THE EFFECTS OF RELATIONSHIP BANKING AND ENTREPRENEURIAL ORIENTATION ON FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS IN KENYA

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The Effects of Relationship Banking and Entrepreneurial Orientation on Financial Performance of Manufacturing Firms in Kenya

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DECLARATION

This thesis is my original work and has not been presented for a degree in any other University.

Signature .....Date ……

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This thesis has been submitted for examination with our approval as University Supervisors.

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DEDICATION

To my Father Mr. Wilson Kirongo and my mother, Rosaline Kirongo for having supported my education and instilled in me the spirit of hard work. To my wife, Violah Jerugut and my two children Jeptoo Yagan and Kennedy Seurei. Thank for your love and understanding. Lastly my brothers and sisters for their support.

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ACRONYMS

BP –	Bundle of Products
CFA-	Confirmatory Factor Analysis
EFA-	Exploratory Factor Analysis
EI -	Entrepreneurial Intensity
EO-	Entrepreneurial Orientation
FP –	Financial Performance
RB –	Relationship Banking
RL –	Relationship Lending
RM-	Relationship Monitoring
ROA -	Return on Assets
RS-	Risk Sharing
SEM -	Structural equation Modeling
SME -	Small and Medium Enterprises
TFI -	Tucker Lewis Index

DEFINITION OF TERMS

Credit

Is a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some later date (Finlay, 2009). Sullivan and Steven (2003) describe credit as is the trust which allows one party to provide resources to another party which is not supposed to be repaid immediately but will repay or return at a later date. This study adopted the Finlay (2009) definition.

Entrepreneurship

Is the capacity and willingness to undertake conception, organization, and management of a productive venture with all attendant risks, while seeking profit as a reward (Reynolds, 2007). Eisenmann (2013) defines entrepreneurship is the pursuit of opportunity beyond resources controlled. This study adopted the Reynolds (2007) definition.

Product Bundling

Refers to a situation where a bank offers a number of products and services to clients as an effort in building bank – client relationships (Calomiris 2000). Venkatesh and Mahajan (2009) posits that Product bundling is the provision of a number of financial products to clients as a strategy for tying customers. This study adopted the Calomiris (2000) definition.

Information Asymmetry

According to Wilson (2008) information asymmetry is a situation where there is an information gap between two parties to a transaction. A similar definition is given by

Hörner and Jamison (2007) who describes information asymmetry as a where both parties to a contract do not have the same sufficient information needed for the contract. The Wilson (2008) definition was adopted by this study.

Moral Hazard

Is a situation where there is a tendency to take undue risks because the costs are not borne by the party taking the risk. A moral hazard may occur where the behavior of one party may change to the detriment of another after a transaction has taken place (Dembe and, Leslie, 2000). Another definition of the same is provided by Shapiro and Stiglitz (1984) who describes moral hazard a situation where one party to a contract is deliberately misled by the other party by willfully failing to disclose all information required for the contract. The Shapiro and Stiglitz (1984) definition was adopted by this study.

Small and Medium Enterprises

Are companies whose personnel numbers fall below certain limits (European Commission, 2003). In kenya a small business is an enterprise that employs between 10-49 employees while a medium business is that with 50-99 employees (Bowen, Morara and Mureithi, 2009).The OECD (2005) defines Small and medium-sized enterprises as are non-subsidiary, independent firms which employ fewer than a given number of employees. This number varies across countries. This study adopted the Bowen, Morara and Mureithi (2009) definition.

Profitability

This refers to the degree to which a firms revenue exceeds the expenses. Its one of the measures of business financial performance (Manasseh, 2000)**.**

Relationship banking

Boot (2000) describes relationship banking as the provision of financial services by a bank on the basis of long-term investment in obtaining firm-specific information through multiple interactions with diverse financial services. Amhed and Uchinda (2005) indicates that relationship banking is a situation where the bank and the client are partners with a common goal of improving the financial security of the customer. The Boot (2000) definition was adopted for this study.

Entrepreneurial Orientation

Covin and Lumpkin (2011) defines entrepreneurial orientation is a multidimensional construct, applied at the organizational level, which characterizes firm's entrepreneurial behavior and includes one or several of these three dimensions risk-taking, innovativeness and pro-activeness. Further Davidson and Wiklund (2001) describes EO as the extent to which a firm is entrepreneurial. This study adopted the Covin and Lumpkin (2011) definition.

Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Liang, You and Liu, 2010). Trivedi (2010) describes financial performance as the degree to which financial objectives being or has been accomplished. This study adopted the Liang, You and Liu (2010) definition.

ABSTRACT

Despite the acknowledge importance of small and medium enterprises (SMEs) they operate under an environment of harsh credit constraints due to perceived higher credit risk and the resulting unwillingness of banks to offer credit. Relationship banking has been heralded as being key in helping SMEs access bank credit. Further, although credit is important to SMEs, entrepreneurial orientation is key as it determines the success or failure of an enterprise. There is little research that has been done to determine if entrepreneurial orientation (EO) moderates the relationship between relationship banking and financial performance in Kenya. The study was guided by relationship lending, relationship monitoring, relationship risk sharing and bundle of products being the independent variables while financial performance was the dependent variable with entrepreneurial orientation being the moderating variable. This approach essentially integrates the theoretical perspectives of entrepreneurship and links relationship banking, financial performance and entrepreneurial orientation under strategic entrepreneurship domain. The study adopted a cross-sectional research design with the population being 620 manufacturing SMEs who have had a relationship banking arrangement with commercial banks in Kenya. Stratified random sampling was employed to pick a sample of 138 manufacturing SMEs with the respondents being the owner/ managers of the sampled SMEs. These respondents were appropriate for this study because they were considered to have sufficient knowledge about their firm's banking relationships and strategy including EO adoption in their firms. A semi structured questionnaire was used for data collection. The data was analyzed using both qualitative and quantitative techniques like exploratory factor analysis, confirmatory factor analysis and Structural equation modeling. Moderated multiple regression was also employed to test for the moderating effect of EO. The study revealed that EO moderates the relationship between relationship banking and financial performance of manufacturing SMEs in Kenya. Further the research established that each of the independent variables in the study that is, relationship lending, relationship monitoring, bundle of products and risk sharing

positively influences financial performance of manufacturing SMEs. The study concluded that relationship banking and financial performance have a positive relationship and that EO moderates this relationship. By forging strategic links with the banks, manufacturing SMEs would be able to access funding which is key to their growth and survival. This study makes a contribution to the field of strategic entrepreneurship by demonstrating that relationship banking is an important management tool that any SME should embrace to enable them exploit entrepreneurial opportunities and gain competitive advantage.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The role of EO has been well articulated in entrepreneurship literature. EO refers to the extent to which a firm is entrepreneurial (Davidson & Wiklund, 2001). Entrepreneurial firms pursues entrepreneurial activities by adapting structure, management, and processes accordingly in order to gain the required agility, speed, creativity and drive to act profitably upon specific opportunities. Miller (1983) developed a framework of EO that has three constructs that is, innovation, risk taking and proactivity. Later other constructs were added that is, competitive aggressiveness and autonomy (Lumpkin & Dess,1996). Miller (1983) treated EO as a unidimenstional construct while others such as Kreiser, Louis & Weaver (2002) argued that each construct of EO ought to be taken as separate constructs.

The role of small and medium enterprises (SMEs) in any economy cannot be gainsaid. Nkuah, Tanyeh and Gaeten (2013) argued that SMEs are key to employment creation, innovation and poverty reduction thereby contributing to economic dynamism in capitalistic economies . As such, SMEs have been identified to possess the unique strength of innovation and have served as incubators for new technologies and practices. Abor and Quartey (2010) argued that SMEs not only contribute to wealth generation but also to overall national development. The financial performance of SMEs is affected by many factors including access to financing, political, legal environment and the Entrepreneurial orientation (EO) of the entrepreneur (Nabintu, 2013).

The relationship between EO and financial performance has been explored by previous studies such as Lwamba, Bwisa and Sakwa (2014) and Rauch, Rauch, Wiklund, Lumpkin and Frese (2004). These studies found that EO has positive effects on

performance. This can be so if the internal and external environmental factors are aligned appropriately with the firm being part of the growth market (Wiklund & Shepherd, 2005). Each of the constructs of EO has been shown to influence performance independently. Kiraka, Kobia and Katwalo (2013) reported that innovation not only enhances financial performance but also helps in the attainment of competitive advantage of the firm. Proactivity helps firms exploit entrepreneurial opportunities (Zhao ,2005). Risk taking as a construct of EO helps entrepreneurs to have the courage and ability to exploit entrepreneurial opportunities by taking calculated risks that could could rewarded them with superior performance (Covin, Green, & Slevin, 2006).

In an entrepreneurial setting, Rauch, Wiklund, Lumpkin and Frese (2009) argued that EO helps in the entrepreneurial strategy-making processes that key decision makers use to enact their firm's organizational purpose, sustain its vision, and create competitive advantage. That EO helps firms survive is not in doubt. Firms operate in environments where there is an ever increasing pace and rapidity of change with shorter product life cycles. Constructs of EO (autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness) help such firms navigate the challenging business environments. Thus faced with challenges, firms high EO are likely to adopt bold and innovative strategies with an aggressive and competitive posture (Ireland, Hitt, & Sirmon, 2003).

Despite the acknowledge importance of SMEs, they operate under an environment of harsh credit constraints due to perceived higher credit risk and the resulting unwillingness of financial providers to offer credit (Beck , Demirgu & Maksimovic, 2004). In Africa, SME financing is plagued by the 'missing middle' phenomena where they are seen as being too big to benefit from micro financing and too small to benefit from bank financing (Hsieh & Olken, 2014). As a result of this "missing middle" situation, SMEs face barriers to growth, informality and a significant lack of financing preventing entrepreneurship and scalability (Yago , 2007).

Constrained access to appropriate finance is a significant hindrance to the growth and development of SMEs in Kenya (Bowen, Morara & Mureithi, 2009). Wanjohi and Mugure (2008) posit that credit constraints are visible in Kenya as a result of financial markets being poorly developed hence entrepreneurs do rely on self-financing informal money lenders. Lack of access to long-term credit for SMEs forces them to rely on high cost short term finance (Goh, 2011). Mainstream banks have in the past shunned availing credit to the SME sector on the account of their opaqueness, a situation that leads to information asymmetry. This state of affairs leads to adverse selection, information opacity, and moral hazard. Adverse selection happens when where a high firm of high quality may not obtain credit because the financial institution is not able to discern its quality (Levin, 2001). Because of information opacity of SMEs, financiers have difficulties detecting entrepreneurs' behavior, resulting in the moral hazard. The related "costly state verification" problem further increases the perceived risk of SME investing.

One of the avenues available for banks to overcome information asymmetry among SMEs is relationship banking. Boot (2000) describes relationship banking as the provision of financial services by a bank on the basis of long-term investment in obtaining firm-specific information through multiple interactions with diverse financial services. The underlying concept of this approach has to do with developing more comprehensive working relationships with each client, assessing his or her individual situation and making suggestions for various services offered by the bank to help improve the financial well-being of the customer. This is in total contrast with transactional banking whose relationship with the customer is perceived to be at arm's length as they focus mainly on specific transactions rather than information intensive relationship with the customer (Boot, 2000). Relationship banking has four components that is, relationship lending, relationship monitoring, bundle of products and risk sharing (Nam ,2004).

Of the four components, relationship lending has received a lot of interest in literature. Relationship lending is not constrained to only loans but includes also other financial services such as letters of credit, deposits, check clearing, and cash management services (Boot, 2000). The distinguishing feature of banks with a relationship approach is the ability to gain and to use qualitative information for customer evaluations. In contrast, the granting of credit in transaction-based lending occurs based only on "hard," quantitative information (Berger & Udell, 2002). Traditional lending is transaction driven" because businesses use them to finance one-time, non-recurring credit needs.

As one of the components of relationship banking, bundling of financial products is well-established practice within the banking industry whereby banks offer multiple financial products and services to customers as a part of durable relationships. Calomiris (2000) posits that bundle of products help give the economies of scope because customer information captured in one transaction can be reused thus providing the efficiency dividends associated with a well diversified portfolio (Calomiris & Karceski, 2000). The third component, relationship monitoring, is not a preserve of relationship banking. Transactional banking also has an element of monitoring. Monitoring helps, financial institutions to reduce the effect of adverse selection because it helps screen applicants for loans. In relationship banking, Monitoring happens in stages ex ante monitoring (evaluating the risk characteristics of a borrower's project before the initial financing); interim monitoring (watching over the borrowing firms after the initial funding to ensure that the borrowers can repay their debts); and ex post monitoring (closely examining the borrowing firms when they show signs of distress and working out a restructuring plan if necessary (Ferri, Kang, & Kim, 2000).

1.1.1 Global Perspective of Relationship Banking

Relationship banking is practiced globally although there are variations in the way it is practiced. In Europe relationship banking is characterized by strong Bank – customer relationship through an arrangement called house banks. Wagenvoort (2003) posit that

these so called house banks have been crucial for financing of SMEs thereby helping in employment creation and driving economic growth in Europe. Further around the world, relationship banking is more tilted in favor of SMEs. Larger organizations have not been enthusiastic towards relationship banking because of agency problems. Relationship banking is premised on the ability of soft information captured by loan officer to be transmitted through the bank. However stein (2002) reported that for large organizations soft information cannot be easily transmitted because it is unobservable and opaque.

In Europe, relationship banking has been on the decline (Dietsch, 2003). This is because of a number of reasons such as better information capturing and processing, better and sophisticated credit rating tools and the growth of securitization market banks that have given rise to a situation where better credit rating information as opposed to personal relationships reign supreme hence relationship banking is increasingly being seen as less important (Memmel, Schmieder & Stein, 2008). In Africa relationship lending is increasing because of the information asymmetry that is prevalent in many African countries. Successful credit providers in Africa recognize the continuing importance of a relationship model of credit that relies on multidimensional evaluations of creditworthiness in making the loan or credit sale and flexible enforcement (Fafchamps 2004).

1.1.2 Relationship Banking in Kenya

The banking industry in Kenya has seen various regulatory and financial reforms that has not only changed the structure of local banks but also heightened competition by allowing foreign banks to enter and expand their operations in the country (Kamau, 2009). In Kenya the concept of relationship banking has taken root with most banks having relationship banking departments (Ouma & Munyoki, 2010). Relationship banking affords SMEs a chance to access finance which they could otherwise be unable to access because of the information gap between SMEs and the banks. The FSD- Kenya (2000) study posit that the rise of relationship banking in Kenya has been fueled by the

changes in the banking environment over the past several years, interest rates have declined substantially and deposits have grown steadily. In recent years banks have tended to upscale lending and away from investing in Government securities as a more profitable use of their customer's deposits. Many banks are now interested in targeting credit for SMEs as a growth area. The need to get more business has been one of the reasons for banks to seek closer relationships with customers

1.2 Statement of the Problem

Relationship lending has been heralded as being capable of helping SMEs access bank financing thereby boosting their financial and overall firm performance. In Kenya relationship lending has taken root with Kiama (2012) reporting that the majority of SMEs in relationship banking in Kenya are in the manufacturing sector. However Calice, Chando and Sekioua (2012) found evidence that though bank – firm relationships have enhanced credit supply to SMEs, many such SMEs still posted dismal financial performance and stagnation. Thus inspite of the financial support availed to the sector, manufacturing SMEs have not performed financially well and are affected by challenges of product quality and inability to venture into the export markets (Kedogo, 2013). This view is reinforced by Kiama (2012) who reported that while there was strong relationship banking ties with manufacturing SMEs in Kenya, such relationships were not beneficial to the manufacturing SMEs and had no effect on their profitability. Okatch (2012) reported that manufacturing SMEs in kenya's motor vehicle assembly sector did not exhibit high levels of innovation , proactivity and risk taking hence they loose out to foreign competitors. This demonstrates that manufacturing SMEs in Kenya have failed to infuse EO well as a strategic tool for growth.

These challenges undermine the manufacturing SMEs overall contribution to the country's GDP thus hampering the country's attempt to be a manufacturing hub as outlined in Kenya's vision 2030 economic blueprint (Kagechu,2013). Manufacturing is a challenging undertaking that requires a lot of financial resources for acquisition of raw

materials, investment in technology and distribution thus the inability of manufacturing SMEs to access credit would greatly exacerbate their current quality and market expansion problems thereby negatively affecting their competitiveness and that of the country. Further their inability to act entrepreneurially by being risk takers, innovative and proactive would render them more vulnerable to competition from more competitive foreign competitors (Okatch, Mukulu & Oyugi, 2011). This is likely to lead to sure attrition of these SMEs, which not only hurts the economy through job losses and loose of taxes but also negatively affecting GDP growth.

Local scholars like Marwa (2008) researched on the effect of relationship lending on Kenyan banks and reported that it enhanced bank performance. Also Kiama (2012) studied the effect of relationship lending on credit availability argued that such banking relationships have no effect on credit availability to manufacturing SMEs thereby exposing them to failure. Additionally, Wambua and Mugambi (2013) studied the effect of multiple banking relationships on performance of SMEs and reported that diversity of relationship banking is correlated positively to financial performance of SMEs in Kenya. This shows that limited attention has been paid to the moderating role of EO on the relationship between relationship banking and financial performance amongst manufacturing SMEs in Kenya. This study filled in on this existing knowledge gap.

1.3 General Objective

The general objective of the study is to determine the effects of relationship banking and entrepreneurial orientation on financial performance of manufacturing SMEs in Kenya.

1.3.1 Specific Objectives

1) To establish whether relationship lending influences financial performance of manufacturing firms in Kenya

2) To find out if relationship monitoring influences financial performance of manufacturing firms in Kenya
3) To determine if bundle of products influences the financial performance of manufacturing firms in Kenya
4) To determine if relationship risk sharing influences financial performance of manufacturing firms in Kenya
5) To investigate how EO moderates the relationship between relationship banking and financial performance of manufacturing firms in Kenya

1.4 Hypotheses

The study has the following hypotheses in line with the specific objectives

H_{o1} Relationship lending does not positively influence financial performance of manufacturing firms in Kenya.

H_{o2} Relationship monitoring has no positive relationship with financial performance of manufacturing firms in Kenya.

H_{o3} The bundle of products does not positively influence financial performance of manufacturing firms in Kenya

H_{o4} Risk sharing does not influence financial performance of manufacturing firms in kenya

H_{o5} Entrepreneurial orientation does not moderate the relationship between relationship banking and financial performance of manufacturing firms in Kenya.

1.5 Justification of Study

In Kenya, SMEs play a critical role in the national economy as they are important in employment creation and are key in achieving Kenya's vision 2030 (Nabintu,2013).

However the performance of SMEs in Kenya is affected by inability to access loans from banks because of the information asymmetry on the part of SMEs. The inability to access financing is one of the leading causes of SME attrition in Kenya (Bowen et al, 2008). Relationship banking has been touted in the past as a likely solution to solve the problems of information asymmetry among SMEs and hence help them asses financing from banks (Elsas & Krahnen, 1998). The effectiviness of relationship banking in enhancing the financial performance of SMEs has been highlighted by Berger and Udell (2006). Other studies such as Uchida, Udell and Yamori, (2012) demonstrated that relationship banking has negative consequences on SME financial performance. This shows that there has been no conclusive studies done on the effects of relationship banking. Manufacturing SMEs were selected as they contribute significantly to the Kenyan economy by contribute immensely to economic growth and job creation which currently stands at 40% of the country's labor market (RoK, 2015).

1.6 Importance of the Study

The contribution of this study consists of three perspectives that is theoretical, practical and policy. From a theoretical perspective this study enhances the understanding of the linkages between EO, relationship banking and financial performance from a Kenyan perspective. Thus it adds to the body of knowledge in this area and equips future researchers with sufficient grounding to further conduct further researcher in this area.

From a practical perspective, this study offers new insights to owner/ managers of manufacturing SMEs to reinforce the need to not only act entrepreneurially but also to engage banks strategically so that they can benefit from enhanced credit. This study will hopefully enable them see how relationship banking could reduce their financing costs and help them grow. Banks and non bank financial institutions will gain insights as to how relationship banking affects SME growth. As such it will enable banks to figure out the most likely way to structure these products in a bid to improve their effectiveness.

In terms of policy implications, this study provides an effective foundation for Kenyan policy makers to develop a strategy to support entrepreneurial activities and in turn, the performance of Kenyan SMEs. Further this will provide insights to policy makers on how to make such banking services effective for the transformation of SMEs.

1.7 Scope

This study embarked on manufacturing SMEs in Kenya. The manufacturing SMEs involved were those who had relationship banking arrangements with commercial banks from the year 2008. This study explored the link between the four sub variables of relationship banking and financial performance in order to add to the body of knowledge in this area and also to explore if EO moderates the relationship between relationship banking and financial performance because that has not been explored from a Kenyan perspective. The sub-variables of financial performance were chosen because it is easy for small and medium enterprises to use them to measure their performance (Liang, You & Liu, 2010). Manufacturing SMEs were involved in the study because they are not only key in kenya's economy but also because many of them are engaged in relationship banking.

1.8 Limitations of Study

Although this study advances the understanding of the relationship of relationship banking and financial performance, it still had a number of limitations. This study adopted a cross-sectional design hence data was collected only at one point in time. Thus the study was not able to capture the effect of relationship banking over a long period of time. The study used ordinal scale among others to measure the variables. However, ordinal scale does not give the investigator the level of precision required in a study, especially when strong statistical procedures are to be applied (Mugenda, 2008). Additionally the prevalence of common method variance was high because the respondent is the sole data source for both independent and dependent variables. Common method variance could introduce spurious correlation between the variables

(Jap & Anderson, 2004). However, a test of common method variance resulted in a value that was within the acceptable thresholds, thus militating against the limitation.

1.9 Delimitations of Study

This study involved only those manufacturing SMEs who joined relationship banking in 2008. This is because by the time of study they had experienced four years of relationship banking and were deemed to possess the knowledge sought by the study. Other manufacturing SMEs who did meet this criterion were not involved in the study. The study dealt with owner / managers of these SMEs because they are competent to comment on relationship banking, financial performance and EO of the firm

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviewed literature on the role of relationship banking, EO and financial performance of manufacturing firms in Kenya. This review discussed relationship lending, relationship monitoring, bundle of products and risk sharing and how they influence financial performance of manufacturing firms. A conceptual framework has been used to show how these variables are related. A review of theories is also discussed. Finally this chapter has discussed the research gaps and critique the current literature.

2.2 Theoretical Framework

A theoretical framework is a collection of interrelated concepts which is supposed to help the reader make logical sense of the relationships of the variables and factors that have been deemed relevant/important to the problem (Ravitch & Riggan, 2012). The theoretical framework as discussed below is intended to bring an understanding on SME growth and relationship banking. The theories that have been discussed are resource based theory, resource dependence theory, Schumpeter equilibrium destruction theory, information asymmetry model, discovery theory of opportunity recognition and exploitation, risk management theory and creation theory of entrepreneurship.

2.2.1 Resource Based Theory

The resource based theory of the firm postulates that organizations are endowed with resources such as human resources, technological resources and organizational routines. The theory postulates that for a firm to attain sustainable competitive advantage, the

acquisition of unique resources and capabilities, coupled with the neccesary organizational capabilities should be a priority (Barney, 2002).

This theory is important to this study because credit is one of the financial resources available to a firm (Hartarska & Gonzalez-Vega, 2006). Thus organizations with limited access to financial capital are unlikely to grow as fast as those endowed which limits their growth (Bromiley & Papenhausen, 2003). The importance of external resources to a firm cannot be gainsaid. Teece, Pisano and Shuen (1997) argued that it is highly important to develop the capability of learning from sources external to the firm, in order to build new capabilities and contribute to long-term firm success. Through relationship banking , banks can be able to collect information on the client to enable them lend money to the SMEs. Thus by becoming learning organizations, banks can gain relevant and focused knowledge for specialist bank information production and use functions (Holland & Salama (2010). Such knowledge on the SME can help bridge the information asymmetry between the two and helps in diversification of benefits, for stabilizing expected income or narrowing the variance of income via economies of scale and scope, and for improving risk control and intermediation (Holland & Salama, 2010).

The resource based theory (RBV) has been argued to provide the basis for a new theory of the firm (Conner, 1991), and it has been offered as a theory of competitive advantage (Barney,1991, Peteraf, 1993) and a theory of value creation (Peteraf & Barney, 2003). Finance being a key resource of a firm is critical for its performance because lack of finance has often been cited as a leading cause of SME attrition. The resource based theory of the firm has been applauded by Peteraf and Barney (2003) who argued that it is a theory of value creation. The theory posits that organizations that are more resource endowed are likely to perform better than those that are not.

Porter's (1996) indicates that the RBV theory did not address appropriately the question of explicating the processes by which advantage was created, and that activities were a more appropriate focus of analysis than resources. Further Bromiley, (2005) points out that the

theory fails to agree on the definition of key variables and constructs, leading to inconsistent presentations of the theory. Additionally it's not possible to quantify the role of resources in the performance of an organization (Priem & Butler, 2001).

2.2.2 Equilibrium Destruction Theory

The Schumpeterian theory of entrepreneurship argues that innovation is the driver of entrepreneurship (Swedberg, 2007). This theory posits that an innovator is an economic and social leader who does not care much about economic profits and the only joy he/she gets is from being an innovator and being a server to his society. In the Schumpeterian theory, the entrepreneur moves the economy out of the static equilibrium by creating new products or production methods thereby rendering others obsolete (McCraw, 2007).

This theory is useful in this study because it shows that firms attain competitive advantage and post superior performance if they pursue innovations (Uzkurt, Kumar, Kimzan & Eminoglu, 2013). The role of innovation in enhacing superior performance among firms was further reinforced by Rauch, Wiklund, Lumpkin and Frese (2009) whose study indicated that innovation helps firms seize promising entrepreneurial opportunities. Following this innovative behavior, is a measure of adaptation and adjustment which is needed to secure the continuity of business. Firms may need to renew their processes, open up new markets, modify the use of production resources, and introduce new innovative products and services to the market (Langerak & Hultink, 2006). Innovation is one of the domains of EO and this is one way of making a firm act entrepreneurially. In this study, EO has been employed as the moderator variable and thus this theory contributes to the understanding the influence of EO in manufacturing SMEs. This theory has shortcomings as it places innovation as the pillar of organizational success. However without resources the pursuit of innovations would not be possible. Further this theory does not capture other variables that make organizational success possible that is, proactivity and risk taking.

2.2.3 Discovery Theory of Entrepreneurship

The discovery theory of entrepreneurship is particularly based on the work of Kirzner (1973). The theory addresses the working of the price system or, as it is often termed, of the market process. It holds that, contrary to neoclassical economics, markets are in disequilibrium, as the real world is in a state of constant change. This gives entrepreneurs, who are seen as people who are alert to opportunities for profit, a central role in the price system as arbitrageurs (Shane, 2003). This is reflected in entrepreneurship literature through a focus on the opportunity as the unit of analysis. Thus according to this theory the discovery of opportunities precedes their exploitation Hitt, Ireland & Hoskisson, 2012). Discovery-related research has addressed why opportunities exist and why some people are more alert to them than others.

The central theme of discovery theor is about the nature of entrepreneurial opportunities and the nature of entrepreneurs. This theory posits that opportunities arise from competitive imperfections in markets as a result of changes in technology and consumer preferences, (Kirzner, 1973). This theory is important to this study because to exploit opportunities, resources are required. Relationship lending helps firms access financial resources which can be applied to exploit entrepreneurial opportunities which arise as a result of competitive imperfections with the business environment. Compared to large firms, SMEs tend to have limited resources. This hinders them from being first movers. By developing bank –firm relationship, entrepreneurial firms are able to move fast and seize entrepreneurial opportunities that have a high return on investments. The line of argument in this theory centers on the ability of entrepreneurs to search for and create opportunities. However this line of thought was has been challenged by Fiet (2007) who explained that not all entrepreneurs search for opportunities systematically.

2.2.4 Information Asymmetry Models

Information asymmetry models explain the need for relationship banking. In a conventional bank – client relationship the borrower usually has more information concerning their business than the bank. For SMEs this is further compounded by the information opacity that generally make mainstream banks to avoid dealing with SMEs (Berger & Udell ,2002). Part of the financing difficulties experienced by SMEs is as a result of information asymmetry. Relationship monitoring is intended to help close the information gap between the bank and SME and eliminate information asymmetry. Client SMEs participate in relationship monitoring by keeping financial records and availing the same to the banks (Bharath, Dahiya, Saunders & Srinivasan, 2011).

There are two information assymmetery models that is, the adverse selection model and the moral hazard model (Wilson ,2008) . In adverse selection models, there is a danger because one party does not have complete information advantage while in moral hazard the side with information disadvantage does not have knowledge concerning performance of the transaction agreed-upon (Dembe & Boden, 2000). This theory is useful for this study because information asymmetry is the greatest justification for relationship banking. The information asymmetry and incomplete information has adverse consequences for manufacturing SMEs in that it may lead to credit rationing or complete inability to access financing. (Wenyan & Zonghua, 2005). It is assumed that through relationship monitoring, the bank is able to collect as much information as possible concerning the SME and this will hopefully lower the information gap between the two thereby allowing the bank to avail credit to the SME.

2.2.5 Creation Theory of Entrepreneurship

The creation theory posits that entrepreneurial opportunities are created (Baker and Nelson, 2005). In this theory, entrepreneurs do not recognize opportunities first and then act; rather, they act, wait for a response from their actions usually from the market--and

then they readjust and act again. This theory is important to this study as relationship banking enables SMEs to access funding from the banks so as to create opportunities. Won (2010) advanced the view that to expand the chances of creation of entrepreneurial opportunities, the entrepreneur requires resources to ensure successful exploitation of the same. In relationship banking, financial resources are offered as a bundle of products and this helps entrepreneurs to create and exploit opportunities.

2.2.6 Risk Management Theory

Risk management theory suggests that through organizational risk analysis and evaluation, the threats and vulnerabilities regarding information security could be estimated and assessed (Hong, Chi, Chao & Tang, 2003). Taking bank credit can expose the firm to financial risks thus risk sharing in relationship banking is one way of managing such risks. The bank can help the client firm by lowering interest rates in times of poor corporate performance, while receiving compensation by higher rates in times of better performance (Nam, 2004). This stabilizes the financial performance of their corporate clients and reduces the probability of the firms facing unwarranted bankruptcy.

While risk taking is a good entrepreneurial attribute, risk management is also important. The concept of risk management was thus engendered, referring to the behaviours or activities taken by businesses to preserve their assets and profit earning capability (Longenecker , Petty, Moore & Palich 2006). Entrepreneurial small firms, on the other hand, are often characterized by dearth of resources and lack of managerial, marketing and technical expertise (Storey, 2005). This theory is appropriate to this study as risk sharing is one of the ways in which firms manage financial risks in relationship banking. However, the theory ignores collaborative mechanisms for risk reduction and overemphasizes on structures. Thus its application in relationship banking maybe limited because risk sharing in relationship banking involves collaboration between the bank and the client.

2.2.7 Resource Dependency Theory

Resource dependency theory focuses on the firm's ability to establish relationships to access resources (Van Witteloostuijn & Boone, 2006). Resource dependency theory assumes that the organization makes active choices to achieve objectives. According to this theory, firms are not able to build all resources internally and therefore depend on exchanges with other organizations in their environment to obtain access to scarce resources (Sirmon, Hitt & Ireland, 2007). For organizations to survive or prosper, resources must be obtained from external sources (Barringer & Harrison, 2000).

Small and medium enterprises in Kenya face a shortage of capital (Nabintu,2013). Relationship lending is therefore is one avenue of an organization to access external funds in line with the resource dependency theory (Boot, 2000). Based on this theory it could be argued that a firm may enter relationship lending to fill a perceived resource need to enable them exploit opportunities. Following this rationale it is argued in this research that manufacturing SMEs that face resource constraints are likely to use relationship lending as a strategy for accessing or acquiring resources.

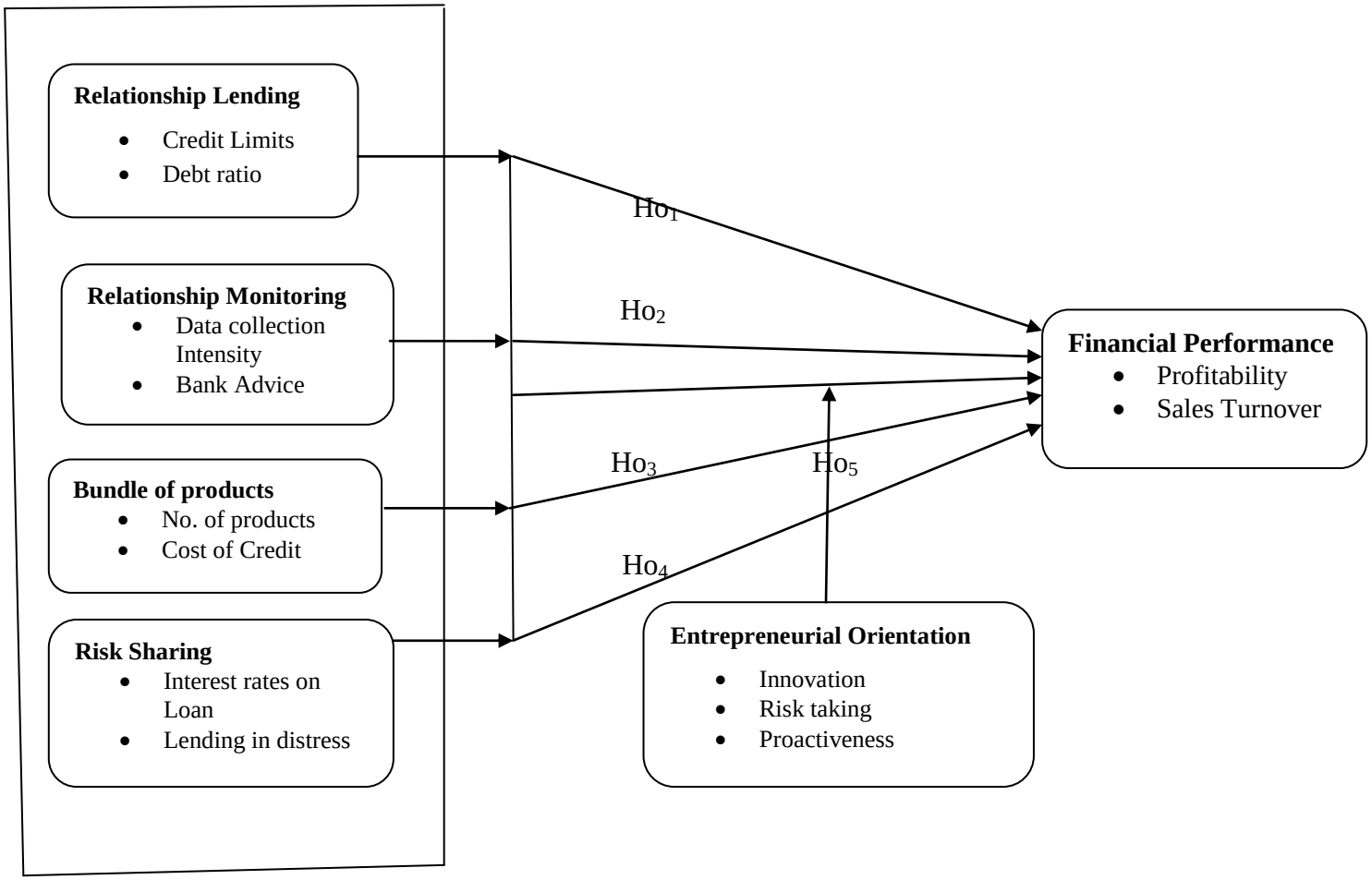
2.3 Conceptual Framework

The key variables in this study were categorized as independent variable, moderator and dependent variable. Mugenda (2008) explains that the independent variables are called predictor variables because they predict the amount of variation that occurs in another variable while dependent variable, also called criterion variable, is a variable that is influenced or changed by another variable. The dependent variable is the variable that the researcher wishes to explain. A moderator variable is a variable that alters the strength of the causal relationship (Frazier, Tix & Barron, 2004).

This study adopted the conceptual framework laid out in figure 2.0. Nam (2004) identified four constructs that define relationship banking. These constructs are relationship lending, relationship monitoring, risk sharing and bundling of products .This

study adopted these constructs as the independent variables. The dependent variable in this study was financial performance. Financial performance defined by sales turnover and profitability (Manaseh, 2000) while the moderating variable was entrepreneurial orientation (EO). This variable has constructs such as innovation, risk propensity and proactiveness (Miller, 1983).

Figure 2.0 below depicts the relationship between different constructs that are of paramount importance to the study and further shows the how each of the variables were measured. Relationship lending was measured by credit limits and debt ratio while relationship monitoring was measured by data collection intensity and bank advice with the bundle of products being measured by number of products and cost of credit. Relationship sharing was measured by interest rates and lending in distress while EO was indicated by innovation, risk taking and proactivity. Financial performance was indicated by profitability and sales turnover.



Independent variables **Moderating variable** **Dependent Variable**

Figure 2.0 Conceptual framework

2.3.1 Effect of Relationship Lending on Financial Performance of Manufacturing Firms in Kenya.

The "conventional wisdom" argues that SMEs lack appropriate external financing and are difficult to serve because they are opaque. Small and niche banks are successful in dealing with SMEs because they can overcome information asymmetries through relationship based lending. De la Torre, Peria and Schmukler (2010) argue that relationship lending is geared to bridging the information gap between the two sides. Thus as the bank collects the information from the SME, the SME in turn gains by having its risk profile downgraded by the bank (Boot and Milbourn 2006) hence they would most likely benefit by being able to access the much needed funding by the bank .

The link between relationship lending and the financial performance of SMEs has been explored by previous studies such as Audretsch, Bönte and Mahagaonkar, (2007), Meludu and Nanda (2007) and Kerr and Nanda (2009) . Relationship lending (RL) makes it possible for SMEs to access credit which is one of the key requirements in exploiting entrepreneurial opportunities. Entrepreneurial opportunities can be created in line with the creation theory of the formation and exploitation of entrepreneurial opportunities, which posit that opportunities to produce and sell new products or services do not exist until entrepreneurs act to create them (Baker & Nelson, 2005). However SMEs who are faced with credit constraints may not be in a position to create and exploit entrepreneurial opportunities. Barney and Arikan (2001) posits that credit, when applied to fund innovations, it can lead to new product development that can enhance the financial performance of a firm (Audretsch, Bönte & Mahagaonkar, 2007). Further credit can be applied to venture to new markets. Venturing to new markets has the effect of increasing the market share hence revenue for the firm (Dass & Massa ,2006).

The ability of SMEs to be able to access funding because of relationship lending was also reported by Boot (2000) whose study indicated that RL makes it possible for clients

to access funding even for projects that may not be profitable for banks in the short run but could be viable in the long run. Besides reduction of information asymmetries, another advantage of RL may be the intertemporal smoothing of borrowing costs. The effect of RL on interest rates was further explored by Berger and Udell (2006) who reported that banks lower interest rates at beginning of the relationship or during periods of financial distress, while, later in the relationship, they charge an interest rate above the risk-adequate rate to recoup their former expenses. The credit subsidy at the beginning of the relationship reduces moral hazard and adverse selection problems and enables banks to help companies which would have been credit rationed under transaction banking. This is however inconsistent with other previous studies. Baas and Schrooten (2005) analyzed the effect of RL on financial performance and argued that clients in relationship lending could be charged higher interest rates on their loans because the cost of client monitoring is high. They show that there is a correlation between lending models of a financial institution and the interest rates charged to the borrower. Similar findings were also reported by Kerr and Nanda (2009) who demonstrated that the low interests rates in relationship lending helps firms to build competitive advantage and acquire market leadership especially if the entrepreneur combines such with entrepreneurial acumen.

Relationship lending has been shown to have positive implications on a firm's cash flows. A study by Nam (2004) showed that firms in relationship banking tend to have easier access to credit, be less liquidity-constrained in their business activities, and receive assistance more readily from the bank when they are in financial distress. Firms in relationship lending tend to performed better because than firms in traditional banking (Degryse, & Ongena, 2005). The ability of relationship lending to impact on cash flows arises because the credit received by the firm can be used to upscale entrepreneurial activities such as creativity and innovation thus leading to an increase in entrepreneurial intensity (EI) levels that eventually lead to superior financial performance for the firm.

Even if SMEs were to receive credit from banks, EO determines whether this critical resource will make the firm succeed or not. Thus two firms with the same amount of resource endowment are likely to perform differently based on their EO profile. This is because the development of entrepreneurial orientation requires organizational members to engage in intensive knowledge activities which cannot be replicated by the competition (Hunt & Arnett, 2006). How firms transfer and infuse EO into their strategic activities determines if they will attain superior performance or not (Nonaka , Toyama, & Nagata, 2000). Hoxha (2009) posit that while financial resources are critical to a firm's success, EO determines whether such resources and the importance of EO for products and process improvements leading ultimately towards higher performance. Entrepreneurs who exhibit a high sense of EO would ultimately gain competitive advantage and market leadership (Bigliardi, 2012).

Manso (2011) identified the presence of information asymmetry as an additional problem affecting the funding of entrepreneurial activities such as innovations, opportunity exploitation and venturing to new markets. The contribution of relationship lending in this regard is the elimination of information asymmetry which thereby enables the bank to be in a position to avail credit to the firm. Therefore the following hypothesis was proposed

$H_{o1:}$ Relationship lending does not positively influence financial performance of manufacturing firms in Kenya.

2.3.2 Effect of Relationship Monitoring on Financial Performance of manufacturing Firms in Kenya.

Relationship monitoring entails the collection of soft information concerning the client over time (Berger & Udell, 2002). The contribution of relationship lending lies in its ability to enable the bank collect information on the SME that eventually paves the way for the bank to avail credit to the firm. Relationship monitoring has an inverse

relationship with credit rationing. Usually the bank would ration credit for doubtful borrowers, however, monitoring helps improve the credit rating of the SME thus firms would with time be able to get funds requested without rationing (Agostino, Silipo & Trivieri, 2008). Such funds could be applied to exploit entrepreneurial opportunities thereby increasing financial performance (Hornsby *et al*, 2002). Further through multiple interaction between the bank and SME through relationship monitoring , the bank keeps track on the firms finances and thus is key in helping firms avoiding wastages. The avoidance of wastages helps preserve financial resources for the firm and this has positive consequences for financial performance (Kar, Sharma & Borah (2011), (Anane, Cobbina & Manu,2012).

Monitoring of the client over time reduces information asymmetry thus enabling the bank to advance credit. Monitoring is beneficial to borrowing firms because when done well, it can enhance the profitability of the firm (Carlletti, 2004).For the bank, monitoring is beneficial because they get the advantage of being able to collect as much information as possible from the client. Because of this, the bank keeps track on the investment decisions of the borrowing firm and, if need be, advise the firm promptly. In some instances, the relationship bank does act promptly because relationship managers sometimes sit as directors on the board of client firms. An extensive review of the empirical literature shows that relationship banking can make a valuable contribution to the economy by allowing for the efficient monitoring of corporate borrowers, reducing information asymmetry that is an essential element of imperfection in financial markets (Schenone, 2009).

Carletti (2004) was able to demonstrate that relationship monitoring is costly and this has implications for the banks. The costliness of monitoring causes a bank to determine the level of monitoring it wants to undertake. Dixit (2004) posits that delegated monitoring that comes with better governance helps reduce monitoring costs hence making relationship banking more beneficial to both the bank and the client. Inspite of the high costs of monitoring Agarwal Chemosisengphet , Liu and Souleles (2009) argue

that in the end the benefits far outweigh the costs. Inspite of the value adding potential of monitoring its success is dependent on the ability of the borrowing firm to cooperate by disclosing the relevant information. Berger, Klapper, Peria and Zaidi (2008) posits that where a borrower has a vertical ownership structure , information could be provided by the holding company. This facilitates delegated monitoring that reduces the costs of monitoring. Further there is evidence that monitoring helps companies facing liquidity problems in that business risks shared with the relationship bank over their cycles of cash flows and profits, since loans are advanced from a long-term perspective.

The contribution of relationship monitoring to financial performance lies in its ability to enable the bank collect information on the SME that eventually paves the way for the bank to avail credit to the firm. Relationship monitoring has an inverse relationship with credit rationing. Usually the bank would ration credit for doubtful borrowers; however monitoring helps improve the credit rating of the SME thus firms would with time be able to get funds requested without rationing (Agostino, Silipo & Trivieri, 2008). Kar, Sharma and Borah (2011) highlighted that the borrowing firm would gain market leadership if it utilizes such funds to enhance entrepreneurial pursuits. The link between EO and relationship monitoring is that being a network, relationship monitoring is much a resource as EO in line with resource based view (RBV) of the firm. Of all the constructs of EO, proactiveness best explains the link with relationship monitoring and financial performance (Rodan & Galunic, 2004).

Further through multiple interactions between the bank and SME through relationship monitoring, the bank keeps track on the firm's finances and thus is key in helping firms avoiding wastages. The avoidance of wastages helps preserve financial resources for the firm and this has positive consequences for financial performance (Kar, Sharma & Borah, 2011). Therefore the following hypothesis was proposed

$H_{o2:}$ Relationship monitoring has no positive relationship with financial performance of manufacturing SMEs in Kenya.

2.3.3 Effect of Bundle of Products on Financial Performance of Manufacturing Firms in Kenya.

Bundling financial products as become widely practiced in the banking industry (Derdenger & Kumar, 2013). As banks now respond to increased competition, there is an increased focus on product bundling as a way to reward consumers for creating deeper and more profitable relationships. The question is if product bundling is enough to deliver on the promise of relationship banking. Research by Sufi (2007) showed a strong correlation between the number of active accounts with an institution and the profitability of the relationship. While this correlation is clearly strong, it misses the point that the profitability of the relationship is driven by many factors and account depth is often a symptom not a cause of that profitability. The true factors that lead to profitability in banking relationships relate to specific consumer behaviors and the consumer's general attitude towards the institution. A consumer with a typical and disadvantageous behaviors, even with a large number of account relationships, could be just as unprofitable as a consumer with only one account.

There is some merit in bundling of products. Stremersch and Tellis (2002) demonstrated that bundling financial products comes at lower costs to the borrowers since the processing costs are when loan products are processed as a bunch. This is because it leads economies of scope. This is because information captured for the borrower in one transaction can be reused. Similar findings were reported by Drucker and Puri (2005) whose research on the benefits of concurrent lending and underwriting showed that bundled loans were priced at a discount hence lending credence to the fact that bundling has the effect of reducing the cost of credit to the borrowing firm. This school of thought will only hold water if the bank passes the benefits of low costs to the firm. Bundling strategies are deployed by banks and other retail financial services organizations to reduce churn, encourage loyalty and grow the overall value of the customer base.

A study by Lindeen (2011) on the effectiveness of product bundling demonstrated that there is strong correlation between the number of active accounts with an institution and the profitability of the relationship. While this view cannot is not disputable, it is unlikely that profitability is determined wholly by product bundling because there are other determinants of profitability (Calomiris & Karceski, 2000). A customer with multiple relationships with the bank is typically more profitable from the bank's perspective. Many banks have focused their efforts at cross-selling products and achieving a larger share of wallet, which can indeed improve customer retention. Care must be taken, however, not to let the attraction of the bundle and the ability to have a one-stop shop outweigh the loss of choice or restrictions that may come with the bundled products (Pezzeti, 2004).

Bundling bank products is convenient and in many cases offers substantial incentives. However the downside of bundling financial products is that consumers have to commit to the terms and restrictions of all products within the bundle. That can mean higher minimum balance requirements on accounts, lower interest generated on certain products and paying fees consumers may not pay on unbundled products (Lindeen, 2011). The link between bundle of products and financial performance has been demonstrated by studies such as Kyaw (2008) and Derdenger & Kumar (2013) who showed that the two have a positive relationship. Since the bundle of products is a financial resource, it is key in helping firms discover, create or exploit entrepreneurial opportunities (Ge *et al*, 2009).

When used strategically, the bundle of products can enhance the financial performance of an entrepreneurial firm. Coad (2007) posits that since financial resources are key to exploiting entrepreneurial opportunities since they are easily convertible to different forms hence with sufficient resources, firms can not only exploit opportunities but also gain market leadership. From an entrepreneurship perspective, the resource based view (RBV) links bundle of products to entrepreneurship dogma. This is because RBV views product bundles as being critical resources to the performance of a firm. In relationship

banking, financial resources are provided in a bundle. These financial resources are critical for the competitiveness of a firm. Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece and Winter (2009) posits that for a resource to be able to contribute to a firm's competitiveness it must be valuable, rare, inimitable and non-substitutable. It should however be noted that, resources on their own are redundant. For these resources to be helpful and be translated to competitive advantage they need to be translated into capabilities (Newbert, 2008), (Wilkens & Pawlowsky, 2004).

The ability to access financial resources is a critical element of private sector led growth, particularly for small businesses that often lack the initial capital needed to grow and expand also helps them to bear and cope with risk. Lack of adequate financial resources also places significant constraints on SMEs financial growth and development (Green et al, 2002). Hence this study hypothesizes

$H_{o3:}$ The bundle of products does not positively influences financial performance of manufacturing SMEs in Kenya.

2.3.4 Effect of Risk Sharing on the Financial Performance of Manufacturing Firms in Kenya.

Risk sharing has positive consequences for SME financial performance. Entrepreneurial activities have inherent risks that if not handled well can spell doom for the enterprise. Allen and Gale (2000) argued that that risk sharing in relationship banking is designed purely to provide implicit insurance to customers thus it can be an effective substitute for costly ex ante investigation but does have effect on financial performance of the SME. During periods of distress, risk sharing helps in ensuring the survival of the firm (Tang, Marino, Zhang & li, 2008).

In this relationship there is an implicit commitment between the bank and its client firm, where the bank shares the business risk of the firm, while the firm shares its profits with

the bank (Mitchell & Pearce, 2004). There are different ways for the bank to share the risk of the client firm. One is, to provide assistance to the firm in times of financial distress by issuing emergency funds, or dispatching bank officials for corporate restructuring, often bearing a portion of the restructuring costs in the process (Berger, & Udell, 2006). Another way of reducing corporate risk in normal times is, for the bank to ease fluctuations in corporate performance. The bank can help the client firm by lowering interest rates in times of poor corporate performance, while receiving compensation by higher rates in times of better performance. This stabilizes the financial performance of their corporate clients and reduces the probability of the firms facing unwarranted bankruptcy (Berger & Udell, 2002).

Degryse and Ogena (2005) posit that the potentiality of relationship banking to enhance risk sharing is controversial in literature with some studies arguing that fewer inter-bank loans limit the spread of bankruptcies whilst other work has argued that greater connectivity aids risk sharing. Whilst the inter-bank market provides a mechanism for sharing liquidity risk, participating in the market exposes banks to counter-party risk; The danger is that a bank is unable to recover lent funds due to the failure of a borrower to repay.

In theory, a relationship bank may attempt to rescue a firm in distress. Some studies like Parlour and Plantin (2008) however casts aspersions on this view by showing that in reality, banks do so to enhance their business interests at the expense of helping the client. This is because the bank can uses its "monopoly power to charge higher interest rates and this may actually work against the firm. Infact some literature shows that in the long run banks are the biggest beneficiaries of this model. Thus banks usually invest a lot because banking relationships take time to build and are costly. But with consistent longterm collection of data, the banks will have some information monopoly that can allow it to extract information rents from its borrowers (Hauswald & Marquez, 2006).

The common notion is that entrepreneurs love risks. The truth however is that they take calculated risk based on the risk-return concept. Osborne (1995) reported that entrepreneurs are able to discern the risk level that they can manage. Entrepreneurial firms take calculated risks Cadieux (2007) but as they do they should put in place effective risk management strategies so as to avoid business failure. In relationship banking, risk sharing is a central theme wherein the bank and the firm tend to reduce potential risk to each other. In relationship banking there is continuous collection of information as a result of the interaction between the bank and the client. A study by Keh ,Nguyen and Ng (2007) not only emphasized the importance of proper risk management but also expounded that good risk management hinges on collection and use of information to reduce risks. Im and Workman (2004) reported that EO helps firms respond to risks creatively and boldly and that entrepreneurs should seek innovative information and utilize the acquired information.

Risk sharing has a positive link with financial performance. Sundararajan (2004) posits that if risks are not handled and managed properly, consequences such as increasing the financial costs and changing the capital structure thereby leading to poor financial performance. Risk sharing helps controls and reduce the occurrence of the risk factors thereby boosting financial performance. Verbano and Venturini (2013) argued that risk sharing can lead firms to reduce financial uncertainty in enterprise management leading to continuity in production, decrease the risk of failure, and to promote the enterprise's external and internal image. Therefore, risk sharing creates business value, maximizing business profits by minimizing costs. Therefore the following hypothesis was proposed

$H_{o4:}$ Risk sharing does not influence the financial performance of manufacturing SMEs in Kenya.

2.4 Moderating Role of Entrepreneurial Orientation on the Relationship between Relationship Banking and Financial Performance of Manufacturing Firms in Kenya.

Entrepreneurial orientation is crucial for the performance of SMEs. Studies such as Ngoze & Bwisa (2014) and Sanusi Magaji, Baba and Entebang (2013) were able to demonstrate the link between the financial performance of a firm and the entrepreneurial orientation of the owners. Sanusi Magaji, Baba and Entebang (2013) study did underpin the superiority of EO in explaining financial performance. That EO contributes to the performance of an enterprise is not in doubt. Davis (2007) argued that firms that possess higher levels of entrepreneurial orientation will perform better than those with lower levels of entrepreneurial orientation. Higher level of entrepreneurial orientation allows firms to have the ability to identify and seize opportunities in a way that differentiates them from non-entrepreneurial organization (Covin *et al.* 2006).

Slater and Narver, (2000) posits that firms ought to develop propensity to act as this will enable them to act on the opportunities available to them. Individuals who are high on Entrepreneurial orientation are also risk takers and innovative and proactive (Matsuno, Mentzer, & Ozsomer, 2002). This is also related to self efficacy which is the believe in self that is, self efficacy affects an individuals' assessment as to whether he/ she is capable of actually starting a business. This trait had been also noted by Abimbola, and Agboola (2011) who posited that those keen on starting a business ought to be able to visualize themselves in that role. While some individuals are low on self efficacy, it can be improved through education and exposure to business and customer contacts (Gompers, Lerner & Scharfstein , 2003).

In this study EO is employed as a moderator. Scholars such as Naman and Slevin (1993) take the position that success in business is linear in that when there is proper alignment of resources and capabilities, success is guaranteed. However the contingency theory disputes this position and outlines that there are always other forces external to the firm

that also affect the performance of a firm. Thus contingency theory argues a strong case for a moderating variable in a relationship as it helps minimize chances for misleading inferences (Rosenberg, 1968).

There is little consensus on what constitutes suitable moderators though Miller & Toulouse (1986) recommended that a variable is a moderator if the relationship between two variables differs on a given attribute. Previous studies by Anderson and Mittal (2000) and Dass and Massa (2006) showed that the effect of relationship banking on the financial performance can be positive or negative depending on the entrepreneurial attributes of the proprietor. On this basis therefore, EO is taken as a moderator and we hypothesize that

> H_{o5} Entrepreneurial orientation does not moderate the relationship between relationship banking and financial performance of manufacturing SMEs in Kenya.

2.5 Empirical Review

The relationship between relationship banking and financial performance is well researched in literature. Proponents posit that it is capable of availing funds to SMEs, prevent business failure (Nam, 2004) and ease fluctuations in the availability of credit. The rate of interest rates advanced to SMEs is likely to decline as the length of the relationship grows longer (Berger & Udell ,2006). Berger and Frame (2007) found that there was no significant decrease in interest rates for SMEs who are in a relationship banking arrangement. The study however provided evidence that if SMEs in relationship banking are offered lines of credit , there would be a significant drop in interest payments that they make when the loans become due for repayment. Firms in relationship banking are likely to access credit without having to avail some collateral. This is because lending is preceded by a period of relationship building between the bank and the SME where the bank is in a position to collect as much information about

the SME as possible (Bharath, Dahiya, Saunders & Srinivasan, 2009). Similar conclusions have been found by Sufi (2009) in their study on universal banking and the future of small business lending.

Thus relationship banking makes it possible for banks to be able to learn the SME and thereby advance credit to them. The importance of credit to SMEs has been of interest to many scholars such as Fraser (2009) and Watson, Newby and Mahuka (2009).Thus while attrition of SMEs has in the past been attributed to lack of credit among other reasons, the availing of credit is not a panacea for the ills affecting them. This is because beyond credit availability SMEs are stil affected by other challenges such as business planning, marketing effectiveness and entrepreneurial capability. If not handled properly, credit may ruin an organization because it can saddle the organization with the burden of high interest payments and penalties as a result of inability to pay debts in time

Some studies have pointed out that the relationship banking concept may not find wide spread application to SMEs owing to the unprofitability of some segments (Leverin & Liljander, 2006). This is because banks have customers who are profitable and those who are not. Thus relationship banking is mostly targeted at groups who are deemed profitable (Carson, Gilmore & Walsh, 2004). The efficacy of relationship banking especially the ability to enhance firm profitability is well documented in literature. However this school of thought has been disputed by Reinartz and Kumar (2002) who posit that the relationship is untenable owing to the fact that not all long-term customers are profitable while not all short term clients are unprofitable. This is consistent with Anderson and Mittal (2000) whose study reported that not all firms are likely to benefit from relationship banking because profitability is a function of many factors such as maintenance cost of the customers and the revenue they bring.

It is not a guarantee that relationship banking will make a difference in the performance of a firm. Lam and Burton (2006) argued that there is a strong correlation between the

account managers management of the bank – client relationship. The implications for this is that, the overall outcome in this relationship is dependent on the account manager. The imperfections of relationship banking were further noted by González (2016) whose study showed that relationship banking could result in misallocation due to the soft-budget constraint problem. This occurs because borrowers can renegotiate the cost of credit with the bank hence they have little incentive to boost their efforts. The benefits of reduced cost of credit may not accrue to borrowers because as lenders accumulate information concerning the borrowers, they may be able to apply unfair credit terms.

2.6 Critique of Existing Literature

Amhed and Uchinda (2005) empirically tested the effect of relationship banking on beneficiaries in Japan using the time series balance sheet data of small and medium enterprises (SMEs) in Japan. Though the study found out that firms involved in relationship banking could see their performance rise, it curiously found that increased supply of credit has negative implications on profitability. The kind of relationship explored in this study was the corporate shareholding where the participating bank acquires shareholding in the bank. This in contrast with other studies that have focused on banking relationships without share acquisition. This study varies with the Monferrà and Sampagnaro (2011) conducted a study on the role of lending relationships during the 2007 – 2009 and found out that such firms enjoyed a better and permanent access to finance during the period of the crisis. While the access to finance is in line with other studies in this area, the study did not show the impact of this on the financial performance of this organizations.

Agarwal et al., (2009) conducted a study which showed that SMEs in a relationship banking arrangement are unlikely to default. The study also found out that such firms exhibit lower probabilities of attrition, and have higher utilization rates, compared to non-relationship accounts. These findings invariably suggest that in the final analysis, banks benefit more than the borrowers in a relationship banking arrangement. This

finding is in contrast with other previous studies such as Boot (2000) partly because the respondents were card holders unlike in other studies where the sample is usually the borrowers.

The ineffectiveness of relationship banking has been demonstrated by De la Torre, Peria and Schmukler (2008) whose study showed that information asymmetry does not affect SME financing. The study which was carried out in Argentina, Chile, Colombia, and Serbia was gathered via an especially designed questionnaire administered to banks during on-site. Detailed interviews conducted with banks' top management in late 2006 and 2007 in effect questioned the very foundations of relationship banking. Relationship banking has staked its legitimacy on the presence of information asymmetry as articulated by a number of studies such as Berger and Udell (2006) and De la Torre *et al*.(2008) whose central thrust has been that SMEs are plagued by information asymmetry hence the need for banks to collect more information on SMEs via relationship banking.

2. 7 Research Gap

Literature reveals that various researchers for example, Wan, Yiu Hokisson and Kim (2008) and Pezzetti (2004) have concentrated on the impact of relationship banking on both the firm and the participating banks. Most of these studies have been done in Europe, USA and Asia. The Wan, Yiu Hokisson and Kim (2008) study on the performance implications of relationship banking for companies venturing abroad in Europe reported such bank relationships helps cushion participating firms from risks associated with international commerce.

Ravesteyn (2005) investigated the effect of relationship banking on customer loyalty in South Africa and reported it does influence customer a great deal while pointing out that the benefits include retention of customers and staff, customer satisfaction, trust, word of mouth referrals and performance. Nkuutu (2010) study on the bank – client relationship

in Uganda showed evidence that, where such a relationship occurs both the bank and the client benefits. However Matama (2005) on openness of commercial banks to customers revealed that banks in Uganda are not open to their clients on matters concerning the banks in terms of transactions and other related issues. This lack of openness in these commercial Banks may rise into distrust since openness signals reciprocal trust a confidence that neither the information nor the individual will be exploited and recipients can feel the same confidence.

Studies done in Kenya have mostly focused on the effect of relationship banking on performance of SMEs. Wambua and Mugambi (2013) researched on the effect of multiple banking on the performance of Small and Medium Enterprises in Mombasa and reported that multiple banking has positive consequences on financial performance. This study however focused on multiple banking and did not address other areas in relationship banking. Marwa (2013) researched on the effect of relationship lending on the financial performance of banks Kenya. This study was done from the perspective of the bank and there is therefore no authoritative study on the effect of relationship banking on manufacturing firms in Kenya. This study will therefore close this gap.

2.8 Summary

This chapter has covered the theoretical framework, the conceptual framework and the empirical review. The theoretical framework has provided a theoretical understanding of aspects of SME growth. The review of literature showed the importance of relationship banking and its capability to enhance firm growth. Additionally the literature gap has been identified. While many studies on relationship marketing have been done in Europe , America and Asia not much has been written about Africa. In Kenya whatever has been documented are studies relating to the marketing bit of relationship banking and there is hardly any evidence that studies on the effect of relationship banking have been conducted in Kenya.

Relationship banking being a process that entails continuous collection of client data enables banks to bridge the information divide between them and the SMEs which will ultimately enable backs to be able to advance credit to the SMEs. There is need to find out the effect of relationship banking as an intervention on the performance of SMEs.

Information gathering by banks in relationship banking helps to bridge the information gap between the bank and the client. Relationship monitoring is the second construct of the independent variable. Monitoring helps the bank keep an eye on the client to make sure that they are able to repay the credit advanced to them or to arrange restructuring in the event that the client shows signs of distress.

Banks with a relationship banking arrangement have a risk sharing arrangement wherein they take the risk to lend money initially. Later they can share in the profits of the borrower by charging high interest rates on outstanding loans. The last construct is product bundling. This is where the bank offers a portfolio of products . In this study the dependent variable will be financial performance. Both financial and non financial performance was assessed. This literature review showed that not much has been written concerning the effect of relationship banking on SMEs in Kenya. This study will help close that knowledge gap.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used in this study. It covers among others the research design, population, sampling, data collection methods and data analysis.

3.2 Research Design

The study adopted a cross- sectional survey design. Cross- sectional designs involves the analysis of data collected from a population, or a representative subset, at one specific point in time (Babbie, 2007), and Gribbons and Herman (1997). This design was appropriate for this study as the study sought to determine the level of association between relationship banking , EO and financial performance. Campbell (1988) posits that crosssectional designs are useful for establishing associations rather than causality and for determining prevalence, rather than incidence. This research design has been used by scholars such as Peltoniemi (2004) who assessed the value of relationship banking in Finland and Garriga (2006) who studied the effect of relationship banking on Firm Performance in Spain. Further Uchinda and Amhed (2005) also adopted cross-sectional design in their study on the impact of relationship banking on performance of corporate firms a comparison between Japan and Bangladesh.

3.3 Target Population

Population refers to a large collection of all subjects from where a sample is drawn (Zikmund, Babin, Carr, and Griffin ,2012). The target population for this study was manufacturing SMEs involved in relationship banking with commercial banks in Kenya. The banks were Kenya Commercial bank, Equity bank and Barclays Bank of Kenya,

chosen because they are among the biggest banks by customer numbers in Kenya especially targeting SMEs [Central Bank of Kenya, (CBK), 2012].

The sampling frame was compiled from the list of firms having relationship banking arrangements with the respective banks since each of the banks keep their own lists of customers who were registered in their relationship banking programs. Panneerselvam (2006) indicated that a sampling frame is a complete list of all members or units of the population from which each sampling unit is selected. The study targeted only those manufacturing SMEs which joined the relationship banking program with the respective banks in 2008. There are 620 such SMEs as shown in table 3.0. These manufacturing SMEs have been participating in relationship banking with the banks and thus posses the knowledge being sought by the study. The respondents were the owner/ managers of these manufacturing SMEs because they are the ones who deal with banks on behalf of their organizations and were therefore most competent to respond on relationship banking and EO.

Table 3.0 Population of Study

	Population
KCB Group	170
Equity Bank	120
Barclays Bank	125
Total	620

Source CBK website (2012)

3.4 Sample Size

Sampling is appropriate when it is not feasible to involve the entire population in the study (Cooper & Schindler, 2003). This study employed stratified random sampling. Babbie (2007) posit that stratified random sampling is appropriate when the population is not homogeneous. This was appropriate for this study since the manufacturing SMEs are in various sectors and as such they are deemed to be heterogeneous. The basis of stratification was the sector in which they operate. The identified strata were cloth manufacturing, chemicals, food processing, Construction and Electronics. This sampling design has been used by other previous studies such as Wong *et al*., (2009) in their study of the impact of relationship banking in Japan. Further Nguyen and Thanh (2013) also adopted stratified random sampling on their study on Effect of Banking Relationship on Firm Performance in Vietnam. Other studies in relationship banking that adopted stratified random sampling include Fernando, Chakraborty and Mallick (2002) in their study on the importance of being known relationship banking and credit limits.

A sample of 138 respondents was chosen. This sample size has been calculated at 95% confidence interval. Gay (1987) recommends for descriptive studies a sample of 10% of the population is adequate and thus this study used a proportion of 10% of the population. The sample size formula used to calculate sample size

$$\text{Sample size (ss)} = \frac{Z^2 * (p) * (1-p)}{c^2} \quad \text{---------- EQUATION 1}$$

Where

Z = Z value (e.g. 1.96 for 95% confidence level)

p = percentage picking a choice, expressed as decimal (0.10 used for sample size needed)

c = confidence interval, expressed as decimal (0.05) .

The sample size was calculated as outlined below

$$\text{Sample size (ss)} = \frac{1.96^2 * (0.10) * (0.90)}{0.05^2} = 138$$

Table 3.1 Population Distribution

	Population	**Sample**	**Percentage**
Chemicals	81	21	13.06%
Food	135	41	21.80%
Construction	97	40	15.60%
Clothing	205	58	33.09%
Total	**620**	**138**	**100%**

3.5 Data Collection Instrument

There are several ways of collecting data which differ considerably in terms of money costs, time and other resources at the disposal of the researcher (Orodho, 2008). In this study, data was collected using a semi structured questionnaire because they are cost effective.

Additionally they are convenient to collect and summarise responses (Zikmond, 2003). Questionnaires consist of a series of specific, short questions that are asked verbally by the interviewer or answered by the respondents on their own (Bryman, 2012).

The use of a semi structured questionnaire has also been adopted by De La Torre et al (2008) who investigated bank involvement with SMEs beyond relationship lending. Further Ravesteyn (2005) adopted the use of a semi structured questionnaire on their study of the effect of relationship banking on customer loyalty. Additionally Sseggujj (2005) also used a structured questionnaire in their study on relationship lending, transaction costs and lending rates in Uganda.

The questionnaire in this study contained both open ended and closed ended questions. The closed ended question was in a 5 point Likert scale .The likert scale is the most widely used approach to scaling responses in survey research (Carifio & Perla, 2007) and it is appropriate for this study as this minimized variability of response while pre specifying a set of response alternatives to increase response rate (Jarvenpaa *et al* ,2000) . The open ended questions enabled the respondents to voice their opinions or suggestions (Cooper & Schindler, 2003).

The questionnaire was divided into four parts. Part A of the questionnaire captured background information on the respondents while part B asked questions on relationship lending. Part C captured questions on Relationship monitoring, part D on Risk sharing while part E was on the bundle of products. Part F was on EO while part G was on financial performance.

3.6 Data Collection Procedure

Kombo and Tromp (2009) explained that data collection refers to the gathering of information to serve or prove some facts. In this study, data for this study was collected from primary and secondary sources. Based on the nature of the survey interaction, a questionnaire can be distributed to respondents using several modes that is, mail,

telephone, internet or face to face (Malhotra *et al,* 2006). This study adopted the face to face method. In the face to face approach, a direct conversation takes place between the researcher and the respondent. Usually the face to face approach takes two forms that is, self administered questionnaire or an interview approach where the researcher reads the question to the respondent and records the feedback. This study thus adopted the self administered questionnaire approach to collect primary data. Self-administered questionnaires offer researchers the potential to reach a large number of potential respondents in a variety of locations (Cooper & schindler, 2003). Lehmann and Neuberger (2001) used self administered questionnaires in their study on 'Do lending relationships matter? Evidence from bank survey data in Germany.

3.6.1 Pilot Study

A pilot study was done in order to test the effectiveness of the research instrument. Cooper and Schindler (2011) posit that pilot testing is conducted to detect weaknesses in design, instrumentation and to provide proxy data for selection of probability sample. Thirty one (31) respondents in the printing sector were used in the pilot study, this being 5% of the population. Mugenda & Mugenda (2003) recommended that the number in the pre-test should be small, about 1% to 10% of the target population. Thampradi and Fongsuwan (2014) used a pilot study in their study on Structural Equation Modeling of Relationship Factors Affecting Entrepreneurial Microfinance in Phuket, Thailand.

The reliability of the research instrument was done so as to determine if the research instrument produces stable and consistent results. Reliability is consistency of measurement (Bollen, 1989). Drost, 2011) posits that methods to estimate test reliability in behavioral research are test-retest reliability, alternative 61 forms, split-halves, inter-rater reliability, and internal consistency. This study adopted the internal consistency method.

The internal consistency method was adopted because it is more stable than the other methods (Bryman, 2012). Internal consistency in this study was tested using the Cronbach‟s alpha statistic. The Cronbach alpha coefficient was used to determine reliability of the instrument in this study because it is a better indicator of unidimenstionality and internal consistency of sample items (Tavakol & Dennick, 2011). Previous studies that calculated the reliability tests by calculating the cronbach alpha score include Carletti (2004) on relationship monitoring costs, Degryse and Ogena (2005) on lending relationships and Arpine (2014) on credit protection and relationship lending. Sekeran (2009) indicated that a desirable reliability coefficient would fall in the range of 0.80 to 0.90. Bartholomew, Henderson and Marcia (2000) argue that a coefficient between 0.60 and 0.80 is acceptable.

Validity is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study (Mugenda & Mugenda, 2003) . There are four types of validity statistical conclusion validity, internal validity, construct validity, and external validity (Drost, 2011). This study adopted content validity. Content validity is a qualitative type of validity where the domain of the concept is made clear and the analyst judges opine whether the measures fully represent the domain (Bollen, 1989). Studies that have employed validity test include Hauswald and Marquez (2000) who studied relationship lending and loan specialization and Fredrikson (2007) study on the effect of relationship intensity on loan pricing. This involved the questionnaire being administered to three entrepreneurship scholars in the field of entrepreneurship at KCA University. Further an expert in relationship banking was also involved.

3.7 Data Analysis and Processing

This study employed descriptive statistics in the form of percentages, and means and measures of dispersion. Descriptive statistics allow for the presentation of data in a more meaningful way which allows simpler interpretation of the data. Cooper and Schindler (2003) argued that the use of percentages is important for two reasons. First, they

simplify data by reducing all the numbers to range between 0 and 100. Second, they translate the data in to standard form with a base of 100 for relative comparisons and easier interpretations. The descriptive statistics were used to note any externalities. Responses from the open-ended questions were coded, interpreted and their frequencies determined through cross-tabulations on differences between respondents and the central tendencies of the responses to each factor.

Normality tests preceded data analysis. Normality tests are used to determine if a data set is well-modeled by a normal distribution (Székely & Rizzo, 2005). There are various tests for assessing normality such as skewness and kurtosis, Shapiro-Wilk, Kolmogorov-Smirnov, Lilliefors, and Anderson-Darling tests (Razali, & Yap ,2011). This study used skewness and kurtosis to check the normality of the distribution because they are good measures of location and dispersion and hence good indicators of the normality of the data (Gujarati, 2002). Assumptions of normality are satisfied if the kurtosis and skewness is between +2 and -2 (Kothari, 2004). Yegon (2014) in his study on the effect of lending technologies on financial performance' evaluated the normality of their data by assessing the skewness and kurtosis statistics. Ravesteyn (2005) also assessed the normality of their data using kurtosis and skweness in his study on the effect of relationship banking on customer loyalty.

Factor analysis was employed in order to identify the constructs that would then be regressed against the dependent variable (Russell, 2002). Sseggujj (2010) employed factor analysis in his study of on relationship lending , transaction costs and interest rates in Uganda.

Preceding the factor analysis was the Kaiser-Meyer-Olkin (KMO) and Bartlett's Test of Sphericity (Snedecor & Cochran ,1989). The KMO statistics vary between 0 and 1 (Argyrous, 2005). A value of zero indicates that the sum of partial correlation is large relative to the sum of correlations indicating diffusions in the patterns of correlations hence factor analysis is likely to be inappropriate (Costello, & Osborne, 2005). A value

close to 1 indicates that the patterns of correlations are relatively compact and so factor analysis should yield distinct and reliable factors (Cooper & Schindler, 2006). Erdoğan (2014) study on 'Bank Lending Criteria and Relationship Lending' employed the KMO and bartet's test of sphericity to determine the suitability of their data for factor analysis.

The Principal Component Analysis (PCA) was employed to decompose the variations in the multivariate data set into a set of components such that the first component accounts for as much of the variations in the data as possible (Abdi & Williams, 2010). Eigen values were used to determine the factor loadings for each component. The larger the eigenvalue, the more important the associated principal component (Graham and Midgley, 2000). Previous studies that have employed PCA include Rocha, Farazi, Khouri and Pearce (2011) in their study on the status of bank lending to SMEs in the Middle East and North Africa.

The study used the Analysis of Moment Structures (AMOS) to construct a conceptual model linking the variables under study (Argyrous, 2005). Towards this end, the study employed confirmatory factor analysis and Structural Equation Modelling (SEM) in particular, the path analysis to construct the linkage between the dimension of relationship banking and financial performance (Pearl, 2000). Argyrous (2005) posits that AMOS uses structural equation modeling to confirm and explain conceptual models that involve attitudes and perceptions.

The SEM approach is similar to standard approaches like correlation, multiple regressions, and ANOVA, but is more powerful and robust since it includes the modeling of interactions, nonlinearities, correlated independents, measurement error, correlated error terms; multiple latent independents each measured by multiple indicators and one or more latent dependents also each with multiple indicators (Singh ,Fahmi & Riaz, 2011). The SEM technique has also been introduced to entrepreneurship research and started gaining popularity among researchers in the field who have adopted this approach in several studies recently reported in the literature. Conceptually and

practically, SEM is similar to using Multiple Regression Analysis (MRA). However, causal models developed following the SEM approach are superior to MRA in many ways.

As this study seeks a causative explanation of the effect of relationship banking on financial performance, SEM came in front of other potential approaches to achieve this purpose. Studies in that have adopted SEM approach include Udell (2004) study on 'SME lending Defining the issues in a global perspective' employed the SEM to establish linkages amongst the variables in SME lending. Additionally, Peltoniemi (2004) study on the value of relationship banking also employed SEM to demonstrate the links between relationship banking and its benefits.

In order to test for the effect of the moderating variable, the study employed the moderated multiple regression analysis (MMR). Aiken and West (1991) reported that this approach involves the addition of interaction effects to a multiple regression model by comparing two different least squares regression equations. Moderated multiple regression has been used by previous studies such as Rahman (2014) whose study was 'The Moderating Effects of Capital Regulation on Loans and Bank Stability in Malaysia.

3.7.1 Measurement of the Independent Variables

For the purpose of this study the independent variables were the sub components that define relationship banking. These are relationship lending, relationship monitoring, risk sharing and the bundle of products. Relationship lending was measured by the number of credit limits and interest rates . Uchinda and Amhed (2005) measured relationship lending using credit limits and interest rates in their study on the impact of relationship banking on performance of corporate firms a comparison between Japan and Bangladesh.

Relationship Monitoring was measured by the intensity of data collection by the bank and bank advice. Datta, Iskandar-Datta and Patel (1998) posit that collection of data from the client by the bank and advice from the bank are good measure of relationship monitoring as it has a bearing on information asymmetry. The purpose of monitoring is to gain proprietary information about the client in order to determine how the bank should engage with the client (Berger & Udell , 2002). Risk sharing was measured by the interest rate and intensity of lending in periods of distress. In relationship banking, banks take a risk by advancing loans to clients who may not look viable in the short run but may be profitable in the longrun. Nam (2004)indicates that interest rate is a good measure of risk sharing because during periods of distress banks charge a lower interest rate but compensate with a higher interest rate when the firm's financial performance improve. Bundle of products was measured by the number of financial products provided as a bundle and the cost of credit. Lindeen (2011) advanced the use of a portfolio of financial products as a good measure of bundle of products in relationship banking.

3.7.2 Measurement of Dependent variable

The dependent variable in this study was the financial performance of SME. Thus profitability and sales turn over were used to measure financial performance. Amhed and Uchinda (2005) indicated that profitability is a good measure for financial performance. Similar approach was taken by the Nam (2004) study on relationship banking and its role in corporate governance. Further Rocha, Farazi, Khouri and Pearce (2011) employed sales turnover as an indicator of financial performance in their study on the status of bank lending to SMEs in the Middle East and North Africa.

3.7.3 Measurement of the Moderating Variable

The moderating variable (EO) was assessed by evaluating its indicators of EO that is, innovation, risk taking and proactivity. Lumpkin and Dess (1996) evaluated EO by assessing innovation, proactivity and risk taking propensity.

3.7.4 Model Estimation and Fitness Criteria

A hypothetical multivariate model based on conceptual relationship was constructed in order to determine the effect of relationship banking on financial performance. The objective was to see how the various facets of relationship banking affect the financial performance of SMEs. The model consisted of variables that are believed to be components of relationship banking and how these components affect firm performance. These components are relationship lending, relationship monitoring, risk sharing and bundle of products.

These factors, which are hypothesized to have influence on a firm's performance, can be summarized by the following models presented below. The first equation shows the ordinary least squares (OLS) regression equation for a model predicting y scores from the first-order effects of X and Z observed scores

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \text{ ----------Equation 2}$$

where β_0 = least squares estimate of the intercept, β_1 = least squares estimate of the population regression coefficient for X observed scores, β_2 = least squares estimate of the population regression coefficient for Z observed scores, and ε = error term

Equation 2 presents the moderated multiple regression model that was formed by creating a new set of scores for the two predictors (i.e. X, Z), and including it as a third term in the equation, which yielded the following model

Y = B0 + B1 X + B2 Z + B3 X*Z + E ----------EQUATION (3)

WHERE B3 IS THE LEAST SQUARES ESTIMATE OF THE POPULATION REGRESSION COEFFICIENT FOR THE INTERACTION TERM SCORES.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis that has been performed in order to determine the effect of relationship banking on financial performance of SMEs in Kenya. The study used various statistical tools and approaches to analyze data such as descriptive analysis, exploratory factor analysis, and structural equation modeling.

The first step in this study was descriptive analysis where the data has been analysed and presented on the basis of research objectives. Further test of assumptions was done in order to test the assumptions of linearity, independence and multicollinearity. Exploratory factor analysis (EFA) was then performed in order to explore the possible underlying factor structure of the set of observed variables without imposing a preconceived structure on the outcome. Factors with low factor loadings and those with cross loadings were dropped. Next Confirmatory Factor Analysis) CFA was carried out where model fitness indices, reliability and validity tests were analyzed and presented. Finally structural equation modeling and moderated multiple regression was done.

4.2 Response Rate

A total of 138 questionnaires were distributed to the respondents out of which 131 questionnaires were successfully filled and returned. This represents a response rate of 94.9%. Fosnacht (2013) posited that a response rate of 75% and above is acceptable. This study's response rate was thus deemed acceptable. The response rate at 94..9% is comparable to similar studies in the domain of relationship banking such as Agarwal, et al. (2009) whose study on the determinants of relationship banking reported a response rate of 80%. Additionally, Ahmed and Uchida (2005) study on the impact of relationship banking in Japan and Bangladesh had a response rate of 80.2%.

4.2.1 Non Response Bias

Assessment of non response bias was conducted to examine the possibility of the existence of non-response bias. It was conducted by examining the differences in the two groups, the early and late responses of the main variables using the independent sample t tests. Responses received within the due date or 3 weeks after the questionnaires were sent are considered as early responses, while the responses received later than that period are considered as late responses**.**

Altogether 91 respondents representing 69% gave feedback within 3 weeks after the questionnaires were sent. The balance of 40 usable questionnaires representing 31% were received after the 3 week period. Table 4.1 presents the results of the t-test for the main variables which shows that there are no significant differences ($p>0.05$) found in the two groups. Thus it can be concluded that non response bias is not a problem in this study.

Table 4.1 Non Response Sample Bias

Variable	Early Responses (n=91)		Late Responses (n=40)			
	Mean	SD	Mean	SD	t	p
RL	3.71	1.966	2.11	0.88	1.871	.064
RM	3.58	1.082	2.72	1.13	1.841	.071
BP	3.32	0.905	2.89	0.7	1.976	.050
RS	3.41	0.964	2.33	0.83	1.775	.082

RL- Relationship Lending; RM- Relationship Monitoring; BP- Bundle of Products; RS- Risk Sharing

4.3 Demographics

4.3.1 Gender Distribution

The respondents were asked to indicate their gender. Gender is important in entrepreneurship studies as it has a bearing on the survival and performance of SMEs with the female gender being thought to be disadvantaged as compared to their male counterparts (Athanne, 2011). The responses are provided in the figure 4.0. As shown in figure 4.0, 57.3% of the respondents were male while 42.7% were female. This shows that the majority of the sample that participated in the study were male. This is apparent because the male gender seems to be favored in business at the expense of the female gender who are faced with challenges of accessing collateral (which is important in accessing credit from banks) because many of them cannot inherit their parents land especially in Africa. The apparent dominance of the male gender in the study of bank - client relationships was reported by Alrubaiee and Al-Nazer (2010) whose study on the impact of relationship banking on banking orientation reported that 59.3% of bank customers involved in relationship banking were male. Similar findings were also reported by Saparito et al., (2012) whose study on bank - firm relationship in Spain found out that more firms owned by males (54%) were involved in relationship banking in Spain.

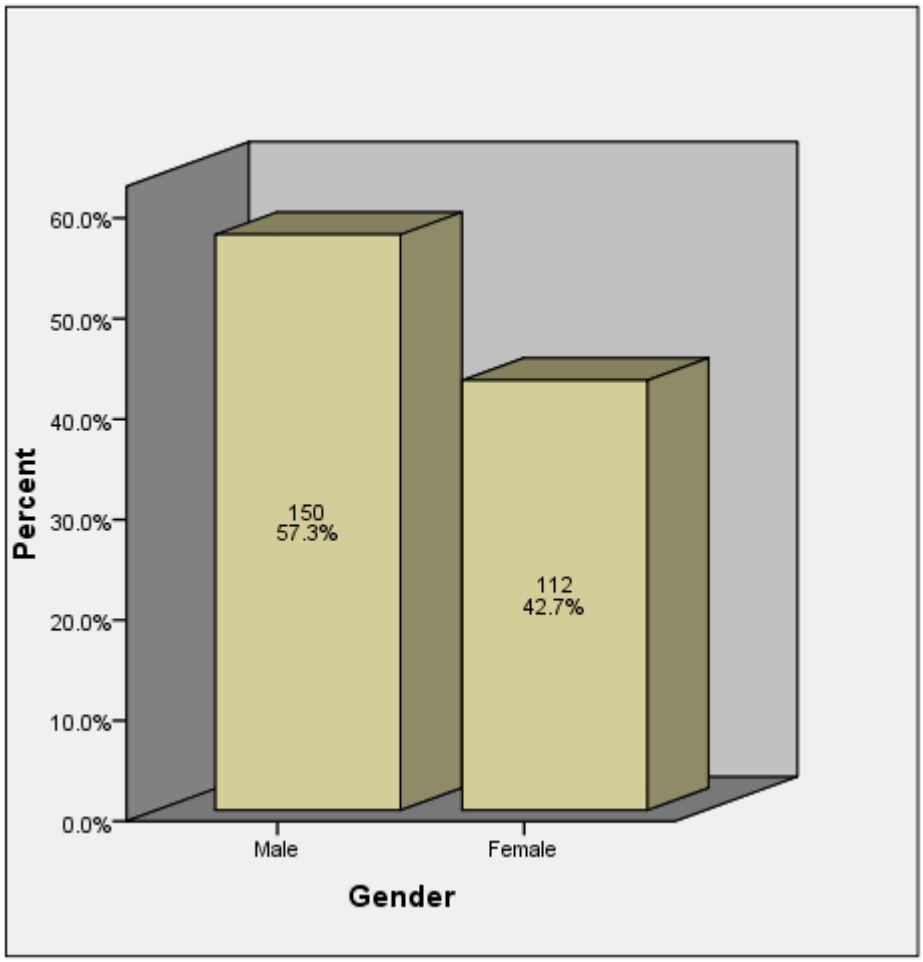


Figure 4.0 Gender of Respondents

4.3.2 Age of the Respondents

The respondents were asked to indicate their age. Age is an important determinant in credit provision as young people are seen as being disadvantaged by mainstream banks because of their credit unworthiness. As shown in Figure 4.1, 21.4% of the respondents indicated that they belonged to the 20-40 age brackets while 45% fell in the 31-40 age brackets. 24% were in the 41-50 age brackets with 9.5% being over 50 years. The results presented in fig 4.1 shows that the majority of the respondents were below 40 years of

age. This could be because faced with high unemployment, many young people are venturing into business in order to survive. This view is consistent with Nasri (2011) whose study banking relationships showed that the majority (71%) of such customers were between 25 to 45 years in Tunisia.

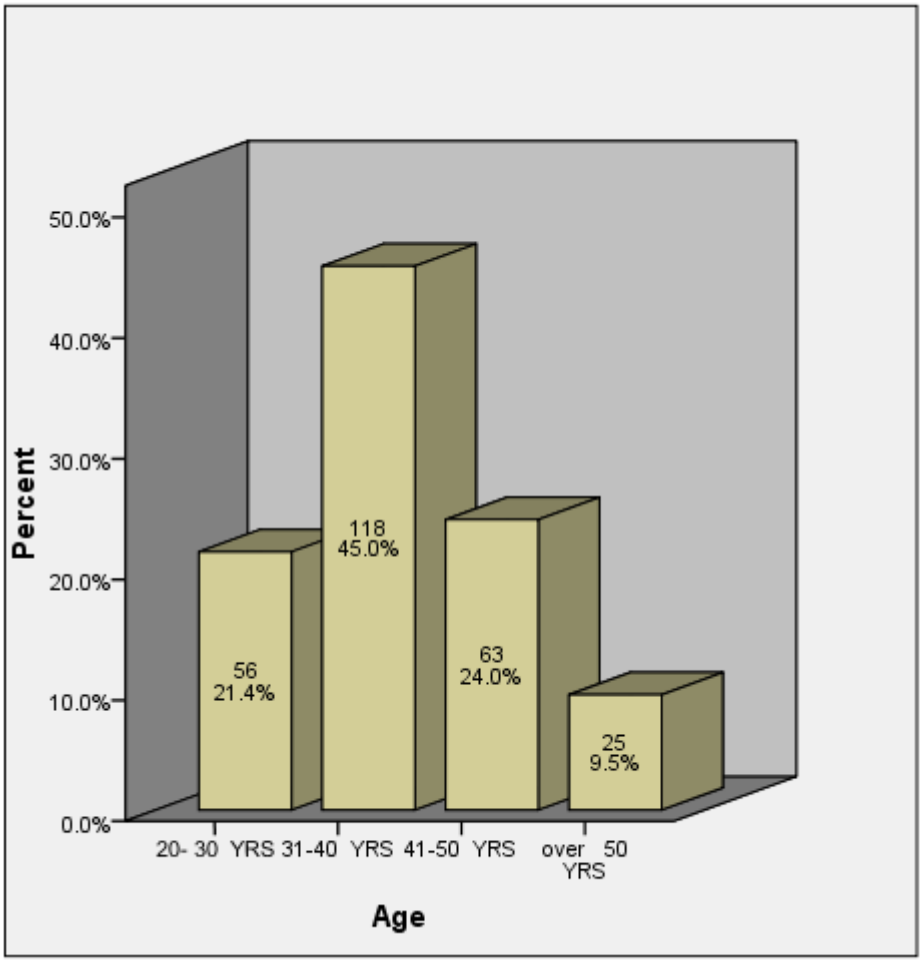


Figure 4.1 Age Distribution

4.3.3 Awareness of Data Collection by the Bank

The study sought to determine if the respondents were aware that the bank collects routine information from them. Collection of information from clients by the bank is the cornerstone of relationship banking as the information collected helps reduce the information gap between the SME and the bank (Berger and Udell, 2006). Table 4.2 presents the results. As shown in table 4.2 , majority (64.9%) agreed that they were aware the bank was collecting information from them while a few (22.1%) replied in the negative with 13% of the respondents replying in the 'don't know category'. The results show that participants in relationship banking are aware that banks collect information from them. This is not unexpected as continuous collection of client data is the hallmark of relationship banking with relationship officers frequently getting in touch with participating firms. This finding is in agreement with previous studies. Peppard (2000) study on Customer Relationship Management (CRM) in Financial Services reported that 71% of the respondents were aware that relationship banks continuously collected information from them. The percentages reported for Kenya are lower because intense bank – client relationships may not well developed in Kenya.

Table 4.2 Data Collection by Bank

	Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Yes	170	64.9	64.9	64.9
No	58	22.1	22.1	87
Don't know	34	13	13	100
Total	**262**	**100**	**100**	

4.3.5 Internet Banking

The study sought to determine if the respondent's mode of banking was via internet. Internet banking has emerged as the new frontier in banking and helps the interaction between the bank and its clients. As shown in figure 4.2, majority (53.4%), indicated that they banked via internet while 46.6% replied they did not. The results show that the majority of the manufacturing SME's do use internet when banking. With the coming in of the internet, most transactions are now done online even in developing countries like Kenya. Further internet banking brings the advantage of convenience and lower transaction costs to customers hence its popularity with firms in relationship banking who have a lot of communication with the banks. This is consistent with Khan (2004) who reported in his survey of internet banking in India that 56% of bank customers who have banking relationships had adopted internet banking. This is consistent with Bitner *et al*, 2000) who found that in the use of internet banking helps nurture the relationship between the banks and the clients as the customers can interact with the bank any time they wish to do so.

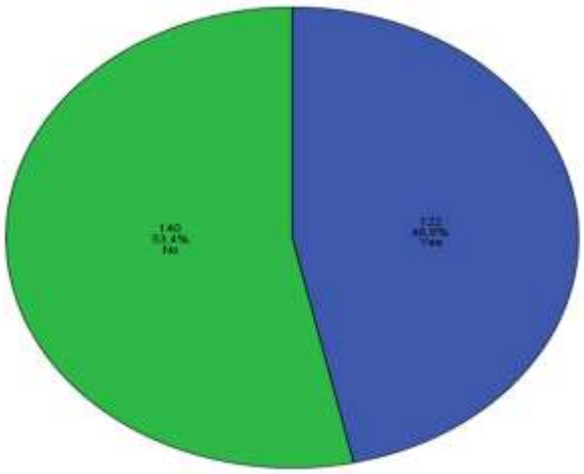


Figure 4.2 Frequency of Internet Banking

4.3.6 Advice Received From Bank

The study sought to determine if the respondents seek advice from the bank when making decisions. The results presented in fig 4.3 show that a significant majority (56.1%) , of the respondents replied yes while a few (43.9%) replied no. This indicates that clients in relationship banking usually seek advice from the banks. This is a valid observation because in relationship banking, banks provide advice to clients on a continuous basis and especially during periods of financial distress . This agrees with Shen et al. (2004) whose study on the importance of relationship banking to participating firms found evidence that suggested that clients seek and receive advice from banks on a variety of financial issues. Boot (2000) study on 'relationship banking what do we know?' further lends credence to this school of thought by reporting that clients seek various type of assistance from banks including investments and cash flow management.

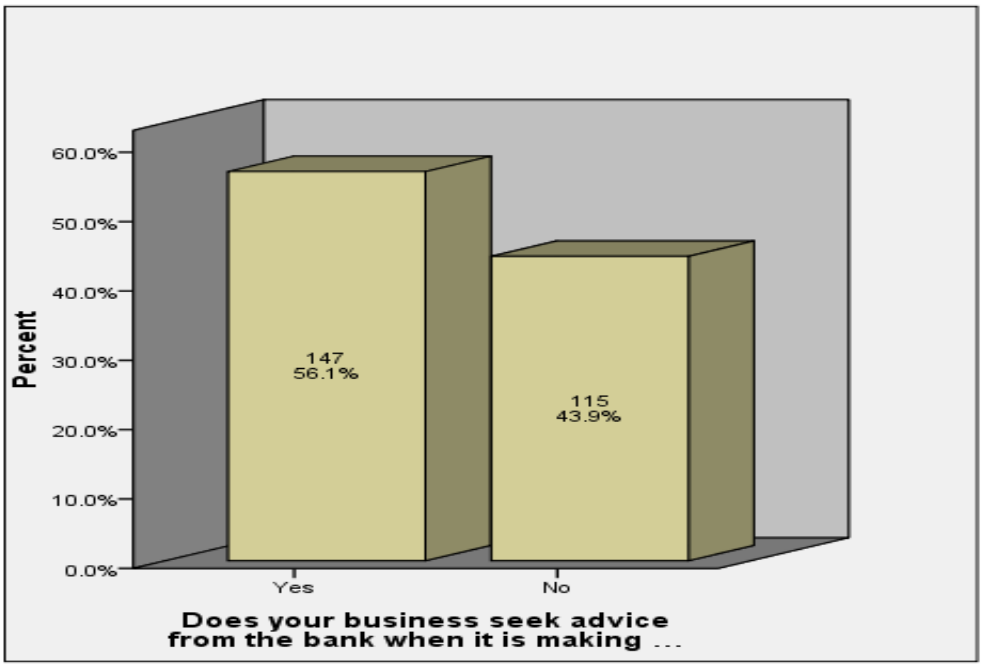


Figure 4.3 Bank Advice

4.4 Descriptive Factor of the Study Variables

The description of the factors of the study variables is shown Appendix 3. This description was quite helpful in cross referencing since the factors were used in data analyses, model analyses, and throughout the entire study. Relationship lending had 17 factors, while each of the other factors had 9 factors. In total there were 44 factors.

4.5 Correlations of the Study Variables

Correlation is often used to explore the relationship among a group of variables (Pallant, 2010), in turn helping in testing for multicollinearity. Multicollinearity is a situation where two or more predictor variables in a multiple regression model are highly correlated. The first step in testing for multicollinearity was to calculate the Pearson correlations among variable in order to check the linear relationships among the variables. Multicollinearity is likely to exist if the absolute value of Pearson correlation is greater than 0.8. The results of this test is presented in table 4.3. As shown in table 4.3 the respective values of the Pearson correlation coefficient were, RL and FP 0.75, RM and RL 0.635, BP and RM 0.466 and RS and BP 0.473. These values were significant (p= 0.000) at 5% level of significance. Since none of the Pearson coefficients between the variables is above 0.8 then it means that there is absence of multicollinearity.

Table 4.3 Correlations of the Study Variables

Variables	FP	RL	RM	BP	RS
FP	1	.575**	.648**	.285**	.563**
RL	.575**	1	.635**	.576**	.577**
RM	.648**	.635**	1	.466**	.536**
BP	.285**	.576**	.466**	1	.473**
RS	.563**	.577**	.536**	.473**	1
	131	131	131	131	131

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

4.6 Description and Qualitative Analysis of Study Variables.

4.6.1 Descriptive Analysis of the Influence of Relationship Lending on Financial Performance of Manufacturing Firms in Kenya.

The first objective of this study was to establish the effect of relationship lending on the financial performance of manufacturing SMEs in Kenya. To achieve this, the respondents were asked to respond to items testing the extent to which relationship lending affected their financial performance. The percentage responses are presented in appendix 4.

On whether relationship lending had positively impacted on the firm's cash flows, majority (80.9%) agreed to the statement while a few (8.4%) disagreed with 10.7% being neutral. This indicates that relationship lending positively impacts on the firm's cashflow. Relationship lending avails credit to the firm which can then be applied to pursue entrepreneurial activities such as venturing to new markets and adding value to existing products leading to increased entrepreneurial intensity levels that eventually lead to superior performance. This agrees with Audretsch, Bönte and Mahagaonkar, (2007) whose research on financing constraints for nascent entrepreneurs in Norway

showed that with the availability of credit, entrepreneurial intensity levels increases as they are able to use the borrowed funds to invest in services and product development thus leading firms to post superior performance of SMEs. Thus for entrepreneurs who exhibit a high level of EO, relationship lending would help them access funds so as to put their ideas into action.

On whether the bank had extended credit limits to them after joining relationship lending, majority (67.2%) agreed to the statement while a few (16.8%) disagreed with 16% being neutral. This shows that extension of credit limits is one of the benefits that borrowing firms get in relationship lending. As the bank- client relationship increases, the firm's opaqueness from the point of the bank diminishes and hence they become attractive to the bank to a point where the bank could commence advancing loans to the firm. Extension of credit limits essentially ensures the firm will have sufficient financial resources which give the firm the ability to finance various entrepreneurial activities such as new venture creation, research and development and innovations that can lead to sustainable entrepreneurship. This view agrees with Meludu and Adekoya (2007) study on enhancing institutional credit for the sustainability of Women Farmers Entrepreneurship Development in Nigeria underscored the importance of sustainable access to affordable credit as being crucial towards the survival and growth of a firm. Such sources of credit when found would catalyze entrepreneurial activities thus affording the firm competitive advantage. Also credit advanced by the bank is one of the resources identified by the RBV theory as being key to the attainment of competitive advantage by the firm (Newbert, 2008). This will enable entrepreneurial firms to upscale its entrepreneurial intensity levels leading to superior performance of SMEs.

On whether they were offered low interest rates after they got involved in relationship lending, majority (51.2%) agreed to the statement while a few (32.8%) disagreed with 16% being neutral. Further when asked if the cost of debt had declined as the length of time in relationship banking increased, majority (67.2%) agreed while a few (24.5%) disagreed with 24.5% being neutral. The responses to these two questions indicate that

interest rates and cost of debt are lower for those manufacturing SMEs in relationship lending. This is attributed to the fact that with the closing of the information gap between the bank and SME, confidence of the bank on the SME grows and with this comes the reduction of the risk profile of the SME from the bank's perspective hence lower interest rates. Low interest loans is a boon to the borrowing firm as it contributes to lowering the costs of the firm hence enhancing the competitiveness of the firm (Driessen & Zwart ,2010). This view is consistent with Kerr and Nanda (2009) whose research on financing constraints and entrepreneurship argued that accessing loans cost effectively affords firms to lower their costs which effectively affords them competitive advantage in line with the RBV theory.

On whether relationship lending had improved the financial performance of the respondents' firm, majority (77.1%) of the respondents agreed to the statement while a few (13%) disagreed with 9.9% being neutral. The results show that relationship lending has positive effects on financial performance. The credit availed by the banks can be employed for value adding activities such as business expansion and innovations. This agrees with Jun and Deschoolmeester (2008) whose research on the determinants of entrepreneurial behavior in China, identified the availability of credit as being one of the determinants of entrepreneurial behavior that eventually leads to an upsurge of innovations, new products and services thereby leading to superior financial performance. For credit to have a positive effect on financial performance, entrepreneurial leadership must be demonstrated by the entrepreneur in order to rally the various components of the firm to deliver superior performance (Covin & Slevin, 2002). This also agrees with Wole (2009) whose study on how the availability of finance determines the capacity of an enterprise argued that with the availability of credit, SMEs can invest in innovation, new product development and business expansion hence leading to superior financial performance.

On whether the financier had been of great importance in developing new products, majority (51.9%) agreed a few (20.6%) disagreed while 27.5% were neutral. This

shows that in relationship lending the financiers help firms in developing new products by providing funds that can be used not only to fund innovative products but also to add value to existing products. The developed products not only increases the ability of the firm to exploit entrepreneurial opportunities in niche markets but also helps the firm cope with competition thus leading to superior performance. This view is shared by Dass and Massa (2006) whose study on the negative effects of bank- firm relationship, nevertheless posited that relationship lending helps open up new product lines for firms especially if the borrowed funds are applied to exploit opportunities in the market. If the development of new products is successful it affords the firm superior performance and market leadership (Markides & Geroski, 2005).

On whether the financier networks had led to new customers, majority (71%) agreed while a few (20.6%) disagreed with 8.4% being neutral. This shows that the financier networks help firms get new customers. This is because the funds borrowed from the network of financiers can help enhance creativity in marketing leading to entrepreneurial marketing which according to Kraus, , Harms and Fink (2009) is marketing with an innovative posture. Proactiveness, innovativeness, customer intensity and resource leveraging dimensions of entrepreneurial marketing are positively related with customer acquisition and business performance (Hacioglua, Erenb, Erenc & Celikkand, 2012). The Lisa, Thomas, Painbéni, and Barton (2013) study on 'entrepreneurial marketing within the French wine industry' argued that with sufficient funding, firms can engage in entrepreneurial marketing that allows adoption of innovation in marketing which brings superior value to the customer through brand differentiation at firm level. This ultimately leads to more customers.

On whether the financier has demands on the proper use of budgets and strategic plans, majority (64.9%) agreed while a few (21.4%) disagreed with 13.7% being neutral. This suggests that banks may demand proper use of budgets by firms. The proper use of budgets and strategic plans has a bearing on the financial performance of the SME as it affects financial management and resource allocation in the firm. Firms with good

financial management can be able to control their cost structures and are able to allocate resources to exploit opportunities hence are able to gain competitive advantage and market leadership. Strategic plans and budgets are not only tools used in a planning and control cycle but also positive effects on corporate entrepreneurship (Eser, Demirbag & Yosgut, 2012). Driessen and Zwart (2010) identified planning as one determinant of entrepreneurial capabilities. This view is also consistent with Antoncic and Hisrich (2004) who argued that strategic planning creates a fit between entrepreneurial orientation (as a strategic element) and its business and environmental context hence boosting the firm's capabilities.

Asked if the financier had been a source of moral support, majority (58.8%) agreed while a few (18.4%) disagreed with 22.9% being neutral. This shows that the financiers are a source of support for the firms. Relationship lending is much more than just the provision of credit. The moral support provided in the bank – SME relationship is well caputured in the sociological entrepreneurship perspective where strong social ties to resource providers can enhance the probability of opportunity exploitation as well as facilitate resource acquisition processes (Aldrich & Zimmers. 1986). This agrees with Eckhardt and Shane (2003) who posits that moral support from a wide range of stakeholders including financiers help entrepreneurs exploit entrepreneurial opportunities.

Asked if the financier had improved the financial position of the firm, majority (77.2%) agreed while a few (13.1%) disagreed with 7.6% being neutral. This indicates that the finance availed to the firm by the financiers helps improve financial performance. This is because the borrowed funds can be applied to finance entrepreneurial ventures that may lead to the development of new products especially if proper entrepreneurial leadership and management is displayed thus helping firms post superior performance. This view agrees with Hitt et al (2001) whose study on 'strategic entrepreneurship strategies for creating wealth' reported that financiers provide financial resources which

are an input in the production process and that depending on how entrepreneurial the leadership within the firm is, it can yield the firm a competitive advantage.

Asked if the proactivity of entrepreneur affects the effectiveness of relationship lending on financial performance, majority (70.8%) agreed while a few (9.1%) disagreed with 20.1% being neutral. This indicates that proactivity of the entrepreneur is crucial in determining the effectiveness of relationship lending on SME financial performance. Proactivity brings the 'can do' mentality that gives the firm the ability to employ the funds availed by the bank to act on opportunities. This is consistent with Zhao (2005) whose findings suggested that entrepreneurial intentions would come to fruition if the entrepreneur is proactive.

On whether its vital to get the backing of the financier during tough times, majority (74%) agreed while a few (21.4%) disagreed with 4.6% being neutral. This suggests that for SMEs in relationship lending, they could get a helping hand from the financers during periods of financial distress which enables them to undertake entrepreneurial recovery activities which involve reallocation of resources to most promising product/market combinations that enables the firm to exploit promising opportunities and gain market leadership thus being in a position to overcome financial distress. The backing from the financier is part of the support environment required for entrepreneurship to flourish. This view agrees with Gómez-Haro, Aragón-Correa and Cordón-Pozo, (2011) whose study on differentiating the effects of the institutional environment on corporate entrepreneurship, argued that support for entrepreneurship include such acts as access to affordable credit that spurs entrepreneurial activities thereby helping such firms exit financial distress.

Asked if the innovation capability of the entrepreneur affected the effectiveness of relationship lending on financial performance, majority (68.8%) agreed while a few (11.4%) disagreed with 21.9% were neutral. This shows that the innovation capability on the part of the entrepreneur affects the effectiveness of lending on financial performance.

Where the entrepreneur is innovative funds borrowed could be applied to fund innovations which ultimately gives new products, improves product quality and processes thus helping post superior performance. Kiraka, Kobia and Katwalo (2013) study on Micro, Small and Medium Enterprise Growth and Innovation in Kenya showed that investment in innovations positively affects financial performance. This is because the new innovative products open increases the product offering by the firm hence increasing revenue

Asked if the risk taking propensity of the entrepreneur affected the effectiveness of relationship lending on financial performance, majority (46.8%) disagreed while a few (22.4%) agreed with 30.8 % being neutral. This shows that risk taking propensity is not positively correlated to financial performance among manufacturing SMEs in Kenya. Risk taking though well adopted by large organizations is seen as a constraint to entrepreneurship among SMEs because it brings the risk of losing wealth created over a long period of time. Habbershon and Pistrui (2002) study on 'enterprising family domain Family-influenced ownership groups in pursuit of trans generational wealth' argued that SMEs are too conservative to take on risky ventures. This partly explains why many SMEs do not expand because entrepreneurship literature has shown that when entrepreneurs take calculated risks, they are rewarded with superior returns.

4.6.2 Descriptive Analysis for influence of Relationship Monitoring on the Financial Performance of Manufacturing Firms in Kenya.

The second objective of this study was to establish the effect of relationship monitoring on the financial performance of SME's. To achieve this, the respondents were asked to respond to items used as composite measures of relationship monitoring. The responses are presented in appendix 5.

On whether the bank monitors the respondents with a view to making them perform better, majority (70.2%) agreed while a few (20.6%) disagreed with 9.20% being

neutral. The above analysis shows that the majority of the respondents agreed on the positive aspects of monitoring on the performance of manufacturing SMEs. Bank monitoring enables the bank to determine the financial needs of the SME and thus be in a position to advance credit to them (Boot, 2000). The credit advanced can be applied to exploit entrepreneurial opportunities and gaps identified in the market that not only lead to superior performance but also has consequences on the sustainability of the enterprise. This view is consistent with Barney and Arikan (2001) in their study on the origins and implications of RBV noted that as a resource, credit, can be applied to exploit promising opportunities in the business environment thus increasing revenue and competitiveness of the firm.

Further when asked if they had avoided defaulting on loans as a result of continuous monitoring by the bank, majority (74.1%) agreed to the proposition while a few (19.1%) disagreed with 6.9% being neutral. This shows that banking monitoring helps firms to be on track on the loan repayments. The repayment of loans is linked to the prevailing entrepreneurial leadership in the firm thus the support provided by the bank coupled with strong entrepreneurial leadership may improve financial performance thus putting the firm in a good position to repay loans. This view is shared by Kibosia, (2012) study on determinants of loan defaults by small and medium enterprises in Kenya showed that where there is strong entrepreneurial leadership, there would be strong focus on financial management and pursuit of entrepreneurial ventures which do not compromise financial well being of the firm hence guaranteeing loan repayment. However Kibosia (2012) further noted that if a leadership that engages in activities such as unplanned expansion, diversion of borrowed funds to unproductive ventures and taking too much risk would compromise loan repayment hence leading to defaults.

When asked if their firms were able to avoid cash flow problems as a result of continuous monitoring, majority (67.2%) agreed while a few (17.5%) strongly disagreed with 13% being neutral. This shows that relationship monitoring helps firms overcome cash flow problems. SME monitoring is key to the bank advancing credit which can be applied to

enhance entrepreneurial activities such as product modification and expansion of the enterprise especially if the entrepreneur exhibits a high level of EO. The intensification of these activities brings revenue to the firm thus boosting its cashflow position. This agrees with Hornsby et al (2002) whose study on Middle managers' perception of the internal environment for corporate entrepreneurship Assessing a measurement scale' showed that an intensification of entrepreneurial activities may enhance revenue hence boosting the financial performance. This view is consistent with Atieno (2009) whose study on the effect of external financial linkages on financial performance argued that SMEs need external finance to reduce the impact of cash flow problems.

When asked if monitoring by the bank had helped in restructuring during periods of distress, majority (73%) agreed while a few (16.8%) disagreed with 9.2% being neutral. This indicates that the respondents agreed to this proposition thus showing that restructuring during periods of distress is one of the undertakings the bank extends to those who have a relationship with them. Monitoring enables the bank to be able to lend credit to the firm which could be applied to fund entrepreneurial activities such as funding innovations and venturing to new markets that help firms to cope with and overcome financial distress. This view agrees with Pearce II and Michael (2006) whose study on Strategies to Prevent Economic Recessions From Causing Business Failure argued that credit availed to distressed firms enable them to pursue entrepreneurial recovery strategies that involve reformulations of firm's product, services, markets, or principal technologies in ways that represent a new or radically altered competitive posture and help firms overcome financial distress .While the relationship with the bank is key to accessing credit, restructuring would be successful if the EO is exhibited in the firm. This view is consistent with Syed, (2010) whose study on Impact of organizational restructuring on psychological contract breach and attitudes of employees working in private commercial banks of Pakistan reported that restructuring would be successful only if the leadership pursue what they termed as entrepreneurial restructuring that exhibits the three dimensions of EO namely innovation, proactivity and risk taking.

On whether monitoring helps firms avoid defaulting on loans, majority (52.7%) agreed while a few (9.2%) disagreed with 6.9% being neutral. The results show that monitoring helps reduce chances of defaulting for their borrowing firms. In relationship monitoring the bank keeps track of the firms activities which ensures that the firm not only avoids wastages but also that credit is disbursed in time and this can be applied to fund entrepreneurial ventures such as adding value to existing products and venturing to new markets that may improve financial performance hence ensuring that the firm has sufficient funds to repay loans. This view agrees with Anane, Cobbina and Manu (2012) who suggested that only those SMEs who exhibit EO would be able to improve their output through product development and modification can be able to repay loans.

On whether relationship monitoring had helped the firm avoid wastages, majority (67.2%) agreed while a few (17.6%) disagreed with 15.3% being neutral. The results show that monitoring help borrowing firms reduce wastages. This is because in monitoring, the bank keeps track of the firm's financial data and can advice appropriately if the firm's spending is not right from the bank's perspective. The avoidance of wastages preserves finance as an organizational resource and helps firms manage its costs thus gaining competitive advantage and hence market leadership. Thus failure to curb wastages can negatively impact on the financial performance of the firm. This is consistent with Kar Sharma and Borah (2011) whose study on the causes of attrition on SMEs reported that wastage of financial resources is a leading cause of SME attritition in India. The borrowing firm can then utilize the saved funds to invest in research and development which in turn gives rise to innovations and an increase in entrepreneurial intensity levels.

Asked if innovation capability of the entrepreneur affected the effectiveness of relationship monitoring on financial performance, majority (57.2%) agreed while a few (22.5%) disagreed with 20.3% being neutral. Relationship monitoring helps banks understand the SME to a point where they can advance credit. Thus coupled with EO, innovative entrepreneurs develop new products and add value to existing ones thus

improving revenue for the firm. Bigliardi (2012) study on the effect of innovation on financial performance reported that the relevance of the innovation developed in order to meet the customers' needs as well as of those developed in order to differentiate from the competitors in improving the financial performance. Relationship monitoring helps the firms' financial management hence avoiding wastages that can be applied to fund innovations.

On whether risk taking propensity of the entrepreneur affects the effectiveness of relationship monitoring on financial performance, majority (59.2%) agreed while a few (16.6%) disagreed with 24.2% being neutral. Risk taking enables the firm to take calculated risks and be able to expand the range of its entrepreneurial activities especially opportunity exploitation and new market venturing which could yield superior performance. Rauch et al. (2004) argued that risk taking is positively related to performance though this relationship is context specific. Thus risk taking is inevitable for entrepreneurial firms with high levels of EO as it has positive implications for firm growth and development.

On whether proactivity affects the effectiveness of relationship monitoring on financial performance, majority (76.2%) agreed while a few (10.6%) disagreed with 13.2% being neutral. Relationship monitoring helps overcome information asymmetry between the firm and the bank such that the firm can advance credit. Firms with a high sense of EO especially proactivity would be more proactive in pursuing entrepreneurial opportunities and thus if borrowed funds were utilize for such pursuits it would afford competitive advantage and market leadership to the firm. This agrees with Rauch , Wiklund, Lumpkin and Frese (2009) who showed that entrepreneurial firms that are strategic continuously seek new opportunities, the introduction of new products and brands ahead of competition and strategically eliminating operations which are in the mature or declining stages of the life cycle.

4.6.3 Descriptive Analysis for influence of Bundle of Products on Financial Performance of Manufacturing Firms in Kenya.

The study's third objective was to establish the effect of relationship bundle of products on the financial performance of SME's. To achieve this, the respondents were asked to indicate their level of agreement on items used as the composite measures for bundle of products. Table 4.4 presents the results.

On whether the bundle of products offered affects the firm's profitability, majority (78.9%) agreed while a few (9.2%) disagreed with 13.7% being neutral. This suggests that bundling financial products by the banks has positive consequences for profitability of the borrowing firms. This is because bundled products are financial resources that firms can utilize fund a range of entrepreneurial activities such as opportunity exploitation, venturing to new markets and acquiring new capabilities that help post superior performance. This is consistent with Atieno (2009) whose study on linkages, access to finance and the performance of small-scale enterprises in Kenya reported that firms that make use of external funds exhibit growth rates far above what can be supported by internal finance because with borrowed funds they can increase their stock of productive assets. Therefore, SMEs often need capital from external sources. This view also agrees with Coad (2007) whose study on factors affecting firm growth posits that financial resources can relatively easily be converted into other types of resources hence with sufficient resources, firms are able to experiment new things, which not only increases their potential but also enables the business to pursue new growth opportunities leading to superior financial performance.

The study sought to find out if getting bundle products from one bank has been cost effective. Majority (65.7%) while 16.1% disagreed with 18.3% being indifferent. Further when asked if bundled of products offered by the bank had reduced the cost of credit for them, majority (64.9%) agreed while 19.1% strongly disagreed with 16% being indifferent. The results from these two questions indicate that the bundle of products in

relationship banking has the effect of bringing down the cost of credit to the borrowing firm .The reduced cost of credit has effect of reducing the overall costs to the firm thus affording the firm competitive advantage and market leadership. This view is consistent with Kyaw (2008) whose study on Financing Small and Medium Enterprises in Myanmar showed that one of the sources of competitive advantage is cheap and affordable credit, especially if they are invested wisely by the firm. Together with EO, the borrowed funds can be applied to fund growth oriented projects such as market diversification and business expansion that usually has positive consequences on the financial performance of a firm (Atuahene-Gima, 2005).

On whether the bundle of products has improved overall profitability, majority (77.1%) agreed while a few (9.2%) disagreed with 13.7% being neutral. This suggests that product bundling in relationship banking has positive implications on the financial performance of SMEs.Combined with EO, the bundle of products being a financial resource can be utilized to finance growth oriented ventures that would enhance the profitability of the firm. This is in agreement with Wilkens, and Pawlowsky (2004) whose study on 'Inside the black-box Analyzing the generation of core Competencies and dynamic capabilities by exploring collective minds' reported that a firm that exploits its internal and external resources and capabilities could achieve superior performance. Components of EO especially innovation and risk taking come in handy in transforming these resources in firm capabilities. EO has been heralded as being key in transforming resources such as finance into capabilities that can give an entrepreneurial firm a competitive edge over the competition (Hitt *et al,* 2003).

On being asked if the bundle of financial products has increased the size of the business, majority (73.3%) agreed while a few (13%) disagreed with 13.7% being neutral. This shows that the bundle of products being an external financial resource has the capability of helping the recipient firm to expand the scale of its operations. With good entrepreneurial leadership organizational resources including financial resources can be

mobilized and deployed to enhance the firm's growth strategy. This view is consistent with Khayesi and Antonakis (2012) whose study on the contribution of entrepreneurial leadership on firm performance in Kenya showed that entrepreneurial leadership determines the success or failure of a firm depending on how they utilize the organizational resources. Ge *et al* (2009) investigated the linkage between external financing, entrepreneurial intensity and firm performance in china and reported that where the borrowing firm displays EO, external financing enhances the pace and tempo of entrepreneurial activities leading to increased entrepreneurial intensity levels which are key in increasing the size of the business.

Asked if innovation capability of the entrepreneur affected the effectiveness of bundle of products on financial performance, majority (62.7%) agreed while a few (20.3%) disagreed with 17% being neutral. This shows that innovation is key in the relationship between bundle of products and financial performance. Credit availed by the bank cannot guarantee superior performance unless it is used to fund entrepreneurial activities like innovation and new product development. Avermaete, Viaene and Crawford (2003) study on determinants of innovation in small food firms reported that credit would immensely benefit a firm if it is applied to fund innovations.

On whether risk taking propensity of the entrepreneur affects the effectiveness bundle of products on financial performance, majority (54.9%) disagreed while a few (30.2%) agreed with 14.9% being neutral. Ansong (2013) study on risk Management as a Conduit of effective corporate Governance and financial performance of Small and Medium Scale Enterprises argued that risk taking enables the firm expand its horizon. The study further showed that the firm should only take calculated risks which may not leave the firm exposed. Given EO, the borrowing firm can undertake entrepreneurial risk management which involves risk management with innovative posture (Pearce II and Michael, 2006).

On whether proactivity affects the effectiveness of bundle of products on financial performance, majority (69.4%) agreed while a few (21.6%) disagreed with 9% being neutral. The bundle of products is just one of the financial resources available to the firm. To be useful the bundle of products should be combined with EO and especially proactivity so as to enable the firm exploit the entrepreneurial opportunities. This view agrees with Hitt *et al* (2003) whose study showed that EO transforms resources into capabilities.

Table 4.4 Descriptive for Bundle of Products

	SD %	Disagree %	Neutral %	Agree %	SA %
The bank offered this bundle of products with my welfare in mind.	6.9	26.7	17.6	35.9	13
Products in the bundles are priced lower than individual standalone products.	4.6	4.6	22.1	58	10.7
Getting all the products from one bank has been cost effective for me.	4.6	11.5	18.3	44.3	21.4
Bundle of products offered by the bank has reduced the cost of credit	8.4	10.7	16	47.3	17.6
Bundle of loan products have improved our profitability	8.4	3.8	22.1	41.2	24.4
innovation capability affects the effectiveness of BP on FP	9.1	11.2	17	50	12.7
risk taking propensity affects the effectiveness of BP onFP	10	20.1	14.9	47.7	7.2
proactivity affects the effectiveness of BP on FP	7.1	14.5	9	10	59.4
Bundle of loan products have enabled us increase size of business	9.2	3.8	13.7	42	31.3
Bundle of loan products have improved our overall profitability	6.9	2.3	13.7	43.5	33.6

4.6.4 Descriptive Analysis for the influence of Risk Sharing on Financial Performance of Manufacturing Firms in Kenya.

The study's fourth objective was to establish the effect of risk sharing on the financial performance of SME's. To achieve this, the respondents were asked to indicate the extend of agreement / disagreement with items used as composite measures for risk sharing. The responses are presented in appendix 6.

When asked if the bank advances credit to them even if they do not meet credit terms, majority (42.3%) agreed while a few (31.3%) disagreed with (26%) being neutral. The results indicate that SMEs in relationship banking are able to access funding even in circumstances when they do not meet the credit terms. This could be due to the fact that because of close interaction with the bank, credit can be advanced on the basis of trust. This view is prevalent in sociological entrepreneurship where trust reigns supreme between the actors in a network and that such networks could link the firm to external financiers. Guiso, Sapienza and Zingales (2004) study on the role of social capital on enterprise development showed that SMEs could access credit only on the basis of trust where there are high levels of trust in entrepreneurial networks. This view further agrees with Jafri, Ismail, Khurram and Soehod (2014) whose study on the impact of social capital and firms' innovative capability on sustainable growth of women Owned technoprises showed that social capital had enhanced the capabilities of women enterprises in Malaysia since SMEs can take advantage of such terms to access credit from their social networks and invest in assets and business development leading to superior performance of manufacturing SMEs .

On being asked if the bank advances credit during periods of financial restructuring, majority (65.6%) agreed while a few (20.7%) disagreed with 13.7% being neutral. Further on being asked if interest rates charged by the bank in times of financial distress was low, majority (70.2%) agreed while (16.8%) disagreed with 13% being neutral. The majority agreed with the statement showing banks reduce interest rates for borrowers

during periods of financial distress. The results from the analysis of these questions showed that banks come to the aid of firms in relationship banking when they are faced with distress or are undertaking restructuring exercise. The intention from the bank perspective could be to afford such firms liquidity in order to enable them survive during such times. This agrees with Im and Workman (2004) whose study on Market orientation, creativity and new product performance in high-technology firms showed that credit advanced during periods of restructuring is key to achieving restructuring goals. Failure to get financial help during such times can lead to SME attrition.

On whether they could get credit without pledging collateral, 58% agreed while 21.4% disagreed with 20.6% being neutral. This shows that in relationship lending, borrowers can access credit with pledging collateral. Because of trust building in relationship banking, banks can lend money to firms on the basis of trust and potential of the enterprise. This is captured well in the sociological entrepreneurship domain where trust between actors in a network is important. Mayoux (2001) study on Tackling the Down Side Social Capital, Women's Empowerment and Micro-Finance in Cameroon argued that where sufficient social capital has been built, it is sufficient to guarantee borrowers credit without pledge of collateral . This view agrees with Gesthuizen, Der Meer and Scheepers (2008) study on education and dimensions of social capital who argued that trust in social networks helps firms access credit which further increase the degree and frequency of entrepreneurial actions. Affordable credit can catalyse entrepreneurial action leading to superior performance.

Asked if the interest rates charged during periods of financial distress were low, majority (47.4%) agreed while a few (22.9%) disagreed with 29.7% being in neutral. This shows that lowering interest rates during periods of distress is possible for firms in relationship banking. In relationship banking there is a risk sharing arrangement where the bank would advance loans to struggling firms at lower rates but once they stabilize the rates would be raised. Low interest loans are critical resources that firms can deploy to finance entrepreneurial activities during periods of financial distress. Entrepreneurial

activity includes the entry of new markets, the creation of new products or services, and/or the innovation associated with different business activities (new markets, new capabilities, new products/services) (Ahmad and Seymour, 2008). Sheth, Shepp and Palmon (2011) study on risk-taking, financial distress and innovation reported affordable debt finance during periods of financial distress enables the firms to increase the range of entrepreneurial activities like venturing to new markets, acquiring new capabilities and business expansion that help firms recover from distress.

Asked if innovation capability of the entrepreneur affected the effectiveness of risk sharing on financial performance, majority (72.3%) agreed while a few (16.7%) disagreed with 11% being neutral. This shows that innovation capability of the entrepreneur affects the effectiveness of risk sharing on financial performance. Entrepreneurial activities are risk prone hence a dose of innovation helps firm cope with risks by aiding the development of new products that increases the product offering hence helping in risk diversification. This agrees with Lumpkin and Dess (1996) whose study showed that innovation and all other aspects of EO help in entry to new markets and support of business activities.

On whether risk taking propensity of the entrepreneur affects the effectiveness risk sharing on financial performance, majority (64.4%) disagreed while a few (21.2%) agreed with 14.4% being neutral. risk taking enables entrepreneurs venture beyond their comfort zones and makes them exploit opportuinites in the market thereby enabling them achive their goals This view is consistent with Verbano and Venturini (2011) who argued that risk taking entrepreneurs are likely to be rewarded with superior performance provided that loss exposures be identified, measured, and treated.

On whether proactivity affects the effectiveness of risk sharing on financial performance, majority (63.7%) agreed while a few (24.2%) disagreed with 12.1% being neutral. A firm with a high level proactivity can use the borrowed funds to pursue entrepreneurial opportunities thereby improving its financial performance. This is

consistent with Dean, Shook and Payne (2007) whose study on the past, present, and future of entrepreneurship research data analytic trends and training argued that enterprises with a proactive posture act entrepreneurial and are likely to post superior performance.

4.6.5 Analysis of Firm Performance of Manufacturing Firms in Kenya

Financial performance was assessed by profitability, return on equity and sales turnover. The results are shown in Table 4.5. From the analysis, the average growth for average pre-tax profits, return on equity, return on assets and employment growth ranged from 97.2.7% to 99%, except for the and sales turnover which stood at 117.3%. Relationship banking provides financial resources that are key to enhancing financial performance of a firm. Such resources when deployed to enhance innovations and to venture to new markets can boost a firms's financial performance. This view agrees with Bornheim & Herbeck (1998) who posits that relationship banking gives positive effects such as security of contractual flexibility between banks and client firms, easiness of collateral requirement, reduction of transaction costs through accumulation of information. For manufacturing SMEs, relationship banking can be a strategy to be able to access funds from banks to enable them exploit entrepreneurial opportunities.

Table 4.5 Financial Performance

Financial Performance Factors	Mean	Std Dev
Profitability	97.2	9.6
Sales Turnover	117.3	11.2
Return on Equity	99.7	8.7
Return on Assets	98.7	7.6

4.7 Test of Assumptions of the Study

Assumptions of linear regression models ought to be validated so that the ordinary least squares (OLS) can provide reliable estimates of the parameters (Long & Ervin, 1998). This study therefore evaluated these assumptions by testing for homoscedasticity, multicollinearity, non-response bias and common method variance. Lundahl and Silver (2014) tested for linearity, homoscedasticity and common method bias in their study on 'Aiming for a perceived partnership in relationship lending a viable tool for differentiation in financial services?

4.7.1 Test of Normality

A normality test determine if the data set is well-modeled by a normal distribution (Paul & Zhang, 2010). In this study normality test were done using kurtosis and Skewness. Kurtosis is an indicator of ' flattening' of a distribution while Skewness is as a sign of asymmetry and deviation from a normal distribution. Skewness and kurtosis values that range from +/-3 (SE) are generally considered normal (Onwuegbuzie & Daniel, 2002). The results are presented in table appendix 7. As shown in appendix 7 the skewness value are within the +/-3 range for all factors. We conclude that the data followed a normal distribution. Kurtosis and skweness was employed to test normality by Rocha, Farazi, Khouri and Pearce (2011) in their study on the status of bank lending to SMEs in the Middle East and North Africa.

4.7.2 Heteroscedasticity

Heteroscedasticity is a situation where the variability of a variable is unequal across the range of values of a second variable that predicts it (Vinod, 2008). In this study Heteroscedasticity was tested by performing the Breuch-pagan / cook-weisberg test. Breusch-Pagan / Cook-Weisberg test the null hypothesis that the error variances are all equal versus the alternative that the error variances are a multiplicative function of one

or more variables (Vinod, 2008). Homoscedasticity will be evident when the value of "Prob > Chi-squared" is greater than 0.05 (Park, 2008). Table 4.6 shows that the constant variance (Chi^2 = 40.54) is insignificant (P = 0.150). Thus we fail to reject the null hypothesis and conclude that the error variance is equal thus heteroscedasticity is not a problem in the data. Marcello, Del Prete, Rossi and Valerio (2013) tested for heteroscedacity using the Breuch-pagan / cook-weisberg test in their study on Lending Organization and Credit Supply During the Crisis.

Ho Constant variance

Variables Relationship Lending, Relationship Monitoring, Bundle of products and Risk sharing

Table 4.6 Heteroscedasticity

HO	**Variables**	**$Chi^2(3)$**	**Prob>Chi^2**
Constant Variance	RL, RM, BP , RS	40.54	0.150

4.7.4 Multicollinearity

Multicollinearity is a situation where two or more predictor variables in a multiple regression model are highly correlated (Martz, 2013). In this study the variance inflation factor (VIF) and the Tolerance were used to test multicollinearity among the independent variables. Tolerance measures the impact of collinearity among the variables in a regression model and is calculated from 1 - R2 with a tolerance value close to 1 showing little multicollinearity, while a value close to 0 indicates presence of multicollinearity (Belsley, Kuh & Welsch, 2004). The VIF gives an index that shows

how much the variance of an estimated regression coefficient is increased because of collinearity (Wooldridge, 2000). Cohen, Cohen, West and Aiken (2013). provided that a VIF statistic above 5 is an indicator of multicollinearity and should be removed from regression models. Table 4.7 presents the results. Given the results shown in table 4.7, our VIF values range from 2.001 to 3.23. We conclude that there is no evidence of multicollineriarity in the data. Chang, Liao, Yu , and Ni (2010) tested multicollinearity using the VIF and tolerance in their study on 'Information from Relationship Lending Evidence from Loan Defaults in China'.

Table 4.7 Multicollinearity Test

	Tolerance	VIF
Relationship Lending	0.31	3.23
Relationship Monitoring	0.437	2.288
Bundle of products	0.455	2.199
Risk Sharing	0.5	2.001

4.7.5 Test for Outliers

The Mahalanobis distance was employed to evaluate the multivariate outliers. Multivariate outliers are cases that have an unusual combination of values for a number of variables. Kline (2005) recommended that the Mahalanobosis distance is appropriate for evaluating the multivariate outliers. Mahalanobis D^2 is a multidimensional version of a z-score. It measures the distance of a case from the centroid (multidimensional mean) of a distribution, given the covariance (multidimensional variance) of the distribution. A case is a multivariate outlier if the probability associated with its D^2 is 0.001 or less. D^2 follows a chi-square distribution with degrees of freedom equal to the number of variables included in the calculation (Tabachnick & Fidell, 2007). The results for the Mahalanobis test are presented in appendix 8. Appendix87 shows that the Mahalanobis

D^2 range from 3.286 to 24.616 with p2 values being greater than 0.05 hence suggesting that incidence of multivariate outliers are not existent. Schenone (2004) employed the Mahalanobis test to test for outliers in his study on The Effect of Banking Relationships on the Firm's IPO Underpricing.

Further outliers were tested univariately. This was done by converting all the scores for each variable into standard scores (Z scores). Tabachnick and Fidell (2007) posits that standardized scores with z scores more than 3.29 (P> 0.001) are evidence of otliers. Appendix 9 shows that all the Z scores in this study were less than 3.29 thereby indicating absence of outliers in the data set.

4.7.8 Common Method Variance

There was need to conduct the common method variance because a single respondent evaluated all the variables in this research. The common method variance is the amount of spurious correlation between variables that is created by using the same method (often a survey) to measure each variable. Richardson et al, (2009) posits that there are three methods of testing for the common method variance, that is, the correlational marker technique, the confirmatory factor analysis (CFA) marker technique, and the unmeasured latent method construct (ULMC) technique. In this study common method variance was assed using the confirmatory factor analysis (CFA) Marker variable technique. It uses a measure of the assumed source of the method variance as a covariate in the statistical analysis (Lindell & Whitney ,2001). The common variance in this technique is the square of the common factor of each path before standardization. Again, the common heuristic is to set the threshold to 50%. The results displayed in figure 4.4 show that common factor for the majority of paths were between 0.34 and 0.39. Since it is less than 0.5, we conclude that common method variance is not a big problem in this study. Wang and Pho, (2009) employed the CFA Marker technique to test for the common method variance in their study on the Drivers of customer intention to use online banking An empirical study in Vietnam and reported a t statistic of 0.16.

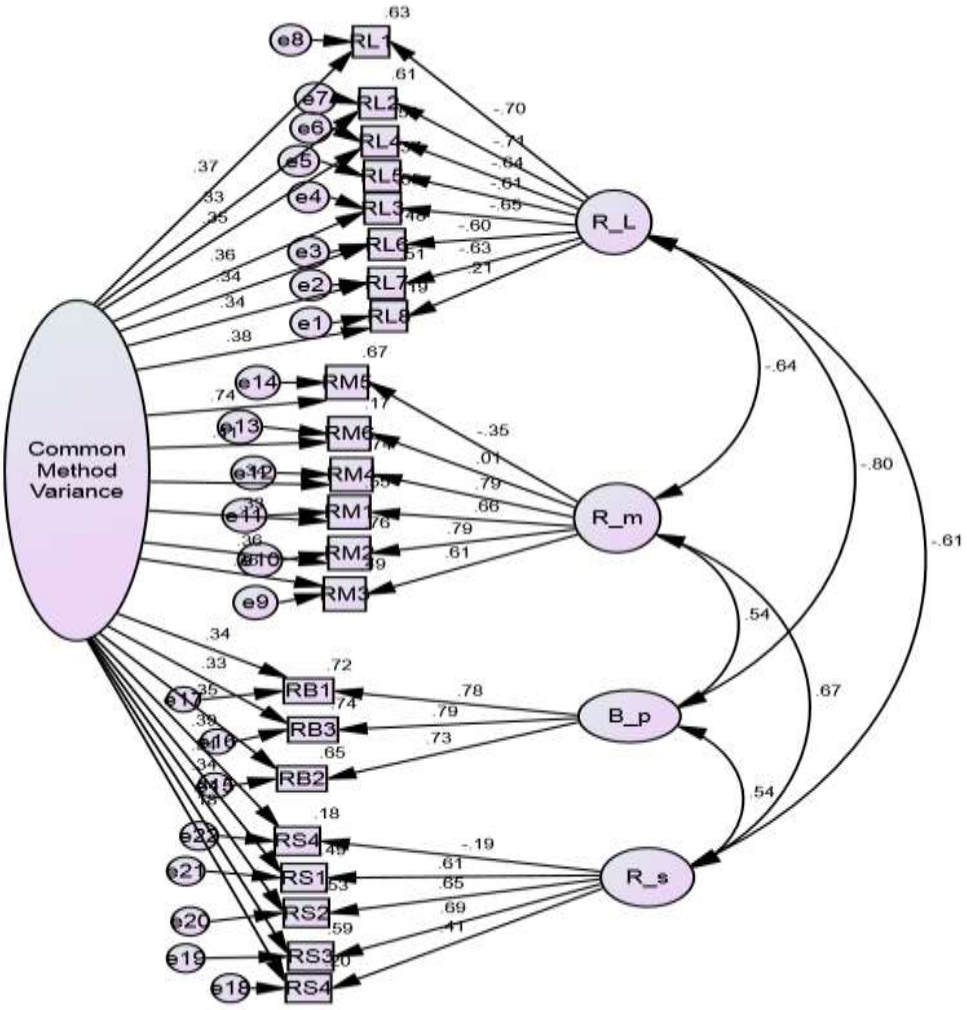


Figure 4.4 Common Method Variance

4.8 Data Analysis and Results of Study Variables

The study conducted a structural equation modeling using the Analysis of Moment Structures (AMOS) to construct a conceptual model linking the variables under study .The study employed confirmatory factor analysis and Structural Equation Modeling (SEM) in particular the path analysis to construct the linkage between the dimension of relationship banking and financial performance**.** This study followed the two step approach for SEM that is, the confirmatory measurement model and the confirmatory structural model as outlined by Anderson and Gerbing (1988). Lundahl and Silver (2014) adopted the two stage SEM approach consisting of confirmatory measurement model and confirmatory structural model in their study on 'Aiming for a perceived partnership in relationship lending a viable tool for differentiation in financial services?' Also a study by Thampradi and Fongsuwan (2014) on Structural Equation Modeling of Relationship Factors Affecting Entrepreneurial Microfinance in Phuket, Thailand conducted analyses using a two-phase process suggested by Anderson and Gerbing (1988).

4.8.1 Confirmatory Measurement Model (CFA)

The measurement model was the first step and it involved confirmatory factor analysis (CFA) while the structural model was the second step. The test of the structural model includes estimating the path coefficients, which indicate the strengths of the relationships between the exogenous constructs and the endogenous construct (Pearl, 2000). The path coefficients in the SEM model represent the unstandardized regression coefficients (MacCallum & Austin, 2000). The structural model reflecting the assumed linear, causal relationships among the constructs was tested with the data collected from the validated measures. Exploratory factor analysis (EFA) preceded CFA and it involved the determination of the pattern matrix, communalities and factor analysis using principal components analysis (PCA). EFA is a statistical method used to uncover the underlying structure of a relatively large set of variables (Tabachnick & Fidell, 2013).

Preceding EFA was the Kaiser-Meyer Olkin (KMO) test of sampling adequacy. The KMO test is used to test homogeneity of variances while the Barlett's test is used to verify that assumption that is, if the samples are from populations with equal variances. (Snedecor and Cochran, 1989). The results are presented in table 4.10. As shown in table 4.8 the test yielded a KMO statistics of 0.783 exceeding the KMO threshold value of 0.50 (Hair et al., 1998) for factorable items. On the other hand, Barlett's test of sphericity showed a p value of 0.000, showing that there were sufficient relationships among the variables to investigate. The results from the KMO and the Bartlets test of sphericity suggest that the data in this study is suitable for factor analysis. Haque, Ismail and HayatDaraz, (2009) employed the KMO Bartlett's test in their study on 'Issues of E-Banking Transaction An Empirical Investigation on Malaysian Customers Perception'.

Table 4.8 Test of Factorability

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.783
Bartlett's Test of Sphericity	Approx. Chi-Square	5682.507
	df	2080
	Sig.	0.000

Exploratory factor analysis was conducted using the PCA in order to reduce the factors used to measure the variables. When done well, highly correlated variables would be grouped into a distinct factor (Bryne, 2010). In fact EFA gives information about number of factors that best represents the data. Uchida, Udell, and Yamori (2012) conducted EFA using the PCA approach in their study on Loan Officers and Relationship Lending to SMEs.

In the first attempt the results were unsatisfactory because four factors were cross loading (QR10, QR20, QB24,QR9, QR8 QR7,QB22 QB29,QB28,RB4,RB5 ,RB6 and QR 15) so they had to be dropped. Costello and Osborne (2005) recommended that cross loading variables ought to be dropped .Further QSp8, QSP7, QS,B11 ,QR12,QB25, QSP4,QSP3 and QB27 was found unsatisfactory because it had factor loadings below 0.5. Hair et al (2010) advanced the view that factor items with factor loadings below 0.5 ought to be dropped. The second round of EFA was then carried out after dropping QR10, QR20, QB24,QR9, QR8 QR7,QB22 QB29 QB28, RB4, RB5 ,RB6 , QR QSp8, QSP7, QS,B11,QR12, QB25,QSP4, QSP3,QR15 and QB27 resulting in the pattern matrix presented in appendix 11 that shows that the variables loaded to the four factors of relationship banking i.e. relationship lending, relationship monitoring, bundle of products and risk sharing. Amhed and Uchida (2012) followed a similar process of dropping items with cross loadings and those with low factor loadings in their study on the Impact of Relationship Banking on the Performance of Corporate Firms A Comparison between Japan and Bangladesh..

Communalities were then assessed in order to determine how much of the variance in each of the original variables is explained by the extracted factors (Field, 2009). Pallant (2007) posits that communalities values of less than 0.5 should be dropped because they have low explanatory power. The communalities presented in Appendix 10 show that the communalities ranged from 0.611 to 0.869 thus showing that all were above the 0.5 cutoff points as posited by Pallant (2007) hence this shows the variables fitted well with other variables in their factor. Yosano and Nakaoka (2011) used communalities to determine how much of the variance in each of the original variables was explained by the extracted factors in their study on The Roles of Relationship Lending and Utilization of Soft Information on Bank Performance in Competitive Local Markets.

4.8.2 Confirmatory Factor Analysis

Confirmatory factor analysis (CFA) is a statistical technique used to verify the factor structure of a set of observed variables. CFA allows the researcher to test the hypothesis that a relationship between observed variables and their underlying latent constructs exists (Suhr (2006). In this study CFA was conducted in a two step process i.e the measurement model and the structural model. The measurement model links a set of observed variables to a usually smaller set of latent variables while the structural model links the latent variables through a series of recursive and non-recursive relationships (Tabachnick and Fidell, 2007). For demonstrating the adequacy of the measurement model, this study investigated the unidimensionality/consistency (indicators having one underlying construct and adequate model fit in structural equation analysis) and validity (construct manifestations actually measuring what they should) (Ping ,2002).

Unidimensionality measurement is fulfilled when all of the non -random variance found in the data can be accounted for by a single dimension of difficulty and ability (Fisher , 2005). This is done by evaluating both absolute fit indices and the incremental fit indices. Moss (2009) posits that fitness indices indicate whether the overall model is acceptable thus paving the way for researchers to establish whether specific paths are significant. Rocha, Farazi, Khouri and Pearce (2011) employed CFA in their study on the status of bank lending to SMEs in the Middle East and North Africa.

a) Absolute Fit Indices

McDonald and Ho (2002) posit that absolute fit indices show how well an a priori model fits the sample data. The Chi square, RMSEA and the goodness of fit index (GFI) are the most popular for determining the absolute fit. The chi square has been traditionally used to indicate the fitness of a model. Hu and Bentler (1999) showed that the chi square assesses the magnitude of discrepancy between the sample and fitted covariances

matrices. Kline (2005) recommended that the Chi-Square statistic signifies a good fit if it is insignificant at 0.05 threshold.

The RMSEA is an absolute measure of fit based on the non-centrality parameter and it estimates the amount of error of approximation per model degree of freedom and takes sample size into account. (Barrett, 2007). An RMSEA of between 0.08 to 0.10 provides a mediocre fit and below 0.08 shows a good fit (MacCallum et al, 1996). Further Steiger (2007) provided a cutoff of 0.07 as an indicator of model fitness. This study adopted the Steiger (2007) cutoff for model fitness for RMSEA. Bashirafshar, Falahati and Ghanbari (2013) used the RMSEA as an indicator of model fitness in their study on The Effect of Relationship Banking On Customer Loyalty in Kermanshah city.

b) Incremental Fit Indices

Incremental indices show how well a model fits as compared to some baseline model (Miles and Shevlin, 2007). Usually the incremental fit indices has the null hypothesis that all the variables are uncorrelated (McDonald and Ho, 2002). Some of the incremental indices include the Goodness-of-Fit statistic (GFI) and CFI (Comparative fit index). The Comparative Fit Index, CFI, is one of a class of fit statistics known as incremental or comparative fit indices and assesses the relative improvement in fit of the researcher's model compared with a baseline model. Diamantopoulos and Siguaw (2000) recommended that CFI values greater than roughly .80 and above may indicate reasonably good fit of the researcher's model. Bashirafshar et al (2013) employed CFI to asses model fitness in their study on the effect of relationship banking on customer loyalty in Kermanshah city.

The GFI is a fitness index that focuses on the variances and covariances accounted for by the model and thus indicates how closely the model comes to replicating the observed covariance matrix (Diamantopoulos and Siguaw, 2000). GFI> 0.95 is an indicator of a good fit.

C) Construct Validity

Construct validity is the degree to which inferences can be made from the operationalizations in a study to the theoretical constructs on which those operationalizations were based (Kane, 2006). For this study construct validity was evaluated by assessing the measurement model for each construct through the determination of convergent and discriminant validity. Convergent validity tests that constructs that are expected to be related are, in fact, related (Domino & Domino, 2006). Discriminant validity tests that constructs that should have no relationship do, in fact, not have any relationship (John & Benet-Martinez, 2000).

In this study convergent validity was determined by assessing the Average Variance Extracted (AVE), cronbach alpha coefficient and the magnitude of factor loadings. Fornell and Larker (1981) suggested that convergent validity can be assed using AVE which is a measure of the shared or common variance in a latent variable that is , the amount of variance that is captured by the latent variable in relation to the amount of variance due to its measurement error (Dillon and Goldstein 1984). For convergent validity requirement to be satisfied, the AVE should be greater than 0.5 (Bagozzi, Yi and Philips, 1991). Further convergent validity can also be assed using the cronbach alpha. Hair et al. (2010) suggested that a cronbach alpha of 0.7 and above is a good indicator of convergent validity.

For this study, convergent validity was assessed by factor loading, Composite Reliability (CR) and Average Variance Extracted (AVE) (Fornell & Larcker, 1981) . The AVE and cronbach alpha results for this study are presented in table 4.9. Table 4.12 shows that the cronbach alpha scores ranged from 0.854 to 0.91 well above the cutoff rate of 0.7 suggested by Hair et al (2010). The same table shows that the AVE ranged from 0.32 to 0.5. The AVE for bundle of products and risk sharing (0.41 and 0.32 respectively) constructs are less than the established cut-off level of 0.50. Therefore, convergent validity was further examined based on the magnitude of factor loadings.

Kusumawardhani (2013) determined convergent validity and discriminant validy to asses construct validity in her study on the role of entrepreneurial orientation in firm performance Java, Indonesia.

Table 4.9 Reliability Statistics

Construct	Average Variance Extracted	Cronbach Alpha
Relationship Lending	0.5	0.910
Relationship Monitoring	0.5	0.860
Bundle of Products	0.41	0.806
Risk Sharing	0.32	0.854

The factor loadings presented in appendix 12 shows that they range from 0.762 t0 0.875. They are all above the cutoff value of 0.5 recommended by (Hair et al, 2006) thus we conclude that the requirements for convergent validity have been made. Kusumawardhani (2013) in her study on the role of entrepreneurial orientation in firm performance employed AVE, factor loadings and composite reliability to determine convergent validity of the model.

d) Discriminant Validity

In this study discriminant validity was evaluated by comparing the average variance explained with the squared correlation within the constructs (Hair et al , 2010). Discriminant validity is supported if the AVE for each construct is higher than the squared correlation between constructs (Koufteros,1999). The estimated correlations between constructs are presented in table 4.10 while table 4.11 presents the squared correlations between constructs with the AVE values.

Table 4.10 Squared Correlations

			Estimate
Relationship lending	<-->	Relationship Monitoring	0.512
Relationship Monitoring	<-->	Bundle of Products	0.45
Relationship lending	<-->	Bundle of Products	0.46
Bundle of Products	<-->	Risk Sharing	0.031
Relationship Monitoring	<-->	Risk Sharing	0.018
Relationship lending	<-->	Risk Sharing	0.047

In Table 4.11 the AVE values are shown in diagonal format on top of each column while the squared correlations are shown underneath. It can be seen from table 4.11 that the AVE values for each construct are higher than the squared correlations between constructs. We thus conclude that the requirements for discriminant validity have been satisfied. Kusumawardhani (2013) compared the AVE values and the squared correlations to determine discriminant validity in her study on the role of entrepreneurial orientation in firm performance. A study of Indonesian SMEs in the furniture industry in central Java.

Table 4.11 Average Variance Extracted and Squared Correlations

	Relationship Lending	Relationship Monitoring	Bundle of products	Risk Sharing
Relationship lending	0.5			
Relationship Monitoring	0.262	0.54		
Bundle of Products	0.211	0.202	0.5	
Risk Sharing	0.0022	0.0003	0.00096	0.52

4.8.3 Confirmatory Structural Model & Hypothesis Testing of Study Variables

4.8.3.1 The Effect of Relationship Lending on Financial Performance of Manufacturing Firms in Kenya.

The first objective of this study was to determine if relationship lending affects SME financial performance. The hypothesis to test for this specific objective was

Ho_1 Relationship lending does not positively influence financial performance of manufacturing SMEs in Kenya.

Prior to hypothesis testing normality tests were done by performing a skweness test and the results showed that the data fitted on the normal distribution. Further outliers were tested for each of the observations, with observations farthest from the centroid, Mahalanobis distance, being taken into consideration. There were no outliers detected. The model fit indices such as RMSEA, GFI and NFI Byrne (2010) were assessed. A summary of these indices for this construct are provided in table 4.12. As shown in the table all the indices met the model fit criteria (Chi square 2435.4, CFI= 0.936, RMSEA 0.06). Arbuckle (2005) posits that a RMSEA value below 0.07 , CFI value above 0.8 and NFI values between

$0.8 \leq \& \leq 1$ are indicators of a good fit . the overall fit indices suggested an acceptable fit for the relationship lending construct, indicating that this construct was unidimenstional.

Table 4.12 Model Fitness Indices for Relationship Lending

Criteria	Cut off Value	Model Result
Chi-Square	Small	2435.4
p-value	≥ 0.05	0.0898
CFI	Above 0.8	0.936
NFI	$0.8 \leq \& \leq 1$	0.89
RMSEA	≤ 0.07	0.06
GFI		0.8

The study had hypothesized that the ten variables were appropriate measures for relationship lending. The final model contained the ten indicator variables that loaded highly on the factors, for each of the exogenous variables. The path coefficient was positive (0.45) showing that relationship lending has a positive effect on the financial performance of manufacturing SMEs. The resultant path diagram for the model is shown figure 4.5 while table 4.13 presents the regression weights. All the factors had positive regression weights and were significant in line with literature which has documented a positive relationship between relationship lending and financial performance.

Table 4.13 Regression Weights for Relationship Lending

			Estimate	S.E.	C.R.	P
Performance	<---	RL	0.452	0.115	3.921	***
F15QR10B11	<---	RL	1			
QR16B17	<---	RL	1.159	0.13	8.9	***
F14QR19B20	<---	RL	0.946	0.115	8.201	***
F13QCP12B	<---	RL	0.966	0.117	8.279	***
QR18B19	<---	RL	1.038	0.123	8.466	***
F11QCP10B	<---	RL	1.002	0.123	8.165	***
QR22B23	<---	RL	0.946	0.137	6.928	***
F12QCP11B	<---	RL	1.102	0.127	8.666	***
F16QR13B14	<---	RL	1.026	0.13	7.869	***
QRA18A19B	<---	RL	0.956	0.121	7.878	***

P < 0.05 * , P < 0.01 ** , P < 0.001***

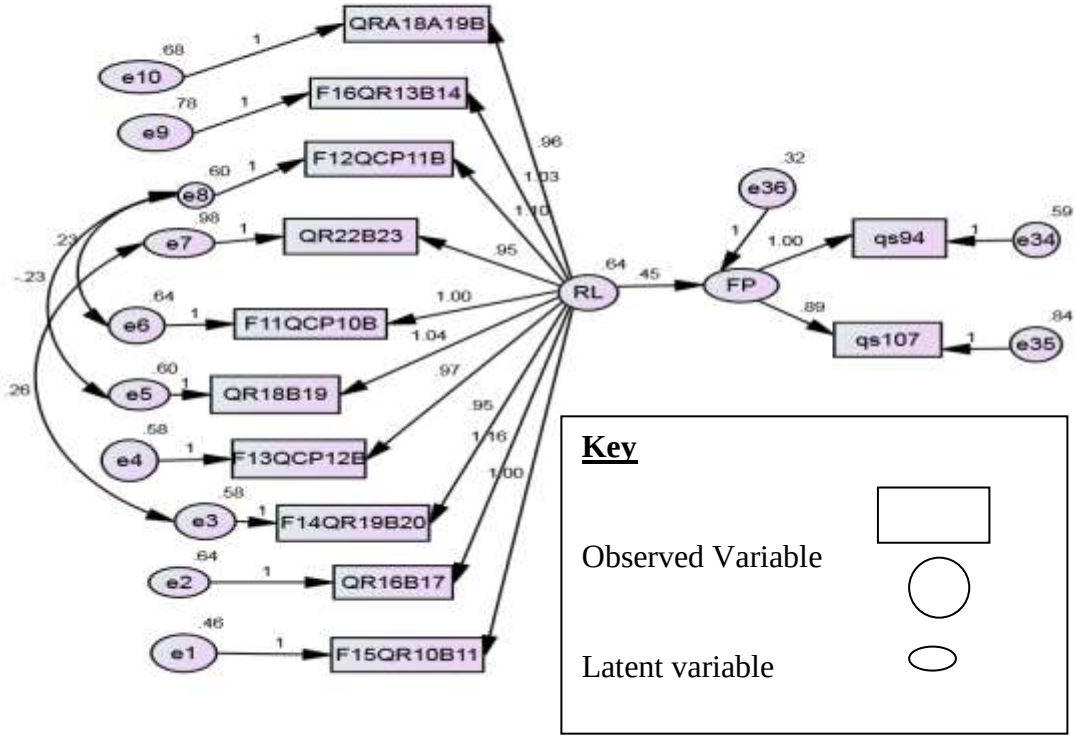


Figure 4.5 SEM Hypothesized Relationship Lending and Financial Performance of Manufacturing Firms in Kenya.

The hypothesis tests in this study were done by assessing the significance of the Critical ratio (CR). Garson (2005) posit that in random sample variables with standard normal distributions, estimates with CR more than 1.96 are significant at the 0.05 level of significance while those with CR > 2.37 are significant at 0.01. The results of significance test for this hypothesis test are presented in figure 4.6. This model was thus statistically significant at 99% significance level (α-level 0.5% for a 2-tailed test). Popular α-levels are 10% (0.1), 5% (0.05), 1% (0.01), 0.5% (0.005), and 0.1% (0.001)

(Fisher, 1926). Since the CR value at 3.921> 2.37, we reject the null hypothesis and accept the alternative hypothesis and conclude that relationship lending has a positive influence on SMEs financial performance.

Relationship lending enables banks to be in a position to understand the SME thus enabling them to lend them funds. The borrowed funds enable the borrowing firms to invest in fixed and current assets and to finance transactions thereby enabling them to be able to exploit entrepreneurial opportunities which has positive consequences on the firm's profitability and sales turnover hence financial performance. Gaglio and Katz (2001) study on the psychological basis of opportunity identification argued that access to external finance is a key determinant of a firm's ability to develop and exploit entrepreneurial opportunities. For business owners with EO, relationship lending affords them resources to exploitation of opportunities since such exploitation of opportunities requires financial resources and since SMEs are shunned by mainstream financial institutions, relationship lending affords them credit to be able to act on those opportunities. Nanda (2008) study on Cost of External Finance and Selection into Entrepreneurship argued that external financing is critical to financing entrepreneurial activities in firms that do not have sufficient internal reserves. Financing entrepreneurial activities eventually lead to new products and new processes which improve profitability and sales turnover hence profitability.

This finding is beneficial for manufacturing SMEs because relationship lending enables a firm to access bank financing. Manufacturing SMEs in Kenya face credit constraints that have curtailed their ability to exploit entrepreneurial opportunities. Relationship lending would therefore help these firms get bank financing thereby enabling them to do innovations, expand markets and improve product quality hence improving their profitability and sales turnover hence financial performance.

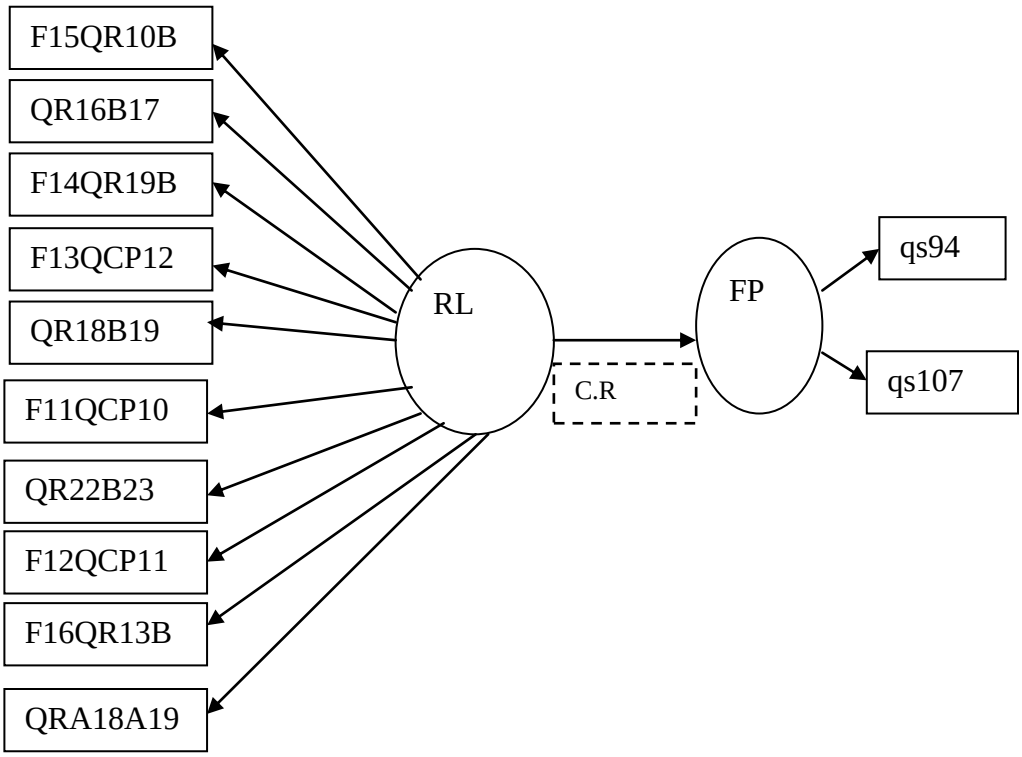


Figure 4.6 Significance Test Result for the Effect of Relationship Lending on Financial Performance of Manufacturing Firms in Kenya.

4.8.3.2 Moderating Effect of EO on the relationship between Relationship Lending and Financial Performance of Manufacturing Firms in Kenya.

This study also sought to find out if EO moderates the relationship between relationship lending and financial performance of manufacturing SMEs in Kenya. To determine moderation, the study followed the recommendation of Sharma et al. (1981), who recommended that to identify moderator variables there is need establish whether a significant interaction between the proposed moderator and other variables exist. As recommended by Chin et al (2003) a product-indicator approach was employed. This was done by adding the interaction (RL*EO) as one of the predictors alongside EO and

relationship lending and its significance on the model determined. It resulted in the model presented in figure 8. As shown in figure 8, the hypothesized model is shown in a path diagram with relationship lending, EO and the interaction term RL*EO as the predictors. All the variables used as composite measures for model loaded well.

The model fit was assessed using a series of indices recommended by Hair et al., (2010), such as CFI, GFI and RMSEA. The model fitness results presented in table 4.14 showed that the model indices (RMSEA =0.061 , CFI=0.941, and GFI =0.91) showed a good fit.

Table 4.14 Fitness Indices for Moderated Model for Relationship Lending

Criteria	Model result	
AGFI	0.952	Good Fit
CFI	0.941	Good Fit
NFI	0.89	Good Fit
RMSEA	0.061	Good Fit
GFI	0.91	Good Fit

The resultant path diagram for this moderated model is presented in figure 8. The model had been specificied with relationship lending, EO and the interaction term as the predictors of financial performance. The regression weights are presented in table 4.15. As shown in table 4.15, the path coefficient used for testing moderation that is RL*EO was positive (0.013) and significant at 0.01 level indicating that the moderator (EO) has positive relationship with financial performance. The test of significance was done by assessing the significance of the critical ratio at the 0.01 level of significance. As shown in figure 4.7, the CR for the interaction term (CR=4.529) is greater than 2.37 and was significant at 0.01 level of significance thus we conclude that EO moderates the relationship between relationship lending and financial performance.

Thus while relationship lending avails the much needed credit to SMEs, EO determines how such funds would be used. The extend inclination of a firm towards innovation, risk taking and proactivity determines how the firm utilizes the borrowed funds. Firms which exhibit innovation, proactivity and risk taking would be able to utilize financial resources better than those who do not hence they are likely to gain competitive advantage and post superior performance.

These finding agrees with Kreiser, Marino, and Weaver (2002) whose study on Assessing the Psychometric Properties of the Entrepreneurial Orientation Scale noted that various dimensions of EO such as innovation, proactiveness and risk taking have a positive effect on various aspect of a firm's financial performance such as profitability and sales turnover. Lumpkin and Dess (1996) study on Enhancing Entrepreneurial Orientation Research Operationalizing and Measuring a Key Strategic Decision Making Process, showed that while a firm can receive credit, EO determines if such are resources can be used to exploit entrepreneurial opportunities.

This view is further supported by Awang et al. (2009) whose study on entrepreneurial orientation among Bumiputera Small and Medium Agro-Based Enterprises in West Malaysia further demonstrated the moderating effects of EO on the relationship between lending and financial performance by showing that firms high on EO deployed their financial resources to exploit opportunities thus posting better performance than those low in EO. This view is important to manufacturing SMEs as they need to be able to act entrepreneurially. Manufacturing SMEs are plagued by a number of problems such as poor quality and shrinking market share (Kiama,2012). By adopting EO, these manufacturing SMEs will be in a good position to improve product quality through innovations and to aggressively market their products thereby posting superior performance.

Table 4.15 Regression Weights for Moderated Model - Relationship Lending

			Estimate	S.E.	C.R.	P
Performance	<---	EOxRL	0.013	0.003	4.529	***
Performance	<---	RL	-0.005	0.097	-0.051	0.959
Performance	<---	EO	-0.657	0.333	-1.974	0.048

The resultant path diagram is presented in figure 8.

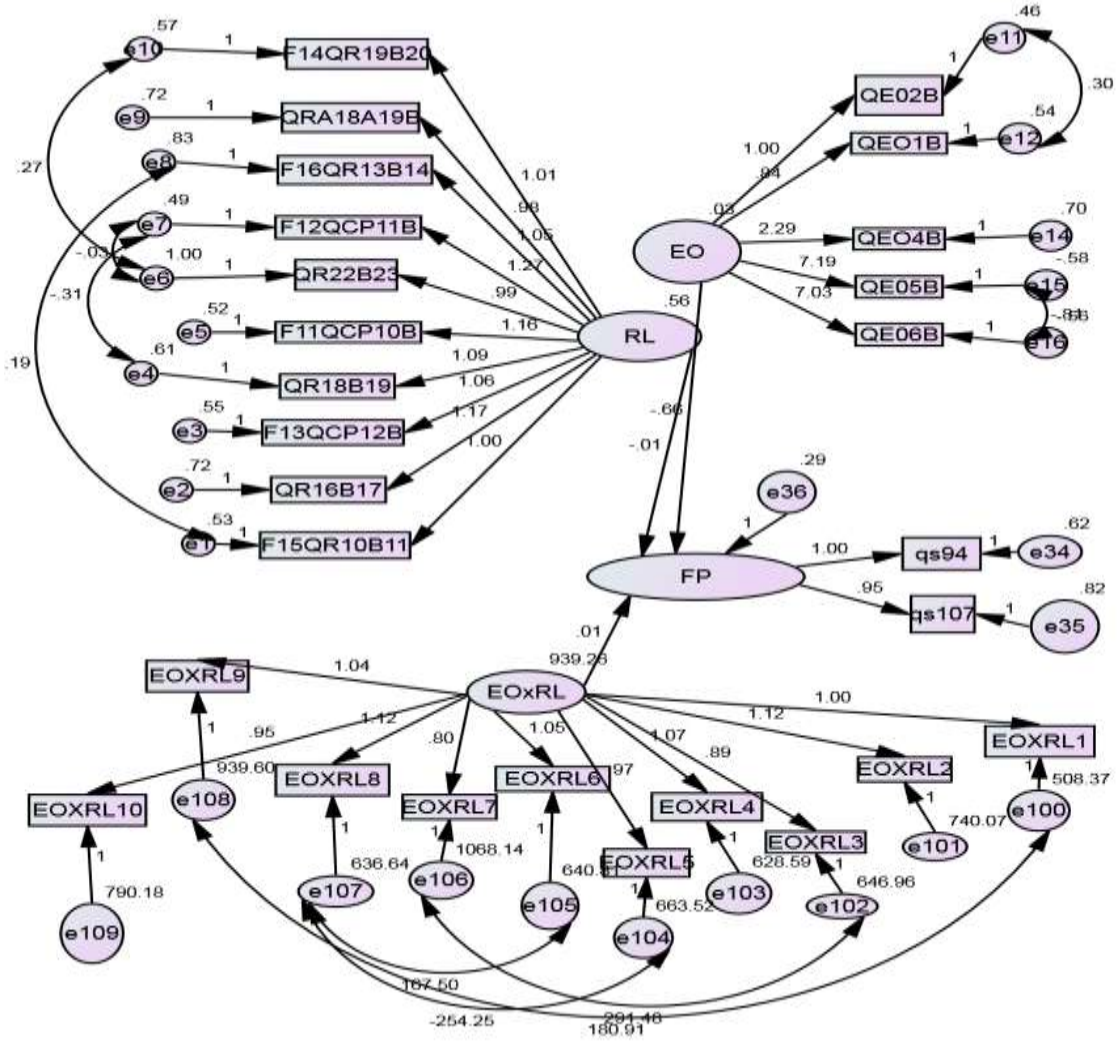


Figure 4.7 SEM Moderated Model for Relationship Lending

4.8.4 The Effect of Relationship Monitoring on Financial Performance of Manufacturing Firms in Kenya

The second objective of this study was to assess the effect of relationship monitoring on the financial performance of manufacturing SMEs in Kenya. The study had hypothesized that

$H_{o2:}$ Relationship monitoring has no positive relationship financial performance of manufacturing SMEs in Kenya.

The model fitness of this construct was assessed by evaluating the fitness indices i.e chi-square, CFI, NFI, RMSEA and GFI. According to Hipp and Bollen (2003) a model has a good fit if RMSEA < 0.8,, CFI > 0.8 and NFI should be between 0.8 and 1. Table 4.16 presents the results. All fit indices gave a good fit (chi square = 2435, p = .000, CFI = .93, GFI = .8, RMSEA = .063). These fit indices showed acceptable fit threshold levels, suggesting a good fit between the hypothesized model and the data. Since the overall fit indices suggested an acceptable fit for the relationship monitoring construct, it indicates that this construct was unidimenstional.

Table 4.16 Model Fit Indices for Relationship Monitoring

Criteria	Cut off Value	Model Result	Description
Chi-Square	P<0.05	2435.4	Good Fit
p-value	≥ 0.05	0.0898	Good Fit
CFI	Above 0.8	0.93	Good Fit
NFI	0.8≤ & ≤1	0.89	Good Fit
RMSEA	≤ 0.07	0.063	Good Fit
GFI		0.8	Good Fit

The final path diagram is shown in the figure 4.8. Figure 4.8 shows that all the four variables used as composite measures of relationship monitoring loaded well thereby showing the resultant path diagram with unstandardized path coefficients. All path coefficients are significantly different from zero at the level of p >0.001 and are shown in each arrow in Figure 4.8.

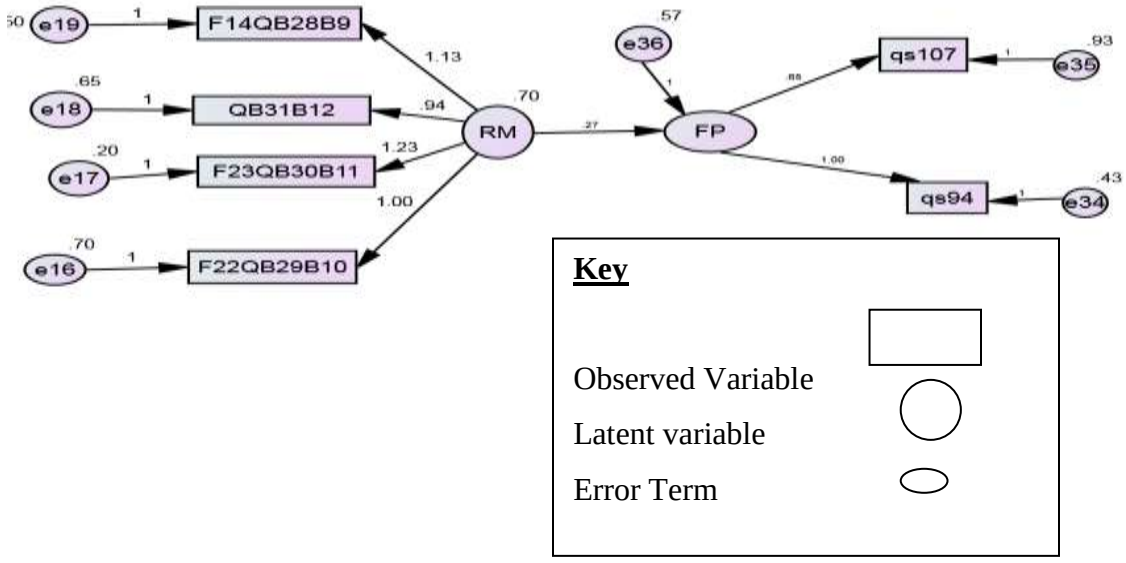


Figure 4.8 Hypothesized Relationship between Relationship Monitoring and Financial Performance of Manufacturing Firms in Kenya.

The unstandardized regression coefficients for relationship monitoring are presented in table 4.17. All the four variables used to measure relationship monitoring had positive regression coefficients suggesting that relationship monitoring positively influences the

financial performance of manufacturing SMEs in Kenya. The table shows that the regression weights were significantly different from zero beyond the .01 level ($p > 0.05$).

Table 4.17 Regression Weights for Relationship Monitoring

			Estimate	S.E.	C.R.	P
FP	<---	RM	0.268	0.113	2.377	0.017
F22QB29B10	<---	RM	1			
F23QB30B11	<---	RM	1.225	0.133	9.212	***
QB31B12	<---	RM	0.941	0.126	7.477	***
F14QB28B9	<---	RM	1.133	0.133	8.529	***
qs94	<---	FP	1			
qs107	<---	FP	0.653	0.435	1.501	0.133

P < 0.05 * , P < 0.01 ** , P < 0.001***

Hypothesis 2 predicted that there would be a positive relationship between relationship monitoring and SME financial performance. The critical ratio (CR) was used to test the hypothesis . Since the CR was 2.377 and is greater than 1.96, we conclude that the model is significant at the 0.05 level hence we reject the null hypothesis and conclude that relationship monitoring has positive influence on the financial performance of manufacturing SMEs.

Relationship monitoring reduces the information gap between the bank and the firm thereby enabling the firm to access credit facilities from the bank. When done well monitoring enables SMEs with high levels of EO to access credit that can be utilized to

finance entrepreneurial ventures like new product development, venturing into new markets and innovations that may eventually lead to increased profitability and sales turnover hence superior performance. This finding is consistent with previous studies such Agostino, Silipo and Trivieri (2008) whose study on the effects of screening and monitoring on credit rationing of SMEs in Italy showed that bank monitoring has positive consequences on the cashflow and financial performance. Thus EO enables firms in relationship banking to be proactive in relationship monitoring thus giving them ability to benefit from this process. Further through monitoring the bank keeps track of the firms' activities hence the borrowing firm may not engage in wasteful activities. This view agrees with Anane, Cobbina and Manu (2012) who reported that bank monitoring helps improve performance of beneficiaries by helping them avoid wasteful spending. This is also consistent with Moss, Neubaum and Meyskens (2015) whose research on the effect of virtuous and entrepreneurial orientation in the family business system reported that that credit is crucial to the financial performance and the growth of the firm as it can be used to finance a number of entrepreneurial activities and ventures such as investment in assets, personnel and product development which raise the entrepreneurial intensity levels of the firm.

This finding is important to manufacturing SMEs as it demonstrates how relationship monitoring paves the way for banks to lend money to otherwise opaque SMEs. Manufacturing SMEs, just like other SMEs lack proper accounting procedures and as such their financial statements are unreliable Berger and Udell, 2004). Relationship monitoring thus helps banks to understand these manufacturing SMEs so as to narrow the information gap between the two to a point the bank can advance loans to them. Thus they should be able to cooperate with banks and avail all required financial records to make them known to the bank.

Relationship monitoring is also important in understanding how the domain of relationship banking is related to strategic entrepreneurship. Relationship monitoring enables the bank to collect and monitor an enterprise over time. This cements the

network between the bank and the SME. Networking has been identified as one of the components of strategic entrepreneurship in a conceptual model developed by Ireland (2001). Research suggests that social networks shape the emergence and development of nascent ventures. Scholars e.g Calabrese, Baum, and Silverman, 2000) have argued that founders' and firms' networks influence innovation and the identification of entrepreneurial opportunities, as well as facilitate the mobilization of resources for growth and the harvesting of value from fledgling firms.

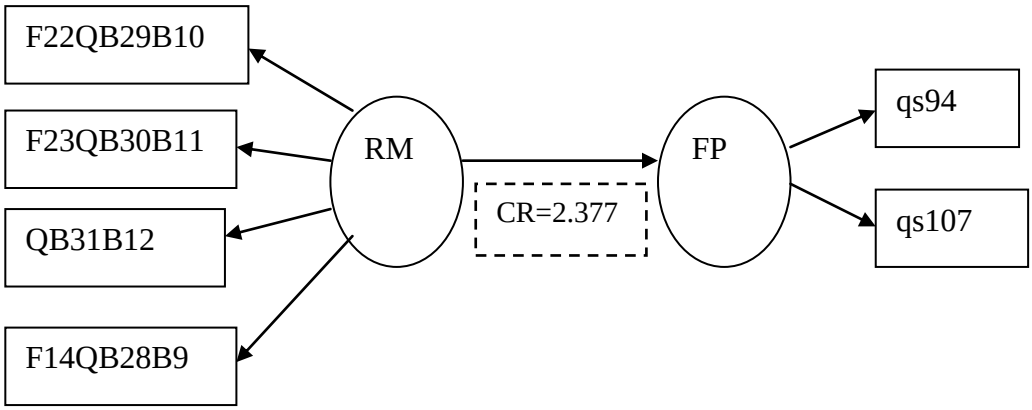


Figure 4.9 Significance Test for Relationship Monitoring

4.8.4.1 Moderating Effect of EO on the relationship between Relationship Monitoring and Financial Performance of Manufacturing Firms in Kenya.

The moderating effects of EO on the relationship between relationship monitoring and financial performance was assessed by introducing the interaction term RM*EO as one of the predictors of financial performance. Sharma et al. (1981 posits that to test for moderation there is need to establish whether a significant interaction between the proposed moderator and other variables exist. Thus the interaction term (RL*EO) was introduced to the model (the RL, EO relationship) and its significance determined by assessing the magnitude of the p value. The resulting model is presented in figure 11. As shown in figure 11, all the variables in the model loaded well thus producing the

resultant path diagram. All path coefficients are significantly different from zero at the level of p > 0.001 and are shown in each arrow in Figure 4.10.

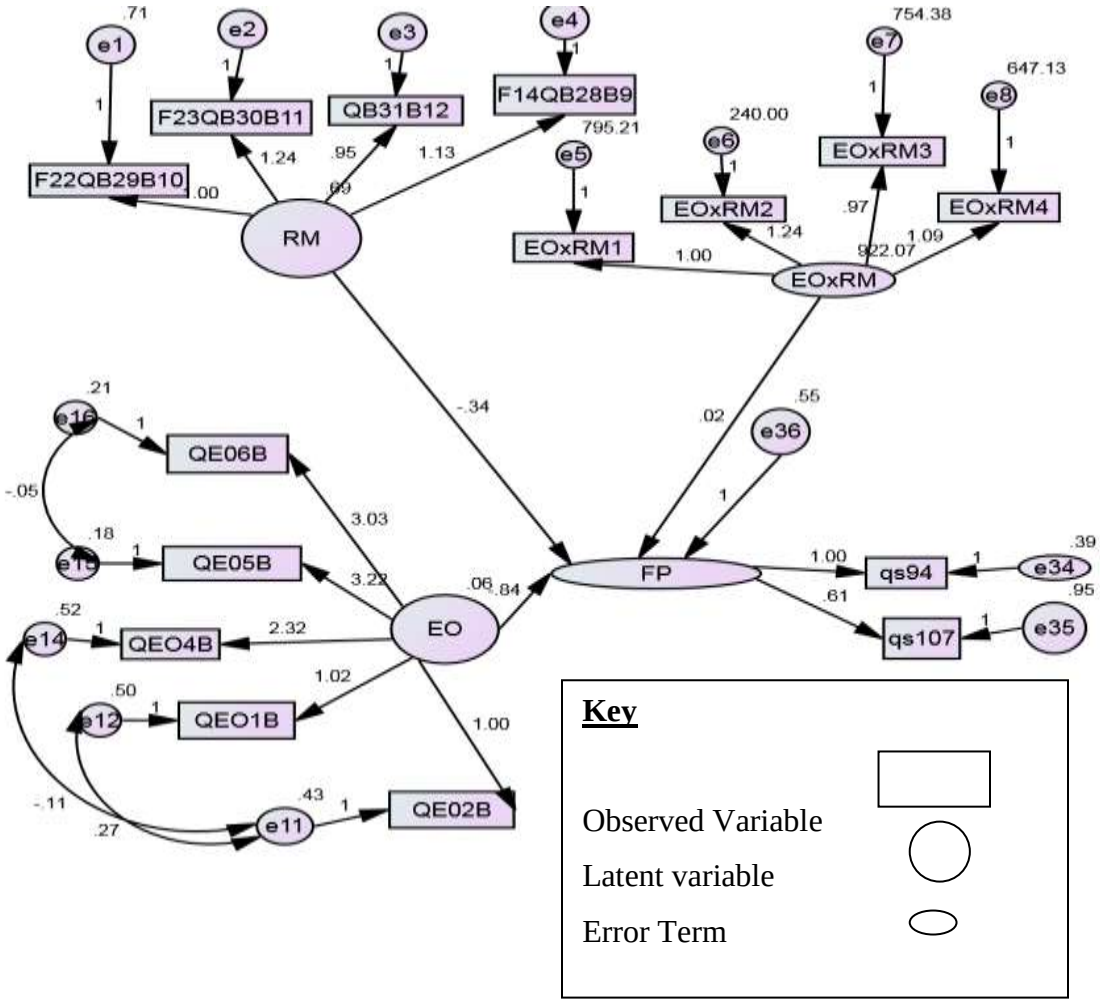


Figure 4.10 Moderated Model for Relationship Monitoring

The model fit indices for the above moderation model was assessed and the results are shown in table 4.18. As shown in the table the model showed a good fit RMSEA = 0.067 CFI=0.941 and GFI=0.96 .

Table 4.18 Fitness Indices for Moderated Relationship Monitoring

Criteria	Model Result	Description
Chi sq	1932.8	Good Fit
p-value	0.0718	Good Fit
CFI	0.941	Good Fit
NFI	0.928	Good Fit
RMSEA	0.067	Good Fit
GFI	0.96	Good Fit

The regression weights are presented in table 4.19.The moderation effect of EO were assessed by determining the significance of the interaction term EO*RM. The CR was used to assess the statistical significance of the interaction term by assessing its value against the threshold of 1.96 which is the cutoff of CR at the 0.05 level of significance (Garson ,2005). As shown in table, the interaction term EO*RM is significant at 0.05 level of significance. , CR = 8.691 is >1.96. Thus we conclude that EO moderates the relationship between relationship monitoring and financial performance of SMEs.

While relationship monitoring helps SMEs access funding from the banks, EO dimensions such as innovation, risk taking and proactivity helps the firm to fully utilize the credit advanced to exploit profitable entrepreneurial opportunities. This view agrees with Carlletti (2004) who reported the curvilinear moderating effect of EO on the relationship between Monitoring and performance. This view also agrees with Ferri, Kang and Kim (2001) who argued that firms monitored at the same level by a financial

institution are likely to perform differently because of the EO of the proprietor. For manufacturing SMEs, this has shown that EO is important in as far relationship monitoring is concerned. They should therefore be able to infuse EO into their relationship monitoring activities as this would help them capture financial data that can be helpful enough to persuade banks to lend them credit. By being proactive in this regard, they would be able to anticipate financial data required by the bank and this would ensure speedy processing of loans.

Table 4.19 Regression weights for Moderated Relationship Monitoring

			Estimate	S.E.	C.R.	P
Performance	<---	EO	-0.842	0.423	-1.987	0.047
Performance	<---	RM	-0.339	0.111	-3.041	0.002
Performance	<---	EOxRM	0.018	0.003	5.44	***

4.8.5 To Assess the Effect of Bundle of Products on Financial Performance of Manufacturing Firms in Kenya.

The third objective was to determine whether bundle of products influences financial performance of manufacturing SMEs in Kenya. The study was guided by the hypothesis below

H_{o3} Bundle of products does not positively influence on the financial performance of manufacturing firms in Kenya.

The model fitness for the bundle of products construct was assessed by evaluating the model fit indices as recommended by (Byrne (2010). Table 4.20 shows that the model fit

indices ($\chi 2$= 2435; p= 0 .0898; Bentler-Bonnet Non-Normed Fit Index =0.89; Comparative Fit Index = 0.8; were within the acceptable cut off values of model fitness provided by Hipp and Bollen (2003) (the cut off values for the fitness indices are shown in the cutoff value column of table 4.20) hence we conclude that the bundle of products construct fits well**.** The overall fit indices suggested an acceptable fit for bundle of products construct thus supporting the unidimenstionality of this construct.

Table 4.20 Model Fit Indices for Bundle of Products

Criteria	**Cut off Value**	**Model Result**	**Description**
Chi-Square	Small	2435.4	Good Fit
p-value	≥ 0.05	0.0683	Good Fit
CFI	Above 0.8	0.197	Good Fit
NFI	$0.8\leq$ & ≤ 1	0.89	Good Fit
RMSEA	≤ 0.05	0.157	Good Fit
GFI		0.8	Good Fit

The generated model is displayed in figure 4.11. All other standardized path coefficients are significantly different from zero at the level of p>0.05 level of significance and are shown in each arrow in Figure 4.11.

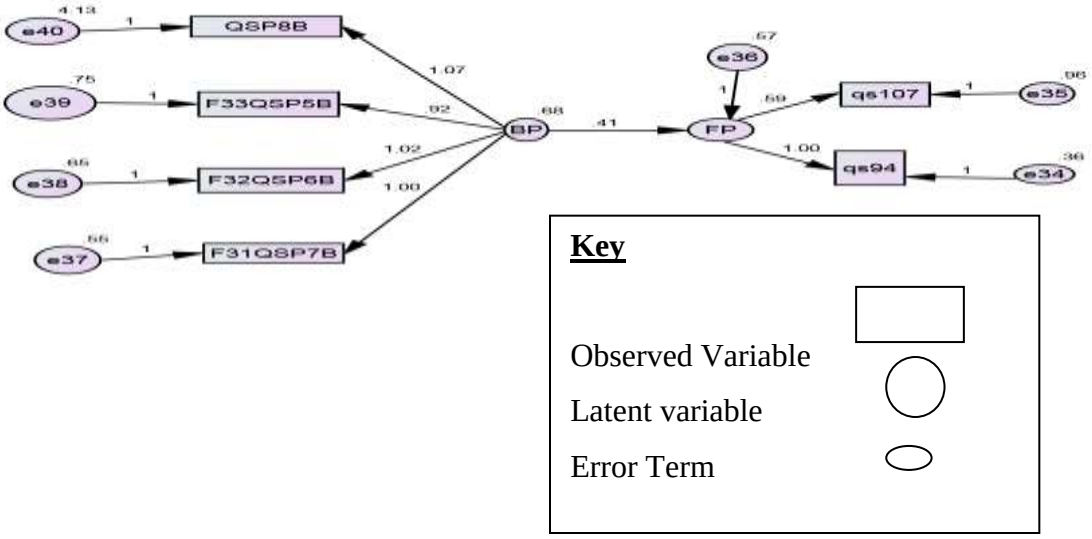


Figure 4.11 Hypothesized Relationship Between Bundle of Products and Financial Performance of Manufacturing Firms in Kenya.

Table 4.21 presents the regression weights for the bundle of products construct. All the regression weights were positive indicating that a positive relationship exists between the bundle of products and financial performance. Further the table shows that all the regression coefficients for the model are significantly different from zero beyond the 0.01 level, as indicated by the column labelled p.

Table 4.21 Regression Weights for Bundle of Products

			Estimate	S.E.	C.R.	P
FP	<---	BP	0.406	0.125	3.235	0.001
qs94	<---	FP	1			
qs107	<---	FP	0.587	0.311	1.886	0.059
F31QSP7B	<---	BP	1			
F32QSP6B	<---	BP	1.017	0.162	6.271	***
F33QSP5B	<---	BP	0.924	0.153	6.037	***
QSP8B	<---	BP	1.071	0.275	3.901	***

P < 0.05 * , P < 0.01 ** , P < 0.001***

The test of significance was carried out by assessing the significance of the CR at 0.05 level of significance as shown in figure 4.12. Hypothesis 3 postulated that there is no significant relationship between bundle of products and SMEs financial performance. The CR value (CR=3.25 is greater than 1.96) hence we conclude that the bundle of products positively affects financial performance of manufacturing SMEs in Kenya. Therefore, we reject the null hypothesis and accept the alternative which postulated that there is a significant relationship between bundle of products and SMEs financial performance.

This analysis on the various aspects of bundle of products in relationship banking show that bundle of products positively impacts on the financial performance of SMEs in Kenya. Since bundled financial products are financial resources at the disposal of the SME, they can enhance the performance of the firm if they are strategically used to fund entrepreneurial activities that ultimately lead to increased sales turnover and profitability hence enabling firms to post superior performance. This would be especially so if the firm displays EO since EO translates organizational resources into capabilities. This

finding is consistent Drucker and Puri (2005) whose study on 'Bank Deregulation in Historical Perspective' reported that bundled loans offered by banks improves the financial performance of the borrowers. This view also agrees with Greve and Salaff (2003) whose study on Social Networks and Entrepreneurship reported that resources are critical to the growth of an enterprise. If strategic better-networked entrepreneurs display EO, recognize opportunities and assemble higher quality resources, Newbert (2007) suggests that these entrepreneurs' enterprises may enjoy sustained, superior firm performance. Fuduric (2008) study on 'the Sources of Entrepreneurial Opportunities Individuals & the Environment' suggested that external financing is critical in helping entrepreneurs exploit opportunities identified. Further Davidsson and Honig, (2003) study on 'The role of social and human capital among nascent entrepreneurship' argued that access to resources is likely to enhance the individual's ability to detect and act upon discovered opportunities. Where there is a financing gap entrepreneur's propensity for opportunity identification, risk taking and innovation will amount to nothing (Nanda, 2008). Because the pace and rapidity of change makes the business environment turbulent, firms have to innovate so as to keep pace with the competition. Morris and Kuratko (2002) posit that financial resources are required to implement innovative ideas, thus cash strapped SMEs without sufficient internal resources will have to make to do with borrowing.

This finding is important to manufacturing SMEs as it demonstrates that financial resources are key to their success. Manufacturing SMEs by nature of their activities require a lot of financial resources to enable them operate. Thus it would be prudent for them to have diversity of banking services where they would get varied loan products in a bundle to suit their needs. Inability to attract sufficient financial resources would undermine their ability to exploit entrepreneurial activities inspite of displaying elements of EO such as innovation, proactivity and risk taking. Since product bundles are financial resources at the disposal of the SME, they fit well to the strategic entrepreneurship and especially the resource based view which is acceptable as one key

area in entrepreneurship. Greve (2003) posit that resources are critical to the growth of an enterprise. A model of strategic entrepreneurship promulgated by Ireland *et al* (2003) identified resources as one of the dimensions of strategic entrepreneurship.

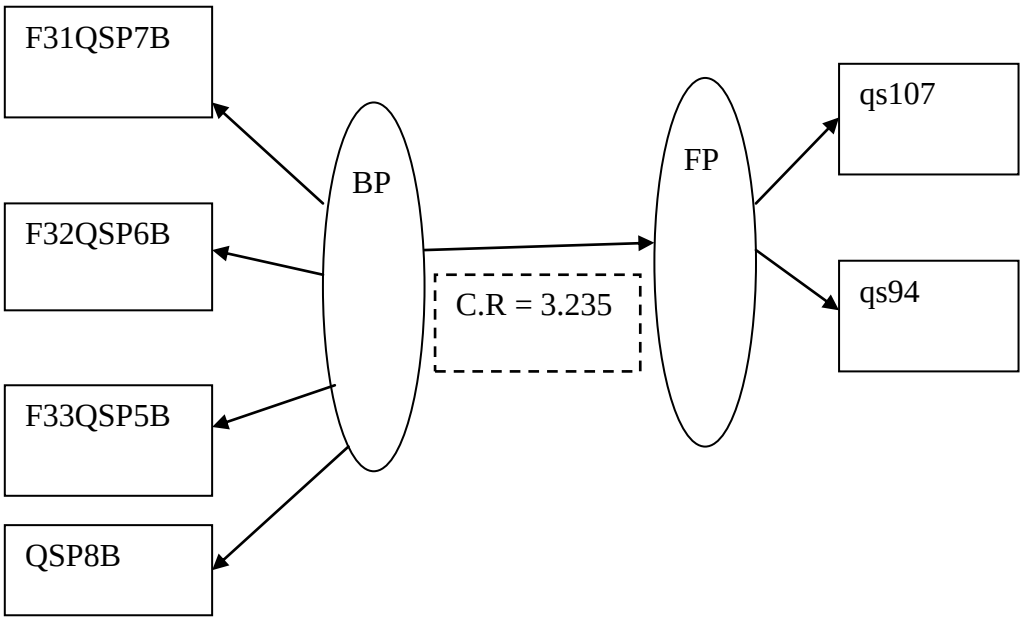


Figure 4.12 Hypothesis Testing for Bundle of Products

4.8.5.1 Moderating Effects of EO on the relationship between Bundle of Products and Financial Performance of Manufacturing Firms in Kenya.

The moderating effect of EO on the relationship between bundle of products and financial performance was assessed by introducing the interaction term BP*EO as one of the predictors of financial performance alongside BP and EO. The resultant model is presented in figure 4.13.

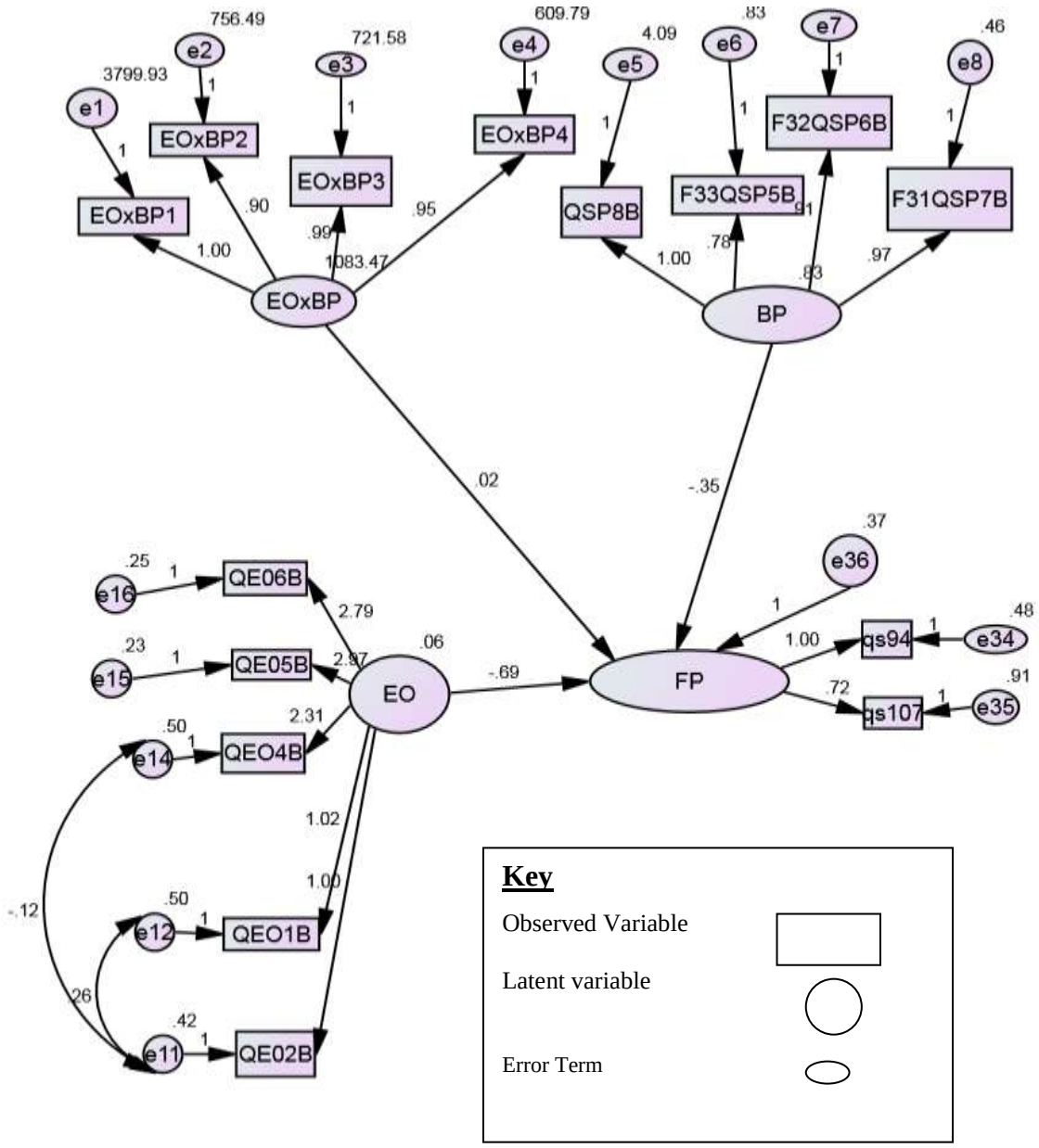


Figure 4.13 SEM Model for Bundle of products

The fit indices for the above model are presented in table 4.22. As shown in the table 4.26 the RMSEA = 0.065 , CFI= 0.89 and GFI = 0.91 . Based on the cutoff recommended by Hair et al (2010) that RMSEA< 0.08, CFI> 0.9 and GFI> 0.9. All fit indices are well within the cutoff range hence we conclude that this moderated model has a good fit.

Table 4. 22 Fitness Indices for Moderated Bundle of Products Model

Criteria	Model Result	Description
Chi sq	1413.3	Good Fit
p-value	0.0752	Good Fit
CFI	0.89	Good Fit
RMSEA	0.065	Good Fit
GFI	0.91	Good Fit

The regression weights are presented in table 4.23. As shown in the table, the interaction term EO*BP was positive showing that the moderating variable has some positive effect on the relationship between BP and financial performance. The interaction term BP*EO was statistically significant (CR= 4.899 is >2.37) at the 0.01 level and hence we conclude that EO moderates the relationship between the bundle of products and financial performance . This is because while the bundle of products avails financial resources to the SME, EO determines how such resources can be deployed. Thus firms high on EO are likely to apply some of the funds to fund innovations that would create new customer needs thereby improving sales turnover and profitability. This view is consistent with a study by Atuahene- Gima and Ko, (2001) on 'the effect of market orientation and entrepreneurial orientation alignment on product innovation' that argued that, EO helps firm utilize the resources at their disposal thus enabling it to outperform its competitors. This also agrees with Amit and Schoemaker (1993) whose study on strategic assets and organizational rent suggested that EO determines how a firm

utilizes its financial resources to exploit profitable entrepreneurial opportunities. For manufacturing SMEs this findings are important as it shows that there are other issues that affect financial performance beyond financial resources. For manufacturing SMEs to post superior performance, they need to act entrepreneurially by adopting EO as this would enable them exploit opportunities and cope with the competition. By adopting EO, they would be able to deploy the bundle of products to gain competitive advantage.

Table 4.23 Regression Weights for Model for Bundle of Products

			Estimate	S.E.	C.R.	P
Performance	<---	EO	-0.694	0.388	-1.789	0.074
Performance	<---	EOxBP	0.019	0.004	4.335	***
Performance	<---	BP	-0.349	0.128	-2.73	0.006

4.8.6 Effect of Risk Sharing on Financial Performance of Manufacturing Firms in Kenya

The fourth objective of the study was to determine if risk sharing influences the financial performance of manufacturing SMEs in Kenya. The null hypothesis is stated below

> H_{o4} Risk sharing does not influence financial performance of manufacturing Firms in Kenya.

The model fit indices for the risk sharing construct was assessed by evaluating the fitness indices. Table 4.24 presents the results, the Chi-square test statistic is not significant at 0.05, which suggest that the model fitting is only acceptable. Root mean square error of approximation (RMSEA) is 0.00 and since it is less than 0.05, it indicates

a good fit. Goodness of Fit Index (GFI) is 0.97 and since it is larger than 0.9 which again reflect a good fit.

Table 4.24 Fitness Indices for Risk Sharing

Criteria	Cut off Value	Model Result	Description
Chi-Square	Small	2435.4	Good Fit
p-value	≥ 0.05	0.065	Good Fit
CFI	Above 0.8	0.93	Good Fit
NFI	0.8≤ & ≤1	0.89	Good Fit
RMSEA	≤ 0.07	0.00	Good Fit
GFI	<0.9	0.97	Good Fit

The resulting path diagram for this objective is presented in figure 4.14. The risk sharing variable was measured by four items that loaded well producing the path diagram in figure 4.14.

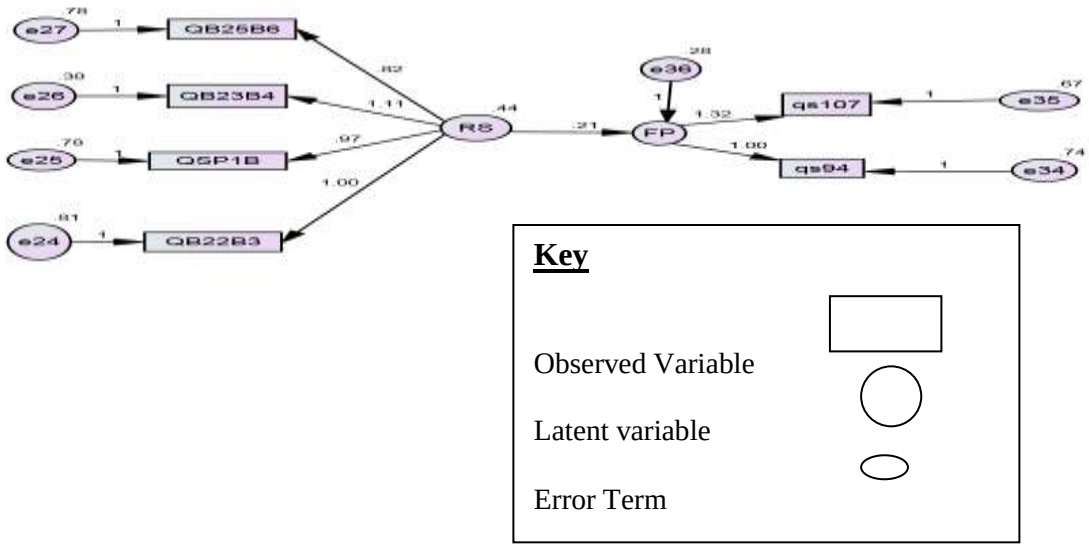


Figure 4.14 Hypothesis Testing for Risk Sharing

The regression weights for this objective are presented in table 4.25. As shown in the table all the cofficients were positive suggesting that the items used as composite measures for risk sharing had a positive effect on financial performance. The path coefficient was positive (0.214) and significant (p =0.177) at the 0.10 level of significance thus indicating that risk sharing has a positive effect on financial performance of manufacturing SMEs in Kenya.

Table 4.25 Regression Weights for Risk Sharing

			Estimate	S.E.	C.R.	P
FP	<---	RS	0.214	0.158	1.351	0.177
QB22B3	<---	RS	1			
QSP1B	<---	RS	0.973	0.204	4.776	***
QB23B4	<---	RS	1.111	0.218	5.095	***
QB25B6	<---	RS	0.822	0.186	4.425	***
qs94	<---	FP	1			
qs107	<---	FP	1.319	1	1.318	0.188

P < 0.05 * , P < 0.01 ** , P < 0.001***

The 4th hypothesis of this study postulated that there is no significant relationship between risk sharing and SMEs financial performance. The path coefficient for risk sharing is 0.214 which is significant at the 0.10 level of significance. Further the CR = 1.351 is more than 0.842 which is the cutoff value of CR at the 0.10 level of significance (Garson, 2005). Thus we reject the null hypothesis and conclude that risk sharing has a positive impact on the financial performance of manufacturing SMEs in Kenya.

Thus being a risk strategy, risk sharing affords firms a shield as they pursue entrepreneurial activities that are usually accompanied by a degree of risk taking which is a positive attribute in entrepreneurship. This would have more positive effect if the firm displays elements of EO in its risk strategy as it would lead to entrepreneurial risk management (Pearce II and Michael, 2006). This finding is consistent with Keh et al (2002) who argued that risk sharing being a risk mitigation strategy helps firms deal and cope with financial risks hence is key to achieving sustainable entrepreneurship. This is also consistent with Syed (2010) who advanced the view that risk sharing puts the firm in a good position to pursue entrepreneurial opportunities with little financial risks hence

are likely to post higher sales turnover and profitability hence having a positive effect on financial performance.

This study is beneficial to manufacturing SMEs because it has shown that risk sharing is beneficial to them. Manufacturing SMEs face financial risks which if not handled well can have negative consequences on their profitability leading to financial ruin. Thus manufacturing SMEs need to be able to negotiate viable risk sharing options with the banks so as to be able to shield themselves from financial ruin during periods of financial distress. Risk taking has long been a central theme of the entrepreneurship literature. The ability to operate under conditions of uncertainty may also be based on an individual's motivation and risk propensity (Baum & Locke, 2004).Managing risk and uncertainty are key entrepreneurial attributes. Risk has been given prominence in the strategic entrepreneurship literature. For instance Luke, Kearins and Louise Verreynne (2010) developed a conceptual framework of strategic entrepreneurship that identified the objective of dealing with risk as being key in the framework. Further Kyrgidou and Hughes (2009) identified risk acceptance as one of the components that contribute the principles of strategic entrepreneurship. Opportunity recognition and creation being important domains of strategic entrepreneurship are susceptible to various risks (Ireland *et al*., 2003). Thus entrepreneurs should be able to have proper risk mitigation strategies to cushion the enterprise from those risks.

4.8.6.1 Moderating Effects of EO on the Relationship Between Risk Sharing and Financial Performance of Manufacturing Firms in Kenya.

The moderating effects of EO on the relationship between risk sharing and financial performance was performed by introducing the interaction term RS*EO as a predictor alongside EO and risk sharing. The resulting model is provided in figure 4.15.

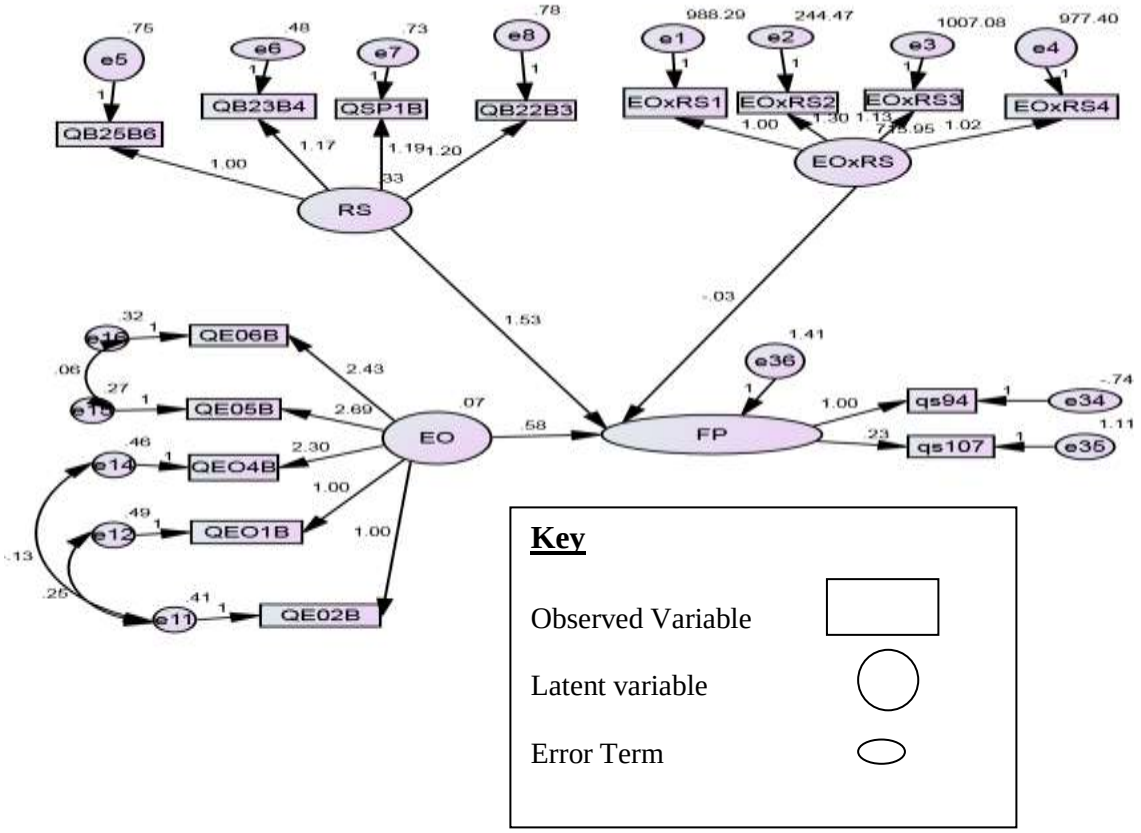


Figure 4.15 Moderated Model for Risk sharing

The fitness for this moderated model was assessed by evaluating fitness indices i.e the RMSEA, CFI and GFI. The model fitness indices are presented in table 4.26 and it shows that RMSEA = 0.06, CFI = 0.94 and GFI = 0.90. Since this indices are within the cutoff suggested by Hair et al (2000) we conclude that the moderated model for bundle of products as a good fit. Since the overall fit indices suggested an acceptable fit for moderated risk sharing model, it indicates that this model was unidimenstional.

Table 4.26 Fitness Indices for Moderated Model for Risk Sharing

Criteria	Model Result	Description
Chi sq	1947.3	Good Fit
p-value	0.0898	Good Fit
CFI	0.94	Good Fit
RMSEA	0.06	Good Fit
GFI	90	Good Fit

The regression weights for moderation for this construct are presented in table 4.27. Two variables that is EO and RS had positive regression weights indicating that the two had positive effect on financial performance. The interaction term was negative suggesting that the moderator had negative effects on the relationship between risk sharing and financial performance of SMEs. The interaction term RS*EO is significant (CR>1.96, hence the study concludes that EO moderates the relationship between risk sharing and financial performance.

While risk sharing affords firms credit to navigate through periods of financial distress, EO determines how the firm utilizes the credit. Thus if the entrepreneur is proactive, is a risk taker and is innovative he/she would most likely deploy the credit to growth oriented activities such as developing new products and venturing to new markets has positive consequences on profitability and sales turnover hence financial performance. Haung et al. (2011 showed that firms with high risk taking propensity, which are proactive and which are innovative would adopt an entrepreneurial posture thus ensuring that they pursue entrepreneurial ventures that make restructuring useful hence improving the profitability of the firm. Covin and Lumpkin (2011) further showed that EO has effect on how a firm uses its resources arguing that EO activities in firms resulted in diversified products and markets, as well as being instrumental to producing impressive financial results. For manufacturing SMEs, this finding shows that they would gain by

infusing EO into their risk sharing strategies. This would enable them to be creative in crafting and executing their risk management strategies.

Table 4.27 Regression Weights for Moderated Model – Risk Sharing

			Estimate	S.E.	C.R.	P
Performance	<---	EO	0.576	0.379	1.521	0.128
Performance	<---	EOxRS	-0.03	0.005	-6.434	***
Performance	<---	RS	1.532	0.29	5.283	***

P < 0.05 * , P < 0.01 ** , P < 0.001***

4.9 Overall Significance Test Results of the Models

Table 4.28 shows the overall significance results of the models. Relationship lending and bundle of products were significant at 1% level with relationship monitoring being significant at 5% level. Risk sharing was significant at the 10% level of significance. Gordon, Loeb and Zhou (2009) recommended that variables can be tested for significance at 5% α level, and if not significant at that level, then at 10% α level, meaning 80% significance level with a 2-tailed test.

Table 4.28 Overall significance results of the models

			Estimate	SE	CR	P value	Significance
FP	<---	RL	0.452	0.115	3.921	***	significant at 1%
FP	<---	RM	0.268	0.113	2.377	0.017	significant at 5%
FP	<---	BP	0.406	0.125	3.235	0.001	Significant at 1%
FP	<---	RS	0.214	0.158	1.351	0.177	Significant at 10%

4.10 Overall Structural Equation Model

An overall structural equation model comprising the measurement models and structural model was established by extending the hypothesized relationships among the latent variables, depicted graphically with straight one-headed arrows as shown in figure 4.16. In the hypothesized relationships, firm performance was set as the dependent variable or endogenous latent variable. Four independent latent variables, that is, relationship lending, relationship monitoring, bundle of products and risk sharing, were set as exogenous variables. Entrepreneurial orientation was set as the moderator in the relationship between the endogenous and exogenous variables. The hypothesized structural equation model was tested using the maximum likelihood method and evaluated on the same fit criteria used in assessing the measurement models.

The resulting model is shown in figure 4.16. Table 4.29 presents the model fit results; the Chi-square test statistic is not significant at 0.05, which suggest that the model fitting is only acceptable. The RMSEA = 0.8, the Goodness of Fit Index (GFI) is 0.97 .Arbuckle (2005 posits that a RMSEA value below 0.8 , CFI value above 0.8 and NFI values between $0.8 \leq \& \leq 1$ are indicators of a good .

Table 4.29 Model Fitness Overall SEM

Criteria	Cut off Value	Model Result	Description
Chi-Square	Small	494	Good Fit
p-value	≥ 0.05	0.0953	Good Fit
CFI	Above 0.8	0.8	Good Fit
NFI	0.8≤ & ≤1	0.842	Good Fit
RMSEA	≤ 0.05	0.05	Good Fit
GFI		0.79	Good Fit

The regression weights for the overall SEM are provided in table 4.30. All the regression weights for the variables, except that for EO were significant at the 0.05 α-level indicating reasonable specification of the structural equation model (Schumacker & Lomax, 2004). Further the CR for the respective variables were assessed to determine the statistical significance of the model. Garson (2005) posits that at the 0.05 level, a CR value greater than 1.96 is statistically significant. Since the CR value for all the predictors were greater than 1.96, we reject the null hypothesis and conclude that relationship banking does have a significant relationship with SMEs financial performance of SMEs in Kenya.

Relationship banking is offered in a package which includes credit, monitoring and risk sharing all of which have positive consequence on financial performance. Relationship banking not only avails credit to the firm but also provides the supportive environment for enterprises to thrive. While entrepreneurs are good in spotting opportunities in the market, financing is needed to enable them exploit them which usually has positive consequences on profitability and other indicators of financial performance. This view is consistent with Shane (2003) who argued that acquisition of financial resources is key in enabling SMEs exploit the opportunities in the environment. Since resources on their own are redundant, these firms require EO as EO helps translate resources into capabilities. Without access to financing, organizational plans and strategies would not be successful. Pelham (2000) argued that with credit from the banks could be used to

acquire the necessary fixed and capital assets and investment in product development which not only increase the customer base but also sales turnover and profitability. Manufacturing SMEs in Kenya would gain a lot by forging relationship banking arrangements with the banks as this would help unlock financial resources that can be applied to enhance the competitiveness of the farm hence leading to increased sales turnover and profitability hence financial performance. Relationship banking is essentially one of the networks that firms forge with various stakeholders. This fits well into strategic entrepreneurship where networks were identified by Hitt etal (2001) as one of the domains of strategic entrepreneurship. Thus relationship banking would help SMEs attain their strategic goals.

Table 4.30 Regression Weights for Overall SEM

			Estimate	S.E.	C.R.	P
Performance	<---	RL	0.396	0.165	2.398	0.016
Performance	<---	RM	-0.174	0.078	-2.231	0.026
Performance	<---	EO	0.001	0.002	0.5	0.617
Performance	<---	BP	0.218	0.094	2.319	0.02
Performance	<---	RS	0.198	0.065	3.046	0.002

P < 0.05 * , P < 0.01 ** , P < 0.001***

The overall SEM is shown in figure 4.16. As shown in the figure all the four constructs of relationship banking that is, relationship lending, relationship monitoring, bundle of products and risk sharing together with the moderator were entered as predictors and they loaded well producing the path diagram shown in figure 4.16.

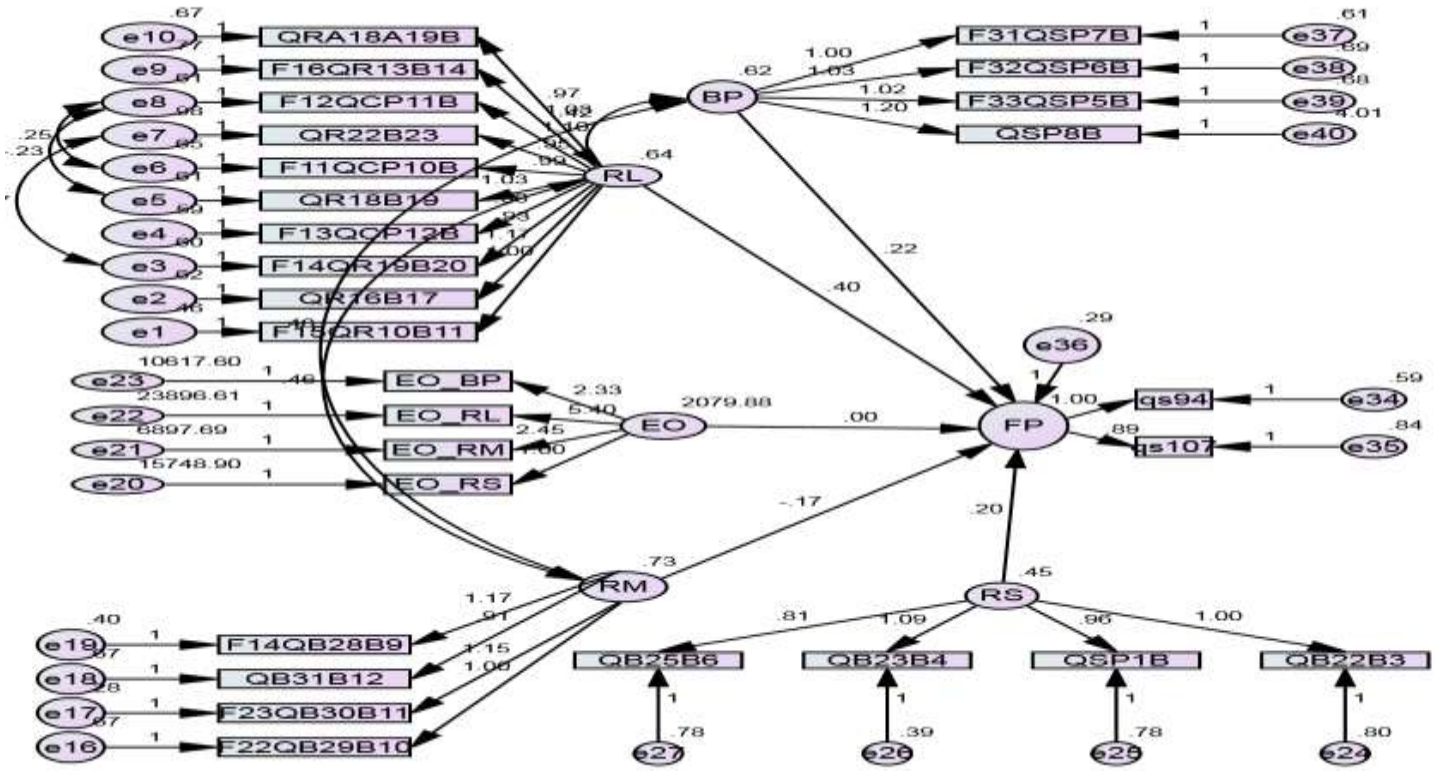


Figure 4.16 Hypothesized Relationship For the Relationship between Relationship Banking and Financial Performance of Manufacturing Firms in Kenya.

4.11 Confirmatory SEM with Moderation

Structural Equation Modeling (SEM) with moderation was carried out. First the study undertook the structural equation modeling and secondly we used the moderated multiple regression approach. A SEM model with EO as the moderating variable was generated by performing an interaction between EO and each of the dependent variables. Each of the interaction terms (RL*EO , RM*EO, BP*EO and RS*EO) were used as predictors alongside EO. The resultant model is presented in figure 4.17.

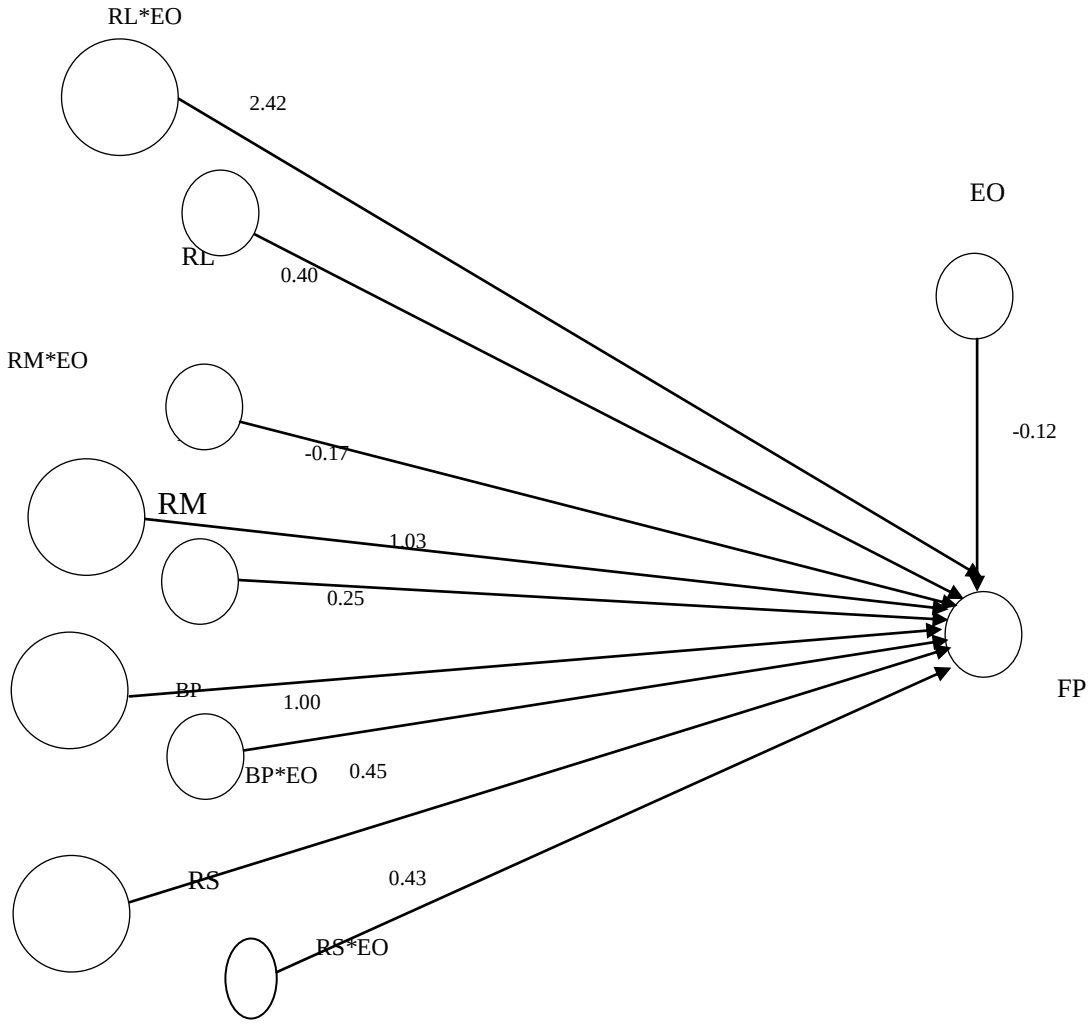


Figure 4.17 Moderation for Relationship Banking.

The fitness indices for the sem with moderation are provided in table 4.31. The indices indicate a moderately good fit the Chi-square test statistic is not significant at 0.05, which suggest that the model fitting is only acceptable. The RMSEA = 0.8, the Goodness of Fit Index (GFI) is 0.97 Arbuckle (2005 posits that a RMSEA value below 0.8 , CFI value above 0.8 and NFI values between 0.8≤ & ≤1 are indicators of a good.

Table 4.31 Fitness for SEM with Moderation

Criteria	Cut off Value	Model Result	Description
Chi-Square	Small	494	Good Fit
p-value	≥ 0.05	0.0898	Good Fit
CFI	Above 0.8	0.8	Good Fit
NFI	0.8≤ & ≤1	0.842	Good Fit
RMSEA	≤ 0.05	0.05	Good Fit
GFI		0.79	Good Fit

Entrepreneurial orientation (EO) was used as the moderating variable for this study. Table 4.32 indicates that, all the hypotheses formulated were supported. EO positively moderated the relationship between relationship lending and firm Performance (β= 2.417, $p < 0.05$), relationship monitoring and firm performance (β= 1.034, $p < 0.5$) , Bundle of Products and firm performance (β= 1.00, $p < 0.5$) and risk sharing and firm performance (β= 0.433, $p < 0.5$) . Thus all the hypothesis were supported hence we conclude that EO moderates the relationship between relationship lending and financial performance. Thus while relationship banking helps cash constrained firms to access credit, EO helps transform such benefits from relationship banking into organizational capabilities hence helping the firm gain competitive advantage. Thus the presence of

relationship banking would not count for much in the absence of innovation, risk taking and proactiveness. This view agrees with Covin et al (2006) who argued that EO has positive implications on financial performance since higher levels of EO allows firms to have the ability to identify and seize opportunities in a way that differentiates them from non entrepreneurial organizations thereby enabling them to post high profitability and sales turnover. This finding is important to manufacturing SMEs in Kenya as it shows that beyond engaging banks for greater access to credit, they need to act entrepreneurially as this will help them improve product quality, seize and exploit opportunities and be able to cope with the competition hence improving their financial performance.

Table 4.32 Regression Weights for SEM with Moderation

			Estimate	S.E.	C.R.	P
Performance	<---	Moderator	0.003	0.001	3.552	***
EO_BP	<---	Moderator	1			
EO_RL	<---	Moderator	2.417	0.297	8.149	***
EO_RM	<---	Moderator	1.034	0.131	7.886	***
EO_RS	<---	Moderator	0.433	0.121	3.584	***

P < 0.05 * , P < 0.01 ** , P < 0.001***

4.12 Moderating Effect of Entrepreneurial Orientation on the Relationship Between Independent and Dependent Variables

4.12.1 Moderated Multiple Regression for Relationship Lending

A hierarchical moderated multiple regression (MMR) was done to determine if EO moderates the relationship between relationship lending and financial performance. Using the MMR analysis, the moderating effect of the variable (EO) was analyzed by interpreting 1) the R^2 change in the models obtained from the model summaries, and 2) the regressions coefficients for the product term obtained from the coefficients tables. This was undertaken in a two step process. At the first step, the independent variable i.e relationship lending and the hypothesized moderator (Entrepreneurial orientation) were entered as predictors. At the next step, the cross product of each independent variables and entrepreneurial orientation were regressed on the outcome variable to test for interaction effects each step had model 1 and 2.The results are shown in table 4.33.

In step one there is a significant relationship between the predictors and firm performance (R^2= 0. 212F (1 , 129) = 17.224 , p < .005). The R^2 = 0.212 shows that relationship lending explains 21.2% of the variation in financial performance. The remaining 78.8% is due to other factors not captured in this model.

Model 1 presents the results for all the predictor variables. While results in Model 2 presents the results for the interaction. The results in Model 1 indicate that lending has a significant and positive relationship with firm performance (β= 0.185, t=5.715, p < .005). The β of 0.185 indicates that a unit change in lending increases financial performance by 0.185 units, EO being constant. Further there is a significant positive relationship between EO and Financial performance (β= 0.156, t= 2.071, p < .005). The β of 0.156 indicates that a unit change in EO increases financial performance by 0.156 units, lending being constant. Substituting these coefficients to the OLS regression model ($y = \beta 0 + \beta 1 X + \beta 2 Z + \varepsilon$), the following equation is obtained

FINANCIAL PERFORMANCE = 12.068 + 0.185 RL + 0.156 EO ---------- EQUATION (4)

Instep 2 , the moderation is tested by introducing the interaction term Lending * EO. There was a significant relationship between relationship lending and financial performance (β= 0.46, t= 3.457, p < .005). Therefore β= 0.46 indicates that a unit change in relationship lending is associated with a 0.46 increase in financial performance, EO being constant. The β changed from 0.185 to 0.46 after moderation. Further there was a positive relationship between EO and financial performance. A unit increase in EO causes a 0.534 units change in financial performance, lending being constant. Substituting these coefficients to the OLS regression model ($y = \beta 0 + \beta 1\ X + \beta 2\ Z + \varepsilon$), the following equation is obtained

FINANCIAL PERFORMANCE = 4.274 + 0.46 RL + 0.534 EO – 0.014RL*EO ----- EQUATION (5)

As shown in step two, the interaction term lending*EO is significant (β= -0.014, t= -2.133, p < .005). This shows that EO has negative effects on the relationship between lending and financial performance. There was a change in R^2 from 0.212 to 0.239 giving a R^2 change of 0.027 which was significant (p value 0.035). The change in R^2 is a way to evaluate how much predictive power was added to the model by the addition of another variable in step 2. Cohen (1992) recommendation that a change in R^2 of 0.02 and above would indicate a unique contribution to overall variance The moderating variable explains 2% of the variation in financial performance. The p value (p = 0.035) is less than the level of significance (0.05) hence the change is significant. Although the beta for lending and EO increased overall after moderation term was introduced, EO dampens the positive relationship between lending and financial performance as shown in figure 4.18. The results support the presence of a significant moderating effect of EO . Thus the study concludes that EO moderates the relationship between relationship lending and financial performance.

Table 4.33 Model Summary for Moderated Multiple Regression for Relationship Lending.

	Model 1			Model 2		
	β	**t**	**P value**	**β**	**t**	**P value**
Step 1 Independent Variables						
Constant	12.068	6.202	0.00	4.274	1.036	0.302
Lending	0.185	5.715	0.00	0.46	3.457	0.001
EO	0.156	2.071	0.04	0.534	2.779	0.006
Step 2 Interaction effect						
Lending x EO				-0.014	-2.133	0.035
R	0.460			0.489		
R^2	0.212			0.239		
Adj R^2	0.20			0.221		
Model F	17.224		0.000	13.318		0.000
Change in R^2	0.212			0.027		
Change in F	17.224			4.551		0.035

The conclusion is that the EO has a moderating effect on the relationship between relationship lending and financial performance. EO determines the nature of investments that a firm would make thus if there is a high inclination towards EO , the firm would invest in innovations, would be proactive and would take risks thereby being in a good position to employ the borrowed funds to exploit entrepreneurial opportunities thus being able to post superior profitability and sales turnover.

Other studies that have supported the moderating effects of EO on financial performance include Nelson and Coulthard (2005) who found that beyond EO having a direct effect on financial performance, its moderating effect is also significant. Another study by Wiklund and Shepherd (2005) reported systematic empirical evidence to support the effect of EO on the relationship between lending and financial performance. Other

Studies by Shimizu and Hitt (2004) and Kroeger (2007) also did found evidence to support significant moderating effects of EO on firm performance.

For manufacturing SMEs , this finding is important as it shows that they would gain a lot if they adopted EO. Okatch, Mukulu and Oyugi (2012) showed that manufacturing SMEs in Kenya were not acting entrepreneurially and this has in the past compromised their competitiveness. By infusing EO, these manufacturing SMEs would be able to employ the credit received in relationship lending in innovative undertakings that would not only improve their competitiveness but also improve their profitability.

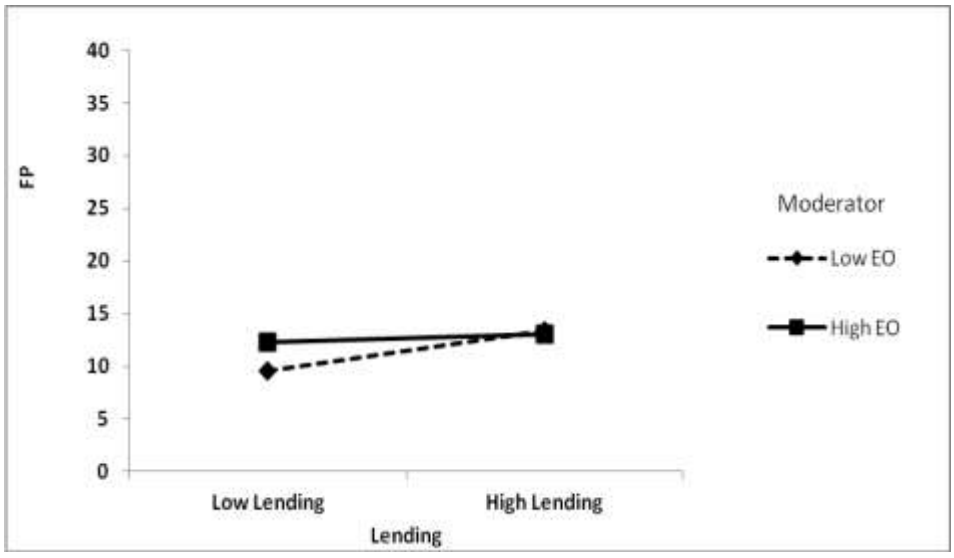


Figure 4.18 Moderated Multiple regression for Relationship Lending

4.12. 2 Moderating Effect of EO on Relationship Monitoring and Financial Performance of Manufacturing Firms in Kenya.

In order to determine if EO moderates the relationship between relationship monitoring and financial performance, moderated multiple regression was conducted. The results are presented in Table 4.34, In step one , model 1 it shows that the predictors (monitoring and financial performance) have a significant and positive relationship with

financial performance (R^2= 0.353 ,F(1 , 129) = 34.982 , p < .005). This shows that these variables accounted for a significant amount of variance in financial performance that is, 35.3% of the variations in financial performance is explained by relationship lending and EO. Further it also shows that there is a positive and significant relationship between relationship monitoring and financial performance significant (β= 0.393, t= 8.233, p < .005). Additionally EO also has a positive but insignificant relationship with financial performance (β= 0.031, t= 0.462, p < .456). Substituting these coefficients to the OLS regression model (y = β0 + β1 X + β2 Z + ε), the following equation is obtained

Financial Performance = 12.038 + 0.393 RM + 0.31 EO ---------- Equation (6)

In Model 2, the moderation effect of EO on the relationship between relationship monitoring and financial performance is tested. This was done by introducing the interaction term into the model. Relationship monitoring has a positive and significant relationship with financial performance significant (β= 0.739, t= 4.104, p < .005). EO also had a positive and significant relationship with financial performance (β= 0.0.361, t= 2.021, p < .005). The interaction term (Monitoring * EO) was significant (β= -0.018, t= -1.992, p < .005). This shows the introduction of EO dampens the positive relationship between monitoring and financial performance. Substituting these coefficients to the OLS regression model (y = β0 + β1 X + β2 Z + ε), the following equation is obtained

FINANCIAL PERFORMANCE = 5.755+ 0.739 RM + 0.361 EO – 0.361 EO*RM --- EQUATION (7)

The change in R^2 = 0.002 showing that with the inclusion of EO into the model the percentage of variability accounted for went up by 0.2%. Additionally the increase was significant (p= 0.049) thus we deduce that EO has a moderating effect on the relationship between Relationship monitoring and financial performance. Further Model 1 shows that the F value = 34.982. Since the p =0.000, then the F value is significant. Thus the model presented is significant in predicting the relationship between

relationship monitoring and financial performance. The results support for the presence of a significant moderating effect.

Table 4.34 Moderation of EO on Relationship Monitoring

	Model 1			Model 2		
	β	**t**	**P value**	**β**	**t**	**P value**
Step 1 Independent Variables						
Constant	12.038	7.484	0.00	5.755	1.629	0.106
Monitoring	0.393	8.233	0.00	0.739	4.104	0.00
EO	0.031	0.462	0.465	0.361	2.021	0.045
Step 2 Interaction effect						
Monitoring x EO				-0.018	-1.992	0.049
R	0.594			0.611		
R^2	0.353			0.373		
Adj R^2	0.343			0.358		
Model F	34.982			25.184		
Change in R^2	0.353			0.02		
Change in F	34.982			3.966		0.049

The moderation plot presented in figure 4.19 showed that EO dampens the relationship between relationship banking and financial performance. We conclude that EO has a moderating effect on the relationship between monitoring and financial performance. EO enables firms to act entrepreneurially thereby being able to improve their performance. Relationship monitoring paves the way for the SMEs to access credit but its EO that determines how such funds would be deployed in the firm. This agrees with Ferguson and Stevenson, (2014) found that entrepreneurs who are strong on EO, would be boosted by the monitoring by the bank because the strong incentive on banks to monitor

maybe a incentive to the borrowing firm to act creatively . With such support from the bank, the SME could be more innovative and proactive hence improving their financial performance. In relationship monitoring there is sharing of information between the firm and the bank. The link between EO and relationship monitoring is that being a network, relationship monitoring is much a resource as EO in line with resource based view (RBV) of the firm. Of all the constructs of EO, proactiveness best explains the link with relationship monitoring and financial performance (Rodan & Galunic, 2004).

For manufacturing SMEs this findings demonstrates that they would add value to relationship monitoring if they acted entrepreneurially. Relationship monitoring involves availing financial data to the bank over time so as to enable a bank develop confidence to a point of advancing loans. By infusing EO in relationship monitoring, manufacturing SMEs would be able to act innovatively and proactively such that financial data would be availed to the bank when required. This would hasten the closing of the information gap between the two parties thereby enabling the SME to access bank credit which if applied to fund entrepreneurially would have positive effects on a firm's profitability.

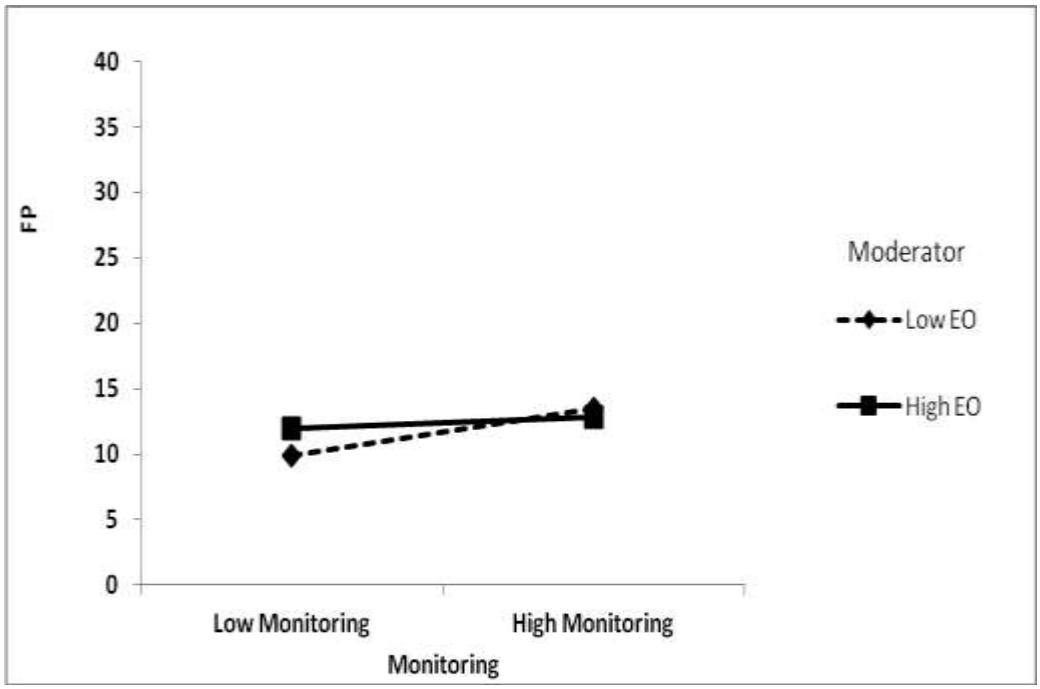


Figure4.19 Moderated Multiple Regression for Relationship Monitoring

4.12.3 Moderated Multiple Regression for Bundle of Products and Financial Performance of Manufacturing Firms in Kenya.

A hierarchical moderated multiple regression was done to determine if EO moderates the relationship between bundle of products and financial performance of SMEs. Table 4.35 presents the results. In step one, both predictors i.e. Bundle of products and EO have a positive and significant relationship with financial performance (R^2= 0.046, F (1 , 129) = 3.106 , p =.048). It shows that 4.6% of the variation in financial performance is explained by bundle of products and EO. Further the bundle of products has a positive and significant relationship with financial performance (β= 0.154, t= 2.176, p < .005). However the relationship between EO and financial performance is not significant (β= 0.097, t= 1.184, p = 0 .239). Substituting these coefficients to the OLS regression model (y = β0 + β1 X + β2 Z + ε), the following equation is obtained

FINANCIAL PERFORMANCE = 15.895+ 0.154 BP + 0.097 EO ---------- Equation (8)

In stage 2 the moderating effect of EO is tested. The bundle of products has a negative but insignificant relationship with financial performance (β= -0.082, t= -0.204, p = 0 .838). Further EO also has a negative but insignificant relationship with financial performance (β= -0.0143, t= -0.347, p = 0 .729). The interaction term (Bundle * EO) is significant (β= 0.11, t= 2.101, p = 0 .00). Substituting these coefficients to the OLS regression model ($y = \beta 0 + \beta 1\ X + \beta 2\ Z + \varepsilon$), the following equation is obtained

FINANCIAL PERFORMANCE = 20.884 -0.0882 BP - 0.143 EO + 0.11 EO*BP ---- **Equation (9)**

The change in $R^{2\ =}$ = 0.03 which is higher than the Cohen (1992) recommendation that a change in R^2 of 0.02 and above would indicate a unique contribution to overall variance. Based on this we conclude that EO does moderate the relationship between Bundle of products and financial performance. While the bundle of products are financial resources being availed to the firm, entrepreneurial orientation determines how the firm spends it. Thus, firms that invest resources in innovation (which is a construct of EO) are likely to outperform those who do not. This view is consistent with Lyon, Lumpkin and Dess (1996) who reported that EO is a necessary antecedent to entrepreneurial actions that are essential for survival and growth of firms. In a nutshell, it means that EO, is what translates plans into reality. This is also consistent with Amit and Zott (2001) who argued that having critical resources only is not sufficient to contribute to superior financial performance of the organization. It matters a lot how or what the said resources are deployed for.By acting entrepreneurially firms would utile the bundle of products to fund innovations thereby improving profitability.

While credit is key to SME growth and survival (Bowen et al , 2008), it's just one of the resources available to an organization. Beard and Sumner (2004) posit that resources are inputs into the production process but they on their own cannot produce the dynamism required to propel an enterprise. Depending on how organizational resources are used, they give rise to organizational capabilities (Hitt et al., 2003). While resources are the source of the firm's capabilities, capabilities are the main source of its competitive

advantage. EO thus determines the extent to which organizational resources are deployed into capabilities. Competitive value of the resources can be enhanced or annulled by EO, by changes in the competitor's behaviour, or by changes in the buyers' needs (Naldi et al., 2007). Wu (2007) indicates that without dynamic capabilities to convert resource into advantage, entrepreneurial resources do not translate into performance. This view endorse the RBV on financial performance, namely, entrepreneurial resources (such human and financial capital or access to networks through which these capitals can be acquired) determine entrepreneurial success.

This finding is good for manufacturing SMEs as its shows that beyond the bundle of products, they need EO. Though attempts have been made to increase financial support for manufacturing SMEs, Okatch, Mukulu and Oyugi (2012) reported that these firms are not competitive as they do not act entrepreneurially. By infusing EO into their activities, manufacturing SMEs would enhance their competitiveness.

Table 4.35 Moderation of EO on Bundle of Products

	Model 1			**Model 2**		
	β	**t**	**P value**	**β**	**t**	**P value**
Step 1 Independent Variables						
Constant	15.895	7.112	0.00	20.884	2.413	0.017
Bundle	0.154	2.176	0.031	-0.082	-0.204	0.838
EO	0.097	1.184	0.239	-.0143	-0.347	0.729
Step 2 Interaction effect						
Bundle x EO				0.011	2.101	0.00
R	0..215			0.221		
R^2	0..046			0.049		
Adj R^2	0.031			0.026		
Model F	3.106		0.048	2.179		0.094
Change in R^2	0.046			0.003		
Change in F	3.106		0.048	0.356		0.552

The plot displayed in figure 4.20 shows that EO dampens the relationship between bundle of products and financial performance thus showing that it does moderate the same relationship.

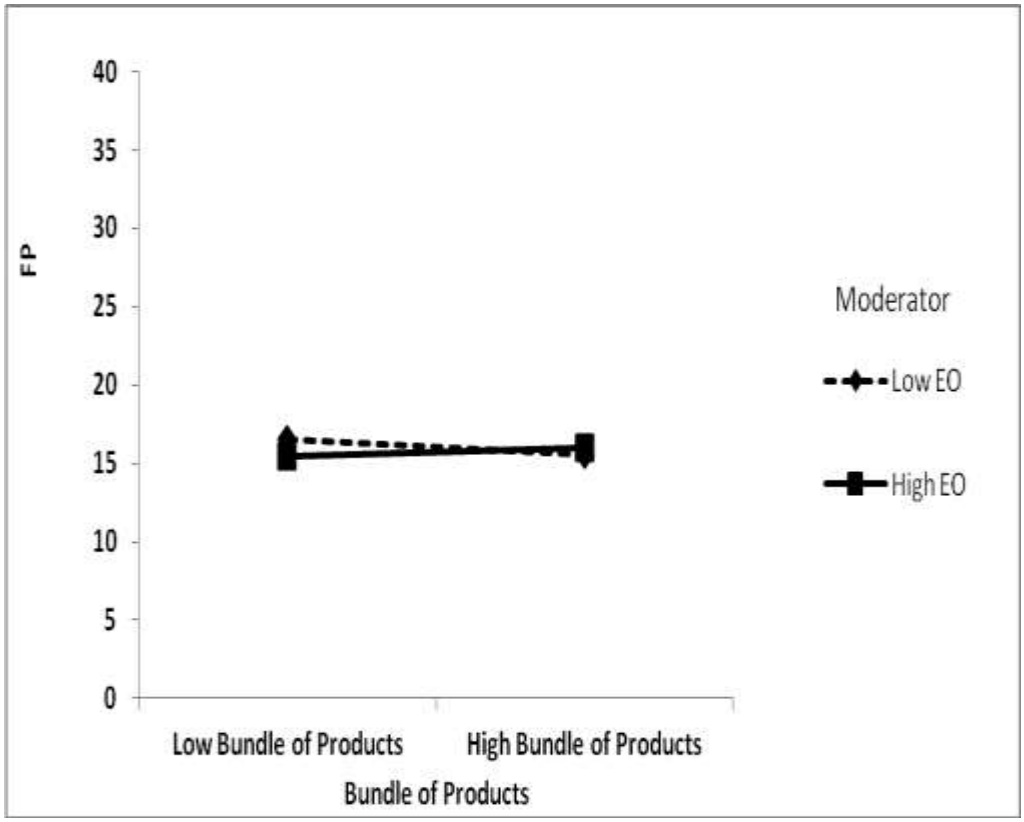


Figure 4.20 Moderated Multiple Regression for Bundle of Products

4.12.4 Moderation Effect of EO on the Relationship Between Risk Sharing and Financial Performance of Manufacturing Firms in Kenya.

In order to asses if EO moderates the relationship between risk sharing and financial performance, a moderated multiple regressions were done. Table 4.36 shows that predictors, (risk sharing and EO) are significant in predicting financial performance (R^2= 0.267, F (1, 129) = 23.318, p =.000). Further it shows that risk sharing has a significant

and positive relationship with financial performance (β= 0.405, t= 6.687, p = 0 .000). However EO has a positive but insignificant relationship with financial performance (β= 0.081, t= 1.13, p = 0 .261). The R^2 being 0.267 shows 26.7% variation in financial performance is explained by risk sharing and EO. Substituting these coefficients to the OLS regression model ($y = \beta 0 + \beta 1\ X + \beta 2\ Z + \varepsilon$), the following equation is obtained

FINANCIAL PERFORMANCE = 14.577 + 0.405 RS +0.081 EO ---------- Equation (10)

In step 2 the moderation is tested. With the introduction of moderation, risk sharing has a positive and significant relationship with financial performance (β0= 0.611, t= 2.714, p = 0 .008). However EO showed a positive but insignificant relationship with financial performance (β= 0.183, t= 1.419, p = 0 .158). The interaction term (Risk sharing * EO) is significant (β= -0.01, t= -2.303, p = 0.00).

The change in R^2 = 0.005 while F= 0.901. This shows that the EO accounts for 0.5% of changes in financial performance showing that EO has some influence on the relationship between risk sharing and financial performance. Substituting these coefficients to the OLS regression model ($y = \beta 0 + \beta 1\ X + \beta 2\ Z + \varepsilon$), the following equation is obtained

FINANCIAL PERFORMANCE = 12.593 + 0.611 RS +0.811 EO- 0.01RS*EO ----Equation (11)

The results support for the presence of a significant moderating effect. Hence we conclude that EO has moderating effect on the relationship between risk sharing and financial performance. SMEs especially in the developing economies operate in an unstable environment that causes a high rate of attrition of newly established firms. High levels of environmental uncertainty cause firms to attempt risk mitigation strategies that may ultimately lead to acquisition of competitive advantage. This finding is consistent with Salavou and Lioukas (2003) whose study showed that EO constructs such as innovation enable entrepreneurial firms institute innovative risk mitigation strategies that

protect the firm and enhance its competitiveness. Faced with a dynamic and turbulent environment, EO may help SMEs cope with uncertainty by increasing their proactiveness and risk taking activities and by promoting product, process and service innovation (Chen et al., 2007). For manufacturing SMEs, this finding is important as it shows that adopting EO would enhance the effectiveness of risk sharing. In relationship banking, risk sharing is a central theme wherein the bank and the firm tend to reduce potential risk to each other. Im and Workman (2004) reported that EO helps firms respond to risks creatively and boldly and that entrepreneur should seek innovative information and utilize the acquired information.

Manufacturing SMEs in Kenya face a number of financial risks that has led some to bankruptcy (Wanjohi, 2012). Thus infusing EO would enable these firms to be more creative in negotiating risk sharing arrangements with banks thereby enabling them to be in a good position to cope with financial distress.

Table 4.36 Moderating Effect of EO on Risk Sharing

	Model 1			**Model 2**		
	β	**t**	**P value**	**β**	**t**	**P value**
Step 1 Independent Variables						
Constant	14.577	9.123	0.00	12.593	4.786	0.000
Risk sharing	0.405	6.687	0.00	0.611	2.714	0.008
EO	0.081	1.13	0.261	0.183	1.419	0.158
Step 2 Interaction effect						
Risk sharing x EO				-0.01	-2.203	0.00
R	0..517			0.522		
R^2	0..267			0.272		
Adj R^2	0.256			0.255		
Model F	23.318		0.000	15.834		0.000
Change in R^2	0.267			0.005		
Change in F	23.318		0.000	0.901		0.344

The plot displayed on figure 4.21 was done to assess the interaction effect of EO on the relationship between risk sharing and financial performance. As shown in the figure 23, EO has dampens the relationship between risk sharing and financial performance.

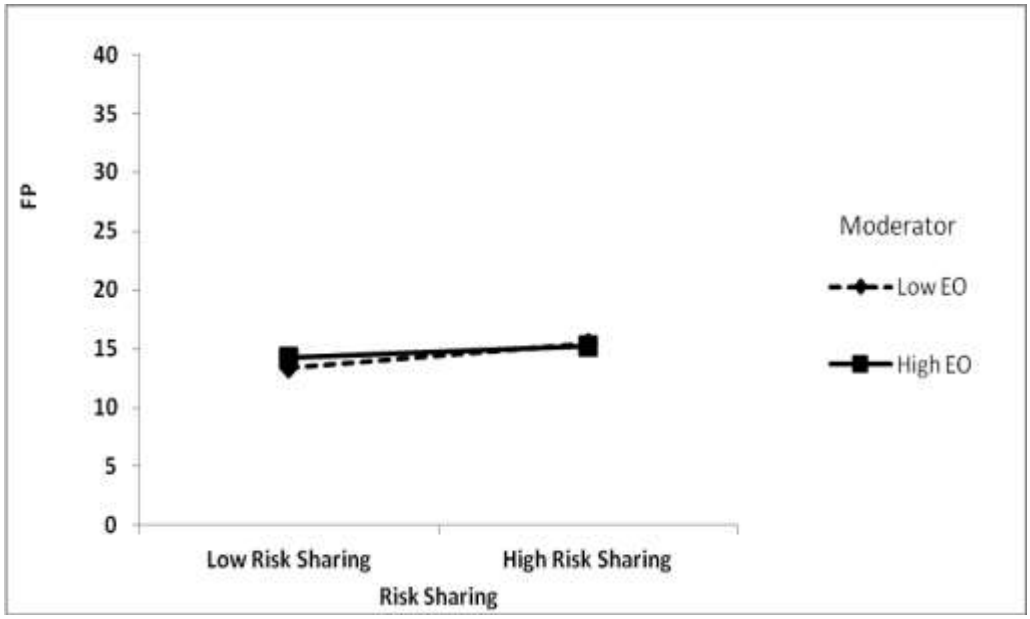


Figure 4.21 Moderated Multiple Regression for Risk Sharing

4.12.5 To Determine Moderating Effect of EO on the Relationship Between Relationship Banking and financial performance of Manufacturing Firms in Kenya.

The hierarchical regression was employed to test the hypothesis that EO moderates the relationship between relationship banking and financial performance. The study followed the Baron and Kenny's (1986) procedure. For this purpose, four separate moderated regression equations were performed (appendix 13; models 1 and 2). At the first step, each of the four independent variables that is, relationship lending, relationship

monitoring, bundle of products and risk sharing were entered as predictors. In the second step the hypothesized moderator (Entrepreneurial orientation) were entered as predictors. At the third step, the cross product of each independent variables and entrepreneurial orientation were regressed on the outcome variable to test for interaction effects.

In model one none of the coefficients for the variables except lending were significant because $p > 0.05$. In Model 2, the results indicated that the coefficients for all the four variables were insignificant relationship lending (b = 0.08, t =0.36, p , 072), Relationship Monitoring (b = 0.73, t =-2.31, p , 002), , Bundle of products (b = 0.01, t = 0.03, p , 098), , risk sharing (b = -012, t =-0.38, p , 071), The R^2 for Model 2 indicates that the model explained 44 per cent of the variance in the dependent variable for the innovative performance of a new venture. The introduction of the moderator, EO is done at stage 2. The moderator is insignificant ((b = 0.05, t =0.73, p , 0.47). This shows that the moderator does not have any significant effect on the model. Substituting these coefficients to the OLS regression model ($y = \beta0 + \beta1\ X + \beta2\ Z + \varepsilon$), the following equation is obtained

FINANCIAL PERFORMANCE = 14.16 + 0.03RL +0.52R- 0.19BP+0.25RS+0.05 EO---------- Equation (11)

In step 3, the interaction effected was tested. As shown all the interactions (Lending * EO, Monitoring*EO, Bundle of products *EO and Risk sharing * EO) were found to be significant. Substituting the coefficients to the OLS regression model ($y = \beta0 + \beta1\ X + \beta2\ Z + \varepsilon$), the following equation is obtained

FINANCIAL PERFORMANCE = 3.85 + 0.08RL +0.73RM+ 0.01BP - 0.12RS+0.52-0.02RM* EO- 0.01BP*EO – 0.02RS*EO---------- ----------Equation (12)

The results do support the presence of a significant moderating effect of EO. We reject the null hypothesis

i) HO5 Entrepreneurial orientation does not moderate the relationship between relationship banking and financial performance of SMEs

Thus we conclude that EO moderates the relationship between relationship banking and financial performance of SMEs.

Both the moderated multiple regression and SEM approach show that EO moderates the relationship between relationship banking and financial performance. While relationship banking enables firms to access bank financing, EO determines how such funds would be deployed in the firm. Thus entrepreneurial firms are likely to apply the borrowed funds to fund innovations and venture into new markets thereby improving the financial performance of the firm. This view is consistent with Atuahene-Gima and Ko (2001) found out that EO has some moderating effects on the relationship between bank -SME relationships and financial performance. Chadwick et al (2010) also provided evidence that suggested a significant but small moderating effect of entrepreneurial orientation and financial performance. Davis (2007) argued that firms that posses high levels of EO perform better than those who do not inspite of their resource endowment. Thus firms who access the same level of financial support from financial institutions are likely to perform differently depending on EO.

This finding is important for manufacturing SMEs in Kenya because it shows that they would be able to post superior performance if they act entrepreneurially. By adopting EO, they would be able to undertake innovations, venture to new markets and be able to cope with the competition. Further by adopting EO, manufacturing SMEs would not only be acting entrepreneurially but also strategically. Hitt *et al* (2001) identified innovations as one of the domains of strategic entrepreneurship and if manufacturing SMEs in Kenya could gain competitive advantage.

4.13 Summary of Hypothesis Testing

The study had six hypotheses. Table 4.50 outlines the summary of the hypothesis test. As shown in table 4.49, all the study rejected all the null hypothesis set out in the study. This shows that the study affirmed that relationship banking influences the financial performance of SMEs in Kenya and that EO moderates the relationship between relationship banking and financial performance of SMEs in Kenya.

Table 4.37 Summary of Hypothesis Tests in SEM

Hypothesis	Estimate	CR	Significance	Conlusion
$H_{o1(a)}$ Relationship lending does not positively influence SME financial performance of manufacturing SMEs in Kenya	0.452	3.92	Significant at 5%	Reject H_{o1}
H_{o2} Relationship monitoring has no positive relationship with financial performance of manufacturing SMEs in Kenya	0.268	2.377	Significant at 5%	Reject H_{o2}
H_{o3} Bundle of products does not positively influence financial performance of manufacturing SMEs in Kenya	0.406	3.235	Significant at 5%	Reject $H_{o3(a)}$
H_{o4} Risk sharing does not influence Financial performance of manufacturing SMEs in Kenya	0.214	1.351	Significant at 10%	Reject $H_{o4(a)}$

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The summary of the study are presented in this chapter as guided by the specific objectives. These are followed by conclusions and recommendations. The chapter finally gives direction on areas of further research.

5.2 Summary of Findings

The general objective of this study was to investigate the effect of relationship banking and entrepreneurial orientation on the financial performance of SMEs in Kenya. The study relied on theoretical and empirical studies on relationship banking and consequently developed a conceptual model of the relationship between the predictors and the dependent variable. The hypothesized relationships were then tested empirically.

Prior to the empirical test, certain assumptions about the variables used in the analysis were tested for, since most statistical tests rely upon them. The study also found no violation of the assumptions of normality, heteroscedasticity, multicollinearity, linearity, outliers, non-response bias and common method variance.

5.2.1 To establish whether Relationship Lending Influences Financial Performance of Manufacturing Firms in Kenya.

The study found out that relationship lending has a positive relationship with financial performance of manufacturing SMEs in Kenya. Small and medium enterprises face a financing gap owing to information asymmetry between them and the banks. Relationship lending leads to the closing of this gap thereby enabling the firm to access increased credit that lessens the firms' dependence on cash flow. Thus with increased credit from relationship lending, firms can easily invest in fixed assets with lower cost of

capital, and reserves cash will be further optimized to increase profitability. The credit advanced can be applied to exploit entrepreneurial opportunities and gain market leadership that not only lead to superior performance but also has consequences on the sustainability of the enterprise. By exploiting opportunities firms would realize increased sales turnover and profitability.

These findings are consistent with the resource dependency theory that focuses on the firm's ability to establish relationships to access resources . Relationship lending thus enables finance constrained firms to access external finance that they can use to exploit entrepreneurial opportunities. These findings are also in line with the discovery theory of opportunity recognition and exploitation which posits that that opportunities arise from competitive imperfections in markets as a result of changes in technology and consumer preferences, (Kirzner, 1973). Finances are required to exploit such entrepreneurial opportunities and relationship lending is thus helpful in this regard. Thus if entrepreneurs exploit opportunities earlier than others, they may attain the first mover advantage which is usually associated with good financial performance. Further this is also consistent with the creation theory of the formation and exploitation of entrepreneurial opportunities, which posit that opportunities to produce and sell new products or services do not exist until entrepreneurs act to create them. To do so, finances are crucial hence relationship lending is key as it enables cash-strapped SMEs to access finances that can be used to exploit such opportunities. Manufacturing SMEs in Kenya are have difficulties accessing credit from banks and thus relationship lending thus affords them the opportunity to form relationships with the bank as this would enable them access credit.

The moderation results led to the conclusion that there was a significant moderating effect by EO on the relationship between relationship lending and financial performance of manufacturing SMEs in Kenya. Thus while credit has been noted in previous studies as being key to SME success and survival , EO complements that relationship because it factors in the entrepreneurs' key attributes such as risk taking, innovativeness and

proactivity. Access to financial capital would amount to nothing if innovation, proactivity and risk taking on the part of the entrepreneur are missing since these attributes help the firm to become entrepreneurial. For instance through financial resources, the firm can invest in product and technological innovations. This means, beyond relationship lending, manufacturing SMEs in Kenya require to infuse EO into their activities since this will help them cope with competition. Thus by being entrepreneurial, manufacturing SMEs would be able to come up with high quality products thus enabling them to exploit entrepreneurial opportunities existing in the business enviroment.

Dimensions of EO such as innovation, risk taking and proactiveness affect how firms translates the credit they receive into competencies. Entrepreneurial orientation enables firms to continuously examine alternative sources of sustainable competitive advantage to determine how it can most effectively create superior value for its present and future target customers. Relationship lending in combination with EO enables firms to focus on value adding activities such as product innovation to satisfactorily articulate customer needs which have positive effects on financial performance of manufacturing SMEs in Kenya. The infusion of EO in an enterprise makes the firm to act entrepreneurially which is beneficial as it helps direct credit from relationship lending to fund entrepreneurial activities such as innovations, new venture creation, opportunity exploitation and venturing to new markets. Further this fits to the Shumpeterian theory that sees innovation as one aspect of acting entrepreneurially that enables firms to exploit entrepreneurial opportunities. Schumpeterian opportunities are found in organizations with a strategic focus on proactive product development to satisfy future needs.

5.2.2 To find out if Relationship Monitoring Influences Financial Performance of Manufacturing Firms in Kenya.

The study found out that relationship monitoring has a positive influence on the financial performance of manufacturing SMEs in Kenya. By monitoring the firm, the bank keeps track on its financial data and spending and helps the firm avoid wastages and be focused on sound financial management. The avoidance of wastages preserves finance as an organizational resource that has been highlighted in the RBV theory as being critical for a firms development and survival. Further the avoidance of wastages reduces costs to the firm thereby improving profitability hence financial performance. Thus failure to curb wastages can negatively impact on the financial performance of the firm. Manufacturing SMEs ought to cooperate in monitoring by availing their financial data to the bank as this not only helps to reduce information asymmetry but they can also benefit from advice from the banks.

Further this study showed that EO moderates the relationship between relationship monitoring and financial performance of SMEs. Relationship monitoring involves collection of financial data from the SME by the bank, thus infusion of EO enables the SME to act entrepreneurially in this regard. By adopting EO especially innovation and proactivity, the SME would be able to provide financial data to the bank faster thus ensuring that the information gap between the bank and the SME closes thereby enabling the SME to access bank financing. Since manufacturing SMEs are considered information opaque by the banks, infusion of EO would accelerate the pace of relationship monitoring. Thus by being entrepreneurial, the manufacturing SMEs would be able to provide required data thereby, enabling the bank to disburse loans to them.

5.2.3 To determine whether Bundle of Products Influences Financial Performance of Manufacturing Firms in Kenya.

The study found out that the bundle of products positively inluences financial performance. Because the bundle of products in relationship banking are financial resources, they can relatively easily be converted into other types of resources hence with sufficient resources, firms are able to experiment new things, which not only increases their innovation potential but also enables the business to pursue new growth opportunities leading to profitability hence superior financial performance.

These results are in line with the creation theory of entrepreneurial opportunity formation which postulates that opportunities are created, endogenously, by the actions, reactions, and enactment of entrepreneurs exploring ways to produce new products or services. For entrepreneurs to act on opportunities, resources including financial and human resources are required. The bundle of financial products offered in relationship banking thus provides the resources to help entrepreneurs to act on the entrepreneurial opportunities. Further the findings of this study also agrees with the discovery theory of opportunity recognition and exploitation which posits that that opportunities arise from competitive imperfections in markets as a result of changes in technology and consumer preferences. The bundle of products help in the exploitation of such opportunities hence catalyzing entrepreneurial action. Further this study agrees with the RBV theory which argues that, resources are key to superior performance of the firm. Barney (1992) identified financial resources as one of the resources that are critical to the performance of an enterprise. For manufacturing SMEs, it is beneficial to have a diversity of banking services from one bank instead of having multiple banking relationships. The bundle of products are usually priced lower than standalone products and manufacturing SMEs would benefit from reduced cost of credit.

In strategic entrepreneurship, bundle of products can help firms gain competitive advantage especially if the product is unique and cannot be replicated by competitors.

That a dearth of finance is the major cause of SME attrition, has been well documented in literature (e.g Bowen et al , 2005). Thus if an SME can access such a resource, it can be a source of strength. A review of the domains of strategic entrepreneurship by Hitt *et al.* (2001) placed a lot of emphasis on resources.

Concerning the moderating effect of EO, the study found significant moderating of EO on the relationship between bundle of products and financial performance of manufacturing SMEs in Kenya. The bundle of products being a financial resource cannot on its own lead to superior performance, however with EO, resources are transformed into capabilities that can enhance the competitive advantage of the firm. Entrepreneurial orientation determines the extent to which organizational resources are transformed into capabilities. Thus, firms who are proactive, are risk takers and innovative are likely to outperform those who are traditional.

The combination of bundle of products and EO enhances the financial performance since while the bundle of products delivers the much needed resources to the firm, its EO that will deploy those resources strategically to enhance a firm's competitiveness. Though the RBV puts a high premium on resource acquisition, the performance of entrepreneurially oriented firms will be limited if resource utilization is wanting. Manufacturing SMEs in Kenya need to take advantage of the expanding financial innovations to be able to access financial resources that could help them pursue entrepreneurial opportunities. Additionally, they need to infuse EO into their firm activities as this will not only help improve financial performance but also to gain competitive advantage. Wanjohi (2009) study on challenges facing SMEs in Kenya reported that manufacturing SMEs in the informal sector in Kenya not only face credit constraints but also produce low quality products. The bundle of products offered in relationship banking would help address the financing gap of such manufacturing SMEs in Kenya thereby helping them to fund a number of entrepreneurial activities such as new product development, service delivery, innovations and venturing to new markets.

Additionally the adoption of EO would help these SMEs to be able to be customer oriented thereby improving the quality of their products and services.

5.2.4 To Determine if Risk Sharing Influences Financial Performance of Manufacturing Firms in Kenya

On risk sharing, the study found out that risk sharing in relationship banking positively influences financial performance of manufacturing SMEs in Kenya. Because risk is a common feature in entrepreneurship, risk mitigation is key. Risk sharing is a risk mitigation strategy that cushions SMEs as they pursue risky ventures such as exploitation of entrepreneurial opportunities. Risk sharing in relationship banking is designed purely to provide implicit insurance to customers thus it can be an effective substitute for costly ex ante investigation but does have effect on financial performance of SMEs. This view also fits into the risk management theory that posits that through organizational risk analysis and evaluation, the threats and vulnerabilities regarding information security could be estimated and assessed. Entrepreneurs are risk takers, however is if not handled well can be a source of SME attrition. Thus managing risk and uncertainty are key entrepreneurial attributes. Though risk management is not listed as one of the domains of strategic entrepreneurship, Aureli (2012) stated that risk management is an integral part of entrepreneurship. Manufacturing SMEs in Kenya are faced with financial risks and risk sharing is one avenue for them to cushion themselves from risks and avoid financial ruin in periods of financial distress.

The study also found out that, EO positively moderates the relationship between risk sharing and financial performance of manufacturing SMEs in Kenya. The relevance of EO in risk sharing lies in the fact that EO helps firms respond to risks creatively and boldly. Small and medium enterprises especially in the developing economies operate in an unstable environment that causes a high rate of attrition of newly established firms. High levels of environmental uncertainty cause firms to attempt risk mitigation strategies that may ultimately lead to acquisition of competitive advantage. Innovation

which is one of the dimensions of EO, enable entrepreneurial firms institute innovative risk mitigation strategies that protect the firm and enhance its competitiveness. Faced with a dynamic and turbulent environment, EO may help SMEs cope with uncertainty by being proactive and pursuing calculated risk taking activities. Manufacturing SMEs in Kenya operate in a tough financial environment and infusion of EO would help them to handle risks more creatively thus avoiding financial ruin.

5.2.5 To Investigate how EO Moderates the Relationship between Relationship Banking and Financial Performance of Manufacturing Firms in Kenya.

The study found out that EO moderates the relationship between relationship banking and financial performance of manufacturing SMEs in Kenya. While relationship banking enables the firm access credit, EO puts the firm in a good position to outcompete its rivals. Entrepreneurial orientation enables firms to monitor market changes and respond rapidly, thus seizing emerging opportunities. The modern business environment is considered to be highly dynamic, the life cycles of products and business models are shortened, the future profit streams from existing operations are uncertain, and businesses need to constantly monitor the environment for new opportunities. In such circumstances, adopting an entrepreneurially oriented posture may be beneficial for a firm. Thus, in the context of relationship banking, EO enables the firm to utilize borrowed funds entrepreneurially. Manufacturing SMEs in Kenya operate in a rapidly competitive environment and as such they would cope with the competition by acting entrepreneurially. This will also enable them create a market niche for themselves thus, forcing multinational firms to revise their entry strategies.

5.3 Conclusion

Emanating from the analyses, relationship lending was found to have a statistically significant influence on the financial performance of manufacturing SMEs in Kenya. Relationship lending enables SMEs to obtain credit which is a crucial resource for

exploitation of entrepreneurial opportunities thereby setting the enterprise in a growth path. This view resonates with the resource dependency theory that shows that firms establish relationships to access external resources. Relationship based lending is one such relationship that allows resource constrained firms to access financial resources. This is also in line with the Discovery Theory of Opportunity discovery and exploitation that shows that entrepreneurs discover and exploit opportunities in their environment. To exploit opportunities, entrepreneurs require financial resources. Relationship lending thus affords firms credit that they can be used to exploit opportunities.

Relationship monitoring was also found to be statistically significant in influencing financial performance of manufacturing SMEs in Kenya. Through monitoring, the firm avails financial data to the bank overtime so as to bridge the information asymmetry between the two parties. This is consistent with the Institutional Theory that describes how an organization adopts practices which are considered acceptable and legitimate within its organizational field. Institutional Theory predicts that organizations are inclined to imitate the behavioral norms of other actors in the organization field. Monitoring by the bank enables the firm to avoid wastages and thus be in a good position to repay loans.

The bundle of products was also found to have a positive influence on financial performance of Manufacturing SMEs in Kenya. This is in line with the Creation Theory of Entrepreneurial Opportunity Formation which postulates that opportunities are created, endogenously, by the actions, reactions, and enactment of entrepreneurs exploring ways to produce new products or services. Small and medium entreprises are affected by lack of access to bank finance. This forces them to rely on costly informal money lenders. This curtails their ability to create opportunities. The bundle of products thereby gives these SMEs ability to access financial resources since a bundle is usually priced lower than a stand alone product. With such resources, SMEs will be in a good position to exploit entrepreneurial opportunities and enhance their competitiveness.

Risk sharing was found to positively influence the financial performance of manufacturing SMEs in Kenya. Risk sharing enables borrowing firms to share their risks with the banks such that when firms are not doing well financially, the bank charges low interest rates and higher rates when they recover. Such arrangements give the firms sufficient time to pursue recovery strategies and to exploit other entrepreneurial activities. This finding fits into the Entrepreneurial Value Creation Theory that posits that when internal and external risks are low, the entrepreneur may retain control over the venture and are likely to effectively exploit entrepreneurial opportunities. This view is in agreement with Sheth et al (2011) who posit that risk sharing gives firms facing financial distress opportunities to pursue innovative endeavors that may improve their sales turn over and strengthen their market position.

This study also found out that relationship banking positively influences financial performance of manufacturing SMEs in Kenya. Small and medium enterprises are plagued by the 'missing middle 'syndrome, a situation where they are seen as too small to benefit from bank financing and too large for SME financing. The inability of SMEs to access credit is because of information opacity between the SME and the bank so that the bank can be able to provide credit to the banks. Credit is a financial resource which when deployed well can boost the performance of the firm. This fits to RBV theory where credit is seen as a resource and that the possession of such a resource serves as a competitive advantage for a firm.

Entrepreneurial orientation (EO) was found to moderate all the hypothesized relationships in this study. Entrepreneurial orientation has three dimensions that is, innovation, proactivity and risk taking that usually have consequences on financial performance. Entrepreneurial orientation enables firms to act entrepreneurially thereby increasing their profitability and sales turnover thus increasing their chances of survival and growth.

The core finding of this study is that relationship banking positively affects the financial performance of manufacturing SMEs in Kenya. By forging links with the banks, strategic SMEs would be able to access funding is key to SME growth and survival. This study makes a contribution to the field of strategic entrepreneurship. Ireland et al (2003) identified resources and networks as part of the domains of strategic entrepreneurship. This study has been able to show that the bank – SME relationship enables the SME to access credit.

Overally, the study has demonstrated the positive association between relationship banking and the financial performance of manufacturing SMEs in Kenya. It has also shown that entrepreneurial orientation enhances that relationship. Since many manufacturing SMEs in Kenya face financing constraints due to their information opacity, certainly they can adopt this model as it can help improve their financial performance. This study also fills the knowledge gaps identified at the literature review stage where it was revealed that limited attention has been paid to the moderating role of entrepreneurial orientation on the relationship between relationship banking and financial performance of SMEs in Kenya.

This study enhances strategic entrepreneurship concept by demonstrating that relationship banking is one of the networks that SMEs forge to access financial resources. The importance of financial resources in strategic entrepreneurship was highlighted by the work of Kraus, Kauranen and Henning (2011) who identified financial resources as one of the six domains of strategic entrepreneurship. Hoskisson et al. (2000) posits that strategic networks help firms access resources which they would not otherwise be able to access. Further the ability of firms in this study to extract benefits from relationship banking arrangement with the banks also fits well into the strategic entrepreneurship viewpoint.

5.4 Recommendations

While relationship lending is beneficial, banks should be wary of the tendency of firms to forge multiple relationship. This situation is often referred to as the 'Lemon problem'. This increased appetite for loans by firms, is because entrepreneurs are looking for more sources of credit financing to solve short-term problems during financial distress periods instead of pursuing innovative business solutions. This study recommends that to alleviate the lemon problem, banks should conduct a due diligence analysis of the firm. This will enable the banks to eliminate the free riding problems. Such an initiative will only be pursued by manufacturing SMEs who have identified entrepreneurial opportunities that have a high return on investments (ROI).

On relationship monitoring, this study recommends that, entrepreneurs should invest in digital solutions that can easily generate financial data required by banks and thus enhance information sharing between the two parties. Entrepreneurial firms should continuously seek financial innovations that enable them share information with potential partners like banks, suppliers, Government institutions and customers. By doing so the partners will get to understand the firm better thereby paving the way for increased business activities amongst them.

In the bundle of products some products are offered as mandatory and conditional to access some products, a strategy often termed tying of customers. Borrowing firms are harmed by being forced to buy an undesired good (the tied good) in order to purchase a good they actually want (the tying good). This study recommends that the choice of bundle of products should be left to the customers so that customers get the products they require. This would safeguard customer freedom of choice and helps providers to compete effectively in SME banking. Thus banks should attempt to generate demand driven products addressing the uniqueness of manufacturing SMEs. This will encourage both banks and manufacturing SMEs to be entrepreneurial (innovative, proactive and risk takers).

This study recommends that banks should explore more innovative ways of risk sharing such as affordable insurance. This will cushion manufacturing SMEs from adverse macro economic variables such as high interest rates and inflation thereby giving them a chance to exploit entrepreneurial opportunities in a favorable business environment.

The study has shown that, EO moderates the relationship between relationship banking and financial performance of manufacturing SMES, this study therefore recommends that owner / managers of manufacturing firms should be trained on how to act entrepreneurially. For example banks can hire entrepreneurship coaches who can infuse an entrepreneurial passion . This will inculcate an entrepreneurial culture in Kenyan firms. This will also increase entrepreneurial intensity amongst manufacturing SMEs in Kenya thus enabling them to be able to manufacture goods that can compete in the global market with ease.

Since the study has demonstrated that relationship banking positively influences financial performance of manufacturing SMEs, this study recommends that policy makers should develop policies that would deepen the relationship between financial institutions and SMEs as this would lead to enhanced interaction between both parties thus paving the way for SMEs to access bank financing. The policies should address financial inclusion and financial innofusion as a way of attracting manufacturing SMEs to participate and deepen relationship banking and not only with commercial banks but also with other financial institutions such as micro finance institutions.

5.4.1 Areas of Future Research

This study has been able to show the link between relationship banking and financial performance of SMEs in Kenya. In this study, a single industry was used. Because the sample encompassed only manufacturing SMEs the results may not be generalizable to other industries. The study thus recommends that, future researchers should explore a mix of industry respondents for example, entrepreneurs in the service sector. This would eliminate informant bias (Huber & Power, 1985).

Some empirical research into the relationship between relationship banking and financial performance indicates that contingent rather than direct relationships may provide a more accurate explanation of performance outcomes. This is supported by the findings of this study that showed that EO moderates the relationship banking- financial performance relationship. This suggests that other moderating or mediating variables like market orientation, entrepreneurial marketing, competitive environment, service innovation or entrepreneurial leadership can be studied by future strategic entrepreneurship scholars.

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APPENDICIES

APPENDIX 1 Introduction letter

Abraham Rotich

P.o Box 56808-00200

Nairobi

Dear Respondent

I am a post graduate PhD student at the Jomo Kenyatta University of Agriculture and technology and am currently doing research for towards the same **on 'The Effect of Relationship Banking on the Performance of Small and Medium Enterprises'** . To achieve this, your institution has been selected for this study. I kindly request you to fill the attached questionnaire to generate the data required for this study. This information will be used purely for academic purposes and your name will not be mentioned in the report. Findings of this study, shall upon request , be availed to you

Thank You

Abraham Rotich

APPENDIX 2 QUESTIONNAIRE

Section A Background Information

1 Gender Male □ Female □

2 Age 20- 30 □ 31-40 □ 41-50 □ over 50 □

3 Indicate how often you interact with your bank

Daily □ Weekly □ Biweekly □ Monthly □ Bimonthly □ Every Quarter □

4 Are you aware the back collects routine information from you

Yes □ No □ Don't know □

5 Have you been assigned an account/relationship manager?

Yes □ No □

6 How often do you meet with your account/relationship manager?

Not applicable □ Monthly □ Bimonthly □ Every Quarter □ other (please specify)

7 Please specify how you would classify this communication.

You may □ more than one option.

As a condition of financing □ As part of an ongoing relationship □ Other (please specify) □

8 .If your business banks via the internet and/or telephone has this resulted, in your opinion, in fewer visits to your branch? Yes □ No □

9. Does your business seek advice from the bank when it is making critical business decisions?

Yes □ No □

11 If yes, please specify why your business seeks the banks advice for critical decision-making?

As a condition of financing □ As part of an ongoing relationship □ Other (please specify) □

Section B R**elationship lending**

For the questions below, indicate your level of agreement with the statements . The reponses vary from 1-5 where scale (5 – "strongly agree, "4Agree ,3 Indiffrent , 2 – disagree 1 – "strongly disagree")

1	Because of relationship with the bank, we have had extended credit limits					
2	Because of our relationship with the bank , we are charged low interest on loans					
3	Because of relationship with the bank, we get bank guarantees					
4	Because of the relationship with the bank the cost of credit has come down for our firm					
5	The cost of debt as been decreasing as the length of relationship increases					

6	The relationship with this financier has improved the profitability of the firm					
7	The financier has improved the financial position of the firm					
8	The financier has been a source of moral support.					
9	In tough times it is vital to have backing from this financier					
10	This financier has connected our firm with other financiers					
11	The financier has demanded that we use budgets, marketing plans and/or financial reporting					
12	The financier has been of great importance for the development of new products.					
13	This financier has given our firm knowledge that has led to new customers.					
14	The financier has transferred knowledge to our firm with regard to the market for our products					
15	The proactivity of entrepreneur affects the effectiveness of relationship lending on financial performance					
16	The innovation capability of the entrepreneur affected the effectiveness of relationship lending on financial					

	performance					
17	The risk taking propensity of the entrepreneur affected the effectiveness of relationship lending on financial performance					

Section C Relationship Monitoring

For the questions below, indicate your level of agreement with the statements . The reponses vary from 1-5 where scale (5 – "strongly agree, "4Agree ,3 Indiffrent , 2 – disagree 1 – "strongly disagree")

1	The bank monitors my company with a view to making it perform better.	1	5	1	2	3	4	5
2	As a result of continuous monitoring, we have avoided defaulting on loans .							
3	As a result of continuous monitoring, we have reduced wastages.							
4	As a result of continuous monitoring, we have avoided cashflow problems .							
5	As a result of continuous monitoring, we have been able to repay loans .							
6	As a result of continuous monitoring, we have been able help with restructuring inn time of distress							

7	The proactivity of entrepreneur affects the effectiveness of relationship monitoring on financial performance							
8	The innovation capability of the entrepreneur affected the effectiveness of relationship monitoring on financial performance							
9	The risk taking propensity of the entrepreneur affected the effectiveness of relationship monitoring on financial performance							

Section D Bundles of products

For the questions below, indicate your level of agreement with the statements . The reponses vary from 1-5 where scale (5 – "strongly agree, "4Agree ,3 Indiffrent , 2 – disagree 1 – "strongly disagree")

1	The bank offered this bundle of products with my welfare in mind.	5	1	2	3	4	5
2	Products in the bundles are priced lower than individual standalone products.						
3	Getting all the products from one bank has been cost effective for me.						
4	Bundle of products offered by the bank has reduced the cost of credit						

5	Bundle of loan products have improved our profitability						
6	Bundle of loan products have enabled us increase size of business						
7	Bundle of loan products have improved our overall profitability						
8	The proactivity of entrepreneur affects the effectiveness of Bundle of Products on financial performance						
9	The innovation capability of the entrepreneur affected the effectiveness of Bundle of products on financial performance						
10	The risk taking propensity of the entrepreneur affected the effectiveness of bundle of products on financial performance						

Section E Risk Sharing

For the questions below, indicate your level of agreement with the statements . The reponses vary from 1-5 where scale (5 – "strongly agree, "4Agree ,3 Indiffrent , 2 – disagree 1 – "strongly disagree")

1	In tough times its vital to get backing from financier	5	4	3	2	1
2	The bank advances credit to me even if my company does not meet credit terms					
3	The bank extends credit during restructuring					
4	we do not pledge collateral as we get unsecured loans.					
5	The bank advances credit to us even in times of financial distress					
6	The interest rate charged by the bank in periods of distress is low					
7	The proactivity of entrepreneur affects the effectiveness of risk sharing on financial performance					
8	The innovation capability of the entrepreneur affected the effectiveness of risk sharing on financial performance					
9	The risk taking propensity of the entrepreneur affected the effectiveness of risk sharing on financial performance					

Section F Entrepreneurial orientation

For the questions below, indicate your level of agreement with the statements . The reponses vary from 1-5 where scale (5 – "strongly agree, "4Agree ,3 Indiffrent , 2 – disagree 1 – "strongly disagree")

		Before relationship banking					After joining relationship banking				
1	I am a proactive person	1	2	3	4	5	1	2	3	4	5
2	As an entrepreprenеur am competitively agressive										
3	When I undertake an investment am always confident										
4	I am innovative										
5	I credit my success to my risk taking										
6	I exhibit autonomy										
7	I succeed because of my networks										
8	I did not need any relationship with the bank in order to succeed										

Section G Financial Performance

1 Please indicate the averages growth for the indicators of performance in your firm 3 years before 2009 and 3 years after 2009. For instance it it grew by 10% you indicate 110% while if it declined by 10% you indicate 90%.

	2005	2006	2007	2008	2009	2010	2011
Sales Turnover							
market share							
Profitability							

Return on assets							
Return on equity							
Average return on sales							
Gross revenues							
Total asset turnover							

2 Has your profitability improved because of relationship banking? --------

3 If yes by what percentage?

1-5%

6-10%

11-15%

16-20%

Above 21%

4 Kindly indicate the interest rates you paid on your loans before and after joining relationship banking arrangement with the bank

Before ---------- After ----------

5 Kindly indicate the of loan products availed to you before and after joining relationship banking arrangement with the bank

Before ---------- After ----------

6 Kindly indicate the debt/ equity ratio for your organization before and after joing relationship banking arrangement with the bank

Before ---------- After ----------

APPENDIX 3 Descriptive Factor of the Study Variables

Item	Description	Construct
F15QR10B11	The financier has demanded that we use budgets	Relationship lending
QR16B17	The financier has helped in development of new products.	Relationship lending
F14QR19B20	The financier has improved the financial position of the firm	Relationship lending
F13QCP12B	credit advanced to us based strictly on meeting credit terms	Relationship lending
QR18B19	Because of relationship with the bank, we get bank guarantees	Relationship lending
F11QC10B	The financier monitors equity to debt level .	Relationship lending
QR22B23	The financier has transferred knowledge to our firm	Relationship lending
F12QC11B	The bank has contributed to the financial competence in the firm	Relationship lending
F16QR13B14	In tough times it is vital to have backing from this financier.	Relationship lending
QRA18A19B	Relationship with bank has seen cost of credit has come down	Relationship lending
QR09A	The financier has transferred knowledge to our firm with regard to the market for our products	Relationship lending
QR07A	The proactivity of entrepreneur affects the effectiveness of relationship lending on financial	Relationship lending Relationship lending

	performance	
QR08A	The innovation capability of the	Relationship lending
QR06A	entrepreneur affected the effectiveness of relationship lending on financial performance	Relationship lending
QR05A	The risk taking propensity of the entrepreneur affected the effectiveness of relationship lending on financial performance	Relationship lending Relationship lending
F22QB2910	As a result of continuous monitoring, we have avoided cashflow problems	Relationship Monitoring
F23QB30B11	As a result of continuous monitoring, we have reduced wastages.	Relationship Monitoring
QB31B12	As a result of continuous monitoring, we have been able to repay loans	Relationship Monitoring
F14QB28B9	The bank monitors my company with a view to making it perform better.	Relationship Monitoring
QS 94	After distress the interest rates charged is high	Relationship Monitoring
QB23B	As a result of continuous monitoring, we have been able help with restructuring inn time of distress	Relationship Monitoring
QB24B	The proactivity of entrepreneur affects the effectiveness of relationship monitoring on financial performance	Relationship Monitoring Relationship Monitoring
QB25B	The innovation capability of the entrepreneur affected the effectiveness of relationship	Relationship Monitoring Relationship Monitoring

	monitoring on financial performance	
QB26B	The risk taking propensity of the entrepreneur affected the effectiveness of relationship monitoring on financial performance	Relationship Monitoring Risk Sharing
QS 107	The interest rate charged by the bank in periods of distress is low	Risk Sharing
QB22B3	I am aware the bank shares risks with my firm	Risk Sharing
QSP1B	In tough times it is vital to have backing from this financier.	Risk Sharing
QS3A	The bank advances credit to me even if my company does not meet credit terms	Risk Sharing
QSP4A	The bank extends credit during restructuring	Risk Sharing
QSP5A	we do not pledge collateral as we get unsecured loans.	Risk Sharing
QSP6A	The bank advances credit to us even in times of financial distress	Risk Sharing
QSP7A	The interest rate charged by the bank in periods of distress is low	Risk Sharing
QSP9B	The proactivity of entrepreneur affects the effectiveness of risk sharing on financial performance	Risk Sharing
QSP10A	The innovation capability of the entrepreneur affected the effectiveness of risk sharing on	Risk Sharing

	financial performance	
QSP8A	The risk taking propensity of the entrepreneur affected the effectiveness of risk sharing on financial performance	Risk Sharing
QSP8B	The risk taking propensity of the entrepreneur affected the effectiveness of risk sharing on financial performance	Risk Sharing
F33QSP5B	Bundle of loan products have enabled us increase size of business	Bundle of products
F32QSP6B	Bundle of loan products have improved our overall profitability	Bundle of products
F31QSP7B	Some products have been offered even when we did not need	Bundle of products
QSP11B	Bundle of loan products have improved our overall profitability	Bundle of products
QSP12B	The proactivity of entrepreneur affects the effectiveness of Bundle of Products on financial performance	Bundle of products Bundle of products
QSP13B	The innovation capability of the entrepreneur affected the effectiveness of Bundle of products on financial performance	Bundle of products Bundle of products
QSP14B	The risk taking propensity of the entrepreneur affected the effectiveness of bundle of products on financial performance	Bundle of products Bundle of products
QEO6B	I am a proactive person	Entrepreneurial orientation

QEO5B	As an entreprepreneur am competitively aggressive	Entrepreneurial orientation
QEO4B	When I undertake an investment am always confident	Entrepreneurial orientation
QEO1B	I am innovative	Entrepreneurial orientation
QE02B	I credit my success to my risk taking	Entrepreneurial orientation
QEO7B	I exhibit autonomy	Entrepreneurial orientation
QEO8B	I succeed because of my networks	Entrepreneurial orientation
QE09B	I did not need any relationship with the bank in order to succeed	Entrepreneurial orientation
QS107	Sales Turnover	Financial Performance
QS94	Profitability	Financial Performance
QS105	Return on equity	Financial Performance

APPENDIX 4 Descriptive Analysis for Relationship Lending

	SD %	D %	N %	A %	SA %
Relationship banking has had a positive impact on cashflow	3.1	5.3	10.7	52.7	28.2
Because of relationship with the bank, we get extended credit limits	9.2	7.6	16	40.5	26.7
Because of our relationship with the bank , we get low interest on loans	19.1	13.7	16	35.9	15.3
The cost of debt been decreasing as the length of relationship increases.	11.5	13	18.3	41.2	16
The bank has contributed to the financial competence in the firm.	7.6	8.4	12.2	46.6	25.2
The relationship with this financier has improved the profitability of the firm.	6.9	6.1	9.9	58	19.1
The financier has improved the financial position of the firm.	6.9	5.3	7.6	55	25.2
The financier has been a source of moral support.	9.2	9.2	22.9	38.2	20.6
In tough times it is vital to have backing from this financier.	5.4	16	4.6	41.2	32.8

The financier has demanded that we use budgets, strategic plans and/or financial reporting.	9.2	12.2	13.7	42	22.9
The financier has been of great importance on new product development .	8.4	12.2	27.5	42.7	9.2
proactivity affects the effectiveness of relationship lending on FP	20	50.8	20.1	5.7	3.4
risk taking affects the effectiveness of relationship lending on FP	7.2	15.2	30.8	34.6	12.2
innovation affects the effectiveness of relationship lending on FP	15.9	52.9	21.9	7.2	4.2
This financier has given our firm knowledge that has led to new customers.	12.2	8.4	8.4	45.8	25.2

APPENDIX 5 Descriptive Analysis for Relationship Monitoring

	SD %	Disagree %	Neutral %	Agree %	SA %
The bank monitors my company with a view to making it perform better.	6.1	14.5	9.2	50.4	19.8
As a result of continuous monitoring, we have avoided defaulting on loans .	9.2	9.9	6.9	52.7	21.4
As a result of continuous monitoring, we have reduced wastages.	9.9	7.6	15.3	46.6	20.6
As a result of continuous monitoring, we have avoided cashflow problems .	6.1	9.9	13	46.6	24.4
As a result of continuous monitoring, we have been able to repay loans .	5.3	10.7	9.2	45	29.8
innovation affects the effectiveness of relationship monitoring on FP	7.3	15.2	20.3	46.4	10.8
risk taking affects the effectiveness of relationship monitoring onFP	4.5	12.1	24.2	47.5	11.7
proactivity affects the effectiveness of relationship monitoring on FP	3.4	7.2	13.2	62.6	13.6
As a result of continuous monitoring, we have been able help with restructuring inn time of distress	7.6	9.2	9.2	45.8	28.2

Appendix 6. Descriptive Analysis for Risk Sharing

	SD %	D %	I %	A %	SA %
In tough times its vital to get backing from financier	4.6	6.9	9.9	37.4	41.2
The bank advances credit to me even if my company does not meet credit terms	18.3	13	26	29.8	13
The bank extends credit during restructuring	10.7	9.9	13.7	42.7	22.9
we do not pledge collateral as we get unsecured loans.	9.2	12.2	20.6	38.2	19.8
The bank advances credit to us even in times of financial distress	9.2	7.6	13	50.4	19.8
The interest rate charged by the bank in periods of distress is low	6.1	16.8	29.7	26.7	20.7
Innovation capability affects the effectiveness of RS on FP	9.8	62.5	11	13.2	3.5
Risk taking propensity affects the effectiveness of RS onFP	6.7	14.5	14.4	13.2	51.2
Proactivity affects the effectiveness of RS on FP	4.7	19.5	12.1	56.5	7.2

APPENDIX 7 Normality Test

Factor	Statistic		S.E
Relationship Lending	Mean	3.01	
	Median	3	
	Std Deviation	1.08	
	Range	4	
	Skewness	-2.72	0.212
	Kurtosis	0.568	0.42
Relationship Monitoring	Mean	2.72	0.99
	Median	3	
	Std Deviation	1.19	
	Range	4	
	Skweness	0.068	0.212
	Kurtosis	0.924	0.42
Bundle of products	Mean	2.96	0.11
	Median	3	
	Std Deviation	1.261	
	Range	4	
	Skweness	-0.021	0.212
	Kurtosis	-0.968	0.42
Risk Sharing	Mean	2.73	0.106
	Median	3	
	Std Deviation	1.216	
	Range	4	
	Skewness	0.22	0.212
	Kurtosis	0.946	0.42

APPENDIX 8 Multivariate Test for Outliers

Observation number	Mahalanobis d-squared	p1	p2
12	24.616	.000	.051
6	22.126	.001	.010
109	19.397	.004	.012
111	15.546	.016	.169
33	14.071	.029	.328
71	13.912	.031	.214
114	13.366	.038	.224
92	13.313	.038	.131
108	12.873	.045	.139
79	12.744	.047	.093
5	12.090	.060	.164
23	11.483	.075	.272
37	11.171	.083	.295
80	11.087	.086	.232
27	10.998	.088	.182
115	10.756	.096	.192
3	10.691	.098	.145
87	10.258	.114	.237
62	10.001	.125	.275
97	9.410	.152	.526
56	9.366	.154	.458
81	9.297	.158	.408

Observation number	Mahalanobis d-squared	p1	p2
61	9.181	.164	.392
70	8.901	.179	.488
106	8.631	.195	.587
130	8.514	.203	.583
65	8.460	.206	.536
19	8.360	.213	.525
17	8.105	.231	.631
39	8.040	.235	.600
44	8.040	.235	.518
116	7.708	.260	.693
110	7.608	.268	.695
117	7.608	.268	.622
118	7.608	.268	.545
72	7.554	.273	.511
64	7.425	.283	.542
4	7.230	.300	.631
120	7.051	.316	.706
11	6.934	.327	.731
113	6.918	.329	.678
119	6.803	.339	.705
126	6.722	.347	.707
21	6.659	.354	.694
123	6.643	.355	.641
129	6.643	.355	.571
107	6.556	.364	.581
69	6.364	.384	.688

Observation number	Mahalanobis d-squared	p1	p2
30	6.220	.399	.748
100	6.186	.403	.717
128	6.082	.414	.745
77	6.076	.415	.691
15	6.041	.419	.659
112	6.008	.422	.625
73	5.895	.435	.669
2	5.809	.445	.687
51	5.468	.485	.892
36	5.414	.492	.888
121	5.409	.493	.854
24	5.282	.508	.892
25	5.282	.508	.856
20	5.229	.515	.850
67	5.174	.522	.847
29	5.141	.526	.827
31	5.141	.526	.779
43	5.038	.539	.814
122	4.856	.562	.897
41	4.798	.570	.897
8	4.762	.575	.885
103	4.733	.578	.866
94	4.698	.583	.852
86	4.324	.633	.980
95	4.265	.641	.980
124	4.226	.646	.978

Observation number	Mahalanobis d-squared	p1	p2
125	4.226	.646	.967
63	4.145	.657	.973
105	4.138	.658	.962
59	4.116	.661	.952
68	4.092	.664	.941
98	4.064	.668	.930
13	4.027	.673	.922
14	4.027	.673	.892
16	4.027	.673	.854
18	4.027	.673	.808
46	3.878	.693	.883
102	3.850	.697	.864
104	3.850	.697	.820
90	3.848	.697	.769
131	3.776	.707	.786
60	3.684	.719	.822
74	3.569	.735	.871
66	3.507	.743	.877
127	3.468	.748	.866
1	3.424	.754	.857
101	3.386	.759	.843
22	3.338	.765	.837
85	3.322	.767	.800
93	3.322	.767	.739
10	3.303	.770	.694
48	3.286	.772	.642

APPENDIX 9 UNIVARIATE TEST FOR OUTLIERS

Z score	N	Minimum	Maximum
Zscore Because of the relationship with the bank the cost of credit has come down for our firm.	131	-2.092	1.302
Zscore The financier has improved the financial position of the firm	131	-2.669	1.061
Zscore In tough times it is vital to have backing from this financier.	131	-2.312	0.989
Zscore The financier has demanded that we use budgets, marketing plans and/or financial reporting.	131	-2.095	1.162
Zscore The financier has been of great importance for the development of new products.	131	-2.157	1.561
Zscore This financier has transferred great knowledge concerning product development to our firm.	131	-2.005	1.417
Zscore The financier has had high demands with regard to the equity to debt level of the firms.	131	-2.184	1.327
Zscore As a result of continuous monitoring, we have avoided cash flow problems.	131	-2.436	1.129
Zscore As a result of continuous monitoring, we have reduced wastages.	131	-2.192	1.176
Zscore As a result of continuous monitoring, we have been able to repay	131	-2.504	1.033

loans.			
Zscore The bank monitors my company with a view to making it perform better.	131	-2.314	1.201
Zscore The interest rate charged by the bank in periods of distress is low.	131	-1.38	2.047
Zscore After distress the interest rates charged is high.	131	-1.423	2.163
Zscore I am aware the bank shares risks with my firm.	131	-0.943	2.943
Zscore Bundle of loan products have improved our profitability.	131	-2.372	1.149
Zscore Bundle of loan products have enabled us increase size of business.	131	-2.381	0.991
Zscore Bundle of loan products have improved our overall profitability.	131	-2.702	0.966
Zscore The bank advances credit to me based strictly on meeting credit terms.	131	-2.766	0.876

APPENDIX 10 Communalities

	Initial	Extraction
The bank has contributed to the financial competence in the firm	1	0.724
The relationship with this financier has improved the profitability of the firm	1	0.807
The financier has improved the financial position of the firm	1	0.771
The financier has been a source of moral support.	1	0.681
In tough times it is vital to have backing from this financier.	1	0.765
The financier has had demands with regard to the composition of the board of directors and/or accountants..	1	0.77
The financier has demanded that we use budgets, marketing plans and/or financial reporting.	1	0.772
The financier has had high demands with regard to the equity to debt level	1	0.716
The fanancier has had tough demands as regard to the sale developments	1	0.649
The financier has been of great importance for the development of new products.	1	0.75
This financier has given our firm knowledge that has led to new customers	1	0.755
The bank monitors my company with a view to making it perform better.	1	0.737
More serious screening of loan applications	1	0.686
Closer monitoring of the borrowers after making loans	1	0.722
The bank has been monitoring me with a view to avoid default	1	0.611
Banks advice my company based on continuous monitoring	1	0.749

As a result of continuous monitoring, we have avoided penalties	1	0.745
As a result of continuous monitoring, we have reduced wastages.	1	0.752
As a result of continuous monitoring, we have avoided cashflow problems	1	0.869
As a result of continuous monitoring, we have been able to repay loans	1	0.71
As a result of continuous monitoring, we have been able help with restructuring inn time of distress	1	0.813
Am able to buy all the product bundles	1	0.708
some products in the bundles have been more helpful than others	1	0.733
The bank offered this bundle with a view to increasing their sales	1	0.657
Bundle of loan products have improved our profitability	1	0.801
Bundle of loan products have enabled us increase size of business	1	0.765
Bundle of loan products have improved our overall profitability	1	0.781
The bank advances credit to me based strictly on meeting credit terms	1	0.673
we do not pledge collateral as we get unsecured loans	1	0.652
I have succeeded inspite of relationship banking	1	0.735
I credit my success to my entrepreneurial prowess	1	0.78
I succeeded because am hard driving	1	0.785
I succeed because of my networks	1	0.717

Extraction Method Principal Component Analysis.

APPENDIX 11 Pattern Matrix

	Component			
	RL	RL	BP	RS
The financier has demanded that we use budgets	.749			
The financier has helped in development of new products.	.723			
The financier has improved the financial position of the firm	.723			
credit advanced to us based strictly on meeting credit terms	.706			
Because of relationship with the bank, we get bank guarantees	.699			
The financier monitors equity to debt level .	.691			
The financier has transferred knowledge to our firm	.690			
The bank has contributed to the financial competence in the firm	.690			
In tough times it is vital to have backing from this financier.	.660			
Relationship with bank has seen cost of credit has come down	.569			
As a result of continuous monitoring, we have avoided cashflow problems		.834		
As a result of continuous monitoring, we have reduced wastages.		.773		
As a result of continuous monitoring, we		.653		

have been able to repay loans			
The bank monitors my company with a view to making it perform better.	.560		
After distress the interest rates charged is high		.701	
The interest rate charged by the bank in periods of distress is low		.635	
I am aware the bank shares risks with my firm		.593	
In tough times it is vital to have backing from this financier.		.512	
Bundle of loan products have improved our profitability			.756
Bundle of loan products have enabled us increase size of business			.726
Bundle of loan products have improved our overall profitability			.648
Some products have been offered even when we did not need			.528

Extraction Method Principal Component Analysis.

Rotation Method Promax with Kaiser Normalization.

APPENDIX 12 Factor Loadings

	Factor Loadings
The financier has demanded that we use budgets	.749
The financier has helped in development of new products.	.723
The financier has improved the financial position of the firm	.723
credit advanced to us based strictly on meeting credit terms	.706
Because of relationship with the bank, we get bank guarantees	.699
The financier monitors equity to debt level .	.691
The financier has transferred knowledge to our firm	.690
The bank has contributed to the financial competence in the firm	.690
In tough times it is vital to have backing from this financier.	.660
Relationship with bank has seen cost of credit has come down	.569
As a result of continuous monitoring, we have avoided cashflow problems	.834
As a result of continuous monitoring, we have reduced wastages.	.773
As a result of continuous monitoring, we have been able to repay loans	.653
The bank monitors my company with a view to making it perform better.	.560
After distress the interest rates charged is high	.701
The interest rate charged by the bank in periods of distress is low	.635
I am aware the bank shares risks with my firm	.593
In tough times it is vital to have backing from this financier.	.512
Bundle of loan products have improved our profitability	.756
Bundle of loan products have enabled us increase size of business	.726
Bundle of loan products have improved our overall profitability	.648
Some products have been offered even when we did not need	.528

Extraction Method Principal Component Analysis.
Rotation Method Promax with Kaiser Normalization.

APPENDIX 13 Moderating Effect of EO on Relationship Banking

	Model 1			Model 2			Model 3		
	β	t	P value	β	t	P value	β	t	P value
Step 1 Independent Variables									
Constant	14.16	10.83	0.00	13.25	7.34	0.00	3.85	0.51	0.61
Lending	0.03	0.73	0.47	0.04	0.91	0.37	0.08	0.36	0.72
Monitoring	0.32	5.36	0.00	0.31	5.03	0.00	0.73	2.31	0.02
Bundle	-0.19	-2.70	0.01	-0.19	-2.74	0.01	0.01	0.03	0.98
Risk Sharing	0.25	3.66	0.00	0.25	3.60	0.00	-0.12	-0.38	0.71
Step 2 Interaction effect									
EO				0.05	0.73	0.47	0.52	1.44	0.15
Step 3 Interaction effect									
Lending x EO							0.003	2.07	0.01
Monitoring X EO							-0.02	-3.105	0.00
Bundle X EO							-0.01	-4.206	0.00
Risk sharing X EO							0.02	3.817	0.00
R^2	0.44			0.44			0.46		
Adj R^2	0.42			0.42			0.42		
Model F	24.41		0.00	19.57		0.00	11.32		0.00
Change in R^2	0.44			0.00			0.02		
Change in F	24.41		0.00	0.53		0.47	1.01		0.41

APPENDIX 14 SAMPLED MANUFACTURING SMES

1	HEMCO FEEDS
2	Boss bakers
3	Wega bakers
4	Eucla bakers
5	Mina bakers
6	Mashi bakers
7	Bake & bite bakers
8	Primavara picknick
9	Kim's snacks shop
10	Bakers mall
11	Will bakers
12	Ahadi bakers
13	Luanda bakers
14	Oasis fabricators
15	Laser chemicals ink
16	Laibuta chemicals insectcides
17	Molar paints
18	United paints
19	Elmco paints
20	Alpha paints
21	Seweco paints
22	Picasso chemicals
81	Jet chemicals (kenya) ltd
82	Wilad mould
83	Kenya grange vehicle industries ltd
84	Kenya solar Ltd
85	Kiesta industrial technical services ltd
86	Kingsource plastic machinery co.,ltd.
87	Makiga engineering service limited
88	Homeland foods
89	Manzil glass & hardware ltd
90	Mather & platt kenya ltd
91	Mellech engineering & construction ltd.
92	Metal crown ltd
93	Metsec ltd.
94	Mgs international (k) ltd
95	Mjengo limited
96	Mohajan trade international
97	Mombasa canvas ltd
98	Ndugu transport co ltd
99	New ruaraka hardwares
100	New world stainless steel ltd
101	Octagon express (kenya) limited
102	Orpower 4, inc

23 Taiga paints
24 Deco paints
25 Aqua paints
26 Prime coatings
27 Benzochem products
28 Kejofra posho mills
29 Dajoveter enterprises
30 Dove wax ltd
31 Guinea two shoe polish
32 Oasis fabricators
33 Laser chemicals ink
34 Laibuta chemicals insectcides
35 Molar paints
36 United paints
37 Elmco paints
38 Alpha paints
39 Seweco paints
40 Picasso chemicals
41 Taiga paints
42 Deco paints
43 Aqua paints
44 Prime coatings
45 Benzochem products
46 Kejofra posho mills

103 Packaging industries ltd
104 Patco industries ltd
105 Pelican signs ltd
106 Petmix feed
107 Print fast kenya ltd.
108 Protec
109 Protocols microcomputer applications
110 Pudlo cement company (pcc)
111 Quad cypher systems
112 Raghad enterprises
113 Ramco printing works limited
114 Redsea chemist
115 Reesi hospitality ventures
116
117 Reliable concrete works ltd
118 Renscope scientific kenya
119 Rhino special products ltd
120 Rock plant kenya ltd.
121 Rom east africa limited
122 Rosewood office systems limited
123 Rotam sub-saharan africa
124 Sanpac africa ltd
125 Shade systems(e.a)ltd
126 Shadetents and exquisite designs

47	Artech agencies (ksm) ltd	127	Shamas motor spares
48	Ashut quality products	128	Shankan enterprises ltd
49	Asl ltd – hfd	129	Sigma engineering co. Ltd
50	Eldo dairy	130	Simco auto parts ltd
51	Blue ring products ltd	131	Slumberland kenya ltd
52	Bosky industries ltd	132	Solarworks east africa
53	Chemplus holdings ltd	133	South hill motor spares ltd
54	Climacento green tech ltd	134	Makatiat bakery
55	Collis f b	135	Stamet products (k) ltd
56	Commrecial motor spares ltd	136	Statpack industries limited
57	Creative fabric world co ltd	137	Steel structures limited
58	Creative innovations ltd.	138	Sudi chemical industries limited
59	Cuma refrigeration ea limited		
60	Jetha metal engineering		
61	East africa glassware mart ltd		
62	Eco consult ltd		
63	Ecolab east africa (k) ltd		
64	Ecotech ltd		
65	Energy pak (k) ltd		
66	Equatorial tea ltd		
67	Excel chemical ltd.		
68	Fairdeal Upvc, Aluminium and Glass Ltd		

69 Famiar generating systems ltd

70 Flexoworld ltd

71 Forbes media electronic advertising solutions

72 Furmart furnishers

73 Gahir engineering works ltd

74 Goldrock international enterprises

75

76 Guan candle making machine co.,ltd.

77 Heluk International Limited

78 Hills Converters [K] Ltd

79 · Hydraulic Hose & Pipe Manufacturers Ltd

80 · Imani Workshops