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Determining the Effect of Financial Products and Service Delivery on Performance of Micro and Small Enterprises in Kisumu County, Kenya

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Abstract: **The objective of this study was to determine the effect of financial products and service delivery on performance of micro and small enterprises in Kisumu County. This study used Transaction costs and Grameen Model theories which support independent variable. This research was conducted in Kisumu County, where 15,000 Micro and Small Enterprises owners were targeted by use of stratified random sampling from, different trading sectors which included; boda-boda operators, green grocers, cereals sellers. Second-hand clothes dealers, front door tailors, salonists and barbers. Sample size of 375 MSEs was arrived at by use of the Krejcie and Morgan formula and table to represent the whole population. Self- administered structured questionnaires and interview schedules were used to collect primary data which were therefore distributed to the respondents in Kisumu County. The study therefore used Descriptive survey research design. Data collected were organized in tables then analysed using Statistical Package for Social Sciences (SPSS) Version 27. The research instruments' reliability was tested by use of Cronbach's Alpha and the coefficient was found to be 0.7 which was accepted. Multiple linear regression model, Karl Pearson's correlation and ANOVA were used in data analysis. The study concluded that good public image of the business depended on excellent business - customer relationship and service delivery to the customers which also leads to customer loyalty and retention by the business. The study recommended that MSE owners should buy their own means of transport to cut down on transportation expenses and uphold high business – customer relationship through good service delivery for better performance and growth.**

Keywords: **Micro and small enterprises, financial products, service delivery and financial inclusion.**

1. INTRODUCTION

Background of the study

Micro and small enterprises have become the key drivers of economic growth, providing employment, increasing creativity, innovation, reducing poverty and elevating GDP in developed and developing countries, (Cole, 2010). According to World Bank (2014) financial inclusion is where different people have important and cheap financial products and services that are necessary for their needs. A research study of small Canadian firms revealed that more than half of those firms become bankrupt due to their own deficiencies and not because of external causes Inexperienced and unskilled management is the main cause of failure. Barte (2011) established the negative effects of lack of financial literacy on enterprises, after a study carried out to establish effect of financial literacy on microenterprises in the fishing sub sector in the Philippines. Even after introduction of system like microfinance to help boost the sector by providing finances, there was still limited growth because the funds could not be utilized well. There was dire need by the government of Philippines to train micro and small scale enterprise owners on financial access, usage and sound service delivery for sustenance and entire growth of their businesses. Bradford (2007) conducted a study in a Township of South Africa on the need for business training and the study concluded that for effective service delivery and performance, MSEs require skills in preparation of financial records, advertising and managing business funds. In Kenya, ERS projected 88% of the opportunities to come from MSEs in order to alleviate poverty rate from 57% to 52% (Ministry of Planning and National Development, 2003). Most micro and small entrepreneurs do not mind about transaction costs that they incur in their businesses while such knowledge is very significant ingredients for the development of the businesses. Despite important contribution to the Kenyan economy, micro and small enterprises continue to experience various difficulties that hinder their expansion. Sahrawat (2010) posit that just financial inclusion is brought about by ownership of a financial product which leads to economic self-reliance and development. Quality of services and products should be checked while measuring financial inclusion because most of the poor individuals are left dependent on poor performing and non - sustainable financial institutions, which are also dependent on support by the government. The introduction of initiatives like WEF and YEDF by the Kenyan government were meant to empower women and the youth in entrepreneurship by enabling them to be more self-reliant and developed to participate in the country's economic development. Beneficiaries of both initiatives also suffered lack of knowledge on where to get finances afterwards, how to utilize the funds well in their service delivery so that their businesses could grow. Many organizations have in the recent past joined the government of Kenya by coming up with programs and interventions that are geared towards promoting MSEs in general. These include, NGOs, donors, international public institutions, charity organizations, business associations and private organizations. According to World Bank (2009) access to credit alone doesn't bring about success of microenterprises and this must be accompanied by the knowledge of proper utilization of the finances. In Kisumu County, MSE sector is dominated by boda boda operators, salonists, barbers, greengrocers, cereal sellers, front door tailors, second hand clothes dealers among others. Most micro and small scale entrepreneurs are not in a position to access wider markets due to lack of enough finances to facilitate their transportation. A bigger percentage doesn't make any savings that may help them in future while a few now join Sacco's and other merry go rounds for investment. The fishermen and boda-boda riders are the worst hit when it comes to savings. They rarely save due to the fact that they get small earnings regularly hence do not see the need of saving or making investments. These groups of people also need insurance because of the nature of their work like boda-boda riders and fishermen. Enterprises with the ability to export have got high chances of survival and growth because of the wider market as compared to those that are unable to export like most micro and small enterprises in Kisumu County.

Statement of the Problem and Justification

Kisumu County hosts Kisumu City which is a cosmopolitan city and representative of other cities in the world. It has high population and a mixture of different MSEs in various sectors. The MSE sector is recognized as the engine towards economic development and employment creation for developing countries by International Labour Organization (ILO) hence the need to support their expansion, viability and growth. This sector assists in the fulfillment of Millenium Development Goals (MDGs) adopted by the United Nations Millenium Summit in 2000. The government therefore enters into agreements of credit facility with selected banks in order to lend to micro and small enterprises mainly through branches, mobile banking, authorized banking agents and other channels. Most micro and small traders in Kisumu County have also benefitted from Uwezo fund, Women Enterprise Fund, Kisumu Traders' Fund and Youth Enterprise Development Fund among others (KCIDP, 2018). Banks such as KCB, Family Bank, Cooperative Bank and Post Bank are in the fore front to provide financial access to MSEs. Despite putting in place these monetary interventions, MSEs still seem to have challenges that hinder their development. A study by Ojera, Simeyo, Lumumba, Nyabwanga and Odondo (2011) reported that in Sub – Sahara Africa, 50% of SMEs registered decreasing performance five months after they were started. It is for this reason that the researcher found it useful to carry out a study on effect of financial products and service delivery on performance of MSEs in Kisumu County, Kenya.

Objective:

Determine the effect of financial products and service delivery on performance of micro and small enterprises in Kisumu County

Hypothesis:

H_0 Financial products and service delivery do not have significant effect on performance of micro and small enterprises in Kisumu County

2. LITERATURE REVIEW

Theoretical Literature Review

This study was guided by transaction costs theory and Grameen model theory.

Transaction costs theory

Transaction costs are major challenges that affect access to markets for MSEs. Low transaction costs are very necessary in enhancing access to market as posited by Transaction costs theory. High transaction costs arise due to poor infrastructure, market inefficiencies and information asymmetry. MSEs may not compete effectively because of skewed customer preference, low quality products, very limited product diversity and un-conducive pricing (KIPPRA, 2010). Morduch (2010) used this theory and posited that availability of finance only isn't enough and those who borrow should be trained on use of loans and management of their enterprises to realize tremendous growth as they try to reduce transaction costs. This study adopted transaction cost theory in explaining costs that MSEs might incur in accessing finance and service delivery to customers.

Grameen Model theory

Grameen model is very important in the microfinance sector as it targets the poor, provides door step services, issues less collateral loans with low interest rates, focuses on the marginalized groups and also has good impact on the vulnerable group in the society like women, the youth and people living with disabilities. According to this theory, two borrowers are given money and if they meet the terms of repayment then the remaining group members are also given loans. This is possible because already trust has been built on the group and there is surety that the other group members will also meet the repayment terms. Most MSE owners are poor, consist of people living with disabilities, youths and women hence this theory was very relevant while explaining financial access by this section of the society. Clausen (2009) who used the theory concluded that entrepreneurial opportunities can effectively be exploited by those with enough financial capital who are also able to acquire necessary resources. This theory was important to this study as it helped explain availability of capital that is necessary for acquisition of other financial products and in service delivery by MSEs.

Empirical Literature Review

Financial products may influence service delivery either positively or negatively while also affecting performance of the micro and small enterprises. Excellent service delivery and high customer satisfaction also improve the image of a business organization. Financial products and service delivery depend on transaction costs which refer to costs of efficiently running an economic system.

According to Swamy and Tulasimala (2011) high costs of transaction tend to be discouraging business owners from looking for financial services, even where they may be available. High transaction costs of the borrower greatly hike the actual total cost of borrowing finance which ultimately interferes with the performance of micro enterprises (Ladman, 1988). High costs of transaction, information asymmetries and moral hazard risks together with negative selection reduce amount of incentive to be lent to the micro enterprises (Binks, Ennew and Reed, 1992). According to USAID (2005) lending costs to the MSME sector is considered to be higher by the commercial banks than lending to other sectors of the economy due to size of the transactions and the total amount of timing that is required in appraising and monitoring of loan compliance.

Kalunda (2015) carried out a study on financial inclusion, bank ownership, bank stability and financial performance of commercial banks in Kenya. Secondary data was used by the study, collected from commercial bank statements and bank supervisory reports from Central Bank of Kenya. The finding of the research study was that financial inclusion had a statistically significant effect on banks performance in Kenya. Recommendation of the study was that financial inclusion be looked into together with some other factors when critically analyzing its impact on financial performance. The study could have used both secondary and primary data for better results. The study also failed to include non-bank financial institutions which were included by the current study.

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Eton, Mwosi, Obura, Turyehebwa and Uwonda (2021) conducted a study on financial inclusion and growth of small and medium enterprises in Uganda to determine challenges affecting small and medium enterprises and establish relationship between financial inclusion and growth of small medium enterprises. The study employed cross-sectional research design and descriptive design accompanied by inferential statistics. The findings of the study were that financial inclusion is very necessary in supporting the growth of SMEs and that the cost of servicing and acquiring financial services is very high. The study also found out that some financial service providers lack some aspects of dignity and respect. The study recommended that capital cost should be decreased for encouragement of borrowing whereas some SMEs should creatively produce items that can compete at both local and foreign markets. The study did not clearly state the financial services. This current study filled the gap by discussing clearly the necessary financial services that may pose any constraint on an enterprise. In this study financial products and service delivery were discussed with respect to customer satisfaction, public image and transaction costs.

Most MSEs produce goods and services without considering needs of customers and hence they may not be able to enter fully into the market (GOK, 2005). MSEs are not able to compete in the international market either because of low product diversity, low quality products, skewed customer preference, unfair pricing (KIPPRA, 2010). According to Cantzler & Leijon (2011) access to information on marketing may increase the knowledge of the MSEs' market concerning prices and behavior of their customers through networking activities. Behavior of the customers may include honoring their debts, customers' tastes and preferences, their compliments and complaints. Currently the purpose of sales and marketing is to get the rightful product for your customers and not the right customers for your products (Kotler, 2003). Customer satisfaction leads to customer loyalty and retention implying better performance of the business. This refers to the way consumers view the business. According to the customers, the business may be good or bad depending on how it relates with them, quality of products offered and service delivery.

Feming (2012) conducted a study to investigate how the implementation of management quality practices will affect the performance and development of SMEs in a developing country, Ghana, where a sample size of 200 SMEs that employ not more than 50 employees were selected within Accra. Data collection was done by use of both quantitative approach and survey method. Questionnaires were administered through face to face interview. Findings of the study were that firms should employ high quality practices of management in order to have very great effect on growth and performance of SMEs in Ghana. The study recommended that even large firms should employ quality management practices in order to offer high quality service delivery. The study failed to specifically outline actual quality management practices that should be employed by firms to improve their performance. The current study outlined specific qualities of a good entrepreneur that lead to high quality service delivery in order to boost performance of MSEs.

3. RESEARCH METHODOLOGY

Research design

This consists of procedures that were used by the study so as to explore relationship between variables, administer measures and analyze the data. According to Kariuki, Namusonge and Orwa (2015) a good research design answers the research questions and hypotheses. This study adopted both qualitative and quantitative research designs and since collection of data was done by use of questionnaires and interview schedules, descriptive survey design was found to be appropriate.

Target Population

According to Polit and Beck (2003) target population is a range of all items from where required sample is chosen. The target population comprised of 15000 micro and small enterprise owners from seven sectors in Kisumu County. These included; 4440 Boda boda operators, 2160 green grocers, 2800 second – hand clothes dealers, 1200 cereals sellers, 1160 front door tailors, 2000 salonists and barbers.

Sampling Frame and Sample Size

According to Mugenda & Mugenda (2003) if the researcher has adequate time for the study, then he should take a very big sample to ensure another individual would obtain same findings to a greater degree if he chose another sample with the same size. In this current study, Krejcie and Morgan table and formula (1970) were used to obtain the sample size.

According to Krejcie and Morgan formula;

$$\mathbf{s} = \frac{X^2NP(1 - P)}{d^2(N - 1) + X^2P(1 - P)}$$

Where; **s** = Size of sample

X – Critical value i,e 1.96 (95% confidence level)

N = Size of population

P– Population proportion assumed to be 50% or 0.5

d – Degree of accuracy 0.05 (5% margin of error)

Sample size was therefore calculated as follows;

$$\mathbf{s} = \frac{1.96^2 x15000x0.5\ (1\text{-}0.5)}{0.05^2(15000\text{-}1) + 1.96^2 x0.5\ (1\text{-}0.5)}$$

$$= \frac{14406}{38.4579}$$

= 374.59

≈ 375

The researcher therefore settled on a sample size of 375 respondents.

Table 3.1: Sampling Frame

Sector	Population	Proportional allocation (N_i) $N_i = (N_i \text{ X } n)/N$	Sample size
Boda-boda operators	4440	(4440x375)/15000	111
Green grocers	2160	(2160x375)/15000	54
Second hand clothes dealers	2800	(2800x375)/15000	70
Cereals sellers	1200	(1200x375)/15000	30
Front door tailors	1160	(1160x375)/15000	29
Salonists	2000	(2000x375)/15000	50
Barbers	4000	(4000x375)/15000	31
TOTAL	**15000**	**(15000x375)/15000**	**375**

Source: Author 2023

Reliability and validity of the Research Instrument

Reliability is a measurement used to ascertain the degree to which a research instrument consistently obtains same results after repeated trials (Mugenda and Mugenda, 2003). The questionnaire should be reliable so as to provide accurate results. In this study, Cronbach's alpha correlation coefficient was used to ascertain the questionnaire's reliability and was found to be 0.7, which was accepted. The questionnaire and interview schedule in this study were validated by my supervisors who have expertise knowledge in this.

Data Collection and Analysis

Structured questionnaires were developed in order to collect primary data. Sections consisted of questions relating to financial products and service delivery. Quantitative data were analyzed using descriptive and simple inferential statistics.

Statistical model specification

Simple linear Regression Model was used to analyze data; $\mathbf{Y = \beta_0 + \beta_1 X_1 + \varepsilon}$

Y – Performance of Micro and Small Enterprises

β_0 – Constant

β_1 – Regression coefficient (Change induced in Y by each X)

X_1 – Financial Products and Service Delivery

ε - Error term

4. FINDINGS AND DISCUSSIONS

Correlation analysis

Correlation analysis was conducted between financial products and service delivery (independent variable) and performance of MSEs (dependent variable). The results presented in table 4.1.

Table 4.1: Correlation Matrix

		Fin Products	Performance
Fin Products	Pearson Correlation	1.000	0.419
	Sig(1-tailed)		0.000
Performance	Pearson Correlation	0.419	1.000
	Sig(1-tailed)	<0.001	

Results in table 4.1 showed that there was a moderate positive and significant correlation between financial products, service delivery and performance of MSEs ($r = 0.419$, $p < 0.001$). These findings are in agreement with that of KIPPRA (2010) which posit that performance of MSEs is poor because of low quality products and customer preference that is skewed.

Regression Analysis for Financial Products and Service Delivery

The model fitness used in explaining the study phenomena is presented in table 4.2. Financial products and service delivery was discovered to be a good variable in explaining performance of MSEs. This was supported by Coefficient of determination (R – Square 17.5%). That implies that financial usage explain 17.5% of the variations in the dependent variable which was performance.

Table 4.2: Model Fitness

Variable	Coefficients
R	0.419
R – Square	0.175
Adjusted R – Square	0.173
Std Error of the Estimate	0.9777

Results on Analysis of Variance are presented in table 4.3.

Table 4.3: Analysis of Variance

	Sum of Squares	df	Mean Square	F	sig
Regression	66.197	1	66.197	69.255	<0.001
Residual	311.606	326	0.956		
Total	377.803	327			

The results for ANOVA are presented in table 4.3. Results indicate that the overall model was statistically significant. The results also show that the independent variable i.e financial products and service delivery is a good predictor of performance of MSEs. This was clearly supported by F Statistic of 69.255 and P Value of <0.001 that was reported. The P Value was also less than 0.05 significant level (conventional probability).

Table 4.4: Regression of Coefficients

	B	Std Error	t	Sig
(Constant)	1.430	0.233	6.131	<0.001
Financial Products & service delivery	0.538	0.065	8.322	<0.001

Regression of coefficients showed revealed that financial products, service delivery and performance of MSEs had a positive and significant relationship ($r = 0.538$, $p < 0.001$). The results were consistent with those of Kotler (2010) who found a positive and significant relationship between financial products, service delivery and performance and also concluded that businesses should have right products for customers in order to maintain high customer satisfaction and loyalty. $Y = 1.430 + 0.538X_3$. From the regression equation, when financial products and service delivery change by 53.8% performance changes by 1% showing that there is a positive relationship between the two variables.

Hypothesis Testing for Financial Products and Service Delivery

The null hypothesis H_{03} was that financial products and service delivery do not have significant effect on performance of MSEs. The results in table 4.16 indicated that the p-value was <0.001 which was less than 0.05, hence the null hypothesis was rejected. It was therefore revealed that there is positive and significant effect of financial products quality and service delivery on performance of MSEs. The findings are in agreement with those of Samundengu (2014) who found out that ability to use financial products and services contribute to enterprise success.

5. CONCLUSION

Results from primary data revealed that most MSEs had got good public image. The study therefore concluded that good public image of the business depended on how well the entrepreneurs handled customers i.e business - customer relationship and generally good service delivery to the customers. Most of the MSEs attested to the fact that they had many customers due to good service delivery. The study concluded that good service delivery is important to a business in order to uphold customer loyalty and retention by the business. Most MSE owners accepted the fact that they incur very high transaction costs as revealed by the study findings. The study therefore concluded that most MSEs do not invest so much in terms of business expansion.

6. RECOMMENDATION

The study recommended that MSEs should avoid high transportation costs by buying motor bike s or pick – up instead of hiring the same each time goods are taken to the market or more stock brought in. It further recommended that MSEs to handle their customers well in order to maintain the good public image. The study further recommended that MSE owners should strive to have enough stock so as to maintain customer loyalty and satisfaction.

Suggestion for further research

Similar studies should be conducted in other counties using the same variable as in this study in order to compare what happens in different counties in terms of MSEs performance. Research study should be conducted on women owned only and men owned only MSEs in order to ascertain which gender is performing well in terms of financial products and service delivery. Similar study should also be conducted on medium and large scale businesses.

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