses in the county. The target population comprised of 325 chairmen of active SMEs that were in operation for at least one year during the study period of May 2021 to April 2024 (CRDR, 2024). The county was targeted because it is developing fast enough with very promising entrepreneurs. Some SMEs directly supported by the Government, organizations that supply credit to SMEs and enterprises which are subsidiaries of big companies outside the area were however excluded from the study.

Sampling Frame

This was made up of a list of the chairmen of 325 small and medium enterprises (SMEs) in Turkana County that are currently active. The list was obtained from Turkana County Revenue Department records. The SMEs were classified under the following categories comprising: Education, Health, Transport, Hospitality, Manufacturing, Textile, and others (which included SMEs not falling within the mentioned services).

Sample Size and Sampling Technique

After stratifying the target population using stratified sampling, simple random sampling was used to pick the sample of the SMEs for the study from the categories. Simple random sampling ensured that all members of the target population have equal chances of participating in the study. Munyuny (2023) asserted that one of the common methods of deriving a sample size in most surveys is the use of a coefficient of variation. In this method, a coefficient of variation ranging between 21% to 30% and a standard error of between 2% to 5% are normally acceptable. Hence this study used a coefficient of variation of 21% and a standard error of 2% to minimize variability in the sample.

$n = N (C^2) / C^2 + (N-1) e^2$

Where

n = the sample size

N = the population size

C = the Coefficient of Variation

e = standard error

n = 83 respondents

Data Collection Instruments

Primary data was collected from the field using questionnaires. Questionnaires enhance rapid collection of data and are very economical (Siekei *et al.,* 2023). Structured questionnaires had closed ended questions. The questionnaire had a declaration, instructions to respondents and the actual questionnaire items. The actual questionnaire contained the demographic information, and the variables of the study for which data was collected and analyzed.

Data Collection Procedure

Methods of administration of the instruments were self-administration and a drop and collect method was adopted where the researcher and the research assistant were instrumental in ensuring that the questionnaires reached the respondents and were picked in a week, after being filled. The owners of SMES or their personnel (managers) filled the questionnaires.

Data Analysis and Presentation

Quantitative analysis was done to present the outcome of the research. Statistical package for social sciences version 28 (SPSS v28) was used to carry out the analysis. Data was analyzed using descriptive statistics such as frequencies, percentages, means and standard deviations. Inferential statistics (multiple regression and correlation) analysis was carried out to test and establish relationships between sources of business financing and financial performance of SMEs in Turkana County

Response Rate

The results on the response rate from the number of questionnaires issued, filled and returned or not returned were as tabulated below;

Table 1: Response Rate

Questionnaire Response	Frequency	Percentage
Filled Satisfactorily	76	92
Filled Partially	5	6
Not Returned	2	2
Total	83	100

A total of eighty-three (83) questionnaires were issued out to the respondents; seventy six (76) of them were satisfactorily filled and returned, five (5) were partially filled though returned while two (2) questionnaires were not returned at all. These results gave a response rate of approximately 92%. According to Kothari (2019), a response rate of 50% is said to be average, between 60% and 70% is considered adequate while above 70% is said to be excellent. From the above observation, the study considered the response rate excellent and hence acceptable and a representative of the respondents capable of being adopted for the research data analysis and generalization of valid conclusions.

Pilot Results

The pilot study was carried out on 10% (9 respondents) of the sample size (Mugenda & Mugenda, 2019).

Reliability of the Research Instrument

The reliability test on the research instrument confirmed that all the variables were reliable since their Cronbach's alpha coefficients were above 0.7 which was used as a cut-off of reliability for the study confirming that the research instrument was reliable and can be used to collect data for the study (Easterby-Smith, Thorpe & Lowe, 2022). Therefore, all the items in the questionnaire were maintained for the study data collection. These results were presented in the table below:

Table 2: Reliability Analysis Results

Variables	No. of Items	Cronbach Alpha	Comments
Commercial Loan Financing	5	.871	Acceptable
Trade Credit Financing	5	.781	Acceptable
Financial Performance of SMEs	5	.812	Acceptable

The pilot study results indicated that commercial loan financing had a coefficient of 0.871; trade credit financing with a coefficient of 0.781; while the dependent variable financial performance of SMEs had a coefficient of 0.812. These results depicted values of Cronbach Alpha Coefficients above the suggested acceptable value of 0.7 for reliability of the research data collection instrument (Calmorin, 2020). This led to the researcher concluding that the study data collection instrument was reliable and usable for data collection for the main study.

Validity of the Research Instrument

Validity of the data collection instrument was also carried out. Merriam (2018) saw validity as the extent to which the inferences made based on scores from an instrument are appropriate, meaningful and useful. Content validity was done by designing the questionnaires according to the study variables and their respective indicators of measurement, the study further used reviews from the supervisor to ensure content validity. While construct validity was achieved through restricting the questions to the conceptualizations of the variables and ensuring that the indicators of a variable fall within the same construct.

Correlation Analysis

In this section, the study measured the degree of association between business financing and financial performance of small and medium enterprises in Turkana County, Kenya, through correlation. Table 4 presented the correlation coefficients for all the variables considered in this study. Using the correlation analysis by employing the services of the SPSS version 28 software from which the results were extracted and presented in the table below;

Table 3: Pearsons' Correlation Matrix

		Financial Performance	Commercial Loan Financing	Trade Credit Financing
Financial Performance	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	76		
Commercial Loan Financing	Pearson Correlation	.745*	1	
	Sig. (2-tailed)	.026		
	N	76	76	
Trade Credit Financing	Pearson Correlation	.751	.088	1
	Sig. (2-tailed)	.021	.821	
	N	76	76	76

From the correlation results for the study model in Table 3, trade credit financing had stronger positive correlation with financial performance (r=0.751, p=.021), while commercial loan financing had a strong and positive relationship with financial performance (r=0.745, p=.026).

Model Summary

The main objective of the study was to examine the effect of business financing on the financial performance of small and medium enterprises in Turkana County, Kenya. Table 5 was the model summary.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	916[a]	.840	.835	.36046
a. Predictors: (Constant), Commercial Loan Financing and Trade Credit Financing				

Table 4 was a model which established how the model equation fitted the data. The adjusted R^2 was used to show the predictive power of the study model and it was found to be 0.835 implying that 83.5% of the variations on financial performance of SMEs in Turkana County, Kenya were explained by the independent variables. R^2 was bigger than adjusted R-square because adjusted R-square explained only variations in the dependent variable explained by actual or important variables and not less important variables. The results from the model showed that there were other factors that affected financial performance of SMEs in Turkana County, Kenya; therefore, those other factors not included in this research contributed 16.5% to variations in financial performance.

ANOVA

Table 5: ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.794	3	3.265	32.980	.000[b]
	Residual	7.151	72	.099		
	Total	16.945	75			
a. Dependent Variable: Financial Performance						
b. Predictors: (Constant), Commercial Loan Financing and Trade Credit Financing						

From the ANOVA statistics in Table 5, the probability value of < 0.05 indicated that the regression model was significant in predicting how commercial loan financing and trade credit financing affect financial performance of SMEs in Turkana County, Kenya. That is, there is a significant relationship between financial performance and the independent variables (commercial loan financing and trade credit financing).

Multiple Regression Analysis

The multiple regression results were presented in a regression coefficients table form from which the model was extracted.

Table 6: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	Beta		
1	(Constant)	8.546	.138	1.604	8.901	.000
	Commercial Loan	.549	.122	.443	3.056	.003
	Trade Credit	.672	.532	.578	4.381	.001

a. Dependent Variable: Financial Performance

The established model for the study was:
$Y = 8.546 + .549X_1 + .672X_3$

The regression equation above has shown that by incorporating all factors into account (Commercial Loan Financing and Trade Credit Financing) constant at zero financial performance of SMEs in Turkana County, Kenya is 8.546. The findings presented also showed that taking all other independent variables at zero, a unit increase in the commercial loan financing would lead to a .549 increase in the scores of financial performance of SMEs in Turkana County, Kenya while the findings also showed that a unit increases in the scores of trade credit financing would lead to a .672 increase in the scores of financial performance.
Overall, trade credit financing had the greatest effect on the financial performance of SMEs in Turkana County, Kenya followed by commercial loan financing on financial performance of SMEs in Turkana County, Kenya. None of the variables had a significant value greater than 0.05 ($p > .05$) implying that the relationship between the dependent variable and independent variables were likely by chance.

CONCLUSION

The following conclusions were made from the study findings:

Commercial Loan Financing on Financial Performance

From the study findings, there was a positive and statistically significant correlation between commercial loan financing and financial performance of SMEs in Turkana County, Kenya. From the correlation results, commercial loan financing had a strong and positive relationship with financial performance ($r=0.745$, $p=.026$). the p-value was less than the significance level of .05.

Trade Credit Financing on Financial Performance

From the study findings, it was concluded that trade credit financing positively affected financial performance of SMEs in Turkana County with a statistically significant correlation of $r = .751$, $p=.021 < .05$ significance level. That majority of SMEs relied heavily on trade credit financing.

Recommendations of the Study

From the findings of the study, the following recommendations were drawn:

Commercial Loan Financing

That there is need for the SME management to keenly determine whether usage of the funds increased investment prospects of SMEs since a substantial percentage of respondents remained undecided and left many unanswered questions on the same.

That since close to half of the respondents didn't agree to there being flexible repayment periods that allow SMEs enough time to repay, there was need to researcher further on the repayment period and other loaning terms in order to aid the SMEs.

Trade Credit Financing

That since the adverse responses were of material value, and of particular mention, the undecided respondents who were greater than a combined number that either disagreed or strongly disagreed, there was need for scrutiny on whether when using trade credit financing, available funds can be committed to the most urgent needs or what the respondents understood to be the interpretation of the statement.

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