

**DETERMINANTS OF FINANCIAL PERFORMANCE OF SMALL AND  
MEDIUM SIZED ENTERPRISES IN TOURISM SECTOR IN MOMBASA  
COUNTY AND ENVIRONS, KENYA**

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**(Business Administration (Finance Option))**

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**Determinants of financial performance of small and medium  
sized enterprises in tourism sector in Mombasa county and  
environs, Kenya**

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**A thesis submitted in partial fulfilment for the award of the  
degree of Doctor of Philosophy in Business Administration  
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**DECLARATION**

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

Signature..... Date.....

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

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**JKUAT Kenya**

## **DEDICATION**

This thesis is dedicated to my dear mother Monayo, ; late father Onyiego and wife Gesia, who cherished education so much, children Makoyo,Nyambune,Kemunto,Kerubo and Mokeira, brothers Prof Mochoge, Gechuru, Makini and friends. Their valuable encouragement and support morally and otherwise was instrumental in completing of this research. I appreciate them all.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

<b>ADB</b>	African Development Bank
<b>ANOVA</b>	Analysis of variance
<b>BCBS</b>	Base Committee on banking supervision
<b>CBN</b>	Central Bank of Nigeria
<b>EBI</b>	Earnings before Interest and Tax
<b>E U</b>	European Union
<b>FIs</b>	Financial institutions
<b>GDP</b>	Gross Domestic Product
<b>GOK</b>	Government of Kenya
<b>IFM</b>	Institute of financial Management
<b>MDGs</b>	Millennium Development Goal
<b>NPV</b>	Net Present value
<b>PNDC</b>	Provisional National Defense Council
<b>PRIDE</b>	Promotion of rural initiative and development Enterprise
<b>Ltd</b>	
<b>POT</b>	Pecking Order Theory

<b>ROA</b>	Return on asset
<b>ROI</b>	Return on investment
<b>ROK</b>	Republic of Kenya
<b>SACCOS</b>	Saving and credit cooperatives Organizations
<b>SMEs</b>	Small and Medium Enterprises
<b>SPSS</b>	Statistical Package for Social Science
<b>UK</b>	United Kingdom
<b>UN</b>	United Nations
<b>UNCDF</b>	United Nations Capital Development Fun
<b>UNDP</b>	United Nations Development Program
<b>U S A</b>	United states of America
<b>WEDCO</b>	Women Development Company

## DEFINITION OF TERMS

**Micro, Small and Medium Enterprises** Micro are rated as firms employing 1 to 10 employees, small are classified as firms employing 10 to 50 employees, while medium firms are classified as those employing 51 to 100 employees. MSMEs include both MSEs and SMEs (Onyango, 2010)

**Small and medium enterprises;** Are businesses in both formal and non-formal sectors classified into farm and on-farm categories employing 1-50 workers (ROK 2005)

**Microfinance;** Refers to small scale financial services for both credits and deposits that provided to the people who farm or fish or herd, operates small and micro enterprise, where goods are produced, recycled repaired, or trade provide services work for wages or commissions, gains income from renting out small amounts of land, vehicles draft animals or machinery and tools and to other individuals and local groups in developing countries in urban and rural areas (Robinson, 2001).

**Micro finance institutions (MFIs);** Are institutions established to provide assistance to the economically active poor whose control of the modest increase

of income savings is assumed to improve their conditions of life for themselves and their children (Asaim, 2008)

**Finance;**

Is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like (Frsch,2009)

**Capital structure;** Refer to the proportion of equity to debt used to finance a firms operation (Frank &Drake, 2007)

**Cost of capital;**

is referred to as the price of obtaining funds/capital. It is the rate which is paid for the use of capital. It can also be referred to as the cost of a company's funds, minimum rate of return a firm must earn on its investment (Mogaji, 2011)

**Profitability;**

This refers to the state or condition of yielding a financial profit or gain .It is often measured by price to earnings ratio (Pandey, 2008)

**Liquidity**

is the capacity to fulfil all payment obligations as they fall due (Yan, 2013. Also liquidity is the ability of a bank to fund increases in asset and meet obligations as thy come due, without incurring unacceptable losses (BCBS, 2008)

**Access to finance**

Is defined as availability of financial services in form demand deposits, credit payment or insurance (Aduda & kalunda, 2012)

**Debt financing**

Is the chief component of exterior funding for companies raising additional funds after formation (Ballaci&Ayydin (2014)

**Interest rate**

It is the return on capital usually expressed as a percentage of borrowed amount (Salemi, 2007)

**Performance**

It is the ability of the firm to meet both its long term &short term goals efficiently and effectively, measured using proxies such as profitability, return on assets, liquidity, solvency and sales growth(Akinyi,(2014)

## **ABSTRACT**

The study investigated the determinants of financial performance of small and medium sized enterprises in Tourism sector in Mombasa County and environs in Kenya. The research was guided by four specific objectives namely; the effect of debt financing, the effect of cost of debt, the effect of investment decisions and the effect of access finance on financial performance of SMEs. The target population of this research consisted of all SMEs as licensed by Tourism Regulatory Authority in Mombasa County and environs up to 2016. Stratified random sampling technique was employed in selecting the sample size out of the target population that constituted the sample size to be interviewed for this research. The study used both primary and secondary data. Primary data was collected using structured questionnaires for the main purpose of the study and secondary data was obtained from tourism regulatory authority SMEs, annual reports and some published reports. The study adopted descriptive research design. A structured questionnaire was designed to facilitate the relevant data collection which was used for analysis and administered by the researcher and his assistant. Data collected from SMEs was randomly selected using the questionnaire instrument. The questionnaire was complimented with the interview guide method of data collection. The researcher used qualitative approach which was essential for the study since it involves surveys, focus on groups and interviews. Statistical tools for quantitative data analysis were used. Factor analysis was used to assess the validity and Cronbach alpha to assess the reliability of the questionnaire. A pilot study of 10% of the sample size was conducted to check the reliability. Data was analyzed using descriptive statistics and inferential statistics method with the aid of statistical package for social science (SPSS version 20), and the hypotheses were tested at 0.05 significant level. Chi-square test, ANOVA, multivariate analysis correlation, and multiple regression analysis tests were also applied. The hypotheses analysis were tested within the range of 95% level confidence interval and 5% levels of significant. The regression results indicated significant relationship for both cost of debt and access to finance and insignificant relationship with both debt financing and investment decisions in explaining SMEs financial performance in terms of ROA in the tourism sector. The correlation results indicated that cost of debt indicated a positive moderate relationship with financial performance of SMEs and access to credit had positive and high relationship with financial performance. Debt finance and investment decisions had positive and weak relationship with SMEs financial performance in tourism sector in Mombasa County and environs in Kenya. Conclusions were made that cost of debt and access to credit had significant effect whereas debt financing and investment decisions have positive and weak relationship effect with financial performance of SMEs in tourism sector in Mombasa County and environ Kenya. The study recommends that the government of Kenya to be supportive in terms of policy to improve the financing of SMEs. The study has strengthened our understanding on the determinants on financial performance of SMEs in tourism sector in Mombasa County and environs Kenya .

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the study**

Small and medium enterprises contribute to economic development by increasing national output, creating jobs and reducing income inequality and poverty (Fanta 2015). (Du *et el* 2015) state that governments, researchers and other stakeholders across the world have developed great research interest in small and medium scale enterprises (SMEs) financing because of significant role these small firms play in GDP growth of various countries. China National bureau of statistics of China (2017), also states that 99% of firms in china are made up of SMEs and contribute 60% o GDP. The story is similar in the US as 67% of private sector employment is created by SMEs and contributes 99.7% of US employer firms (Small business administration 2015). Unfortunately according to Newman et al (2012) SMEs around the world especially those in developing countries such as china are unable to access the needed external funds for growth.

According to previous empirical studies shows that SMEs in developing countries are markedly supporter and attraction of economic prosperity (Harash, (2015), Harash, (2014), Njogo &Safiyu (2012) and Olatunyi, (2013). Yoshino& Taghizadeh-Hesary (2015), Yoshinos, Taghzadeh- hasary, Charoensvakom &Niiraula (2016) state that small &medium enterprise (SMEs) form a significant portion of the commercial landscape and

the backbone of Asian economies. Also Kuwahara, Yoshino, Sagara&Taghizadeh-Hesary, (2015), Yosino et al (2016) indicate that the success of SMEs has huge implications for the growth and socioeconomic wellbeing of a country.

Baltaci and Ayadydin (2014) argue that debt financing is the chief component of exterior funding for companies raising additional funds after formation. O'Brien and David (2010) found that debt financing has both positive and negative impact on the growth of corporations and for its strategic investment. (Tiang *et al*, 2014), compared to internal financing, external financing is expensive and hard to obtain for small business performance. Chadha and Sharma (2015) provide an insightful analysis of the relationship between growth opportunities and debt financing with listed companies at Bombay stock exchange. Fosberg (2013) argue that during crisis, researchers found short term debt increase, while long term debt decreases.

Procenca et al (2014) states that short term debt is preferred than long term debt. Matias & Serrasquero (2016) established that SMEs financing decisions follow (POT) predictions in case of debt financing decision if firms don't generate enough funds internally. Kappert (2012) researched the determinants of capital structure of the Dutch SMEs with regard to firm and industry characteristic and with the expanding firm increase debt position due to high need of funds. Garcia & Martinez (2010) state that trade credit is a delay in the payment for goods or service after they have been delivered or provided as a result of an agreement between the supplier and the firm



Penman (2013) state that cost of debt is an average of all component of net financial obligation. It can be viewed as the overall average return the firms creditors demand in return on new borrowing, expressed as an annual percentage. Ross *et al* (2010) found while a firms cost of equity can be viewed as quite ambiguous, the cost of debt can be easily be calculated, which is simply the interest rate the firm must pay on its outstanding debt. The simple formula to compute cost of debt is; after tax cost of debt=Average interest paid x (1—T). Lambe (2014) found that healthiness of a firm's balance sheet is a key determinant of the cost of debt capital in the structure of capital of a firm. Gabrijelaic, Herman&Lenarcic (2016) stat that leverage financing provides the borrower with an opportunity to finance an investment on short term source at the same time spreading the cost of capital over time so as to meet the affordability and budgetary constraints. Jim (2015) argue that effect of a change in interest rates will depend on several factors such as the amount that business has borrowed on what terms, the cash balances that a business holds and whether the business operates in markets where demand is sensitive to changes in interest rate. Degryse, de Goeij & Naqui (2011) highlighted that the high risk fee returns attached to SMEs results into high cost of borrowing credit.

Carraher and Van Auken(2013) argue that firms that understand what constitutes a good quality financial statement and how to use it as part of their decision making process are better positioned to make good decisions. Grazzi, Jacoby and Treibich (2013) carried study to compare the effect of investment policy on the economic growth of firms in

France and Italy. Edelen and Kadlec (2013) examine the link between a firm investors base, discount rates capital budgeting decision and profitability. Sheikh, Shakeel, Iqbal and Tahiri (2012) found that when undertaking decision making in a firm, it is important to use any available sources of financial data since an organization can analyze this data and use it for future decision, the data could be either from the external or internal environment. Utkabi (2012) state that decision making requires the decision executor to have complete knowledge of all actions and all the possibilities of occurrences of these outcomes. Utkash, (2012) State that investment decision making is one of the most challenging organizational decision making process. Alexandra *et al* (2010) found that complexity and multi-disciplinary are the characteristic in decision making literature. Patric &Jeremy (2018) state that the importance of investment to the economy of the country and SMEs themselves, SMEs operators need to continuously analyze the investment decisions that make improve their financial performance.

Chan & Lin (2013) state that finance play a vital role in small business survival and growth, and the lack of which is major cause of failure of such type of business. Bis (2012) found in United Kingdom that 36% of SMEs could not access the finance they needed and that the managerial competence and information market failure affected the demand side for the business seeking finance were among the determinants of access. Yihainan (2017) found that a firm level such as factors as life cycle profile of a firm, gender, and educational level of the owner are important drivers of access to external finance. He also state that life cycle stage determines small business demand for credit

because firms are more dependent on financial intermediaries in early periods of their lives. Cole & Sokolyk (2016) state that the need for credit starts to wane as the firms reach maturity stage. Comeig et al (2014) found that access to finance is determined by collateral. Nasr (2012) found that loan officers indicated that nearly 805 of SMEs lack collateral to secure the loans and insufficient guarantor to secure the finance in Egypt.

Nasr (2012) also indicates that in Egypt, most SMEs are inclined to use alternative finance in the form of trade credit. Haron *et al* (2013) state that in Malaysia SMEs generally face difficulties in obtaining finance with lack of collateral and insufficient documents to support loan application. Haron *et al* (2014) also found that lack of track record is the main constraint faced by Malaysian SMEs in accessing financing. Gunto & Alias (2014) state that Malaysian government has given priority to SMEs and has put in place a policy and institutional framework that address their development needs. Uddin and Boss (2013) conducted a study to determine the factors affecting the success of SMEs in Bangladesh affected by business plans, channels of distribution, management skills, use of technology, government support, access to capital, personnel(HR), customer management and improved product/ services.

SMEs are generally regarded the engine of economic growth in developing economies (Agwu& Emeti (2013). In Africa Abor and Quarley (2010) , Quarley (2017) averred that SMEs consisted of 91% for small business entity in South Africa and contributes 52 to 57% GDP. In Ghana they asserted that SMEs contribution is more pronounced, the sector accounts for 92 % of all formal business contributing about 70 % to GDP and offer

80% employment to Ghanaians. Further Chinaemerem & Anthony, (2012) states that SMEs provide benefits such as; job creation, knowledge spillover, economic multipliers, innovations drivers and cluster development in an economy. Empirical studies done in both developed and developing countries reveal that most SMEs never celebrate their fifth birth day (Faloki, 2014) Iloh *et al*, 2015) due to financial constraints. However the SMEs sector is bedeviled with number of constraints with financial access being the most critical among them.

Afande (2015), Deloitte,(2016) describe SMEs as a major income source for many Economies especially less developed countries(LDCs). SMEs create employment opportunity, advocates for innovation and acts as a source of revenue for government through taxation. Although SMEs play a crucial role in economic growth and employment, the SMEs in developing countries face a financial gap (Beck a Demirguc-Kunt, (2006), and success. Abdesamed & Wahab (2014) argue that although 96% of enterprises in Libya are SMEs, their contribution to gross domestic product (GDP) growth is little at only 4%.The difficult of these enterprises is acquiring finances loan is considered one of their main problem. Karadag, (2015) also states that Small and medium sized enterprises (SMEs) are recognized as the drivers of social –economic growth, both in developed and developing economies due to their significant role in creation of new jobs, rise in GDP, entrepreneurship and innovation.

Mullineux and Murinde (2014) justify that SMEs financing is inclined to follow a pecking order of choice from which they prefer to use debt finance to equity finance

because of fear of loss of control. Adesina, Nwidobie & Adesina (2015) state that the irrelevancy theory Modigliani and Miller (MM) postulates that the value of a firm is not affected by debt in its capital structure. Lombe (2014) examined the functions of debt funds, the effects of capital mix and parameters that affected companies capital selection and general impact of the company's values in the market. Quartley *et al* (2017) found out that credit financing in Africa is riskier than other continents (Machenene *et al* 2014). Further studies by Kwaning *et al*, (2015) in Ghana identified the following constraints by SMEs in accessing credit from commercial banks, high interest rates on loans, short repayments periods, poor understanding of interest calculations, inability to meet the loan approval criteria, bank requirements and defaults payment loans. Dube (2013) did a study on the impact of debt financing on productivity of small and medium enterprises in Zimbabwe. He also did a study in difficulties in SMEs access to finance that undermines economic prosperity. Yoshino *et al* (2016) indicate that the success of SMEs has huge implications for the growth and socioeconomic wellbeing of a country. Tweedie (2012) points that transaction costs of acquiring information from SMEs are very high, given the fact that they do not have mandatory disclosure. Ayyagari *et al* (2008), Zarrok *et al* (2014) indicate that SMEs will borrow less when transaction cost associated with finance acquisition are very high.

Alendra, Zeljko and Dimitrios(2010) point that the success or failure of project depends on the quality of preparation, evaluation and choice of these projects. The quality of investment decision making is affected by a large number of factors, the most important

of them being the choice of the criteria applied in evaluating and choosing investment projects, this also applies to technology investment in SMEs. Statman (2002) state that the importance of investment decision on financial performance of firms cannot be over emphasized since many of the factors that contribute to business failure can be addressed using strategies and financial decisions that drive growth and the achievement of organizational objectives. Pandey (2008) state that investment decision entails a firms decision to invest its current asset most efficiently in the long term assets in anticipation of an expected flow of benefits over a series of years.

Ayyagari *et al* (2016), Naunde & Chiweshe (2017) state that financing of small and medium size entities (SMEs) has been a subject of debate between policy, researchers and other stakeholders globally. The debate is fueled by the important role that SMEs continue to play in the private sector across the globe and including employment creation. Levy (2015) state that the importance of finance has been viewed as a critical element for financial performance of small and medium based enterprises and that Limit to finance hinder growth and development of these firms. Zaroorket *et al* (2013) found that access to debt finance among Libyan enterprises was low and that their firm age, firm size and sector were significant determinants

Globally SME sector has been reporting difficulties in access to finance (Bebzuk, 2004, Slotty, 2009, Balling *et al*, 2009, Irwing & Scott 2010 and Yongqian *et al* 2012). Access to external finance to SMEs has become more costly and troublesome while their accessibility has sharply declined. Milanzi (2012) revealed that limited access to finance

significantly affected the export behavior of Tanzania SMEs.. Harelimana (2017) asserts financial performance is an indicator of the firm's general financial conditions in a stipulated time period and can also be employed on contrast related companies in the same business or to contrast sectors or business in aggregate.

Ayyagari,Beck&DemirgucKunt (2012), Nyando (2014), Olalede & Olangunju(2013) investigated the extent and determinants of access to finance by small and medium sized enterprises. Ryan *et al* (2014) noted that constrained access to external finance by SMEs with banking limiting funding to small enterprises compared to large enterprise. Odongo (2014) in Uganda found that effective lending rate to be positively related to access to debt finance. Kitabi &Dimoso (2016) indicate despite their importance in the economy of the country, SMEs in Tanzania face problems such as finance and knowledge on decision to invest which inhibit their growth.

Small and medium enterprises (SMEs) have a stake in most economies a cross the world. Kinyua (2014) asserts that SME play a major central role in regards to entrepreneur skills, innovation and employment. The Kenya institute of public policy research and analysis (KIPPRA, 2012) asserts that because of the low capital requirement in business start- up, there is potential of reducing poverty through SMEs sector. According to Republic of Kenya (2012) the SME sector contributed 79.8% of the new jobs created in the year 2011 in Kenya. Consequently the Kenya's development plans including vision 2030 have given special emphasis on the contribution of small and micro enterprise in creation of employment in the country (ROK, 2012). However,

one of the most significant challenge facing SMEs is lack of access to appropriate financing (Armyx, 2005).

Githaiga and Kabiru (2015) states that debt financing is a key source of capital in many growing firms since their retained earnings may not be sufficient enough or may be unavailable. Githaiga and Kabiru (2015) also state that empirical results obtained presented enough evidence that long term debt affects SMEs financial performance in a negative manner. Onchonga, Muturi and Atambo (2016), noted that debt financing has been used as an instrument of filling the budget deficits both in private and public sector. (Saad *et al*, 2015) states that debt financing is a financing option that is structured to improve the owner's rate of return on investment by producing a rate of return that is higher than the overall cost of borrowed funds. (Onchonga, Muturi & Atambo, 2016), noted that debt financing offers a means of satisfying financing deficits of business that have insufficient internal resources to finance their operational activities and investment. James (2014) concludes that interest rate is the amount paid per unit of time expressed as a percentage of the amount borrowed. High interest charged on loans increases the cost of loan to the borrower hence discouraging borrowing while low interest charged on loans increases the corporative societies. Mole and Namusonge (2016) state that high interest rates on credit may discourage SMEs from borrowing reducing the accessibility of credit among them. Banks have often been criticized for having high interest rates charged on loans. They also indicate that the amount of interest payable on loans depend on interest rates charged which is driven by the base lending rate set by the central bank



of Kenya. Study conducted in Kenya by Wadogo, Odhuno, Kambona and Othuon (2010) investigated key performance measures utilized by six five star hotels. The researcher reported that most hotel managers highly monitor financial performance using measures such as total revenues food and beverage sales, and total operating cost. The customer perspective of performance was also actively measured through customer's satisfaction surveys, customer's profitability and market share.

Onchongwa, Ongoncho, Onchonga and Njeri (2013) points that investment decision made by cooperative management should lead to their increased growth, reduced risks and high survival rate. However of critical concern to both practitioners and academic is that the investment culture of the cooperative sector in Kenya is very low. Liagat *et al* (2017) states that financing decision acts as a basis of investment decision and a company's financial performance is extremely influenced by proposition of mix financing. The choice of the appropriate mix of different sources of short and long term funds is one of the critical decision needs that have to be taken by central body of an organization.

Loredana (2011) argue out that the decision to invest in finance is based on complex and accurate information about need, opportunity, duration of implementation & operation investments, the expenditure volume and financial resources, the input and output flows of funds throughout the investment operation, the ensuring profitability & liquidity, the recovering of invested capital. Uddin and Chowdhury (2009) observe that small business operate in environment that do not satisfy the assumptions underlying the theory of

investment decision , that is many investments cannot easily be evaluated using discounted cash flows method due to difficulties estimated future cash flows and market determined discount rate .

Kamunge et al (2014) state that lack of access to finance is almost universally indicated as a key problem to SMEs performance. Credit constraint operate in a variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives which is not enough to enable SMEs undertake their business activities optimally. Lack of access to long term credit for SMEs forcing them to rely on high cost short term finance .He also state that the various challenges facing small enterprises including high cost credit , high banking charges and fees.

Auma and Muturi (2017) in their study found that credit terms was the most important predictor of SMEs performance and were also the most significant challenge in the utilization of commercial banks loan since majority of the SMEs found credit terms offered were unfavorable. The FSD (2015) citing Beck & Demigurc-Kunt (2006) opines that when SMEs are credit constrained it severely affects their possibility to grow and innovate. According to a survey by Omboi and Wangai (2011) it was established that the problem of access to finance resources by small business was to some extent created by the financial institutions themselves They also assert that unfriendly lending policies, limits on the amount loaned to SMEs complex and bureaucratic application process played a major role in locking out SMEs from accessing credit facilities.

### **1.1.2 Profile of tourism in Kenya**

In, Kenya the tourism sector has been one of the key economic drivers generating approximately 10% of the country's GDP and 9 % of total formal employment. In all for instance, the sector contributes to the country's GDP rose by 32.8 per cent from Ksh 73 billion in 2010 to Ksh 97.6 billion (KNBS, 2012). Further according to world bank , tourism industry contributes to Kenya's economy as a percentage of the total exports has always stood above 15%, climaxing at 22% in the year 2007 (World bank, 2012). The relative importance of tourism in Kenya's economy has risen steadily over the last 40 years (Government of Kenya, 2007. In terms of revenue, it ranks third after tea and horticulture as the major foreign exchange earner. It has also been identified as one of the pillars in Kenya vision 2030.

Tourism is one of the leading foreign exchange earners in Kenya; indeed the sector contributes 27% of foreign exchange of the country national domestic product (GDP) (ROK, 2013) national tourism strategy 2013-2018, department of tourism Nairobi, Kenya. Kenya is among the popular tourism destinations in Africa attracting millions of tourists over the past years (Mc Clanahan *et al.* 2005). The country's blueprint vision 2030, aims at making the country among the top 10 overhaul tourists destinations in the world. The key tourist attractions along the Kenya coast include beaches, cultural heritage and marine based habitat (Mohamed *et al* 2009

## **1.2 Statement of the Problem**

Small and medium sized are recognized as drivers of social economic growth, both in developed and developing economies due to their significant role in creation of new jobs, rise in GDP, entrepreneurship and innovation ( Karadagi,2015). The Kenya government in the vision 2030 has identified the SMEs an important priority. Despite the potential of SMEs in Kenya to facilitate and foster growth, many studies have indicated lack of access to finance as a major setback to its national development. Thaimuta et al (2014) indicated that the rate of SMEs failure in developing countries as well as developed countries is alarming 33% to 41% of new SMEs fail within the first five years of their business operation due to lack of finances. Levy, (2015) stated that the importance of finance has been viewed as critical element of financial performance of small and medium sized enterprise. Limit of finance hinder growth and development of these firms.

Chisti Ali&Sagami, (2013) indicate that financial decisions result in a given financial structure and suboptimal financing decisions can lead to corporate failure. Globally SME sector has been reporting difficulties in access to finance (Bebzuk, 2004, Slotty, 2009, Balling et al, 2009, Irwing&Scoii, 2010 and Yongqian *et al* 2012). Access to external finance to SMEs has become more costly and troublesome while their accessibility has sharply declined. Hahhen (2012) in the discussion of managing cash flows as an important principle of small business the management asserts that each day approximately a dozen U S small businesses declare bankruptcy. Majority of these

business failures are caused by poor cash flow management. Sunil Kumari (2013) on investment attitude of rural investors states that all of their rural investors consider the risk return on investment and most of them are also dependent on financial advisor opinion because of lacking the depth knowledge of market. The ability of SMEs to grow depends highly on the potential to invest on restructuring and innovation (Ayyagari et al (Ayyagari et al 2011)).

Ryan et al (2014) in his study noted that constrained access to external finances by SMEs with bank limiting funding to small enterprises as compared to large enterprises. Eniola& Entebang (2015) found out that unfavorable government policies influenced negatively on SMEs performance with decreasing issuance of total credit by both commercial and merchant banks to SMEs. According to Githaiga & Kabiru (2015) found that both long term and short term loans reduce the financial performance of SMEs. They also indicated that short term debts negatively affect SMEs performance through ROA and liquidity. Long term debt are most preferable source of debt financing among well-established corporate institutions mostly by virtue of their asset base collateral requirement many deposit taking institutions. In order to achieve performance, adequate sources of finance are needed for SMEs (Kuria, 2014).

A study by Ikapel and Kajirwa (2017) study on the effect of long term debt on financial performance of firms revealed that a considerable negative association between long term of borrowed funds and the financial performance. Xu, Ou and Chan (2016) explored the impact of diversification on financing through debts and the performance of

operators , revealed a considerable negative effect on the operating performance of firms and that diversification contributes a limited mediator function linking leverage financing and operating performance. Kwaning et al (2015) examined the difficulties SMEs face in accessing loans, difficulties financial institutions face in lending to SMEs and the impact of loan on the profitability of SMEs and found that interest rate on loans to SMEs is extremely high. According to Marende (2014), lending interest rate has positive statically insignificant relatively with commercial bank lending

According to Kira (2013) debt financing by institutions is essential for the profitability and sustainable growth of small and medium enterprises (SMEs) nationally and internationally. Adbulsaleh (2013) determined that access to debt finance was particularly more important for establishing smaller businesses such as retail business for the expansion of small business into medium sized enterprise. Mwega (2014) observes that Kenya banks have repeatedly been portrayed as using their market power to extract high interest from business, especially SMEs. Nyanumba et al (2015) found that there exists statistically significant negative effect of interest on the performance of SMEs in Lurambi sub- County Kenya.

From the review of the past studies none of the locals has focused on the determinants of financial performance of SMEs in the tourism sector in Mombasa County and environs. It is for this reason this study sought to investigate and close the gap by providing empirical evidence on determinants of financial performance of SMEs in tourism sector in Mombasa County and environs Kenya.

### **1.3 Objectives of the study**

The general objective of the study was to investigate the determinants of financial performance of small and medium sized enterprises in tourism sector in Mombasa County Kenya.

#### **1.3.2 Specific objectives**

The study was guided by the following specific objectives:-

1. To establish the effect of debt finance on the financial performance of SMEs in Kenya
2. To establish the effect of cost of debt on the financial performance of SMEs in Kenya
3. To examine the effect of investment decision on financial performance of SMEs in Kenya
4. To examine the effect of access to finance on the financial performance of SMEs in Kenya.

### **1.4 Hypotheses of the study**

The study was guided by the following null hypotheses;

1. H<sub>01</sub>. Debt finance has no significant effect on financial performance of SMEs in Kenya
2. H<sub>02</sub> Cost of debt has no significant effect on financial performance of SMEs in Kenya

3. H0<sub>3</sub> Return on investment has no significant effect on financial performance of SMEs in Kenya

4. H0<sub>4</sub> Access to finance has no significant effect on financial performance of SMEs in Kenya.

### **1.5 Significance of the study**

The study provided some significant insights that suggest that determinants of financial performance contribute to the performance of SMEs in Kenya. Government policy towards small firms has raised both public awareness and created political interest on how to support them. The study is useful to the government of Kenya in implanting of policies that govern the issuance of credit facilities to SME sector and to ensure favorable environment to all involved in participation of SMEs sector.

The study is useful to management in understanding the needs and critical obstacles SMEs face in accessing fiancé. And also understand about banks' lending as the most common source of external finance for many SMEs and entrepreneurs which are often heavily reliant on traditional debt to fulfil their start up, cash flow and investment needs. . Access to finance improves and ease cash flow problem which is useful to SMEs financial performance.

The study assists managers in making informed decision and future predictions of shares prices and investment cycles and helps investors who require investment knowledge and manage investment. Cost of debt can be useful in evaluating company's capital structure



and overall financial health of a firm. It helps understand the effective rate a company pay its current debt. Debt finance increasing pressure on managers encourages them to perform more efficiently, and also reduce moral hazards behavior by reducing cash flow. For manager understand the effect of debt financing on profitability of a firm is of considerable importance

This study has generated data and information on the determinants of financial performance of small and medium enterprises to various interested groups including owners of small businesses, managers, employees and the Government. In addition the research would serve as a source of reference for other researchers or any other Kenyan who need information on the subject. It is hoped the study contributes to the body of knowledge for the public enlightenment on the determinants of financial performance of the SMEs sector in Kenya. The findings challenge the owners workers, policy makers and other who to promote the financial performance of SMEs.

### **1.6 Scope of the study**

The study focused on determinants of the performance of SMEs in tourism sector in Mombasa County in Kenya. The choice of Mombasa County is that it holds a large number of formal and informal small and medium business enterprises and the most important economic activities in terms of employment and potential to develop a more vibrant SMEs value chain industry, from which the researcher obtained considerable research data. Further it is also convenient to the researcher in terms of cost and proximity to respondents for he is a resident of this County and environs. The study took

a cross section survey research design of selected SMEs that accessed finance and have been in business and have obtained operating licenses for at least five years, between 2012-2016. The study was confined to only four independent objectives including debt financing, cost of credit, investment decisions and access to finance on the financial performance of SMEs in Mombasa County in Kenya. The target population of the study involved SMEs registered and licensed by Tourism Regulatory Authority including hotels, tour safaris and restaurants operating in Mombasa County and environs in Kenya. A sample size of 330 SMEs was selected using stratified random sampling. Research findings were generalized to other populations and SMEs in other Counties in Kenya with similar characteristics.

### **1.7 Limitations**

The researcher encountered a couple of limitations that may have affected this study as discussed below. Limited and lack of adequate information as SMEs levels of information disclosure differed where some of the SMEs did not want to disclose all the information on financial determinants and profitability of their business, however after explaining and assuring that the research was for academics purpose and the data collected remain confidential they complied and filled the questionnaires. Most business owners were reluctant to fill the questionnaires even after reading and confirmed that the questioned were not very sensitive. They still insisted that some information about their business profitability was their own secret. The researcher made several visits and

explanations that the findings were likely their business until they agreed to fill the questionnaires.

Availability of Respondents Corporation due to their busy schedule was also a hindrance on the information which took too long to get questionnaires back. The researcher followed the respondents several times which was a bother however they complied after understanding the researchers explanations. Most of the respondents were hesitant to respond on indicators such as profitability. With the explanations they agreed to disclose the information pertaining to such indicators of performance of SMEs. Others indicated that information required was for their own use and not for outsiders, however they disclosed what they felt was not sensitive, but useful to the researcher. The study only analyzed and limited to four determinants affecting SMEs financial performance in tourism sector. Data collection was only confined on SMEs in hotels, restaurants and tour safaris in Mombasa County and environs Kenya

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviewed an insight theoretical literature applicable to this study and discussed theories from the previous studies related to this research. The chapter discussed the general empirical literature which forms the basis for the conceptual framework of the study and its completion by summarizing some of the major theories

and models in the area and gives the aspects of financing in other countries which have motivated this study.

## **2.2 Theoretical Framework**

The theoretical framework of the study is a structure that can hold or support a theory of a research work. A good theoretical framework gives you a strong scientific research basis and provides support for the rest of the study. It presents a theory which explains why the problem under the study exists. Theories are formulated to explain, predict and understand phenomena and in many cases to challenge and extend existing knowledge within the limits of critical bounding assumptions. Theory is a formulation regarding the cause and effect relationship between two or more variables, which may or may not have been tested. Thus, theoretical framework is but a theory that serves as a basis for conducting research. It helps the researcher see clearly the variables of the study, provides him with a general framework for data analysis and is essential in preparing a research proposal using descriptive and experimental methods (Saunders *et al*, 2009). This section therefore discusses the theories that relate to determinants on financial performance of SMEs in Kenya.

### **2.2.1 Modigliani and Miller Theory**

. Modigliani and Miller (1958) irrelevance theory under limiting assumption of no taxes and cost associated with transactions suggest that cost of capital have no effect on capital structure in particular leverage, therefore no impact on the firm's value Liaquat,

(2017). They argue that the overall capitalization rate remain unchanged for any level of financial leverage using the net operating income approach. As a result the value of the firm does not depend on the capital structure of a firm. M&M (1963) made two propositions under perfect capital market condition. Their first proposition is that the value of a firm is independent of its capital structure. Their second proposition states that the cost of equity for a leveraged firm is equal to the cost of equity for an unleveraged firm plus an added premium for financial risk

Modigliani- miller theorem has been criticized widely for its limitations. However Modigliani & miller (1963) relax one of their assumptions & recognize the importance of corporate taxes. Because interest expenses are tax deductible they introduce an interest tax shield in their model. Due to the interest tax shield, the value of the levered firm increases or the cost of capital decreases. Every extra dollar of debt lowers tax payments. The theory holds under unrealistic assumptions of no taxes, transaction cost, information asymmetry, bankruptcy costs, agency costs and costs of borrowing is the same for companies as well as investors and no effect of debt on company earnings before interest and taxes and an efficient market.

### **2.2.2 The pecking order theory**

The theory of pecking order theory was established by Myers and Magluf (1984). According to the this theory companies favor internal funding to external funding where companies need from outside , they could favor debt over equity and only come to equity as a last option. Myers (1984) extends this theory and states that firms will meet

investment and financing requirement of the firm in a hierarchical fashion, preferring internal funds first, external debt next and external equity as a last resort. Literature provides a number of demand-side and supply-side reasons as to why firms prefer, internal sources of funding over external sources and Debt over equity. Stiltz and Weiss (1981) argues that supply side constraint exist when SMEs cannot obtain the debt financing they require at market interest rates, resulting in undercapitalization. This is viewed as an under investment problem, where equity clears the market. Demand-side explanation as presented by Bolton (1971) and Lecornu *et al* (1996) are based on the well-established fact that SMES owners are extremely reluctant to relinquish control of their business e.g. SMEs owners will try to meet their financing needs from pecking order of first their own' money, personal saving and retained earnings, second short term borrowing, third longer term debt and preferred of all (Ciaran macan & Lucey, 2006). Studies on small business finance have frequently suggested the problem of scarcity of funds (Peer & Wilson, 1996, Laitinen, 1992). It is also observed that limited access to capital markets (Gopinath, 1995) appear to confine the finance of small business to internally generated funds. However there is a limit to which internally generated funds can contribute to the growth of the SMEs which bring to the fore the need for alternative source of capital for development of these enterprises.

According to Cosh & Hughes (1994) pecking order theory, with its emphasis on the desirability of the use of funds generated within the business rather than funds raised externally can readily be applied to SMEs. Indeed SMEs seem to face a more extreme

verse of the pecking order theory describe as a constraint pecking order theory by Holmes & Kent (1999) and a modified pecking order theory by Ang (1991) because they have less excess to external funds, debt as well as equity than to long enterprises. The pecking order theory suggests that use of external funds is very much related to profitability on the basis that SMEs particularly if they are not stock exchange listed will make use of internally generated funds as first resort. ). SMEs financing decisions follow POT prediction in case of debt financing decision if firms don't generate enough funds internally, Matias & Serrasquero (2017). This also confirmed by Proenca (2014) that short term debt is preferred than long term. Agrebi (2009), Matias & Serrasqueiro (2016) established that SMEs financing decisions follow POT predictions in case of debt financing decision if firm don't generate enough funds internally then, Proenca et al (2014), short term debt is preferred than long term. The theory gives good explanation on preferences of debt financing, access to credit by SMEs compared with large firms and difficulties in accessing debt due to information asymmetry, a problem of considerable relevant in SMEs.

### **2.2.3 Modern portfolio theory (MPT)**

The modern portfolio theory was proposed by Markowitz in (1952). The theory helps in the understanding how financial management practices in an organization are undertaken particularly the financial risk management decision. Essentially MPT is an investment framework for the selection and construction of investment portfolio based on the maximization of expected returns of the portfolio and the simultaneous

minimization of investment (Fabozzi, Gupta & Markowitz, 2002). Diversification is the core concept of MPT and directly relies on the confectionary wisdom of never putting eggs in one basket (Fabozzi, Gupta & Markowitz, 2002, McClure, 2010, & Veneeya, 2006). The theory encourages asset diversification to hedge against market risk as well as risk that is unique to a specific organization (Omisore, Munirat & Nwifo, 2012). It explains the risk reducing effect of spreading investment across a range of financial assets. That means in a portfolio of mixed assets which have low correlation an expected bad news concerning one asset will be compensated some extent by expected good news about another asset in the portfolio.

The modern portfolio was relevant to the study as it was the basis for conceptualization relationship between portfolio diversification and financial performance. The theory explains that SMEs can choose a set of asset to invest in for optimization of portfolio risk and return. According to the theory SMEs can choose a combination of assets whose return are negatively correlated hence decrease the overall portfolio risk and enhance returns. This is very important in the risk and uncertain retail business environ in Kenya (Waweru & Ngugi, 2014).

#### **2.2.4 Agency theory**

The agency theory was established by Rose and Barry (1973) who were the first to propose that agency theory can be created. The theory focuses on costs which are created due the conflict of interests between shareholders, managers and debt holders. The theory demonstrates the fundamental conflict of interest between managers and



owners of a firm (Jensen &Meckling, 1976). (Eisenhardt(1989) states that agency theory is concern with analyzing and resolving problems that occur in the relationship between principals and their agents. One important issue is the conflict between interests of shareholders and debt holders. Myers and Brealey (1977, and Myers (1996) suggests that the agency problems are most severe for firms in financial distress and firms with high growth opportunities. Basically the argument is that debt financing requires managers to explain the investment details to debt providers and therefore expose themselves to monitoring by debt the debt investors (Frank &Goyal, 2005) Agency theory asserts that shareholders must monitor and control managers to protect their resident claims from the excess of self-interest managers. (Base, 2013). Managers should always act in the interest of shareholders. According to Stiglits &Weiss agency problems such as asymmetric information and moral hazards can impact on the accessibility of credit and hence the capital structure of SMEs. The theory suggests that high debt financing level reduces the agency costs of outside equity and increases the corporation value by constraining or encouraging managers to act extra hard in the interest of shareholders (Berger &Bonaccorsi di patti, 2006)The debt financing level is determined by agency costs which arise from conflicts of interest between the manager and the equity shareholder (Jirapurn, Kim Kim and Kitsasunnarat, 2012).

The agency theory is important to SMEs as some of the assumptions in the agency theory sound intuitively appealing and relevant in the small firms' situation. For example the high level of asymmetric information Barnea et al (1981), and the fact that

entrepreneurs are not motivated to disclose information due to fear that it might be informatory impactedness Kaplan & Arkinso(1989). Also agency costs are thought to be a major impediment to small firms in their attempts to obtain external financing (Jensen& Meckling (1976), Petti& Singer (1985). SMEs may experience agency costs when the principals and the managers or agents are separated and have divergent interests. Agency cost is also a problem in SMEs since they do not disclose financial information.

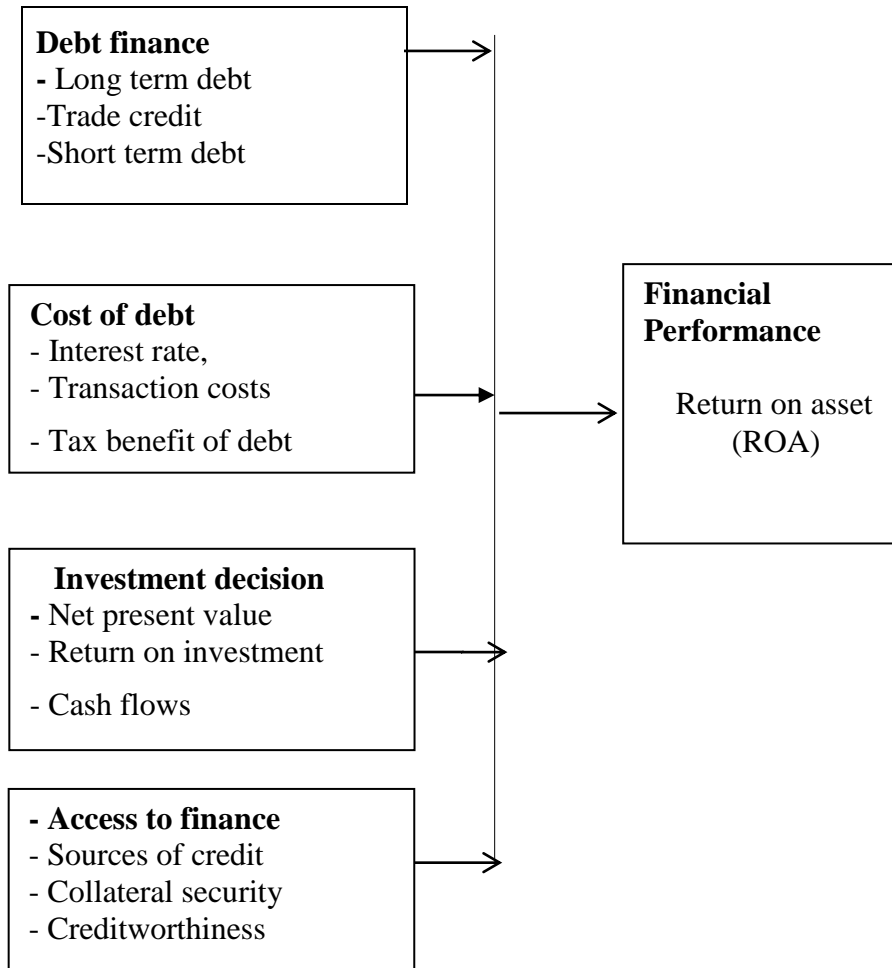
### **2.2.5 Trade off theory**

The tradeoff theory (TOT) was proposed by Kraus&Litzenberg (1973).The theory is the idea that a firm choses how much debt finance and how much equity fiancé use by balancing the costs and benefits. The trade theory suggests that managers weigh the benefit of debt financing against cost of borrowing (Karadeniz *at el* 2011). The cost of borrowing includes bankruptcy costs and interest payments. The benefit of the debt finance includes the discipline instilled on the management and the tax allowance on interest payments. Brigham & Eurhardt (2005) note that the tradeoff theory holds that the value of unlevered firm is equal to the value of levered firm plus the value of side effects ,which include the expected costs due to financial distress and the tax shield. When a firm has a zero or low levels of debt financing the like hood of bankruptcy is low. According to Baxter (1967) the extensive use of debt increases the chances of bankruptcy and this makes creditors to demand extra premium. Accordingly firms should not use debt beyond a point where the cost of debt is higher than the tax

advantage. Therefore the tradeoff theory suggest that the optimal capital structure is the point where the marginal tax benefit is equal to marginal costs related with bankruptcy. According to the tradeoff theory, firms would prefer debt over equity up to the point where probability of finance distress and bankruptcy costs overweigh the tax benefit associated with debt (Gill *et al*, 2012. Trade off theory is an approach used to take balance between merits and demerits associated with use of debt financing of a firm. The purpose for the theory is to explain the fact that corporations usually are financed partly with and equity and partly with equity. It states that there is an advantage to financing with debt, the tax benefits of the debt and is a cost of financing with debt.

### **2.3 Conceptual framework**

Based on the reviewed literature, this study proposes a conceptual framework in which the independent variables are debt finance, cost of debt, investment decisions, and access to finance and the dependent variable being financial performance of SMES. The conceptual framework below was derived from the review of literature and theories discussed above and presented in the figure 2:1 of the conceptual framework of this study, and the purpose of the study showing the relationship between depended variable and independent variables.



**Independent Variables**

**Dependent Variable**

**Figure 2.1 Conceptual framework**

## **2.4 Review of Variables**

A crucial element in the development of the SME sector is access to finance particularly banking financing, given the relative importance of banking sector in serving this segment. Access to finance and cost of credit is perceived to be greater obstacles to SMEs than for large firms; these factors constrain SMEs performance more than the large firms. (Demirguc-Kunt & Maksimovic, 2005, Laevens Makdimovic, 2006). These factors and others are part of the variables disused below.

### **2.4.1 Financial performance**

Bekana, (2012) state that financial performance measures ratios such as assets utilization efficiency ratios, deposit mobilization, loan performance, liquidity ratio leverage /financial efficiency ratios, profitability ratios, solvency ratios and coverage ratios to evaluate the banks financial performance(Bekana,2011). According to Obuya (2017) financial performance give a proper gauge on the use of firm's resources for maximization of wealth and profits. The fiscal financial functions are conducted occasionally from the accounts office balance sheet or the profits and loss statements of the firm so as to evaluate the degree of success in the business

Financial performance is an indicator of how profitable accompany is relative to its total cost assets. It is measured by return on asset. RAO gives an idea as to how efficient management is at using its assets to generate earnings. The return on asset is company's

net income divided by its average total assets; ROA is displayed as a percentage. Sometimes this is referred to as return on investment. The formula for return on asset is

$$= \frac{\text{Net income}}{\text{Total Average Asset}}$$

Return on asset formula looks at the ability of a company to utilize its assets to gain a net profit. Kiarie (2011) observed that net income in the numerator of the ROA formula can be found on an income statement and Average total assets to the denominator of the ROA. A formula is found on company's balance sheet. The average of total assets should be used based on the period being evaluated.

Haber and Riechel, (2005) financial performance measurement generally looks at firms financial ratios derived from financial statements, such as liquidity ratios, activity ratios, profitability ratios and debt ratios. Non-financial performance measurement is more subjective and may look at customer service employee satisfaction, perceived growth in market share, perceived change in cash flow and sales. However, performance can also be defined as the accomplishment of specific business objectives measured against known standards completeness and cost (Davis and Cobb, 2010, Sabanci Ozer, 2012, Sacristan-Navarro *et al* 2011, Thrikaawala, 2011). The performance is the result of strategies the company employs to achieve market oriented and financial goals Harash *et al* (2014). Also Korir & Mbaya (2013) have dealt and researched a wide variety of definitions of company performance.

In Kenya the performance of SMEs has continued to decline over years. According to GOK (2009) virtually most small enterprise had collapsed leading to the closure of some of the SMEs that were producing 40% of the employment in Kenya. Other SMEs were auctioned while some were merged or acquired signifying questionable financial performance due to lack of proper management of debt.

#### **2.4.2 Debt finance**

Debt financing is the chief component of exterior funding for companies raising additional funds after formation Baltacc and Ayaydini (2014). According to Frasch,(2013) debt financing is the practice of borrowing funds from outside an organization from such institutions as commercial banks, money lenders, microfinance institutions, SACCOS, it includes long term debt and short term debt. Maina & Ishumail (2014) did a study on capital structure and financial performance of firms listed at Nairobi stock exchange and concluded that debt and equity are major determinants of financial performance of firms listed in NSE. The study concluded that there was a negative relationship between capital structure and financial performance and that firms listed in NSE used more short term debt than long term debt. Osuji&Odita (2010) did a study on impact on capital structure on financial performance of Nigeria firms using a sample of thirty non-financial firms listed on Nigerian stock exchange during the seven year period 2004-2010. Panel data for the selected firms were generated and amassed using ordinary least squares (OLS) as a method of estimation. The result shows that a firm financial measures return on assets (RAO). The study of these findings indicates

consistency with prior empirical studies and provides evidence in support of agency theory.

The determination of a firm's optimal financial structure is a difficult one since it involves an analysis of several factors, key among them risk and profitability (Shubita & Alsawalhah, 2012). The decision becomes more difficult, in times when economic, social, technological and political environment in which the firm operates exhibits high degree of instability (Shubita & Alsawalhah, 2012). Capital structure, which also referred to as financial leverage or gearing, it's the proportion of a company's long term debt and preferential shares if any to ordinary share capital (ICAN, 2009), with this definition, it can be described as the proportion of debt to business owners fund/Equity with regard to SMEs, as there are the major sources of finance for SMEs. This is consistent with the point of Nadada (2013) that the two principal sources of finance for SMEs in Nigeria are loans/ debt and equity (owner's investment). SME capital structure typically follows pecking order theory behavior. However the theoretical underpinnings of the pecking order theory are doubled in the case of SMEs as SME managers highly value financial freedom, independence and control while the pecking order theory assumes firms desire financial wealth and suffer severe adverse selection cost in accessing external finance (Lopez-Garcia & Sogorb-Mira, 2008).



According Modiglian and Miller (1963) firms should incorporate more debt in their capital structure in order to maximize the firm's value which is manifested through profits, and efficiency in management. However, Harns (2011) warns of the danger of high amount of debt in the capital structure of firms which includes Bankruptcy, liquidity, and costs and in some cases corporation dissolution. According to Abor (2011) capital structure decisions are essential because of the fact that they have an impact on the ability of a business to compete effectively. Kajanathan, (2012) emphasize that capital structure decision is important because the profitability of a firm is directly affected by such decisions.

The determinants of a firm's capital structure comprise of those factors that influence its financing decisions, namely, asset structuring profitability, firm size, growth opportunities, uniqueness, business risk, ownership structure and control and enterprise age. The capital structure of SMEs as a whole is therefore looked at, which involves determining how much capital it is needed immediately over time and the combination of equity and debt that it will use to fulfil its entire financial requirement. The significance of asset structure underlined the importance of collateral in SMEs finance. Reviewed questionnaires from respondents handled by previous researchers confirmed that profitability, assets and size were important determinants of capital structure. Profitability was found to be important to the SMEs. The survey also found that while SMEs operated bank accounts, banks were the least preferred. Source of debt and there

was no relationship between capital structure and industry sector growth (Codjia, 2012, Karadeniz, 2008).

### **2.4.3 Cost of debt**

Cost of capital is referred to as the price of obtaining fund/ capital. It is the rate which is paid for the use of capital. It can also be referred to as the cost of a company's fund, minimum rate of return a firm must earn on its investment (Magaji, 2011). From the point of a company's, cost of capital is the rate of return that it has to offer to compensate its investors including shareholders and bondholders for the capital they provide (Brealey *et al*, 2009, Arnold, 2008). Like all other business banks incur costs to do business, they incur costs to a business, they costs to access credit, process and monitor loans, transaction costs directly related to profitability. The higher the cost of processing transaction the lower is the return. SMEs loans often consume time to assess, monitor and manage. According to Zavatta, (2008) irrespective of risk profile consideration, the handling of SMEs financing is an expensive business. According to Dehijia *et al* (2012) interest rates can erode surplus generated by borrowers leaving them with little net gain. There is also concern that high interest rates reduce the demand for and uptake of financial services.

Cost of credit influences the availability of finance determines the financial performance of an enterprise in a number of ways. For instance the ability of access of credit by a small scale enterprise will determine its choices for technology, access to markets and access to essential resources. These in turn greatly influence the financial performance

of small and medium enterprise (Wole, 2009). Wole (2009) further states that securing capital for small scale business start- up or a business operation is one of the major obstacle every entrepreneur faces particularly those in the SMEs sector. Within the SMEs sector lack of access to credit is one of the major factors accountable for hindering the emergence of growth of their business.

One of the major problems of SMEs is finance (Nadada,2013).While their capital structure is a combination of funds from owners of business (owners' equity) internal financing which might be as a result of saving from the business owner and external financing (debt),both type of funding have their resulting cost. The cost of both financing is an opportunity cost of using these funds elsewhere. Most SMEs are constrained with fear of the cost of long term financing through means such as the capital market where opportunities are provided for emerging business to access funds for capital.

Banks advance four main reasons for their reluctance to extend credit to small enterprises viz high administrative costs of small scale lending, asymmetric information, high risk perception and lack of collateral. The transaction costs associated with process and administering loans are however fixed and banks often find that processing small SME loans is inefficient. They lack the techniques, such as credit scoring, to increase volume and lower costs (Malhotra *et al*, 2007). L,Since most of the administrative costs of lending are fixed, that is they are independent of the size of administered loan economies of scale a rise; the lager the loan, the lower the per unit costs of extending

credit. High interest rates stifle the economic growth and development of nations and individuals alike. In the West, and in particular United States, interest rates are at all-time lows and have been for many years (Wall street journal, 2014).

Credit constraints operate in a variety of ways in Kenya, where underdeveloped capital market forces SMEs to rely on self-financing or borrowing from friends or relatives. Lack of access to long term credit for small enterprises forces them to rely on high cost short term finance. These difficulties stem from the more formal lending institutions which tend to rate all SMEs equally as un-credit worth. However the emergence of less formal institutions like MFLs and SACCOs do not ease this burden. These microcredit institutions face limited expansion because of their limited funds. They are also against the cost of refinancing through the formal banking sector and have no access to refinancing either by the Central Bank (Wanjohi, 2012). Credit constraint can occur when banks increase collateral for loans. As a result low interest rate borrowers including MSEs may be removed from the list of potential customers and bank may skip these customers (Stiglitz&Weiss, 1981, Gangata &Matarire , 20133) in their study on challenges face MSEs in accessing finance from financial institutions found out that very few MSEs succeeded in accessing funding from financial institutions the main reasons being failure to meet lending requirement, chief among them being provision of collateral security.

#### **2.4.4 Investment decisions**

According to Simeyo, Martin, Nyamao, Patrick & Odondo (2013), investment is an outlay of a sum of money in an anticipation of a future return which more than compensates for the original amount plus a premium to cover inflation, interest forgone and risk (Simeyo, et al, 2013). According to Pandey (2008) investment decision entails affirms decision to invest most efficiently in the long term assets in anticipation of an expected flow of benefits over a series of years. The investment decisions require very special attention as they influence a firm's growth, risk and they are difficult and irreversible and involve commitment of large volume of funds. In other words investment decision can be described as a process which the business determines how to invest their capital (Srivatava & Misra, 2008). This process can include decisions to invest expand a business modernization or replacement of long term assets.

Making a capital budgeting decision is one of the most important policy decisions the firm makes. A firm that does not invest in long term investment projects does not maximize stakeholders' interest, especially shareholders wealth. Optimal decision in capital budgeting optimize a firms main objective of maximizing the shareholders wealth and also help the firm to stay competitive as it grows and expand. These decisions are some of the integral parts of overall corporate financial management and corporate governance. A company grows when it invests in capital projects, such as plant and machinery, to generate future revenues that are worth more than the initial cost (Ross *et al*, 2011, Shapiro, 2008).

A very important part of a management accountant's job is to provide information which will assist the making of decisions concerning the investment of capital fund. This process is known as capital budgeting (Adeniji, 2008). According to Pandey (2002) given scenario evaluate their finances differently, with some companies requiring significant time and strategic processing in order to approve capital expenditure. Other companies use simplistic analysis techniques that require nothing more than approval of a project by several departments inside the company. Some companies evaluate capital expenditure with capital budgeting techniques such as net present value (NPV) and internal rate of return (IRR), while others companies use payback period and average of return (ARR) techniques (Muhammad,2010).

The ability of firms to optimally exploit investment opportunities may crucially depend on the level of financial constraint that they face, access to finance is commonly identified as the key factor holding small and medium enterprises (SMEs) back from growing at their full potential. Finance providers and the government fail to tackle this issue effectively (Masinde, 2013). For a given decision rule, the efficient set is unique for all investors who obey basic assumptions which underlie this rule, since in practice it is applied objective data, like rate of return on securities. According to an article "making investment decisions with the net present value rule" (Steven, 2008). Corporation determines the present value (NPV) means forecasting the cash flow of a project and discounting them by a discount rate which covers opportunity costs of capital. If positive NPV it shows on the results it means that the venture will create wealth.

According to top researchers firms have to decide to invest or not to invest, when faced with new projects and investment (Gunasekaran, Love, Rahimi and Miele, 2001). Investment decision rules allow for formalization of the process and specify what conditions need be met for any projects to be accepted by looking at different investment decisions rules.(Berk and DeMarzo,2010). At the outset, in order to maintain fair study by project managers so as to bring in his or her prejudiced assessment into the decision making process so as to ensure that different projects are judged without fail. Consequently investment decision rule that is too automatic or rules are bended for business than it is not a good rule, what is more it should be able to maximize the rule of the firm. Projects that are suitable using this rule ought to boost the value of the firm accommodating them. And for projects that do not meet the requirements, it would obliterate the value, if the firm and invested in that project (Steven, 2008).

#### **2.4.5 Access finance**

Studies by Ochanda (2014), Njoroge and Gathungu (2013, Kimani (2013) and Njanja et al 2010) also indicates that access to financial services is still a big challenge to micro and medium enterprise in Kenya. Due to inaccessibility to bank loans and other credit, most small business rely on own savings and reinvested profits. This makes owners and managers of SMEs to experience a big financial gap in acquiring financial resources since the savings and the profits are not adequate. Further challenges faced in accessing credit from banks include inability of SMEs to provide collateral and other information needed by the banks such un audited financial statements coupled with the high costs of

loan in terms of interest rates make extremely difficult to access bank loans (Vuvour & Ackach, 2011). Hence a finance problem exists as SMEs cannot access funds from financial institutions due to stringent credit terms, inability to pledge acceptable collateral.

Access to finance is defined as availability of financial services in the forms of demand deposits, credit, payments, or insurance (Beck & Honohan, 2007, Donovan, 2012, Aduda & Kalunda, 2012, Arnold & Johnson, 2012, Massa, 2013). The availability of such services can be constrained by physical access, affordability and eligibility. Barriers such as high transaction cost, distance and minimum balance requirements can exclude individuals and firms access to credit matters to SMEs. In particular, access to credit is associated with positive growth, (2012, Ouma & Ramo, 2013).

Access to finance refers to the possibility that individuals or enterprises access financial services including credit, insurance services and other risk management (Beck and Demurguc 2006). It is the ability of firm to get and use financial services that are affordable, usable and meet their financial needs (Claessen, 2006). Access has four key dimensions physical access, affordability, appropriate features that meet the users' particular needs and appropriate terms that do not effectively exclude any category of potential users. Access to finance services implies an absence to the use of these services, whether that the obstacles are price or non-price barriers to finance (Demirguc-Kunt *et al*, 2008).



In Kenya issues of constraint and uneven access have not faded away particularly in rural areas despite recent innovations in credit markets (Aduda & Kalunda, 2012). For example Atieno, (2001) observes that commercial banks and other formal institutions often fail to cater for small borrowers because of their strict lending policies and conditions. She also observes that 33% of borrowers in Kenya ranked credit constraints as among their problems and that 68% of capital from informal sources. Lack of adequate financial resources places a significant constraint on SME development. Cook and Nixson (2005) observe that, notwithstanding the recognition of the role of SMEs in development process in many developing countries, SMEs development is always constrained by the limited availability of sources to meet a variety of operational and investment needs. It is also confirmed that worldwide business face inadequate capital, which is a stumbling block of potential growth of SMEs ( Mashenene &Rumanyika, 2014).

Although there has been a rapid growth in the microfinance sector over the years studies like that of Brown and Makarius (2009) shows that 50 percent SMEs continue to have a deteriorating performance with 3 in every 5 SMEs falling within the months of establishment. However Mushimiyima,(2008) cited lack of collateral and high interest rate as an impediment to access to loans from micro finance institutions. According to Abubakar, (2009) a firms financial resource endowment is a vital determinant of the growth and that firms inability to meet financial demands is mainly caused by market imperfection that triggers due to information asymmetry. Atieno (2009) found that lack

of access to finance is a major constraint facing SMEs thus is one of the reasons for the slow growth of SME firms in Kenya.

#### **2.4.6 Empirical Review**

This section presents some important empirical research findings from relevant literature on the determinant of financial performance of small and medium enterprises in tourism in Mombasa Kenya

Memba *et al* (2012) conducted a study to establish the impact of venture capital on growth of SMEs in Kenya. The study used 200 SMEs that have been financed by venture capital as the target population. The SMEs were drawn from various major urban centers in Kenya. The SMEs were stratified according to their locality and a random sampling was carried out by assigning numbers to each stratum. A sample of 100 firms was picked at random from which data was collected using a semi-structured questionnaire as the main tool for data collection. Data was analyzed using descriptive statistics with the help of SPSS computer software. The variables used to measure growth were sale per annum, net assets, profit per annum and number of workers among others. They were analyzed before and after the venture capital. The study established that SMEs made significant growth after accessing the finance and recommended that other SMEs should follow suit if the country has to achieve its vision 2030.

Chinaemerem and Anthony. (2012). Examined the impact of capital structure on financial performance of Nigerian firms. Panel data for the selected firms were

generated and analyzed using ordinary least squares (OLS) as a method of estimation. The result shows that affirms capital structure surrogated by Debt ratio has a significant negative impact on the firm's financial measure, return on asset (RAO) and return on equity(ROE).

Beck *et al*, (2010) provide attempt to understand SME financing from the supply side. Based on a survey of 91 banks in 45 countries, the author provide a characterization of bank financing to SMEs and find that banks perceive the SME segment to be highly profitable and serve it through a number of lending technologies and organizational set ups. Data collected was analyzed using regression model. The authors observe few differences in the extent SMEs are reached out by banks based on their private, public or foreign-owned. However they find a significant differences across banks in developed and developing economies and conclude that the enabling environment is more important than size of the firm or bank ownership in sharpening bank financing to SMEs.

Edelen and Kadlec, R. (2013) examined the link between a firm's investor basic, discount rate, capital budgeting decisions and profitability. They argue that a downward shift in discount rates (cost of capital) associated with an expanded investor base can account for both poor stock returns and operating performance following security offerings. Data collected was analyzed using regression model. Their findings were that an expansion in the firm's investors' base is both a necessary and sufficient condition for

anomalous poor performance. The study shows that a change in the capital structure can affect performance.

Khaled and Samar (2013) studied the impact of capital financial leverage and the growth rate of dividend on rate of return on investment .The study used multiple linear regression analysis. The model included a number of independent variables which are the cost of capital, financial leverage, and growth rate of dividend. The results of the study showed that there is a positive effect and statistically significant for growth rate of return on investment. On the other hand, the study showed no effect with statistical significance for each of the cost of capital and finance leverage on the rate of return on investment. This support the M&M study showing insignificant relationship between cost of capital, financial leverage and rate of return on investment.

Muzenda (2014) investigated the conceptual model of determinants of performance of tourism sector of SMEs in South African entrepreneur attributes, firm characteristic and external environment are used in the study as the factors that influenced or affected SME performance. A structured questionnaire was used as the method of data collection from a total of one hundred and fifty one respondents randomly and the data collected was analyzed using SPSS. Cronbach alpha shows 0.826 and Kaise –Meyer Olkin show 0.707 which indicate coefficients obtained from the chi square test. The findings indicate or show that there is a significant association between entrepreneur attributes, firm characteristic, external environment and SMEs performance.

Kinyua, (2014), identifies the factors affecting the performance of small and medium scale enterprises in Jua kali sector in Nakuru Town of Kenya. In his study performance of SMEs, was influenced by finance, management skills, macro- environment and infrastructure. The research employed a survey research design and also employed a stratified random sampling. Questionnaire was used as a primary method to collect data from two hundred and sixty two respondents and the data collected was analyzed descriptively and inferential and also it was presented through figures, tables and percentages. The findings of the study indicate that access to finance had the potential to positively affect performance of SMEs. Managerial skills were also found to positively and significantly affect performance of SMEs, but infrastructure did not significantly affect the performance of SMEs.

Mohamed and qamar, (2011) Studied the relationship between corporate performance and cost of equity capital. Corporate performance was taken as an independent variable and cost of equity was taken as a dependent variable while return on asset was taken as a proxy to measure the corporate performance. Panel regression and Hausman test was applied to check the effectiveness of random and fixed effect. The finding shows insignificant relationship between corporate performance and cost of equity capital which is consistent with Modigliani & Miller (1958) study.

Mensah and Agbekpornu (2015) analyzed the determinants of agribusiness in Kumasi(Ghana) in accessing credit. A sample of 151 respondents was questioned. This study classified these determinants as under social economics, management and firm

characteristics. Access to credit dichotomous whether one had access to credit or not and a logit model was used to analyze the relationship between these variables. Results indicated that 55% have never applied for loan before. Though in contrast to previous studies most financial institutions did not strictly demand collateral security. Many institutions focus more on the relationship and nature of transactions in the past in granting credit. Logit model also indicated that for every increase collateral would lead to a probability of 30% increase in credit. Financing also revealed a significant relationship between the collateral security and access to credit.

Yazdanfar & Ohman (2014) examined the underlying link between debt financing and firm performance. In particular this research employed panel data analysis to explore the correlation between the variables in the Sweden context. They examined 15,897 in five different industries for the period 2009 and 2012. They mainly focused on the effect of maturity period of debt on profitability as measured by return on asset ratio (ROA). They found debt financing to be negatively related to firm profitability in Sweden.

## **2.6 Critique of existing literature relevant to the study**

Small and medium enterprises (SMEs) sector has received increased global attention due to its growing importance in terms of income generation, labor absorption, poverty alleviation and contributors to Gross domestic product (Aremu & Adeyemi 2011, Muhammad *et al* 2010, Subhan *et al* 2013). Macan Bhard (2010), added that the realization of the significant economic contribution of SMEs has resulted in increased attention focused on the sector from policy makers as well as academics. The economic

potential of the SMEs sector makes SMEs development as an important government agenda and their contribution is crucial and remains as an integral part of economic development of a country.

Globally SMEs sector has been reporting difficulties in access to finance (Bebeczuk, 2004, Sotty, 2009. Balling *et al*, 2009, Irwing & Scott, 2010 Yongqian *et al* (2012). Access to external finance has become more costly and troublesome while their accessibility has sharply declined. SMEs financing constraints limit their investment opportunities and stagnant growth. Access to finance is widely perceived to be an essential factor to firms and especially SMEs to maintain their daily business operations as well as to achieve long term investment opportunities and development targets. Presence of general limitations on access to capital markets, many East African firms heavily for credit rely on the banking. Therefore a well banking sector plays an important role in channeling resources to the best firms and investment venture. Financing constraint crucially limit firms growth availability of productivity resources resulting to sluggish of sector which might pose threat to the sector contribution to the economy.

Msoka (2013) argued that business capital is the prerequisite for development , hence rising its quality and productivity is critical factor for ensuring SMEs growth and reducing poverty levels even where microfinance institutions have come into to address the issue of credit access , they have focused greatly on reducing poverty , instead of the development of growth of SMEs, their loan size have therefore tended too small to

support growth (Stevenson,&St Onge, 2015) on the subject of supporting of investing in innovation, in addition to challenges mentioned. Rogerso.(2015 pointed out that SMEs are starved for finance support innovation even when they have sound business expansion plans worthy of investment as they are considered risky because their innovative business ideas have not been tried and tested

Cecchetti, Mohanly and Zampolly (2011) studied the effect of debt on firms and concluded that moderate debt level improves welfare and enhances growth, but high level can lead to a decline in growth of the firm. Ranhert and Rogoff (2009) argued that when debt impacted positively to the growth a firm only when it is within certain levels. When the ratio goes beyond certain levels, financial crises are very likely. The argument is also supported by stern Stewart and company who argue that a high level of debt increases the probability of a firm facing financial distress. Over borrowing can lead to bankruptcy and financial ruin (Cecchetti, et al 2011). High level of debt will constrain the firm from undertaking project that are likely to be profitable because of the inability to attract more debt from financial institutions.

Debt financing has been used as an instrument of filling the budget deficits both in the private and public sector (Onchonga, Muturi &Atambo,2016). Debt financing is a key source of capital in many growing firms since their retained earnings may not be sufficient enough or may be unavailable (Githaigo&Kabiru, 2015). By generating incomes that may not have been gained with no extra financing external sources in firm of equity or debt fund allows firms to improve the firm's value which is traditionally



considered the vital goal of many business (Darydov, 2014). Herelimana states that the core of debt is that the borrower will have to repay borrowed funds which are accompanied with service charges such as loan origination fee and interest charges.

In Kenya the performance of SMEs has continued to decline over the years. According to GOK, (2009) virtually most small enterprises had collapsed leading to the closure of some of the SMEs that were producing 40% of the employment in Kenya .Other SMEs were auctioned while some were merged or acquired signifying questionable financial performance. The financial system in Kenya has grown rapidly in the last decade. Though the largest in east Africa, it has failed to provide adequate access in banking service to the bulk of the population and lending is skewed in favor of large private and public enterprise in urban areas. This evidenced by distribution of bank branches at 93 percent in urban and in rural areas and 7 percent in arid and semi-arid areas Trandafir,(2010).This demonstrate that the poor section of the society who are found in rural and semi-arid areas have not been able to access adequately financial services. This is despite the tangible reports on the state of financial inclusion in Kenya. Lack of tangible security by SMEs, the limited capacity, outreach and linkages by financial intermediaries and a holistic legal and regulatory framework for financial services are the main constraint (GOK, 2005).

Gao and Banaji (2015) argued that owing to the existing growth appraisal systems, SMEs pay more attention to quality growth and neglect the improvement of quality they are kin on big, while ignoring the strong. This provides the explanation of many cases

where SMEs perform well today but go bankrupt tomorrow. Lavine (2004) summarizes that, countries with better functioning banks and financial markets grow faster because it enables the external financing constraints that impede SMEs explanation to be reduced, and in so doing creates an environment for SMEs success or growth. Modigliani & Miller (1958) explains the role of debt in firms profitability as one of the primary objectives of contemporary researches for more than fifty years. However this role remains a questionable subject which attracts the attention of many researchers such as Psillaki (2010) and Kebewar (2012).

## **2.7 Research gaps**

Access to SMEs financing is one of the most critical aspect of SME survival Wanjohi (2012). Scholars like Birundu (2015), Berger *et al* (2009) and Mwobobia (2012) posit that growth on any SME venture is determined by access to finance at different stages of product and service development. (Atieno 2009) found out that lack of access to finance is a major constraint facing SMEs in Kenya, and also being one of the reasons for the slow growth of SME firms in Kenya. Accessibility is a big issue which is an implication that SMEs do not have adequate funds to meet the needs at different levels of their performance. Wanjohi (2012) also states that lack of and adequate access to credit is the leading factor stifling the growth of small and medium enterprise. Therefore a finance gap exists for firms starting or wishing to expand Garikai, (2011).

Evidence show that borrowers are then forced to limit their investments to retained earnings, Iota & Wehinger (2015) thereby restricting enterprises growth and

development perceived as one of the main obstacles to doing business. Several studies have shown that financing is a greater obstacle for SMEs than it is for large firms, particularly in developing world, and that access to finance adversely affect the growth of the SME sector more than of large companies (Osano & Laguiton,2016, Rambo 2013, Schafer Wertwatz & Simmermann,2014). It is therefore unsurprising that international development community has listed small and micro enterprise (SMEs) access to finance as an important policy priority.

The successes so far of financial institutions only reach a fraction of the estimate underlying demand owing to the problems associated with accessing alternative credit facilities, as a large proportion of Kenyan SMEs rely more on self- financing in terms of retained earnings. Ongolo & Awino (2013 also affirm the existence of limited access to finance by the SMEs despite the existence of various potential institutions for SMEs in the Kenya. The implication, therefore, is that SMEs do not have adequate credit to meet their needs at different level of their growth. Regardless of SMEs being considered a major driver innovation and employment as well as their potential in a country's economic development, recent empirical studies have found this view suggesting that future of SMEs sector might be jeopardized due to financial constraint (Beck *et al*, 2005, Aghion *et al*, 2007, Fatoki &Assar, 2011)

In view of the above studies this study therefore seeks to fill the gap and argued and cited that lack of finance is one of the main reasons for SMEs poor financial performance in most developing countries including Kenya. Lack of empirical research

and detailed information on the determinants of financial performance of SMEs is one among the identified gaps, and the researcher therefore is motivated to investigating the effect of financial determinants on financial performance of SMEs in Mombasa County and environs in Kenya.

## **2.8 Summary**

This study investigated the effect of financial determinants on financial performance of SMEs in Mombasa and environs in Kenya. The literature identified four independent variables of the study, capital structure, and cost of capital, investment decisions and access to finance of the finance model which formed and provided the basis for the development of a conceptual framework. The study presented theories including Modiglian & Miller theory, pecking order theory, Agency theory, Trade off theory and Modern portfolio theory. In addition the chapter provided a critic to the study which formed the basis for identifying the research gaps for the study. This study therefore investigated and generated data and information on the effect of financial determinants on financial performance of small and medium enterprises in Mombasa County and the environs in Kenya.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology is a way to systematically solve the research problem (Kothari, 2009). This chapter discussed the methods and techniques employed in carrying out this research to attain the stated objectives of the study. It covered areas of research design, target population, sampling frame, sample size, sampling technique, data collection procedure, pilot test, validity and reliability of questionnaires and data analysis of the collected data.

#### **3.2 Research design**

Research design is an overall plan for the method to be used to collect and analyze the data of a research study (Hair *et al*, 2008). This study adopted a cross section survey research design as it was suitable to describe the data at a specific point of time on determinants of financial performance of SMEs. According to Kothari, (2010) cross survey are part of descriptive studies and sought to put into perspective the views of respondents participating in a study over a specific point in time over a given period of time. Sekeran (2006), states that surveys are useful and powerful in finding answers to research questions, but they could do more harm than good if not correctly targeted. Bryman & Bell, (2011) states that a good research design depends on the purpose, skills of the researcher, findings, and nature of the research problem such that while a

particular design may be good for one problem, it may not be equally good to other problems.

The researcher used qualitative approach as it seeks to describe and analyze the behavior and culture of humans and their groups from the point of view of those being studied (Orodho & Kombo, 2002; Tromp, 2006). According to (Saunders et al,2009) Qualitative research methods focus on describing and understanding the experience, perspectives and thoughts of participants, therefore qualitative research explores meaning and purpose or reality. Under the chosen design the study then followed a descriptive-explanatory research purpose because in this study description is a precursor to explanation. (Saunders, Lewis &Thornhill,2016). Qualitative research was adopted because it enabled the researcher describe the different questions raised on the effect of financial determinants on financial performance of SMEs. (Bryman &Bell, 2007), the reason of choosing this design is its nature, which is to understand and interpret financing theories in relations to financing of SMES and the problem formulated.

### **3.3 Philosophy Research**

According to saunders et al (2009) research philosophy is the term relating to the development of knowledge and nature of that knowledge. Depending on which research philosophy being applied there will be different assumptions utilized which will underpin the entire research strategy and method chosen. Both Epistemology and Ontology are the two types of research philosophy adopted by this research as they are some of the philosophical approaches relevant for our study as they are crucial to the

understanding of overall perspective from which the study is carried out. The epistemology and ontology are closely related and interlinked in research and lead to different approach of inquiry and help answer the research questions (Manson, 2002). Both epistemology and ontology are philosophical approaches in research is concern with what is constitutes acceptable knowledge in a field of study, the nature and method of acquiring knowledge through the research process (Saunders et al,2009). The logical position adopted is objectivism as most researchers focus on studying causal relationship that is given meaning through empirical analysis. The research commitment is essential in resolving the research problem. This research adopted qualitative approach which is primality informed by the philosophical research paradigm of the problem and the fit with the nature of the problem identified. The aim of this study is not to create new ideas or theories, rather the theories will form the basis from which various hypotheses were formulated to statistically test if there is a relationship between the dependent variable and independent variables of the study.

### **3.4 Target Population**

Kothari(2011) defines population as the total collection of elements. The target population for this study was 1881 comprised all licensed hotels, tours safaris and restaurant as registered by Tourism regulatory Authority in Mombasa County and environs in Kenya between 2012 and 2016. This SMEs sub sector was chosen due to its growth potentially as compared with other sub sector in Mombasa County and environs. Also SMEs contributes significantly to the economic and employment and creation of

jobs. For the purpose of this research only licensed business and licensed financial institutions were used.

### **3.5 Sampling frame**

The sampling frame for this research comprised list of registered hotels, restaurants and tour safaris by Tourism Regulatory Authority Mombasa office up to 2016. This sample was selected because it was easier and convenient layout for obtaining information and data from the firms studied by the researcher. Sampling frame describes a complete list of all cases in the largest population from which the research draws a sample (Saunders et al, 2016). Also Sekran Bougie (2010) sampling frame can be described as a representation of all items of the units of interest that constitute the population from which a sample is selected.

### **3.6 Sample and sampling technique**

Sampling techniques allowed the researcher to estimate the possible number of subjects that could be included in the sample.

#### **3.6.1 Sampling technique**

Kombo and Tromp (2009) and Kothari.(2004) describes a sample as a collection of units chosen from the universe to represent it. Lavrakas (2008) describe a sample in a survey research context as a subset of elements drawn from a larger population. Sampling techniques provide methods that help to reduce the amount of data needed to be collected by considering only data from a sub-group rather than all possible cases or



elements Saunders *et al*, (2000). The method of stratified random sampling was employed to arrive at the 330 SMEs, which the researcher believed possessed the experience relevant to give information to the questions for this study. The reason for using a sample rather than collecting data from the entire population, are self- evident. It is practically impossible to collect data from or test, or examine every element. A sample rather than the entire population is sometimes likely to produce reliable results. Stratified random sampling procedure was used in this research study and ensured that the sample accurately reflected the population on the basis of the criteria used for stratification whereas random sampling ensured that each member of the target population has an equal chance and independent chance of being selected (Oso and Onen, 2005). According to Kothari (2012) stratified sampling is used when the population from which a sample is to be drawn does not constitute a homogeneous group. The method also involves dividing the population into a series of relevant strata which implies that sample is likely to be more representatives (Saunders, *et al*, (2009). In this sampling technique, we got random samples in population which was composed of several SMEs Directors, Managers, Accountants and credit officers. From each of these the sample size was drawn proportionately, and one or more Director (owners), managers, accountants and credit officers as appropriate regardless of their gender were chosen. Purposive sampling will be used to obtain desired information from the above respondents because they are the only ones who conform to the desire set by the researcher.

**Table 3.1 Sample size**

<b>Type of business/ Trade</b>	<b>Target Population</b>	<b>Sample Size</b>
<b>Hotels</b>	566	<b>99</b>
<b>Tours safaris</b>	819	<b>144</b>
<b>Restaurants</b>	496	<b>87</b>
<b>Total</b>	<b>1881</b>	<b>330</b>

### **3.6.2 Sample size**

According to Cooper and Schindeler (2014) a smaller set of the larger population is referred to a sample size. This research adopted Yamane (1973) statistical formulae to select an appropriate sample size from a finite population. From the target population of 1881 a sample size of 330 was drawn including Directors, managers, accountants and credit officers who are directly involved in day today running of the business, and also able to fill the questionnaire. The formula below was used to determine the sample size from hotels, restaurants and tour safaris of SMEs operating in Mombasa County and environs.

$$N=n/(1+Ne^2)$$

Where

n= required sample size

N=size of the population

E= alpha levels, that is allowable error e=0.05 at 95% confidence interval

$$N= 1881/[1+1881(0.05* 0.05)] = 1881/1+4.7025 =330$$

The study utilized a sample size of 330 as indicated above.

### **3.6 Data collection Instruments**

The data collection instruments are the tools for data collection. They included questionnaire, interview, observation and reading as explained below.

#### **3.7.1 Primary data**

The primary method of data collection provided first-hand information using **an interview guide** designed including open ended questions. The research will comprise of questions which were related to the participant's perception and relevant to variables and sub variable regarding the determinants of the financial performance. Primary data was obtained through a standard questionnaire with the objective and structured questions was self-administered and the use of a research assistant to Directors (owners), managers, accountants and credit officers of selected and licensed SMEs in Mombasa County and environs in Kenya. This was expected to elicit appropriate information from SMEs which is assumed to have the relevant skills regarding their firms hence are able to complete the questionnaire effectively. The questions were standard and based on the theoretical frame work and practical application of financing of SMEs. For the purpose of analyzing the data, the items in the questionnaire were assigned the Likert scale scores (Likert Schuester, 1971). Likert scale was used to determine the respondents agreement of strongly disagree, disagree, neutral, strongly agree and agree in a statement as will be validated by my supervisors and was distributed to the respondents. The

researcher assured confidentiality of the survey sheets since the identities are not important. The researcher also used the observation method, by visiting the local financial institutions and SMEs to find out those accessed finance and how it affected their financial performance. The observation assisted the researcher to establish whether financing will play any role on the performance of SMEs.

### **3.7.2 Secondary data**

The study used secondary sources from various important source documentations including, archival records government ministries, tourism and regulatory authority, trade and industry, department of statistics and electronic database believed to provide access to relevant information, journal and publications related to the topic. According to Bryman & Bell (2007) secondary data is the type of data that is readily available, although published for reasons other than the research in context. Secondary data is either published or unpublished and is readily available to the researcher and was confronted with collecting it direct from the respondents. According to Saunders *et al* (2009) secondary data is known to be cost effective as it is gathered from different sources, for example textbooks, company annual reports, media sources and government publications. Sherif (2016) illustrated numerous examples reporting outcomes of qualitative secondary analysis with little emphasis on the process of analysis, evaluation of data quality and sufficient and methodological challenges of the approach.

### **3.7 Data collection procedure**

A structured questionnaire was used to collect data. The researcher and one trained research assistant administered and collected completed questionnaires from the respondents. The questions were carefully drafted to achieve the objectives and provide satisfactory information for concluding the research. Also an interview guide was used by the researcher, which provided face to face conversation with the respondents.

### **3.8 Pilot study**

A pilot study tested reliability and validity of questionnaires was conducted before the main study. Patton (2002) states that validity and reliability are two important factors that are the qualitative research, and was concerned about designing a study, analyzing the results and evaluating the quality of the study. According to Zikmund *et al* (2009) recommends that the questionnaire pre-test be done by personal interviews in order to observe the respondents reaction and attitudes. The pilot testing questionnaire was administered to 30 respondents drawn from randomly selected hotels, restaurants and tour safaris SMEs enterprises. This is according to Saunders *et al* (2009) Zikmund (2000). The finding of the pilot survey was used to improve the questionnaire and also assist to draw a realistic work plan. Cronbach's alpha to test reliability of data was applied.

### 3.8.1 Reliability

Validity and Reliability are two important test of sound measurement procedures to observe when conducting research study. Reliability refers to the ability of an instrument to produce consistent results. Reliability testing was used to find out about data collected and measuring instruments. Cronbach's alpha reliability coefficient that indicates how the items in a test are positively correlated was used. The closer the reliability coefficient is to 1, the higher the internal consistency reliability. In general terms Cronbach of 0.7 and 0.8 is an acceptable range while if it is 0.6 and below is poor (Sekaran,2003).Cronbach's Alpha is a general form of the Kuder-Richardson (K-R) formula used to asses internal consistence of an instrument based on split-half reliability of data from all possible halves of the instrument. Kuder-Richardson (K-R) 20 is based on the following formula provided below:-

$$\underline{KRO=(K) (S_2-Es_2)}$$

$$S_2 (K-1)$$

Where;

KR 20 Reliability coefficient of internal consistence

K- Number of items used to measure the concept

S<sub>2</sub>- Variance of all scores

S<sub>2</sub> Variance of individuals

Factor analysis was carried out to test for construct validity and highlight variability among observed variables and also to check for any correlation variables in order to reduce redundancy in data (Hair *et al*, 2010)

### **3.8.2 Validity**

Validity is the most critical criterion and indicates the degree to which an instrument measures to reflect true differences among those being tested. Validity means the ability to produce accurate results that reflect the true situation and condition of the environment it is supposed to study (Sarantakos 1998). Content validity was used to examine whether question tests were for what it was intended to test. Validity of the instruments was obtained to determine judgment and intuitive. Validity was to determine whether the research truly measures that which intended to measure or how truthful the research results are. Factor analysis was used to test of validity in this study.

### **3.9 Data Analysis and presentation**

Cooper and Schinler (2008) highlighted data analysis as inspection ,cleaning ,transforming and modeling data in order highlight useful information to draw conclusions and support decision making. The collected data was coded and entered into SPSS to create information that will be used for analysis. In these research two types of data analysis was done. This study applied a multiple methods of analysis in addressing the determinants on financial performance of SMEs by using both qualitative methods. Quantitative analysis use statistical analysis and qualitative using SWOT analysis. Data

analysis involved organizing, accounting for and explaining the data, which made sense of the data in terms of respondents' definition noting patterns, themes categories and regularities (Gay, 1987). Descriptive analysis was analyzed involving the evidence from data collected. Analyzed data was presented using frequency tables to find out the percentage of response of each category in the variable that included response rate to questions. Quantitative data analysis was executed through descriptive statistics such as means, standard deviations, and percentages, frequencies using the statistical package for social science (SPSS Version 20) which has incredible capabilities of executing such high-level analysis as of variance (ANOVA), chi-square test, multivariate analysis correlation and multiple regression analysis, tests of statistical hypothesis. The null hypothesis was tested at the 0.05 (5%] level of significant.

### **3.9.1 Multiple Regression Model**

Multiple regression analysis was used for modeling the relation between the depended variable and independent variables. Its basic aim is to build a mathematical model to relate dependent variable to independent variables. Completed questionnaires were edited and corded for completeness and consistency. The data then was analyzed using SPSS version 20 which generated qualitative reports of percentages and tables. The multiple regression analysis models on predicted level of dependent variable to the levels of independent variables were chosen as the approach to analyze data.

Given the dependent variable the regression model was as follows;



$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where

Y = Financial Performance of SMEs, (dependent variable)

$\beta_0$  = is the intercept (constant term)

$\beta_1, \beta_2, \beta_3,$  and  $\beta_4$  = Regression coefficient

$X_1$ - Debt finance

$X_2$ - Cost of debt

$X_3$ -Investment decisions

$X_4$  Access to finance

$X_5$  Financial performance

e = the error term normally distributed about the mean zero

### **3.9.2 Hypothesis Testing**

Statistical hypothesis was used to determine whether the result of the data set is statically significant. The test provides a p- value representing the probability that random chance could explain the results in general. A p- value of 5% significant level is considered. The study was guided by four developed hypothesis as indicated in table 3.2 below. Hypothesis was tasted at 95% confidence level and at  $\alpha=0.05$  significance level as shown in the table below. The rationale to measure various variables was to ascertain whether the resources invested have positive effect on hotels, tours safaris and restaurants increased performance in terms of profitability.

**Table 3.2 Hypothesis Testing**

<b>Objective</b>	<b>Statistical Tests</b>	<b>Interpretation</b>
H <sub>0</sub> 1. Debt financing have no significant on financial performance of SMEs in Kenya relationship	Multiple Regression analysis (r)	Range =+1 to-1 r =.700 is a strong relationship r=.300 is a weak
H <sub>0</sub> 2. Cost of debt has no significant influence on the Performance of SMEs in Kenya. relationship	Multiple Regression Analysis ( r )	Range = +1 to -1 R=.700 is a strong Positive  r=300is a weak
H <sub>0</sub> 3 Investment decision does not play any significant role on performance of SMEs relationship in Kenya. relationship	Multiple Regression analysis ( r )	Range=+1to-1 r =.700 is a strong positive  r =.300 is a weak
H <sub>0</sub> 4 Access to credit levels has no significance on the performance of SMEs in Kenya. relationship	Multiple Regression analysis ( r ) and Multiple Correlation (r)	Range=+1 to -1 r =.700 is a strong relationship r=.300 is a weak

### 3.11 Measurement of variables

Variables were subject to measurement. The outcome variable measured in each subject, which may be influenced by manipulation of the independent variables. Both dependent variable and independent variables measurements are discussed below;

### **3.11.1 Financial Performance**

Measuring business performance is an essential element of assessing the ability of a firm's continuation and growth and identifies its strengths and weakness. Preferred performance measurers model vary between researchers depending on the objectives and questions of the research (Saleh, 2012). There are many models for measuring the performance of organizations, which have been developed and integrated with the theories of management and business. Financial performance can be measured in many different ways, but all these ways should be aggregated. The traditional accounting key performance indicators that include operating profit margin, sales growth, return on assets (ROA), Economic value added, earnings before interest and tax are often used to calculate financial performance (Abshir & Nigib, 2016) This study used profitability which is a classical measure of business performance regardless of enterprises size. Banos-caball, Garc-iaTerue & Martinez Solano (2011) Dahamen and Rodrguez (2014). In Kenya Kamunge *et al* (2012) relied on profit as primary indicator of performance in examining SMEs performance. This study used return on asset to measure financial performance.

### **3.11.2 Debt finance.**

Debt financing was measured using debt ratio, short term debt was measured in terms short term to total loan and long term debt in terms of long term loan to total loan and trade credit was measured in terms of account receivables/sales ratio. These accounting

measures representing the financial ratios from the balance sheet and income statements have been used by many researchers including Demset, and Lehn,(1985),Gorton and Rosen,(1995),Mehran()1995 and Ang, Cole and line (2000).

### **3.11.3 Cost of debt**

Interest rate spreads are hypnotized to be a function of bank specific and industry specific variables as well as macroeconomic factors, in the line with similar studies in the literature Chirwa & Machila,(2004), Entrop *et al* (2012), Bennaceur & Goald,(2012), Siddquii (2012). The specific variables include bank size, credit risk as measured by non-performing loans to total loans ratio and liquidity risk (ratio of banks assets to total assets), return on average assets, operating cost as a ratio of total net income and net interest as a ratio of total income.

### **3.11.4 Investment decisions**

According to Berk & De-marzo (2010) there are two methods to estimate returns of investments. Each method has two types of investment decision rules. The traditional method which is divided into two pay back and the average rate of return and the discounted cash flow technique is further separated into two the Net Present Value (NPV) and Internal Rate of Return (IRR), which the researcher used to measure investment decisions. Two of the most common investment measures are return on total assets (ROA) and return on shareholders' Equity (ROE). ROA is perhaps the best

measure of the operating efficiency of a firm (Bernsten 1993, Stickney and brown, 1999, Weygardt, Kieso & Kimmel 1999) and has been used in this study.

### 3.11.5 Access to finance

Measures of access fall into two broad categories, those based on the providers' information such as banks and other service providers and those based on users information-individuals, household or firms (Beck *et al*, 2009). More specifically access to finance can be measured in terms of access to certain institutions, such as banks, insurance services or microfinance institutions provide, such as payments services, savings or loans and credits, number of bank account per 1000 and number of loans per 1000 per people. Another approach would be to look at details on the uses of specific financial products such as debit cards, credits cards, life insurance, home mortgages, among others. Firm size is an important predictor of performance.

**Table 3.3: Measurement of variables**

Variable	Measurement
Debt finance	Debt ratio, short term loan / total loan Long term loan/ total loan, Trade credit n terms of account receivables/ sales ratio
Cost of debt	Weighted average cost of capital(WACC)
Investment decision	Economic value added, Return on investment& net present value
Access to finance	Number of bank accounts per 1,000 adults Number of bank branches per 100000. Collaterals
Financial performance	Operating profit margin, sales growth, return on asset, Economic value added, and earnings before interest & tax

**Table 3.4: Likert scale Measurement observation and attitude**

Variable	Nature	Indicators	Measurement scale
Debt financing	Independent	Short term debt	Strongly disagrees
		Short term debt	Disagree
		Trade credit	Neutral
		Trade credit	Agree
		Trade credit	Strongly agree
Cost of debt	Independent	Interest rate	In scale of 1-5
		Transaction costs	Strongly disagrees
		Cash flow	Disagree
		Cash flow	Neutral
		Cash flow	Agree
Investment decisions	Independent	Return on investment	Strongly agree
		Net present value	In scale of 1-5
		Cash flow	Strongly disagrees
		Cash flow	Disagree
		Cash flow	Neutral
Access to credit	Independent	Sources of credit	Agree
		Collateral security	Strongly agree
		Frequency borrowing	Strongly agree
		Frequency borrowing	In scale of 1-5
		Frequency borrowing	Strongly disagrees
Financial performance	Dependent		

## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents the data analysis and results of the study and discussed the findings and interpretations of findings in consistent with the research objectives and the results for each hypotheses reported. The general objective of the study was to investigate the determinants of financial performance of SMEs in tourism sector in Mombasa and environs Kenya. The quantitative data obtained was analyzed using both descriptive; means, standard deviation variance are reported for the tested variables. Frequency, and inferential statistics, ANOVA, chi-square were used for testing significance levels, multiple regressions and correlation coefficient for determining relationships, hypothesis as guided by the research objectives in reference. In all the above SPSS software was used for data analysis.

#### **4.2 Response Rate**

The study targeted 330 respondents from the SMEs in Mombasa County and environs who operated small and medium enterprises in the tourism sector. Out of 330 questionnaires distributed only 263 questionnaires were filled and returned .This gave a response rate of 80%. This is inconformity with Kwankwo, (2007) who poised that survey researchers face a challenge of low response rate that rarely goes above 50%. They further suggest that a rate response rate of 50% is satisfactory and represents a

good basis for data analysis. According to Mugenda and Mugenda, (2003) a 50% response is adequate, 60% is good and above 70% is very good. Also Kothari,(2004) asserts that a response rate of 50% is adequate, while a response rate greater than 70% is very good. Babbie, (2004) also asserts that return rate of 50% are acceptable to analyze and publish 60% is good and 70 % is very good. The 80% for this study was considered very high to the usually expected response rate of 50- 75 % according to Saunders et al (2007), therefore the response for this study was considered to be ideal, adequate and reliable for the research as recommended by the above researchers and as shown in table 4.1 below

**Table 4.1 Response rate**

	<b>Frequency</b>	<b>Percent</b>
Returned	263	79. 697 %
Unreturned	66	20.303 %
Total	330	100

#### **4.3 Normality Test**

Tests of normality for variables debt finance, cost of debt, investment decision and access to finance on financial performance of SMEs was performed. To test normality distribution Kolmogorov-Smirnov (K-S) test and Shapiro and Wilk were computed using SPSS to determine whether the data is normally distributed, as indicated in table 4.2 below and the result thereof. According to the results for debt finance, cost of debt, investment decisions and access to finance on financial performance of SMEs in Mombasa County as shown in table 4.2 above, it is clear that tests have a p- value of the four independent variables greater than 0.05 indicating that the data is normally distributed and adequate. The test was also non- significant therefore normally



distribution of data. If p-value is below 0.05, the data significantly deviate from a normal distribution. The test in figure 4.2 P-values of the independent variables were greater than 0.5 and therefore concluding that there is normality distribution of the data. It is also confirmed that Shapiro-Wilk Test has become the preferred test because of its good power properties (Mendes & Pala, 2003). The normality tests for the assessment of normality used for this study are Kolmogorov-Smirnov and Shapiro-Wilk test which are among the much used tests (Uzlunna *et al*, 2006). The study therefore showed need to establish whether the study data was normally distributed before data analysis was performed. Mendes & Pala in their study affirm that shapiro & Wilk test is the most powerful test in most situations. It is also confirmed by Nor *et al* (2011) evaluating the performance of normality tests under distribution and different sample size.

**Table 4.2 Kolmogorov & shapiro-wilk normality test**

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk	
	Statistic	df	Sig	Statistic	df
Debt Finance	0.96	263	.321	.989	263
Cost of Debt	.145				
Investment Decisions	.117	263	.298	.929	263
Access to Finance	.212				
Financial Performance	.099	263	.412	.987	263
	.123				
	.135	263	.304	.940	263
	.120				
	.147	263	.000	.911	263
	.224				

#### 4.3.1 Skewness and Kurtosis test for debt finance

Normality tests for both skewness and kurtosis was performed to measure normality distribution for debt finance. The common rule for both skewness and Kurtosis of the thumb test for normality is to run descriptive statistics to get skewness and kurtosis

criterion of +2,-2 range if data are normally distributed, a few authors use a more lenient +3 -3, while others use +1,-1 as a more stringent criterion as indicated. The results skewness and Kurtosis tests were within the ranges stated above as displayed in table 4.3. The tests are used to conform to normal distribution of data, where data follow a normal distribution which assumes that the population from which the sample are taken are normally distributed. Measures of skew and kurtosis are used to determine if indicators met normality assumption (Kline, 2005).

**Table 4.3: Skewness and Kurtosis test foe debt finance**

<b>Nature</b>	<b>Statistics</b>	<b>Error</b>
Skewness	-218	0.152
Kurtosis	0.357	0.303
Mean	3.3879	0.4027
Standard Deviation	0.58013	-

#### **4.3.2 Skewness and Kurtosis test for cost of debt**

Normality tests for both skewness and kurtosis was performed to measure normality distribution for cost of debt. Skew is the tilt or lack of it in a distribution. The common rule for both skewness and Kurtosis of the thumb test for normality is to run descriptive statistics to get skewness and kurtosis criterion of +2,-2 range if data are normally distributed, a few authors use a more lenient +3 -3, while others use +1, -1as a more stringent criterion as indicated in table 4.4 below. A common rule of the thumb test for normality is to run descriptive statistics to get skewness and kurtosis, and then divided

these by standard errors. Skew should be within the +2 or -2 range when the data is normally distributed. Some authors use +1 or -1 as a more stringent criterion when normality is critical. The results revealed that both skewness and kurtosis applying the rule of the thumb of dividing each value by its standard error gives -2.89 skewness and 2,67 to kurtosis both well within +- 1.96 or +2 or -2 and +3 or -3 suggesting that the departure from normality is not too extreme.

**Table 4.4 Skewness and Kurtosis test for Cost of debt**

	Statistics	Error
Skewness	-0.439	0.152
Kurtosis	0.809	0.303
Mean	3.496	0.03596
Std Deviation	0.58022	-

#### **4.3.3 Skewness and Kurtosis tests for investment decisions**

Skewness and Kurtosis test for investment decisions was performed using SPSS software and the results are displayed. For a normal distribution for both skewness and kurtosis for the generated data are close to 0 as shown in table 4.5 below. Normality testing on both skewness and kurtosis was performed for investment decisions by dividing the skewness and kurtosis by standard error and the results indicated in table

4.5 below that -2.19 for skewness and 2.432 for kurtosis were within the +2 or -2 and+ 3 or – 3 applying the rule of the thumb, dividing each value by its standard error. The result implies that normality is not too extreme as it is within the accepted ranges as shown in table 4.5. It is therefore concluded that data for the thesis is close to normal.

**Table 4.5 Skewness and Kurtosis test on Investment Decision**

	Statistics	Error
Skewness	-405	0.152
Kurtosis	0.664	0.303
Mean	3.2074	0.02609
Std Deviation	0.57621	-

#### **4. 3.4 Skewness and Kurtosis test for Access to finance**

Skewness and Kurtosis were performed for access to finance using SPSS software and the results displayed in table 4.6 below. Both kurtosis and skewness in statistics, normality tests are used to determine whether data set is modeled for normal distribution. The normality test was performed on access finance by dividing skewness and kurtosis scores and standard error and the results were 2.09 for skewness and 2.89 for kurtosis, applying the rule of the thumb; this implies that normality departure is not too extreme. This is consistent with Kline, (2005) who asserts that measuring of kurtosis and skew are used to determine if indicators met normality assumptions as shown in

table 4.6. Both skewness and kurtosis are used as indicators of the degree of normality of distribution or lack of it. The results for calculation of skewness and kurtosis are displayed in table 4.6 above indicating that skewness was 2.941 and kurtosis 1.375. It is found that the results are within the ranges of +2 Or -2 and +3or -3, suggesting that the departure for normality is not extreme, and therefore close to normal. This is in conformity with the study by brown (2006) who states that values that fall above or below the above ranges are suspects.

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**Table 4.6 Skewness and Kurtosis test for Access to finance**

	Statistics	Error
Skewness	0.319	0.152
Kurtosis	-.877	0.303
Mean	3.4267	0.2960
Std Deviation	0.2307	-

---

#### **4.3.5 Skewness and Kurtosis test for Financial Performance**

Skewness and kurtosis were performed for financial performance using SPSS software and the results are displayed in table 4.7 below. Both skewness and kurtosis are used as indicators of the degree of normality of distribution or lack of it. The results for calculation are displayed in the table 4.7 below indicating that skewness is 2.941 and kurtosis 1.375 suggesting that the results are within the ranges of +2or -2 and +3 or-3

and therefore normality is not extreme. This is in conformity with the study of brown (2006) who states that values that fall above or below these ranges are suspect. It is therefore concluded that the data for thesis is close to normal.

**Table 4.7 Skewness and Kurtosis test for Financial Performance**

	Statistics	Error
Skewness	-447	0.152
Kurtosis	0.209	0.303
Std deviation	0.47448	-

#### **4.3.6 Reliability Testing**

Reliability testing was used to find out about data collected and measuring instruments. Cronbach's alpha reliability coefficient testing was conducted using SPSS software and involved 26 respondents to determine the reliability of the questionnaire used in the study. Reliability statistics for each variable is presented in Table 4.8 below. The findings indicated that, debt finance had a coefficient of 0.721, cost of debt 0.727, investment decision 0.743, access to finance 0.784 and financial performance 0.735. In this study reliability coefficient of between 0.721 and 0.784 was registered indicating a high level of internal consistency. This is confirmed by Groenwald (2008) who state that qualitative studies, by their very nature, are highly susceptible to personal bias; hence, there is a need for validating the quality and reliability of the data. Sekaran (2003) indicate that the reliability coefficient of greater to 0.7 is considered adequate. In general

terms Cronbach's alpha of 0.7 and 0.8 is an acceptable range, while if it is 0.6 and below is poor.

**Table 4.8 Reliability statistics**

<b>Construct</b>	<b>Cronbach's alpha</b>	<b>comments</b>
Debt finance	0.721	accepted
Cost of debt	0.727	accepted
Investment decision	0.743	accepted
Access to finance	0.784	accepted
Financial performance	0.735	accepted

#### **4.4. Sampling Adequacy**

Factor analysis was used to test validity of the constructs. To test validity to measure sampling adequacy and to examine the appropriateness of factor analysis Kaiser- Meyer Olkin and Bartlett's of Sphericity was used. Factor analysis was used to measure the constructs as shown in table 4.10. To examine the appropriateness of factor analysis, values between 0.5 and 1 indicate factor analysis is appropriate and values below 0.5 imply that factor analysis may not be appropriate.. Kaiser Meyer Oklkin and Bartlett's test of Sphericity. Kaiser Meyer Olkin measure of sampling adequacy was used to compute the magnitude of the observed correlation coefficients. Large values of KMO are good because correlation between the variables, which are potential for factor analysis, can be explained by other variable. If KMO is below 0.5 don't do factor analysis. The Kaiser-meyer Oklin measures of sampling adequacy showed the value of test statistic of 0.596 which is greater than 0.5, hence acceptable indexes and therefore continue with factor analysis. Bartlett's test at 0.000 significant is less than 0.5 hence

acceptable index and therefore continue with factor analysis. The result indicates a high significant relationship for KMO, hence high significant relationship for Bartlett's Test of Sphericity among variables as shown in table 4.10

**Table 4.9 Factor analysis for the study**

Factor Analysis –KMO and Bartlett's Test	
Kaiser-Meyer Olkin measure of sampling adequacy	.596
Appro. Chi- Square	417.631
Bartlett's Test Sphericity	45
Significance	.000

#### 4.5 Multi-collinearity

To test multicollinearity Variance of inflation factors (VIFS) and correlation coefficients were used. The researcher relied on commonly used test statistics for multicollinearity, namely tolerance and variance inflation factor (VIF). SPSS was performed as it gives many tolerance coefficients for independent variables for this study and the results are shown in table 4.10 below. The coefficients were compared with 0.8 or VIF of 5. The similarity between the independent variables will cause a problem of collinearity. In figure 4.10 below shows VIF values for each of the four variables of the study are indicated. When correlation is excessive, using the rule of the thumb  $r > 0.90$ , standard errors and beta coefficients become large making it difficult or impossible to access the relative importance of the predictor variable. A variance inflation factor of more than 4.0 is an indication of high multicollinearity. Tolerance and VIF for this study of independent variables are presented in the above table. Using the r



< 0.20 and  $r > 4.0$  levels for the tolerance and VIF coefficients, the results suggest that there existed no multicollinearity among the independent variables since VIF is less than 4.0 and tolerance is more than 0.20 for this study as indicated in table 4. 10 below. We therefore conclude that there was no multicollinearity effect in this study.

As indicated in table 4.10 below the VIF for the model was 1.065, 1.598, 1.992 and 1.710 respectively for the change in debt finance, cost of debt, investment decision and access to finance on financial performance of SMEs in tourism industry, which indicates no problem about multicollinearity. All the values are less than ten indicating of multicollinearity. The more multicollinearity there is among independent variables, the lower the tolerance, and the more the standard error of the regression coefficients. Therefore when VIF is high there is high multicollinearity and instability of the beta coefficient, and vice versa. Obrien (2007) indicates VIF that exceeds 10 indicates a multicollinearity problem. Further (Kothari, 2004) Cooper& Schindler,(2006 indicates that multicollinearity is a problem that distorts the regression coefficients, making them unstable difficult to interpret and hence invalid significant tests. The results imply that data was suitable for further analysis.

**Table 4.10 Multicollinearity**

Variables	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Debt finance	.946	1.065
Cost of debt	.676	1.598
Investment decision	.502	1.992
Access to finance	.586	1.710

a. Dependent Variable: Financial performance

## 4.6 Descriptive Results

The descriptive statistics presented below discussed the findings on age, education, nature of business, length of operation, borrowing, borrowing frequency, sources of finance of the respondents for the four independent variables on debt finance, cost of debt, investment decisions and access to finance on financial performance of SMEs in tourism sector in Mombasa County Kenya.

### 4.6.1 Age

The researcher found it important to establish the age of the respondents, who are responsible in running of the business. The findings of the research are shown in the figure 4.12 below. The study found that out of 263 respondents 123 were of age between 31-40 representing 48.6 percent who are the majority followed by age 60 and above had 46 respondents representing 18 percent, those aged between 51-60 had 36 respondents representing 14.8 percent, also those aged between 21-30 respondents 32 representing

12.6% and age between 41-50 respondents 16 representing 6%. This implies that over 60 percent of the respondents are aged between 20 -60 years. The age of the respondents implies that they were mature enough to be able to provide valuable information pertaining to determinants of financing on financial performance of SMEs in Mombasa County and environs.

**Table 4.11 Age**

Age	Frequency	Percent
21-30	33	13.
31-40	123	46.0
41-50	16	6.0
51-60	41	16.
60 and above	50	19
Total	263	100.0

#### **4.6.2 Level of Education**

The researcher sought to know the levels of academic qualification of the respondents. It was observed as indicated in table 4.13 below that majority of the respondents 88 out of 263 had secondary education representing 33.%, while 75 were degree holders representing 29% (university education), and 66 were those with diploma level of education representing 25%. Those who had certificate level of education were among the least 34 representing 13%. This indicated that majority of the SMEs in tourism sector who responded had secondary and degree holders, while the diploma holders and certificate holders represent the minority. According to Makasure *et al* (2008) “the level

of education is also of great important on entrepreneur's business performance. This is also consistent with a nationwide study on high school economic education and access to financial services conducted in the united states of America who found that high school courses in economics and business reduced the chances that an adult was not banked, all other factors held constant ( Grimes *et al*,2010). This implies that the respondents were educated enough to be able to fill the questionnaire and to understand and interpret the issues being sought by the researcher as indicated above. The academic qualification was also important to the researcher to help understand the level of education of the respondents because it had an impact on the way they interpreted and filled the questionnaires.

**Table 4.12 Level of Education**

Qualifications	No.	Percent
Secondary	88	33
Degree	75	29
Certificate	34	13
Diploma	66	25
Total	263	100.0

#### **4.6.3 Nature of business**

The researcher sought to know the nature of business type or category of business or commerce one wants to make investment in. This was important as the nature of business can help predict and understand trend and nature of different types of business investment is preferred. The result from the table 4.14 below revealed that out of 263, 101 of the respondents were tour safaris representing 38% who are the majorly in the industry, followed by restaurants 88 representing 34% of the respondents, and 72 hotels representing 28%. Namatovu *et al* (2010) observed that majority of small enterprise are found in restaurants and food processing, garages for motor cars and motorcycles, retail and whole sale trade, metal fabrication, furniture assembling, schools and transport service. This was important since the researcher wanted to know the composition of those represented in the tourism sector.

**Table 4.13 Nature of Business**

Categories of business Percent	Frequency	
Restaurant	89	34
Hotel	73	28
Tour safaris	101	38
Total	263	100.0

#### **4.6.4 Length of Operation**

The researcher sought to know the length of operation in terms of the number of years the business has been in existence as indicated in table 4.14 below. From the findings shown in the above table most businesses had operated over 6 years 144 representing 55 percent followed by those between 2-4 years 57 representing 22 percent and those between 4-6 years 46 representing 17 percent. Those between 0- 2 years had the least respondents of 16 representing 5 percent. Thus majority of the business had operated over 6 years. This implies that the respondents who had been in business long enough and would understand the challenges faced by business including, cost of debt finance, cost of debt, investment decisions and access to finance on financial performance of SMEs in Mombasa County and environs in Kenya. The length of operation is also ideal for any competent business existence and continuity. This is in conformity with the study of Robson and Benneti (2000) who found that farm growth is supposed to glow with age, as older firms have reached a reasonably secure position in the market which they compete having long ago surpassed the minimum efficient scales of production.

**Table 4.14 Length of Operation**

Period	Frequency	Percent
0-2	16	6
2-4	57	22
4-6	46	17
6 and above	144	55
Total	263	100.0

#### **4.6.5 Borrowing frequency**

The researcher wanted to understand the borrowing frequency by SMEs which was important indicator of SMEs financial requirement for their business operation. The frequency also could indicate whether SMEs frequently rely on borrowing from financial institutions for their operations as shown in the table 4.16 below. The study found that those who borrowed for more than five years out of 263 were 79 representing 30 percent and are the majority, followed by those who borrowed for three years who were 48 representing 18 percent Those who borrowed for three years and four year were 31 and 35 representing 18 percent and 13.6 percent respectively. Borrowing for many for many businesses is a powerful way to raise money to finance growth and expiation. Borrowing frequency was important to the researcher to understand how often respondents borrowed and their continuity in business, as depicted in table 4.8 above.

**Table 4.15 Borrowing Frequency**

Years	Frequency	Percent
1 year	45	17
2years	40	15
3years	48	18
4years	51	20
5 years and above	79	30
Total	263	100

#### **4.6.6 Sources of Finance**

Finance is needed throughout the firm's life. In this regard the researcher wanted to know the SMEs source finance .as shown in table 4.16 below. Majority of the respondents indicated that their source of finance was from microfinance consisting of 105 represented by 40.8 percent, followed by commercial banks 105 representing 40.08 percent 49 of the respondents were capital venture representing 19.06 percent. According to Memba (2011) in their study "the impact of venture capital is real on performance of SMEs. Also Pandey (2003) argues that venture capital is a significant innovation of the twenty century. This was important to the researcher as he wanted to understand how those in tourism business sourced their finances for their development as shown in table 4.16 below;



**Table 4.16 Sources of finance**

Financial Instructions	Frequency	Percent
Microfinance	110	42
Commercial banks	105	40
Capital venture	48	18
Total	263	100.0

#### **4.7 Descriptive findings for variables**

In this section descriptive statistics finding of variables is used in analyzing the data to ascertain their validity. The independent variables include debt finance, cost of debt, investment decision, access to finance and dependent variable financial performance.

##### **4.7.1 Financial performance of SMEs**

Financial performance is an important area of a firm's life, as it measures how well a firm uses its assets to generate revenue. It is a general measure of firms overall finance health over a given period of time. Distribution of responses on financial performance of SMEs findings are presented in table 4.18 below showing the degree of agreement of the mean and standard deviation by the respondent, against the various questions asked on financial performance. Financial performance adopted accounting based measures of performance. There are many different dimensions of performance such as sales growth, revenue on asset, profit growth return on asset growth debt/ equity ratio; however the researcher adopted return on asset (RAO) to measure financial performance.

**Table 4. 17. Financial Performance of SMEs**

<b>Constructs</b>	<b>N</b>	<b>Mean</b>	<b>S.D</b>
Profitability is important indicator to explain financial performance of your firm	263	3.42	.942
Regular measurement of financial performance is important for your firm	263	3.87	1.079
Return on asset measured profit against the asset a firm used to generate revenue	263	3.54	.945
Profitability is an important indicator in explaining financial performance of your firm	263	3.52	.809
Financial performance of your firm is not satisfying	263	3.21	.980
Your business performance is satisfactory because you maintain adequate cash balances	263	3.25	1.043
Ratio are used to gauge the operating efficiency and performance of a firm	263	3.81	.910
Return on asset is useful to investors to asses firm financial performance to use resources	263	3.51	1.032
Lack of profits of your firm for the last two years affected financial performance	263	3.57	1.070
Firms overall cost of credit reflects the required rate of return on firms asset	263	3.62	0.848

Based on the mean score in table 4.18 respondents expressed a moderate strong agreement that profitability is important indicator to explain performance of your firm

(M 3.42 S.D 0.942). On the regular measurement of financial performance is important for your firm with a mean score (M 3.87, S.D0.079) was revealed showing a high degree of agreement. Respondents also expressed a moderate strong agreement that return on asset measured profit against the asset a firm used to generate revenue, mean score value of (M3.54, S.D0.945) More analysis in above table revealed that profitability is an important indicator in explaining financial performance of your firm, with a mean score of (M3.52S.D. 809) which was moderately high agreement. Financial performance of your firm is not satisfactory result revealed a moderate mean score value of (M3.21, S.D 0.980). Your business performance is satisfactory because you maintain adequate cash balances revealed a mean score of (M 3.25, S.D 1.043). A strong mean score of (M 3.81, SD .910 revealed that ratios are used to gauge the operating efficiency and performance of a firm. On return on asset is useful to investors to assess firm financial performance to use resources a strong means score value of (M 3.51, S.D 1.032) was revealed. Further analysis in table 4.18 revealed that your business has adequate cash balance both in hand and bank for operations a moderate mean of (M3.57,S.D 1.070). When asked if firm is profitable and does not have cash flow problems to meet immediate needs from operations a strong mean score of (M3.62S.D 0.848) was revealed. The study that your firm is profitable and does not have cash flow problems to meet its immediate needs for operations a strong mean score of (M3.81S.D 0.910). The average mean was 3.53 indicating a high response.

#### **4.7.2 Factor analysis for financial performance**

Factor analysis was run to test if the variable was well distributed and consistency in the distribution. It was also used because it offers a solution by dividing the characteristics into independent sources of variable or factors. The table 4.19 below indicated a total of four factors were accepted since they satisfied Kaiser's criterion (1960) of eigenvalue greater than one .The other six are ignored or discarded as they do not meet the above criterion in the above table. The percentages for four factors are 33.725%, 17.924%, 13.363%, and 10.994% respectively. This is confirmed by (Forbes et al 2004) stating that large numbers of quantitative observations or responses were resolved into distinct Patten of occurrence

**Table 4.18 Factor Analysis for Financial Performance**

**Total Variance Explained**

Component Loadings	Initial Eigenvalues		Cumulative %	Extraction % Total	Sums of Squared Variance % of Variance
	Total	% of Variance			
1	4.047	33.725	33.725	4.047	33.725
2	2.151	17.924	51.641	2.151	17.924
3	1.604	13.363	65.012	1.604	13.363
4	1.319	10.994	76.007	1.319	10.994
5	.981	8.177	84.183		
6	.705	5.871	90.005		
7	.599	4.991	95.046		
8	.313	2.611	97.657		
9	.132	1.104	98.761		
10	.090	.756	99.515		

Extraction Method: Principal Component Analysis.

**4.7.3. Financial performance component matrix**

The table 4.20 below shows the actual component matrix that was extracted indicating those that met the criteria and those discarded Principal component analysis for financial performance was performed as it is considered to be a useful tool for dimension reduction and compression. The component matrix table 4.20 above indicated that all the factors met the threshold, therefore accepting all and none is ignored. This is consistent with (Field,2009) who states that variables with loading lower than 0.3 are considered to have an non significant impact on a factor and need therefore be ignored. This is also supported by the rule of the thumb which state that absolute structure coefficient greater than 0.4, indicate appreciable indicator factor correspondence (Thompson, 2004). Also

Mugenda & Mugenda( 2003 ) suggested that variables with factor loading greater than 0.3 are the one that had the highest significant and influence.

**Table 4.19 Financial performance component matrix**

Variable Indicator	Component s
Profitability is important indicator to explain financial performance of your firm	.695
Your return on asset has improved for the last three two years	.605
Profit is important for the survival of SMEs in a competitive environment	.713
Your financial performance improved since you maintained adequate cash balance both in hand and at bank	.735
Lack of profit for the last three years affected your financial performance	.803
Result from the ratios are important tools for gauging operating efficiency and your firms financial performance	.716
Your SME financial performance improved as you accessed credit facilities from financial institutions	.614
Your firm use profitability ratios in measuring financial performance	.637
Return on asset is the best measure of financial performance used by used by your firm	.467
You use return on asset ratio (ROA) measure how effectively a firm Can turn asset to earn a return on its investment	.766

**Table 4.20 Effect of debt finance on financial performance**

<b>Constructs</b>	<b>N</b>	<b>Mean</b>	<b>S.D</b>
Trade credit is an essential tool for financing SMEs performance	263	3.42	1.105
SMEs prefer short term loans because they are cheaper than other loans	263	3.53	1.308
Short term debt is used by SMEs to strengthen its liquidity	263	3.61	.943
Debt ratio an important measures of debt finance of your firm	263	3.67	1.038
Long term debt is permanent source of finance in financing SMEs	263	3.49	1.011
Short term debt are commonly used by SMEs financing operations	263	3.48	1.057
Long term debt improved long term liquidity of your firm	263	3.36	.957
Trade credit is a free cost source of finance to SMEs	263	3.58	.937
You avoided long term credit for it is expensive than short term	263	3.47	1.029
SMEs prefer trade credit in financing its operations in short term	263	3.75	.996

The study sought to determine the effect of debt finance on financial performance of SMEs in Mombasa County. The respondents were asked various questions to indicate on a Likert scale of 1 to 5. Where 1 was strongly disagree, 2 disagree and 4 agree 5 strongly agree as shown on table 4.21. On whether trade credit is an essential tool for financing SMEs performance respondents agreed with a mean score value of (M3.42, SD 1.105) and standard deviation. On whether SMEs prefer short term debt loans because they are cheaper than other loans respondents agreed with a mean score value of (M 3.53,SD 1.308,) and standard deviation. On whether short term debt is used by SMEs to strengthen its liquidity respondents agreed with a mean score value of (3.61 .943) and standard deviation. Further respondents agreed debt ratio is an important measure of debt finance with a mean score value of (M3.67, SD 1.038) and a standard deviation. On whether long term debt is permanent source of finance in financing SMEs respondents agreed with a mean score value of (M3.49, SD 1.011) and a standard deviation. On whether short term debt is commonly used by SMEs financing operations respondents agreed with a mean score value of (M3.48 SD 1.057) and standard deviation. Regarding long term debt lead to improvement in long term liquidity of SMEs the respondent agreed with a mean score value of (M 3.36 SD.957) and a standard deviation. Further analysis in table 4.21 above trade credit is a free cost source of finance of your firm respondents agreed with a mean score value of (M 3.58 SD.937) and a standard deviation. On you avoided long term debt for it is expensive than short term respondents agreed with a mean score value of (M3.47 SD 1.029) and a standard deviation. On



whether SMEs prefer trade in financing its operations in short term respondents agreed with a mean value of (M 3.75 SD.976) and a standard deviation. The standard deviation results show a low variance between data and statistical averages, thus not reliable. The average mean for debt finance was 3.54

#### **4.7.4 Factor analysis for debt finance**

Factor analysis method was used for examining the relationship with a group of observed variables. Many factors should be retained in order to best represent the data and the existing relationship. In table 4.18 below show the actual factors that were extracted. The result shows only four factors met the cut off criterion according to Kaisers criterion namely eigenvalue and the rest were discarded. The percent of variance column tells how much of the total variability can be accounted for by each of these summary scales or factors. This is supported by the rule of the thumb which state that absolute structure coefficient greater than 0.4, indicate appreciable indicator factor correspondence (Thompson, 2004). Also Mugenda & Mugenda (2003) suggested that variables with factor loading greater than 0.3 are the one that had the highest significant and influence.as indicated in table 4.21

**Table 4.21 Factor Analysis for debt finance**

**Total Variance Explained**

Component Loadings	Initial Eigenvalues			Extraction Sums of Squared		
	Total	% of Variance	Cumulative %	Total	% of	Variance
1	1.521	25.206	25.206	2.521	25.206	25.206
2	1.487	14.865	40.072	1.481	14.865	40.072
3	1.293	12.931	52.003	1.293	12.931	53.003
4	1.027	10.270	63.273	1.027	10.270	63.273
5	.893	8.931	66.451			
6	.803	8.032	72.204			
7	.655	6.550	86.786			
8	.540	5.399	92.184			
9	.433	4.395	96.519			
10	.345	3.481	100.000			

**4.7.5 Debt finance component matrix**

Ten factors- components were extracted. Component matrix for debt finance in table 4.22 below shows that all the factors were between 0.3 and 0.40 except two factors indicating 0.291 and 0.224 were below the appreciated and acceptable of between 0.30 and 0.40 indicators. The two factors were therefore discarded from the list of interpretation. This is supported by the rule of the thumbs which state that absolute

structure coefficient between 0.3 and 0.4, indicate appreciable indicator factor correspondence (Thompson, 2004). Also Mugenda & Mugenda( 2003 ) suggested that variables with factor loading greater than 0.3 are the one that had the highest significant and influence

**Table 4.22 Debt finance component matrix**

Variable Indicator	Component
Trade credit is an essential tool for financing SMEs growth	.675
SMEs prefer short term because they are cheaper compared to other loans	.720
Short term is used by SMEs to strengthen its cash flow	.531
Debt ratio is an important measure of debt financing of your SMEs	.689
Long term debt is permanent source of finance in financing SMEs	.647
Short term debt is commonly used by SMEs in financing operations	.632
Trade credit is a free of cost source of finance to your SMEs	.583
You avoided long term debt for it expensive than short term debt	.423
SMEs prefer trade credit in financing its operations in the short term	.471

#### **4.7.6 ANOVA for debt finance**

Analysis of variance (ANOVA) is a statistical procedure concern with comparing means of several samples. The purpose is to test for significant between class means and this is done by analysis of variance. ANOVA provides a statistical test whether or not the means of several groups are equal, and therefore generates t-test to more than

two groups. ANOVA are useful for comparing testing three or more means for statistical significance as indicated in table 4.24.

**Table 4.23 ANOVA for debt finance**

<b>Model</b>	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>	
<b>1</b>	<b>Regression</b>	<b>1.517</b>	<b>1</b>	<b>1.517</b>	<b>6.891</b>	<b>.009<sup>b</sup></b>
	<b>Residual</b>	<b>16.1177</b>	<b>263</b>	<b>.059</b>		
	<b>Total</b>	<b>15.141</b>	<b>264</b>			

**a. Dependent Variable: Financial performance**

**b. Predictors: (Constant), debt finance**

The researcher performed ANOVA for debt finance at 0.05 significant as shown in the above table 4.24. The analysis revealed that there was insignificant level  $p = .009$ , which leads to the conclusion that debt finance does not affect financial performance of SMEs as the value of significant with P- value of 0.009 which is more than 0.05 significant level., therefore accepting the null hypothesis.

#### **4.7.7 Chi- square test for debt finance**

Chi-square statistics was used to evaluate tests of independence to assess whether association exists between the two variables by comparing the observed pattern of responses Chi- square distribution allowed the researcher to assess whether the variables association seen between variables is likely to represent an actual relationship between the variables in the population. The Pearson's chi- square test analyzing the determinants of financial performance of SMEs yielded chi-square values as indicated

in table 4.25 below.

**Table 4.24 Chi- square test for debt finance**

<b>Cross tabulation</b>	<b>Value</b>	<b>df</b>	<b>Asymp. Sig. (2-sided)</b>
<b>Pearson Chi-Square</b>	<b>277.619<sup>a</sup></b>	<b>266</b>	<b>.413</b>
<b>Likelihood Ratio</b>	<b>186.041</b>	<b>266</b>	<b>1.000</b>
<b>Linear-by-Linear Association</b>	<b>1.847</b>	<b>1</b>	<b>.187</b>
<b>N of Valid Cases</b>	<b>263</b>		

a cells (96.0%) have expected count less than 5. 288

The minimum expected count is .0

Chi- square is a significant statistic is most used strength test to test data when a significant chi-square result has been obtained. It also provides information not only on the significant but also provides detailed information on exactly the categories account for every difference found. Chi- square statistic was performed on debt finance on financial performance of SMEs in Mombasa County and environ in Kenya and across tabulation between respondents variable and financial performance of SMEs as shown in table 4.24 above. An association between capital structures and financial performance was found  $\chi^2(5) N= 263 =277.619 p> 0.413$  with a p- value (0.413) less than or equal to five percent (0.05). This study indicates that the debt finance is independent in the population and there is no statistical effect between the variable and financial performance of SMEs. This study therefore accepts the Null hypothesis that debt finance has no significant effect on financial performance of SMEs.

**Table 4.25 Effect of cost of debt on financial performance of SMEs**

<b>Constructs</b>	<b>N</b>	<b>Mean</b>	<b>S.D</b>
High interest rate greatly affected loan requests by your firm	263	3.25	1.165
High transaction costs charged by financial institutions discouraged your borrowing from banks	263	2.97	1.147
Tax benefit debt increased your firm financial stability	263	2.94	1.134
Interest rate charged on loans had direct consequences on business financial performance	263	2.94	1.189
Tax deductibility of cost of debt lowered loan burden of your firm	263	3.41	1.008
Cost of debt enabled your business increase after tax Earnings by exploring available tax shields	263	3.22	1.065
Transaction cost charged dependent on the amount of loan requested	263	3.78	1.058
Cost of debt increased as the amount of credit borrowed borrowed increased	263	3.41	1.054
Cost of debt was too high that you decided to forgo bank loans	263	3.51	1.055
Firms overall cost of credit reflected the required rate of rate of return on firms asset	263	3.82	0.803

The study sought to establish the effect of cost of debt on financial performance of SMEs in the tourism sector in Mombasa County and environs. Table 4.26 respondents revealed that high interest rate greatly affected loan requests by your firm indicated a moderate mean score and a standard deviation of (M.3.25, S.D 1.165. On whether high transaction costs charged by financial institutions discouraged borrowing from banks

indicated a moderate mean and standard deviation of (M 2.97 S.D1.147). Whether benefit debt increases your firm financial stability revealed a moderated a moderate mean score of (M 2.94, S.D) and standard deviation. On interest rate charged on loans have direct consequences on business financial performance indicated a mean score of (M 2.94 S.D 1.189) and standard deviation. Tax deductibility of cost of debt lowered loan burden of your firm indicated a mean score of (M 3.41S.D1.008) and a standard deviation.

Further on cost of debt enabled your business increase after tax earnings by exploiting available tax shields showed a moderate mean of (M 3.22 S.D1.075) and a standard deviation. On whether transaction costs charged depend on the amount of loan requested showed a high mean of (M 3.78 S.D1.055) and a standard deviation of. Cost of debt increases as the amount of credit borrowed increases indicated a slightly high mean of (M 3.41S.D 1.054) and a standard deviation. On whether cost debt was too high that you decided to forgo bank loan indicted a high mean of (M 3,51S.D 1.050) and standard deviation. On whether firms overall cost of debt reflect the required rate of return on firms' asset indicated the highest mean of (M 3.82S.D 0.803) and a standard deviation of 0.803. All the standard deviations were below the mean as evidenced from above descriptions. The average mean for cost of debt was 3.12

#### **Table 4.26 Factor Analyses for Cost of debt**

##### **Total Variance Explained**

Component Loadings	Initial Eigenvalues			Extraction Total	Sums of Squared Variance	%	of Variance
	Total	% of Variance	Cumulative %				
1	2.913	29.129	29.129	2.913	29.129		29.129
2	1.785	17.851	46.980	1.786	17.851		46.80
3	1.381	13.808	60.781	1.381	13.808		60.78
4	.845	8.447	69.235				
5	.745	7.449	76.684				
6	.688	6.877	83.562				
7	.679	6.794	90.356				
8	.490	4.898	95.251				
9	.289	2.894	98.145				
10	.186	1.855	100.000				

Extraction Method: Principal Component Analysis.

Factor analysis technique was conducted on the effect of cost of debt on financial performance and the results are shown in figure 4.27 above. Only 3 factors out of ten factors met the threshold of Kaiser's criterion. According to Kaisers only those factors with eigenvalue greater than one were considered for interpretation for this study and the factors that explain the least amount of variance are generally discarded. According to Nunnally,( 1978), Kaisers criterion suggested by Guttman and adopted by Kaiser considers factors with eigenvalue greater than one as common factors. The dropped factors may be subject for further analysis. The third column shows the percent of the three factors that met the threshold of greater than 0.40 including 29.129%, 17.851% and 13.803% respectively. It is commonly accepted to use factor analysis for distinct statistical techniques, component analysis and common factor analysis (Tabachic&Fidel, 2012)



**Table 4.27 Cost of debt component matrix**

<b>Variable Component</b>	<b>Indicator</b>
High levels interest rates greatly discouraged borrowing by SMEs	.567
Transactions costs charged by financial institutions discouraged borrowing by SMEs	.588
Tax benefit of debt increased your firms financial stability	.745
Tax deductibility of cost of debt lowered cost burden on loans to SMEs	.603
Interest charged on loans are acceptable by your firm as reasonable	.600
Cost of debt enabled your firm increase after tax earnings by exploiting available tax shields	.564
Transaction costs depend on amount of loan being borrowed	.671
Cost of debt was too high level firm decided to for-go bank loans	.387
Cost of debt finance in Kenya are high and discourage borrowing from banks	.811
SME get loans at a higher interest rate because banks consider them high risk borrowers	.544

The component matrix in table 4.28 above show that all factors met the threshold of 0.40 except one with 0.286 which was dropped, the rest have relatively high correlation with extracted factors and therefore accepted the rest of the factors. This is according to

the rule of the thumb that absolute structure coefficient  $> 0.40$  is appreciated indicator factor correspondence (Thomson, 2004). Principle component analysis is normally conducted in a sequence of steps with somewhat subject decisions being made at various points (Stevens, 2002). The principal components that are taken into consideration are those can explain the largest part of information given by the initial variables. In this respect the number of factors which should be retained in the analysis. In conclusion the principal component carries information about not only the patterns of variables in

**Table 4.28 ANOVA for Cost of debt**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.516	1	2.516	37.745	.000 <sup>b</sup>
	Residual	15.118	263	.177		
	Total	17.634	264			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), cost of capital

individual variable but also the relationship between variables (Q1 *et al.*2014).

#### **4.7.8 ANOVA for Cost of debt**

The researcher carried out ANOVA for cost of debt as indicated in table 4.29 below to test whether cost of debt have effect on financial performance of SMEs in Mombasa County and environs. The findings indicated that p value was 0.000 which revealed that the cost of debt significantly explain the effect on financial performance of SMEs in Mombasa since p= value of 0.000 is less than 0.05 significant level. Therefore the model is statistically significant in predicting how cost of debt affects financial performance of

SMEs in the tourism sector in Mombasa County.

#### **4. 7.9 Chi- Square for cost of debt**

Chi-square was used to test the significant of individual independent variable to the predictor was performed. The chi- square statistic used in the test of independence is in the first row labeled Pearson chi-square. It easier to imply examine the p-value provided by SPSS. To make conclusion about the hypothesis with 95 percent confidence, the value leveled Asymp.sig, which is the p-value of the chi-square statistic, show the less than 0.05 which the alpha level associated a.95 percent confidence level. If p value leveled Asymp sig <0.05, concluded that the variable or variables are depended in the population and that there is a statistical relationship between variables involved. Association between the effect of cost of capital and performance of SMEs was also performed using SPSS and found by  $\chi^2(5, N=257) p < 0.107$  and with a p value (0.000) less than five percent (0.05). This study indicates that cost of debt is dependent in the population and there is a statistical effect between the variable and financial performance of SMEs in the tourism sector in Mombasa County. This study therefore rejects the Null hypothesis that “cost of capital has no significant effect on financial performance of SMEs as shown in table 4.30

**Table 4.29 Chi-square for cost debt**

Cross tabulation	Value	Df	Asymp.Sig. (2-sided)
Pearson Chi-Square	22197.18	132	.000
Likelihood Ratio	1017.630	132	.000
Linear-by-Linear Association	55.59	1	.000
N of Valid Cases	257		

- a. 616 cells (99.4%) have expected count less than 5.  
b. The minimum expected count is .00.

**Table 4.30 Effect of investment Decisions on financial performance**

Constructs	N	Mean	S. D
Net present value is the most accurate method for valuing projects	263	3.90	.780
Net present value explain the sum of present values of money in future point of a project	263	3.91	.656
A positive net present value means the project is desirable and vice versa	263	3.57	1.077
Poor cash flow constrain a firms investment in cash flow in working capital	263	3.97	.592
You prepare cash flow forecasts to identify surplus and deficits	263	4.09	.491
You always ensure there is sufficient cash flow to meet daily needs	263	4.03	.409
Return on investment is most profitability ratio	263	4.09	.630
Adequate return on investment is vital for SMEs Survival	263	3.79	.584
Return on investment is a key performance indicator used by SMEs	263	3.94	.534
Poor investment decision can be disastrous in financial performance of a firm	263	4.01	.415

The study sought to investigate the effect of investment decisions on financial performance of SMEs. The results are summarized in the above Likert scale of 1 to 5 which indicated the extent of agreement. On whether net present is most accurate method valuing projects respondents agreed with mean score value of (M 3.90 S.D .780) and a standard deviation variation. On whether net present value explain the sum of present value of money in future point of a project respondents agreed with a mean score value of (M3.91 SD 650) and standard deviation variation. On a positive net present means the project is desirable and vice versa with a mean score value of (M3.57 S.D 1.077) and standard deviation variation. On whether poor cash flow constrain a firms investment in working capital respondents agreed with a mean score value of (M 3.97 S.D .592) and standard deviation variation. On whether you prepare cash flow forecasts to identify future surplus and deficits respondents agreed with a mean score value of (M 4.09 S.D .491) and standard deviation variation.

Further on whether you ensure there is sufficient cash flow to meet daily needs respondents agreed with mean score (M 4.03 S.D.409) and a standard deviation variation. On whether return on investment is most profitability ratio respondents agreed with a mean score value of (M 4.09S.D .630) and a standard deviation variation. On adequate return is vital for SMEs survival with a mean score value of (M 3.79 S.D .584) and a standard deviation. On whether return on is key indicator used by most SMEs respondents agreed with mean score of (M 3.94 S.D.534) and a standard deviation variation. On whether poor investment decisions can be disastrous in financial

performance showed a mean score of (M4.01S.415) and standard deviation variation. Average mean for investment decision was 3.93. Also Ravilla, Saris and Krosnick (2014) state that agree- disagree scale can be used to measure a wide range of constructs and they also state that visual display of the scale is easier and quicker , since the scale needs to be explained once to the respondents.

#### **4.7.10 Factor analysis for investment decisions**

Factor analysis was performed as indicated in table 4.32 below showing the actual factors that were extracted and to find out the underlying dimensions within the questionnaires. In this case only three factors load highly and met the cut off criterion of Kaiser's criterion having eigenvalue of great than one. Those that did not meet the threshold were ignored. In column three the percent of variance for the six factors are shown as 39.259%, 24.278%.19.640%, and 12.803%, respectively. The rest of the 6 factors are discarded or dropped. Factor analysis allowed the researcher to investigate the concepts that are not easily measured directly by collapsing a large number of variables into a few interpretable underlying factors. Devellis (2003) confirms that factor analysis is employed to refine the number of items on a scale for the purpose of scale development

**Table 4.31. Factor Analysis for Investment Decisions**

Total Variance Explained

Component Loadings	Initial Eigenvalues			Extraction	Sums of Squared	
	Total	% of Variance	Cumulative %		%	Variance
1	4.711	39.259	39.259	4.711	39.259	39.259
2	2.913	24.278	63.538	2.913	24.278	24.278
3	1.536	12.843	76.340	1.538	12.803	76.340
4	.976	8.134	84.474			
5	.767	6.338	90.862			
6	.364	3.034	93.896			
7	.330	2.749	96.645			
8	.294	2.078	98.732			
9	.110	.917	99.640			
10	.068	.273	100.000			

Extraction Method: Principal Component Analysis.

**4.7.11 Component matrix for investment decisions**

Component analysis was used only as a data reducing method in order to conduct a reliable factor analysis. The analysis above of component matrix table 4.32 below showed that all factors met the 0.4 threshold and therefore all are accepted and none is

ignored. All have high correlation with extracted factors therefore accepting all factors. This is consistent with (Field,2009) who states that variables with loading lower than 0.3 are considered to have anon significant impact on a factor and need therefore be discarded. According to Field (2009) the smaller the sample, the bigger the chance that the correlation coefficient between items differ from the correlation coefficients between items in other samples.

**Table 4.32 Investment Decisions component matrix**

<b>Variable Indicator</b>	<b>Component</b>
You use net present value as it is the most accurate method for valuing projects	.857
Net present value explains the sum of present values of money in future points of a project	.443
A positive NPV means the project is desirable and vice versa	.803
Poor cash flows constrain a firm's investment in cash flow in working capital	.575
Investment decision may result to the success or failure of the company may depend upon a single or relatively few investment decisions	.862
Prepare cash flow forecasts to identify future surplus & deficits	.669
Ensure there is sufficient cash flow to meet daily needs	.682
Return on investment is most common profitability ratio	.868
Adequate return on investment is vital for SMEs survival	.474



#### 4.7.12 ANOVA for investment decisions

The analysis of variance statistics was performed to ascertain the differences in the means of the dependent and independent variables and to show what a relationship exists between the two since it is suited for a wide range of practical problems as depicted in table 4.33 below.

**Table 4.33 ANOVA for investment decisions**

<b>Model</b>		<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
<b>1</b>	Regression	1.752	1	1.752	.993	.410 <sup>b</sup>
	Residual	25.882	263	.059		
	Total	27.634	264			

The analysis of variance (ANOVA) was performed on investment as shown in table 4.33 above. The test was performed at 0.5 significant levels and the result indicated a p value of 0.410, which is above the 0.5. The study findings according the above results revealed investment decision being insignificant to explain the effect of financial performance of SMEs in the tourism sector in Mombasa County. This implies that the model is not statistically significant in predicting how investment decisions affect the value of financial significant in tourism sector in Mombasa County.

#### 4.7 13 Chi- square for investment decisions

Chi-square test was used as a statistical test to measure the association between two categorical variables. It can be used to determine if the two classifications are independent.

**Table 4.34 Chi- Square test for Investment decisions**

Cross tabulation	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	22108.18 <sup>a</sup>	296	0 .346
Likelihood Ratio	1017.630	296	1.000
Linear-by-Linear Association	.397	1	0 .327
N of Valid Cases	257		

538 cells (99.6%) have expected count less than 5.

The chi- square statistic a non- parametric tool designed to analyze group differences when the dependent variable is measured at a normal level. It is most useful for testing hypothesis when variables are normal. The SPSS on Pearson’s chi square was performed on the effect of investment on financial performance and found out that  $\chi^2(5, N =257)$   $p > 0.346$  and with a p value of (0.346) more than five percent (0.05) The study found that investment decision was independent of the population and there is no statistical effect between investment decision and financial performance of SMEs. The study therefore accepts the Null hypothesis and rejects the Alternative hypothesis as shown in table 4.35

#### **4.7.14 Effect of access to finance on financial performance**

The objective of this study was to examine the effect of access to finance on financial performance of SMEs in tourism sector firms in Mombasa County and environs.

Financial access is considered to be the blood of small and medium enterprises and a key determinant of financial performance. The ability of SMEs to grow requires finances and access to finance is important and lack of it hamper it performance.

**Table 4.35. Effect of access to finance on financial performance**

<b>Constructs</b>	<b>N</b>	<b>Mean</b>	<b>S.D</b>
Firms that offer highly valued collaterals are considered for loans quickly	257	3.87	0.815
Demand for collateral is your SMEs major hindrance to access to finance	257	3.05	.959
Borrower who is deemed not credit worthy is denied loans completely	257	3.48	1.033
Lack of adequate collaterals denied your firm loans from banks	257	3.55	.915
Creditworthiness is usually charged on borrower's ability to repay loans	257	3.24	1.057
Lending institutions consider availability of asset before issue of loans	257	3.09	.960
You sourced all your loans from financial institutions	257	3.21	1.087
Banks evaluate SMEs creditworthiness before issue of loans	257	3.08	1.081
Family & friends have always lent your firm money in form of loans	257	3.23	.960
Credit access is your persistent problem of your firm	257	3.34	.875

Table 4.36 above, the researcher sought to investigate the effect of access to finance on the performance of SMEs. The respondents when asked to indicate the levels of agreements as depicted in the Likert scale of 1 to 5, where 1 was strongly disagree, disagree and strongly agree and agree, their responses were shown by the means and standard deviations shown in the above table. Firms that offer highly valued collaterals are considered for loans quickly revealed a strong agreement by the respondents with a mean score value of (M3.87, S.D 0.815). The study also indicates that demand for collaterals is your major hindrance to access credit was shown with a moderate mean value of (M3.05 S.D 1.556). Borrowers who are deemed not credit worthy are denied loans completely are shown by a moderate mean value of (M3.24 S.D 1.057).

More analysis in table 4.36 revealed that lack of adequate collaterals denied your firm access finance from the banks with a strong mean score of (M 3.55 S.D 0.915). Creditworthiness is usually charged on borrower's ability to repay their loans indicated a moderate mean score value of (M3.24 S, D 1.033). Lending institutions consider availability of asset before issue of a loan showing a moderate mean score value of (M3.09 S.D 960). You sourced all your loans from financial institutions indicated moderate mean score value of (M 3.08, S.D 1.081). Banks evaluate SMEs creditworthiness before issue of a loan with a moderate means score value of (M 3.08 S.D 1.081). Further analysis in table 4.32 revealed that family and friends have always lent you SMEs money in form of loans showed a moderate mean score value of (M 3.23 S.D 0.909). If credit access is has been a persistent problem of your firm revealed a

moderate means score value of (M3.44, S.D 0.875) and a standard deviation of implying a significant varied response from the mean by the respondents. Average mean for access to finance was 3.01. This is in consistent with study by Fidrmuc *et al* (2009) about banks and SMEs in emerging market which established that there is a lot of uncertainty about risks involved in lending. Kumar and Jeyanth (2007) also agree with Fidrmuc that a good relationship between SMEs and MFLs helps them to easily access finances and information. Also some European banks, particularly those in Italy and Spain, charge a high interest rate for short term loans granted to small industrial companies (Bryant, 2013).

**Table 4.36. Factor analysis for access to finance**

Component Loadings	Initial Eigenvalues		Extraction Sums of Squared	Cumulative %	Total
	Total % of Variance	% of Variance			
1	3.878	27.701	27.701	3.878	27.701
2	2.755	19.680	47.380	2.753	47.380
3	1.879	13.074	60.805	1.879	60.805
4	1.548	11.058	71.863	1.548	71.863
5	1.047	9.679	79.342	1.049	79.342
6	.807	5.763	85.106		
7	.669	4.776	89.882		
8	.485	3.464	93.345		
9	.331	2.579	95.925		
10	.228	1.632	97.557		

Extraction Method: Principal Component Analysis.

Factor analysis procedures are statistical methods used for examining the relationship within a group of observed variables as measured through questions or item. With factor analysis, the construct validity of a questionnaire can be tested (Bornstedt ,1977 , Rotray and Jones,2007). The factors that explain the highest construct of variance the variable share are expected to represent the underlying constructs. Factor analysis was used to uncover the latest structure, dimensions of a set of variables. It reduces attribute space from a larger number to variable to a smaller number of factors. Assessment of factorability data was performed to assess the strength of the relationship and suggesting factorability. The factor analysis was performed and the result indicated from the table 4.37 above showed a total of five factors accepted since they satisfied Kaiser's criterion (1960) of eigenvalue greater than one. The other five are ignored or discarded as they do not satisfy Kaisers criterion. In table 4.31 the column for the percent the five factors accepted included 27.701%, 19.680%, 13.424%, 11.054and 7.479% respectively. The factors that explain the highest proportion of variance the variables share are underling constructs Costello &Osborne ,2005 ,Field, 2009). The factors that met the Kaiser (1960) criterion with eigenvalue greater than 1 are considered for analysis. The results are indicated in table 4.37 below.

**Table 4.37. Access to Finance component matrix**

Variable Indicator	Component
Firms that offer highly valued collaterals are considered for loans quickly	.656
Demand for collaterals hindered SMEs from accessing finance	.732
Borrowers who are deemed not credit worthy are denied loans completely	.810
Lack of adequate collaterals denied your firm access to bank loans	.629
Credit worthiness is usually charged on borrower's ability to repay their loans	.625
Lending institutions consider the availability of asset before issue of a loan	.807
You sourced all your loans from financial institutions only	.687
Banks evaluate SMEs credit worthiness before issue of loans	.744
Family & friends have always lent your business money in form of loans	.776
Credit access from banks is a persistent problem for your firm	.682

Extraction Method: Principal Component Analysis.

Principal component analysis was used since it uses a variety of statistical technique with common objective to represent a set of variables in terms of a smaller number (Tabachnik&Fidell, 2007). The main objective of component matrix analysis is to reduce the dimensions of data set by projecting it into dimensional subspace in order to increase the computational efficiency while retaining most of the information. The component matrix table 4.32 above, all factors are accepted since they certify the 0.40 threshold and none is discarded. This is confirmed in the study of (Stevens,1992 and Field, 2004) who recommended interpreting only factors loading with an absolute value greater than 0.4. The matrix was interpreted to describe the relationship of the variables as shown in table 4.38 below.

**Table 4.38 ANOVA for Access to Finance**

<b>Model</b>		<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
<b>1</b>	<b>Regression</b>	<b>1.719</b>	<b>1</b>	<b>3.871</b>	<b>33.468</b>	<b>.000<sup>b</sup></b>
	<b>Residual</b>	<b>23.367</b>	<b>258</b>	<b>.093</b>		
	<b>Total</b>	<b>25.638</b>	<b>259</b>			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Access Finance

#### **4.7.15 ANOVA for access to finance**

The analysis of variance (ANOVA) test was performed to test the effect of access to finance on financial performance of SMEs. The findings from the above table indicated that there was statistical significant in explaining the effect of access to finance on financial performance of SMEs in Mombasa County and environs, since  $p=0.000$  which less than 0.05. This indicated that there is significant in SMEs financial performance, inferring that access to finance affects financial performance of SMEs in Mombasa County and environs. The results show that access to finance matter in SMEs performance as shown in table 4.39 as shown in table 4.39 above.



**Table 4.39. Chi-Square tests for Access to finance**

Cross tabulation	Value Asymp.Sig. (2-sided)	df
Pearson Chi-Square	451.168 <sup>a</sup> .000	342
Likelihood Ratio	252.042 1.000	342
Linear-by-Linear Association	25.688 .000	1
N of Valid Cases	257	

a. 371 cells (97.6%) have expected count less than 5.

b. The minimum expected count is .00.

A chi-square test of statistical was used as a tool to determine whether there is an association between two sets of frequency data and the results are indicated in table 4.36 above. The association between Access to finance was found by  $\chi^2$  (5, N = 257)  $p < 0.000$  and with a  $p$  value of (0.000) less or equal than five percent (0.05). The study found that access to finance was dependent of the population and therefore there is statistical effect between access to finance and performance of SMEs. This study therefore rejects the Null hypothesis and accepts the alternative hypothesis.

#### **4.8 Model summary**

The model summary provided information about regression lines ability to account for the total variation in the dependent variable as shown in table 4.40 below.

**Table 4.40. Model Summary**

Model	R	R Square	Adjusted R	Std Error of Estimated
1	.775	.601	.595	3.0207

Predictor (constant). Access to Finance, Investment decision, Capital Structure and Cost of Capital

Multiple linear regression analysis was performed to predict financial performance of SMEs as indicated in the model summary table 4.41 above. The results from the analysis indicated that the coefficient of determination  $R^2$  is given by 0.601 which shows that the explanatory variables of the study are high and strong. This implies that 60% of variation in SMEs financial performance in the tourism sector in Mombasa County and environs is explained by the variables debt finance, cost of debt, investment decision and access to finance. While other determinants of SMEs financial performance are not captured in the model explain 40 % of variation in SMEs in financial performance in tourism sector in Mombasa County and environs in Kenya. The R represents the multiple correlation coefficients which measure the quality of prediction of dependent variable. This is represented by the value of 0.775 (77.5 %), indicating a strong level of prediction. The adjusted R is supported by 0.595 implying that there was a total variation of 59.5 percent in financial performance at confidence level of 95%, with four independent variables studied. Thus it fairly supports the statement that explanatory power of variables is fairly strong. The findings show the extent of variations on financial performance is explained by independent variables of this study. This is

supported by (Cooper & Schindler, 2008) as an important indicator of the predictor accuracy of the equation.

**Table 4.41 ANOVA for Regression model**

Model	Sum Square	Df	Mean Square	F	Sig
Regression	34.640	4	8.660	94.991	.000
Residual	22.665	252	.091		
Total	57.634	256			

- a. Dependent variable. Financial performance
- b. Predictors constant Access to finance, Investment decisions, Cost of capital and Capital structure

The results on table 4.42 above represent the goodness of fit of the regression model between independent variables and the dependent variable of the study. ANOVA statistics was performed to establish the difference in the means of dependent and independent variables and whether there exists a relationship between the two. The results indicated there was statistically significant in explaining changes in financial performance of SMEs. This is demonstrated by a p value of 0.000 which is less than 0.05 significant. The p- value was compared with the actual significance level of the test. The results from the analysis of variance as indicated in the above table 4.42 revealed that independent variables are statistically significant in explaining the financial performance of SMEs in the tourism sector in Mombasa County and environs Kenya (F= value 94.99, p- value 0.000) at 0.05 level of significance. The F- value linked with p- value proves that there is a significant relationship between the dependent variable and independent variables of the study. The results implied that the model fitted the study well and reliably predicts financial performance of SMEs in tourism sector in Mombasa County.

#### 4.8.1 Regression coefficient analysis for the study

The study employed multiple regression analysis where dependent variable (Y) was financial performance whereas the independent variables were debt financing, cost of debt, investment decisions and access to finance. The regression analysis indicates the change in response per unit of the independent variables in the dependent variable (Dalll, 2012). The statistical package for social science (SPSS) version 20 was used to compute the measurement. The results of the regression analysis are explained in table 4.43 below;

**Table 4.42. Regression Coefficient model results**

Model	Unstandardized Sig. B	Coefficients Std. Error	Standardized Coefficients Beta	t
Constant		0.389		0 .180
2.166	0 .031			
Debt finance	0.014		0 .60	0.170
0..235	0.815			
Cost of debt	0 .074		0 .34	0 .100
2.169	0 .031			
Investment decision	0.048		0 .61	0.059
0.799	0.425			
Access to finance	0 .801		0 .53	0 .706
2.250	0 .000			
a. Dependable variable: Financial performance				

A multiple linear regression model for this study was conducted to predict the relationship between the dependent variable and the related independent variables, as expressed by the model

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$ , which is translated by  $Y = 0.389 + 0.014x_1 + 0.74x_2 + 0.48x_3 + 0.801x_4$ . Where the  $Y$  = Financial performance,  $X_1$  = debt finance,  $X_2$  = Cost of debt,  $X_3$  = Investment decision and  $X_4$  = Access to finance.

The results in table 4.43 above indicate that on average the financial performance of SMEs amount to 0.389 units holding other factors constant at zero. Debt financing 0.014 $x_1$  indicating a positive and not significant effect of 0.815 at 0.05 significant value. It also indicated a beta of 0.170. Financial performance could be  $Y = 0.389 + 0.014x_1$  on debt financing. It shows that one unit change in debt financing results in 0.014 units increase in SMEs financial performance. The regression result indicates that debt finance had a positive and insignificant effect on financial performance of SMEs in the tourism sector in Mombasa County in Kenya (beta=-0.017 p- value= 0.815). Therefore accepting the null hypothesis and rejecting the alternative hypothesis and conclude that debt finance has no significant effect on financial performance of SMEs in tourism sector in Mombasa County and environs. Also the t- test for debt financing is shown by 0.235 which implies that the effect of debt financing surpasses that of error by over than two times. The study therefore provides empirical evidence that debt finance has a positive insignificant effect on financial performance of SMEs. A big t value and a small P value suggest that independent variables will have a large effect on dependent value

which is not the case for this study as indicated in table 4.43 above. This is consistent with the finds of Jordan et al (2005) and Fu et al (2002) who conducted a survey on SMEs in England and Taiwan The findings also conform to Carpenter (2006) who researched on 243 firms in Canada and a review by Kyereboah- Cleman(2007) on micro finance institution in Ghana that short term debt and long term financing are not significant to business finance

Cost of debt was 0.074x2 positively and significantly affects financial performance of SMEs as indicated by the beta value of 0. 031 and significant p-value of 0.000 which is less than the 0.05 significant level. Financial performance could be  $Y=0.389.X_2 0.074$  p-value 0.031 shows that one unit change in cost of debt results in 0.74 units increase in SMEs financial performance. Regression results indicate that cost of debt had a positive and significant relationship with a beta=0.100, p value 0.0.31. Hence the researcher rejects the null hypothesis for cost of debt and accepts the alternative hypothesis and concluding that cost of debt has significant effect on financial performance in tourism sector in Mombasa County and environs. Also the effect of cost of debt was stated by the t-test value of 2.169 which implies that the standard error associated with the parameter is less than effect of the parameter by more than four times. The study is consistent with the findings of Robson and Obeng (2008) findings that entrepreneurs perceived their challenges to be inflation, high interest rates and the depreciation of local currency. The findings also reflected the study of Wole (2009) who found that cost of credit which influences the availability of finance determines the financial performance

of an enterprise in a number of ways, for instance the ability of access to credit by small scale enterprise will determine its choices for technology, access to market and access the essential resources. Also the results support the findings of the study conducted by Kinyanjui (2006) where some entrepreneurs felt that it was difficult to obtain loans as they had to show credit records and they did not fully understand the requirement of getting and paying loans. This finding reflected those of a study carried by Mwangi and Bwisa (2013) on challenges facing entrepreneurs in accessing credit, due to high cost of credit. The study therefore provides empirical evidence that cost of debt has positive and significant effect on financial performance of SMEs.

Investment decision  $0.048x_3$  positively and insignificantly affects financial performance of SMEs as indicated by the beta value of .059 and insignificant p- value of 0.475 which is greater than 0.05 significant levels. Financial performance could be  $Y=2.381 + 0.048x_3$ . 0.048 shows that one unit of change in investment decision results in 0.048 units increase in financial performance of SMEs. The regression results indicate that investment decision had a positive and insignificant effect with a beta = 0.059, p- value 0.425. Hence accepting the null hypothesis and rejecting the alternative hypothesis and concluding that investment decision has no significant effect on financial performance on Mombasa County and environs. The t- test for investment decisions is shown by 0.799 which implies that the effect of investment decision surpasses that of error by less than one. Capital budgeting theory generally assumes that the primary goals of firm's shareholders are to maximize the firm's value. In addition, the firm is assumed to have

access to perfect financial markets, allowing it to finance all value enhancing projects when those assumptions are met, firms can separate investment and finance decision and should invest in all positive net value projects (Bbrealey and Myers,2010). According to previous research, clearly the most common investment evaluation methods are payback, net present value and internal rate of return (,Sandal and Sjogren,2003Tuomaala&Virtanen, 2011). Companies feel that the complexity of measuring energy efficiency investments future savings makes payback period an adequate method for financial investment evaluation (Jackson, 2010). The study therefore provides empirical evidence that investment decisions have negative and significant effect on financial performance of SMEs.

Access to credit was  $0.801_{x4}$  has positive and significantly effect on financial performance of SMEs as indicated by the beta value of 0.706 and significant value of 0.000 which is less than 0.05 significant levels. Financial performance could be  $Y= 2.381$ .  $X_4$  0.801 shows that one unit change in access to finance results 0.801 in increases in SMEs financial performance. The regression result of access to finance had a positive and significant effect with  $\beta=0.706$ , p- value 0.000 on financial performance of SMEs. Hence the null hypothesis was rejected and accepting alternative hypothesis and concludes that access to finance has significant effect with financial performance of SMEs in tourism sector Mombasa County and environs. Consequently t-test for access to finance is shown by 2.250 which imply that the effect of access to finance is less that of standard error by over fifteen times. This is confirmed by



Nkurunziza, (2005) that firms without access to bank funding are more vulnerable to external shock. Also the study is consistent with Schiffer and Weder (2001) that firms with credit constraint grow more slowly compared to those with easy access to credit. This is consistent with the study by (Kayunula & Quarley, 2000, Muhammed et al 2010, Subhan *et al* 2013) that banks in many cases enforce several lending conditions in a loan contract before granting the loan to SMEs. Such conditions include obtaining personal commitments and adequate tangible assets as collateral, Typically, the value of the collateral is higher than the value of the granted loan and can be in case of payment default. The study therefore provides empirical evidence that access to finance have positive and significant effect on financial performance of SMEs in Mombasa County and environs in Kenya.

#### **4.9 Correlation Coefficient analysis**

The Pearson correlation coefficient ( $r$ ) was computed to establish the strength and relationship between independent variables and dependent variable as shown in the table 4.44 below. The Pearson correlation coefficient  $r$ , can take a range of values from +1 to -1. A value of 0 indicates that there is no association between two variables. The stronger the correlation the closer the coefficient is to +1,-1. If the coefficient is positive number the variable are directly relate

**Table 4.43. Correlations coefficient combined effect**

	DF	CD	ID	AC	FP
D F	Pearson Correlation 1				
	Sig. (2-tailed)				
	N	263			
C D	Pearson Correlation .109**	1			
	Sig. (2-tailed)	.000			
	N	263	257		
I D	Pearson Correlation .841	.094*	1		
	Sig. (2-tailed)	.091	.000		
	N	263	257	257	
A C	Pearson Correlation .120*	.507	.130	1	
	Sig. (2-tailed)	.013	.000	.260	
	N	263	257	257	257
F P	Pearson Correlation .162	.466	.174	.767	1
	Sig. (2-tailed)	.009	.000	.005	.000
	N	263	257	257	257

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

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

The Pearson correlation test results of variables indicated that there was a weak positive relationship between debt finance ( $r = 0.162$   $p = 0.009$ ) which is explained by a p- value

of 9% at a correlation significant of 0.05 level on financial performance of SMEs. This result implies that with 1% increase in the positive effect of debt finance there is 16.2% increase indicating a weak positive relationship with financial performance of SMEs in tourism sector Mombasa and environs Kenya. It was also found to be insignificant at 5% since p- value was 0.009. This is consistent with Maritala (2012) on optimal level of capital structure which enables a firm to increase its financial performance. This is also in compliance with the study of Cohens (1988) conventions to interpret effect size. A Correlation coefficient of 0.10 is thought be weak or small association, correlation coefficient of 0.30 is considered a moderate correction and coefficient of 0.50 or larger to represent a strong or large correlation. The coefficient correlation between cost of debt and financial performance was found to be 0.466. This reflects a moderate positive relationship between cost of debt and financial performance of SMEs. It was also found ( $r = 0.466$ ,  $p = 0.000$ ) to be statistically significant at 5% level of significant. This result imply that with 1% increase in positive effect of cost of debt there is 46.6% increase indicating a moderate positive relationship with financial performance of SMEs.

The correlation coefficient between investment decision and financial performance was found to be 0.174. This reflected a weak positive relationship between investment decision and financial performance of SMEs. It was also found that ( $r = 0.174$   $p = 0.005$ ) to be statistically significant at 5% level of significant. This implies that 17.4% increase in financial performance of SMEs with 1% increase in financial performance of SMEs, which is a weak positive relationship with financial performance of SMEs. It was also

found to be statistically significant at 5% level significant. Correlation coefficient results between access to finance and financial performance of SMEs indicated  $r = 0.767$  ( $p$  value = 0.000) at correlation significant of 0.05 level. This implies that 76.7% increase in performance of SMEs with 1% increase in financial performance of SMEs, which is a strong positive and significant relationship between access to finance and performance of SMEs. It was also found to be statistically significant at 5% level of significant.

All the above four independent variables are interpreted according to Evans (1996), correlation is an effect size and so we can verbally describe the strength of correlation using the guide that suggest that absolute value of  $r$  0.00- 0.19 very weak, 0.20-0.39 weak, 0.40-0.59 moderate, 0.60-0.79 strong and 0.80-1.0 very strong.

#### **4.10 Hypotheses Testing**

Multiple regression analysis was conducted to test the research hypothesis on four predicting variables including debt financing, cost of debt, investment decisions, access to credit and financial performance as the dependent variables. The results for each of the four variables are shown below.

##### **4.10.1 Hypothesis Testing 1**

$H_{01}$ . Debt financing has no significance effect on financial performance of SMEs in Kenya.

$H_{A1}$ . Debt financing has significant effect on financial performance of SMEs in Kenya

Research findings show that debt finance had a coefficient of significant based on  $B_1 = 0.061$  p-value = 0.815 which is greater than 0.05, implying that we accept the null hypothesis stating that debt finance has no significant effect on financial performance and reject the alternative hypothesis which states that debt finance has significant effect on financial performance of SMEs. Hence conclude that debt finance has no significant effect on financial performance of SMEs. Further the effect of debt financing on financial performance of SMEs was stated by the Chi square value p-value of 0.313 which is more than the 0.05 value, therefore accepting the hypothesis and rejecting the alternative hypothesis, which states that debt financing has significant effect on financial performance of SMEs in Kenya. The rationale to measure various variables was to ascertain whether the resources invested have positive effect on hotels, tours safaris and restaurants increased performance in terms of profitability (ROA). In this literature of financing of hotel industry was to identify the efficiency of enterprise on debt finance, cost of capital, investment decisions and access to finance as determinants of improved financial performance as conceptualized in figure 1 above

#### **4.10.2 Hypothesis Testing 2**

HO<sub>2</sub> Cost of debt has no significant effect on financial performance of SMEs in Kenya.

HA<sub>2</sub> Cost of debt has significant effect on financial performance of SMEs in Kenya

The findings showed that cost of credit had a coefficient of estimate  $B_2 = 0.074$ , p-value of 0.031 which is less than 0.05 hence reject the null hypothesis which states that

cost of debt has no significant on financial performance of SMEs and accept the alternative hypothesis which states that cost of debt has significant effect on financial performance of SMEs. Hence conclude that cost of debt has significant effect on SMEs financial performance. Also a chi- square was performed as shown by a chi-square of 0.00 is lower than 0.05 therefore rejecting the null hypothesis and accepting alternative hypothesis

#### **4.10.3 Hypothesis Testing 3**

An  $H_{O3}$  Investment decision has no significant effect on financial performance of SMEs in Kenya.

$H_{A3}$  Investment decision has significant effect on financial performance of SMEs in Kenya

The null hypothesis postulated that investment decision has no significant effect on financial performance of SMEs in Kenya. The study findings showed a coefficient of estimated significant of 0.048 p- value of 0.425 which is more than the 0.05 hence accept the null hypothesis and reject the alternative hypothesis, concluding that investment decision has no significant effect on financial performance of SMEs in Mombasa County. Chi-square indicate a no significant with financial performance of SMEs.

#### 4.10.4 Hypothesis Testing 4

HO<sub>4</sub> Access to credit has no significant effect on financial performance of SMEs in Kenya.

HA<sub>4</sub> Access to credit has significant effect on financial performance of SMEs in Kenya

The study findings showed that access to finance had coefficients of a significant based on 0.801 p-value 0.000 which is lower than 0.05 significant level implying that we reject the null hypothesis which states that access to finance has no significant effect on the performance of SMEs and accept the alternative hypothesis which states that access to finance has significant effect on financial performance of SMEs. The chi-square also indicated a significant effect with financial performance of SMEs in the tourism sector.

**Table 4.44. Summary of hypotheses test**

<b>Hypothesis</b>	<b>P values</b>	<b>Decision</b>
H <sub>01</sub> Debt financing has no significant effect on financial performance of SMEs in Kenya	0.014 0.815	Accepted
H <sub>02</sub> Cost of debt has no significant effect on financial performance of SMEs in Kenya	0.074 0.031	Rejected
H <sub>03</sub> Investment decision has no significant effect on financial performance of SMEs in Kenya	0.045 0.475	Accepted
H <sub>03</sub> Access to credit has no significant on financial Performance in Kenya	0.801 0.000	Rejected

#### **4.11 Secondary data analysis**

In this section trend analysis for secondary data was presented for financial performance in terms of profitability for hotels, restaurants and tour safaris using excel to analyze data.

##### **4, 11.1 Trend curve for hotels**

The study sought to establish the trends of financial performance of SMEs in terms of ROA for hotels in Mombasa County between 2012 and 2016. The results indicated a mean of 2700 and constant between 2012 and 2013 and falling to 1100 in 2015 and again rising to 2007 mean as shown in appendix vi

##### **4.11.2 Trend curve for restaurants.**

The study sought to establish the trend of financial performance of SMEs in terms of ROA for restaurants in Mombasa County and environs between 2012 and 2016. The results indicate a mean of 3600 in 2012 decreasing in 2013 and falling further to 1100 in 2015 and again rising to 2007 in 2016 as shown in appendix vi

##### **4.11.3 Trend curve for tour safaris**

The study sought to establish the trends of financial performance of SMEs in terms of RAO between 2012 and 2016. The results in the figure indicated that ROA had increasing trend from 2009 to 3300 in 2016. The highest recorded ROA 2300 in 2016 appendix vi



#### **4.12 Discussions of key results**

The key objective of the study was to investigate determinants on financial performance of SMEs in Mombasa County and environs in Kenya. The findings of the study as analyzed in chapter four was summarized below as per the objectives of the study. The four variables for this study included debt finance, cost of debt, investment decisions and access to finance on financial performance, which are discussed below;

##### **4.12.1 Financial performance**

The respondents indicated a mean score response of 3.53 in agreement based on 5 point Likert scale. The Cronbach's alpha findings for financial performance were 0.735. The respondents indicated that they use tools of financial ratios analysis like profitability ratios to determine the firms return to its investment. They also confirmed that profitability measures are important to managers and owners of the firm for they show overall performance of the business. They further indicated that they calculate profitability ratios. Whether their business had any liquidity problems, they indicated that financial problems are always there especially cash to meet their short term obligations. The findings are supported by Mido (2006) who indicated that there are many ways to measure firm's performance, but all measures should be taken in aggregate. Line items such as revenue from operators, operating income or cash flows from operators can be used, as well as total unit sales. Furthermore, the analysis or the investor may wish to look deep into financial statements and seek out margin growth or any declining debt.

Most of the respondent indicated they had knowledge of the financial ratios, with a few indicating that they have no knowledge of the financial ratios, and also indicated they use ratios although not so often and others indicated they do not use ratios at all. When asked to indicate the ratios they use from the list provided they indicated gross profit 50%, net profit margin 63%, return on capital employed 33%, earning per share 47 % current ratio 65%, quick/acid test ratio 56% and return on asset 36%. The results are consistent with those of Abdel & Luther, (2006), Waweru & Sprakman (2012 and Naude (2007), who found that most business prepared and used performance measurement reports

Respondents were also asked to indicate on the most used ratios and how ratios are useful to business performance. They indicated, current ratios, quick/ acid test ratios, net working capital, earning per share, gross profit margin and net profit margin, net operating profit margin and return on asset were most used ratios. They also indicated that financial ratios are useful the performance of their business and also stated that results from the ratios analysis is good measure of financial performance of a firm. This is consistent to Mewse (2011), who encourages business owners to monitor their business performance continuously so that problems can be addressed as they arise. He proposes the use of a number of key ratios to help managers identify and rectify problems before the business enters a decline; Managers should keep an eye on expenses versus income, cash flow and working ratios. This is consistent with Nyabwanga et al (2012) that cash management as the process of planning and controlling cash flows into

and out an enterprise as well as balance held at a specific point in time. The objective of cash flow management has been stated as the determinant of an optimal cash position that would allow a business to meet its ongoing obligations while maintain exposures (Mazzavol, 2014).

#### **4.12.2 Debt finance on financial performance**

The first objective sought to determine the effect of debt finance on financial performance of SMEs in tourism sector in Mombasa County Kenya. The descriptive analysis for debt finance indicated mean score of 3.54. The normality test for both Kolmogorov-smirnov and Shapiro and wilk indicated that the data for the study was normally distributed. The Cronbach's alpha for debt finance was 0.721 indicating a high level of consistency. Collinearity coefficient table indicates that debt finance had no collinearity problem exists. The ANOVA results indicated insignificant relationship between debt financing and financial performance of SMEs. P-value of 0.009 at 0.005 significant level. The regression analysis indicates a positive and insignificant relationship with financial performance of SMEs p- value 0.815 which is more than the level of significance of 0.05 levels. The study accepted the null hypothesis and rejected the alternative hypothesis. Achi-square was also performed and the result indicated that there was no statistical effect between debt finance and financial performance 0.413 at 0.005 significance level. The person's result correlation indicated a weak positive relationship  $r=0.162$  p value 0.009 with financial performance of SMEs. This is inconsistent with the study of Gleason et al (2000) who found that total debt to be

negatively related to return on asset. The study findings were also supported by Abor, (2007) who investigated the effect of capital structure on financial performance of SMEs, where the study reveals that long- term debt and gross profit margin (GPM) are positively related, whereas short term debt has significant and negative relationship with gross profit margin a Ghanaian and South Africa perspective. Pearson's correlation coefficient results indicated that there was a weak positive relationship between capital structure and financial performance of SMEs.

The respondents also indicated that firms use short term debt in addition to share capital in order to increase its earnings, which also has an effect on the return on equity. They also noted that firms employ certain level of debt. The respondents retaliated that firms should use debt up to a specific level in order to increase their return on assets. This is consistent with the theory which defines capital structure levels and how much debt and equity finance should be chosen by the company to use by balancing the costs and benefits (Frank& Goyal, 2005)

They also stated that optimal debt capital is good for the SMEs. This is in conformity with Abdul (2012) research to determine the relationship between capital structure decisions and the performance of firms in Pakistan who found that leverage has a significant negative relationship with the firm's performance measured by return on assets (ROA). Also this is consistent with the study by Maina &Kondongo (2013) who evaluated the relationship between leverage and the financial performance of listed firms

in Kenya, and found a significantly negative relationship between debt and profitability but no effect on firm value.

#### **4.12.3 Cost of debt on financial performance**

The second objective was to determine the effect of cost of debt on financial performance. The descriptive analysis indicated a mean of 3.12. Reliability Cronbach's alpha was 0.727. Kolmogorov-Smirnov indicated normal distribution. Shapiro-Wilk test indicated that cost of debt was significant, showing that data was normally distributed. Collinearity coefficient results for cost of debt indicated no collinearity. Both skewness and kurtosis indicated normality is not too extreme. The results for multiple regression model indicated that cost of debt had a positive significant effect on financial performance of SMEs p-value 0.031 which is less than 0.005 significant level. The study therefore rejected the null hypothesis and accepted the alternative hypothesis. The Pearson's correlation coefficient revealed a moderate positive relationship with cost of debt on financial performance of SMEs as explained by  $r = 0.466$  p-value 0.000 with financial performance of SMEs. This is consistent with (Angelini and Gerale, 2008) who state that financially constrained firms are likely to face higher cost of debt which inhibits them from investing and building up their capital stock. When sources of external financing are limited, firms are forced to rely on internal funds for financing their investment expenditure. However, the maximum amount of internal funds a firm can mobilize is limited by the profits it can generate. The results showed that small sized firms' apparent make small profit will underinvestment and remain small size.

The respondents also indicated that interest rates payments reduce funds available to be invested to the business. This interest rate also covers the risk by the lenders. When interest rates are high borrowers do not want to take loans out from the bank because it is more difficult to pay loans back. They retaliated that access to loans and credit facilities has been a major problem for the SMEs due to high interest rate charged by financial institutions. This is supported by Mwenda and Muuka (2004) who found that lending institutions charge different interest rate according to market conditions, degree of risks and institutions objectives. These include simple interest which is calculated only on that portion of the principal amount which remains unpaid, compounded interest where borrower is charged interest on previous interest. This has led to increase in the cost of acquiring loans by small scale enterprise. Further Kimuyu&Omiti (2000) indicate that financial performance of small and medium scale enterprise are largely determined by the general cost of credit in any given regime and also argue that the cost of credit is major factor that determines the financial performance of the enterprise.

The respondents on whether cost of debt can be a limitation to use a given source of finance indicated that debt is always desirable if a firm achieves relatively high profits as its results in high returns to shareholders, which warrants the payment of given interest rates. The use of debt is expected to enhance a firm's finance to improve performance. This is supported by Cecchetti *et al*, (2011) study on the effect if debt in firms and concluded that moderate debt level improves welfare and enhances growth, but high level can lead to a decline in growth of the firm. Further Rainhart and Rogoff (2009)

argue that when debt impacted positively to the growth of a firm only when is within certain levels and when ration goes beyond certain levels financial crises is very likely. This is also supported by Stewart et al (2011) which argue that high level of debt increases profitability of a firm facing financial distress. Also that over borrowing can lead to bankruptcy and financial ruin. High levels debt will constrain the firm from undertaking project that are more likely to be profitable because of the inability to attract more debt from financial institutions.

The respondents also indicated that, because of restrictive requirements of financial institutions top among them being interest rates and risks associated with small business, banks have always a risk adverse stance towards small business. This is supported by the study by (Vuvor &Ackak, 2011) on the challenges faced by small and medium enterprises in obtaining credit in Ghana. They indicated that SMEs in Ghana like most SMEs in other countries are faced with challenges in accessing credit. The challenges include, the inability of SMEs to provide collaterals and other information needed by the banks such as audited financial statements, coupled with the high cost of loan in terms of interest rates make it extremely difficult to access bank loans. Also Mensah (2004) indicates that lack of institutional and legal structures that facilitates the management of SMEs lending risk, high cost of borrowing and rigidity of interest rates as factors adduced for lack of finance to SMEs.

#### **4.12.4 Investment decision on financial performance**

The third objective was to determine the effect of investment decisions on financial performance of SMEs. The descriptive generally showed a positive average mean of 3.93. The Cronbach's alpha for investment decisions was 0.743. Kolmogorov-Smirnor showed that data was normally distributed. Shapiro & Wilk indicated investment decision was significant implying data was normally distributed. Collinearity coefficients test showed no collinearity problem exists. Multiple regression results showed investment decision had a positive and insignificant effect on financial performance of SMEs p- value 0.425 which is more than 0.05 significant levels. This implies that investment decisions is not significant and has negative relationship with financial performance of SMEs. The ANOVA findings indicated a statistically insignificant in predicting the effect of investment decision on financial performance of SMEs p-value 0.410 at 0.05 significant levels. The study therefore accepted the null hypothesis and rejected the alternative hypothesis. Achi- square was also performed and the results indicated insignificant results of p- value of 0.346 at 0.005 significance level. The Pearson's correlation coefficient revealed a weak positive relationship between investment decision  $r= 0.174$  p-value 0.032 which is insignificant with financial performance of SMEs in tourism sector.

Respondents also indicated that they are familiar with various methods of project appraisal. They also indicated that payback was most preferred method for SMEs followed by NPV method. However some indicated that their business are small and do



not make use of the sophisticated method of investment appraisal techniques and that they do not understand the investment decision methods. This is supported by Ogiji & Ejembe (2007) who indicated that it is worthwhile to note that many people do not have adequate knowledge of basic investment concepts required to make prudent investment decisions. This is also supported by Van Horn (2006) who states that payback period is considered one of the most popular and widely used traditional method of evaluating investment opportunities. Any investment with a payback period less than the payback standard is accepted. It gives an insight of the liquidity of the investment.

Respondents also indicated that profitability of an investment project is determined by evaluating its estimated cash flows. They indicated that the absence of a profit eventually has a decline on the cash flow and the profit is more important to their business. This consistent with Pandey (2008) who stated that the most crucial information for capital investment decision is the forecast cash flow. A multinational capital budgeting analysis focus on cash flow, show that it easily measures the impact upon the firms wealth, profit and loss in financial statement do not always represent the net increase or decrease in cash flows, cash flows occur at different times and these times are easily identifiable, the time of flows particularly important for capital budgeting analysis and, cash flows can provide existing data forecasting project and cash flows will change the firms overall cash flows a direct result of decision to be accepted. This is also consistence with Stephen *et al* (2013) that financial manager should be

educated and acquainted with capital budgeting techniques so as to shield the organization from financial turbulence.

#### **4.12.5 Access to finance and financial performance**

The fourth objective was to determine effect of access to finance on financial performance of SMEs. The descriptive analysis for this variable showed a positive and average mean of 3.01, indicating a significant effect of the variable and financial performance of SMEs in tourism sector in Mombasa County and environs Kenya. The Cronbach's alpha for access to finance was 0.784. Kolmogorov Smirnov test indicated data was normally distributed. Shapiro & Wilk test indicated access to finance was significant indicating data was normally distributed. Cronbach's Alpha for access of finance indicated a value of 0.735 which greater than the 50-70 acceptance level. Collinearity test indicated VIF of 1.259 which less than 10 point and 0.794 which is more than 0.2 lowest level limit, showing that no collinearity exist. Skewness & Kurtosis both indicated that normality is not too extreme. Regression analysis indicates a positive and significant relationship with financial performance of SMEs in the tourism sector p-value 0.000 significant levels therefore rejecting null hypothesis and accepting the alternative hypothesis. ANOVA results indicated that there was statistical significant effect on financial performance of SMEs  $r=0.317$ ,  $p= 0.000$ . The study therefore rejected the null hypothesis and accepted the alternative hypothesis. The chi- square test also indicates significant results with p value of 0.000 which is less than 0.005.

Pearson's correlation coefficients results showed a moderate positive relationship between access to finance  $r=0.317$   $p<0.000$  with financial performance of SMEs. This is inconsistent with the World Bank report (2010) established that SMEs are constrained financially and that access to finance is an important ingredient to the financial performance of SMEs. Also the World Bank report suggests that one of the major causes of SMEs failure is limited access to external finance. Also Agnew (2003) observe that finance is the life blood of any business enterprise and no enterprise no matter how well managed, can survive without enough funds for working capital, fixed assets, investment, and employment. Thus access to finance is essential to the survival and performance of any business enterprise, which also agrees with Shas (2006) findings, who in his research on the factors influencing the survival and performance of SMEs, found that business performance is influenced by access to debt finance should perform better than those without access to finance.

Also this study supports that lack of access to credit facilities is almost universally indicated as key problem for small and micro enterprises. In most cases even where credit is available mainly

through banks, the entrepreneur may lack freedom of choice because the banks' lending conditions may force the purchase of having innumerable equipment that can serve as collateral for the bank credit constraint operate in variety of ways in Kenya, why underdeveloped capital market forces entrepreneurs to rely self- financing or borrows from friends and relatives. Lack of access to long term credit for micro, small and

medium enterprise forces then rely on high cost short term financing (Wanjohi & Mugure, 2008)

Respondents confirmed that SMEs are restricted to credit because they cannot provide financial information and collaterals and also risk and have high failure rate compared with large firms compared with large firms. The result was also supported by Kira and He (2012), Artola and Genre (2011), Fatoki and Assah (2011) who confirmed that significantly financing constraint suffered severely to younger firms than large firms.

The study findings also revealed that SMEs source of finance comprised owners' contribution, personal savings, donations, family, friends and relatives contributions, venture capital, SACCOS, and debt comprised money borrowed from financial institutions including commercial banks, microfinance and friends, which formed part of debt. Equity was contributions from owner's capital. This supported by Krishnan,(2010) before the turn to external formal financing sources business angels, different funds or banks entrepreneurs should try to collect their initial funds from those people who are closest and familiar before they turn to external investment such as business angels, various funds or banks.

Respondents also indicated among others why they did not source funds from financial institutions because the process being cumbersome and did not bother. They also indicated that very high interest was charged. Those who applied for the loans indicated that they did so for either for startup or for expansion. Also collateral requirement

featured with most respondents as a limit to fund accessibility. It was also indicated that financial institutions that lent loans to SMEs strictly asked for collateral, including title deeds (property, house) and log books. This is consistent with Ono and Usesugi (2009) who found that a positive relationship exists between the use of collateral and the strength of the borrower lender lending relationship results in easier SME access to external sources of finance. A similar conclusion was reached by Oudit and Gobardhn (2011) when examining the factors determining the use of financial leverage by SMEs in Mauritius. They concluded that access to debt finance is affected by the positive association between the debt ratio and asset structure. Furthermore they revealed that SMEs with a lower portion of tangible assets in their total assets are more likely to encounter difficulties in applying for outside finance because of the inability to provide the collateral required.

The respondents also indicated that SMEs access to finance has received a lot of attention from financial institutions, and lenders' mistrust to SMEs has made SMEs to disclose their records to enable evaluate creditworthiness to ensure that only credit worth SMEs are granted credit. They also indicated that granting credit by lenders depend on the confidence that borrower's ability and willingness to pay is guaranteed

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter summarized the main findings, highlighting the entire assessment of the study. The study focused on the SMEs in hotel sector namely Hotels, Restaurants and Tour safaris. In tourism sector. The conclusions and recommendations were done and drawn from the research objectives of the study to establish the relationship between financial determinants and financial performance using both descriptive and inferential statistical analysis in Mombasa County and environs in Kenya for each objective of the study. This chapter also covers the summary, conclusions, recommendations and suggestions for further research.

#### **5.2 Summary of key findings**

The findings of the study have been summarized under each of the objectives. The study employed both descriptive and inferential statistics.

##### **5.2.1. Specific Objective 1**

The first objective sought to establish the effect of debt finance on financial performance of SMEs in Mombasa County and environs, Kenya. The indicators for debt finance considered were long term debt, short term debt and trade credit, while measure of financial performance was profitability. Descriptive statistical method was used to reach the results where majority respondents agreed with an average mean score of 3.54 that

debt finance had a moderate effect on financial performance. The results indicated that ANOVA for debt finance had no significant effect with financial performance of SMEs in tourism sector in Mombasa and environs Kenya. Pearson's correlation analysis results indicated a weak and positive relationship between debt finance and financial performance of SMEs. Regression analysis results indicated a positive and insignificant relationship between debt finance and financial performance of SMEs. Based on the results the study accepted the null hypothesis and established that debt finance has no significant effect on the financial performance of SMEs in tourism sector in Mombasa County and environs.

#### **5.2.2. Specific Objective 2**

The second objective study sought to determine the effect of cost of debt on financial performance of SMEs in Mombasa County Kenya. The indicators for cost of debt included interest rates, transaction cost and tax benefit of debt. The descriptive results indicated a moderate positive average mean score of 33.12. The regression analysis results indicated a positive and significant effect on financial performance of SMEs. The correlation analysis indicated a weak positive relationship between cost of debt and financial performance of SMEs. The ANOVA analysis results also indicated that cost of debt was statistically significant in explaining the financial performance of SME in the tourism sector. Chi square results confirmed and indicated that cost of debt had statistical effect on financial performance of SMEs. Based on the results the study

rejected the null hypothesis and established that cost of debt had significant effect on financial performance of SMEs in tourism sector in Mombasa and environs.

### **5.2.3. Specific Objective 3**

The study sought to determine the effect of investment decisions on financial performance of SMEs. The descriptive indicate a high positive agreement on the mean score of 3.93. Reliability test results were significant. The regression analysis results indicated a positive and insignificant relationship with financial performance of SMEs on investment decisions. The correlation analysis showed a weak and positive relationship with financial performance of SMEs in the tourism sector in Mombasa County and environs Kenya. The ANOVA analysis results indicated there was insignificant effect on financial performance of SMEs in tourism sector in Mombasa County in Kenya. Further the chi- square results indicated a statistical insignificant effect on financial performance of SMEs. Therefore accepting null hypothesis and rejecting alternative analysis. The result indicates that investment decisions have insignificant effect on financial performance of SMEs in the tourism sector in Mombasa County and environs.

### **5.2.4. Specific objective 4**

The study sought to determine the effect of access to finance on financial performance of SMEs in tourism sector in Mombasa County Kenya. There was a general agreement by the respondents with the average mean score of 3.01. The regression analysis result



revealed that access to finance positively and significantly affects financial performance of SMEs. ANOVA analysis results show that there was statistical significant in explaining the effect of access to finance on financial performance, hence the null hypothesis was rejected and alternative hypothesis was accepted. Further correlation coefficient results showed that access to finance had a strong positive relationship with financial performance of SMEs. The chi- square results indicated that there was statistical effect with financial performance of SMEs. Access to finance was found to be key determinant on financial performance of SMEs in the tourism sector in Mombasa County Kenya, as indicated from the respondents responses who agreed on the statements.

### **5.3 Conclusions**

The study investigated the determinants of financial performance of SMEs in tourism sector Mombasa County and environs Kenya. From the findings of the study a number of conclusions were made according to the objectives of the study. The study provided a wide evidence to support the factors. Descriptive studies indeed identified the instruments to measure financial performance. Reliability analysis also provided good support for internal consistence on the factors. The study found that all the factors either positively or negatively affects financial performance of SMEs as indicated in chapter four above

The First objective of the study was to establish effect of debt finance on financial performance of SMEs in Kenya. The evidence supported the hypothesis that debt

finance has no significant effect of SMEs in Kenya. This implied that debt financing was statistically insignificant in explaining the effect on financial performance of SMEs. ANOVA findings also indicated that there was no correlation between debt finance and financial performance of SMEs in tourism sector in Mombasa County Kenya. The results also indicated a positive correlation between debt finance and financial performance.

The second objective of this study was to establish the effect of cost of debt on financial of SMEs in Kenya. The result revealed that cost of debt positively and significantly affect financial performance of SMEs in tourism sector in Mombasa County and environs Kenya. The study rejected the null hypothesis and accepted the alternative hypothesis and established that cost of debt have significant effect on financial performance of SMEs in the tourism sector. It is therefore concluded that cost of debt was statistically significantly to explain the effect of financial performance of SMEs. ANOVA findings also indicated there was correlation between cost of debt and financial performance of SMEs in Mombasa County Kenya. Correlation results indicated that there was strong positive relationship between cost of debt and financial performance of SMEs in Kenya.

The third objective of this study was to examine the effect of investment decision of financial performance of SMEs in Kenya. The evidence supported the hypothesis investment decisions has no significant effect on financial performance of SMEs in tourism sector in Mombasa County and environs Kenya. The study accepted the null

hypothesis and rejected alternative hypothesis, concluding that investment decisions insignificantly explain the effect of financial performance of SMEs. This implies that investment decision was statistically insignificant in explaining the effect of financial performance of SMEs in Mombasa County and environs Kenya. ANOVA findings also indicated that there was no correlation between investment decision and financial performance of SMEs. Correlation results indicated a weak positive insignificant relationship between investment decisions and financial performance of SMEs.

The fourth objective was to examine the effect of access to finance on financial performance in Kenya. The results revealed that access to finance has a positive and significant effect on financial performance of SMEs in tourism sector in Mombasa County and environs Kenya. The study rejected the null hypothesis and accepted the alternative hypothesis, implying that access to finance significantly and statistically explain the effect of financial performance of SMEs in the tourism sector in Mombasa County. It was also confirmed that access to finance is a key determinant factor on financial performance. ANOVA findings also indicated that there was positive correlation between access finance and financial performance of SMEs. Correlation results indicated there exists a strong positive relationship between access to finance and financial performance of SME.

#### **5.4 Recommendations**

SME sector is one of the most important sectors in the Kenya's economy because it significantly contributes to job creation and employment; it also contributes to

innovations and poverty alleviation. The study revealed that that most SMEs face difficulties in accessing finance from financial institutions due reasons not limited to high interest rates, and collaterals requirements, others include risks associated to SMEs. Recommendations were based on the objectives of the study that affected the financial performance of SMEs in Kenya.

Debt finance is the way firms finance business by combining short term debt and long term debt. Managers must take responsibility for the management and decisions on optimal capital structure for without which firms may be affected by high values of debt which may lead to decrease in stock price. Firms must consider using optimal capital structure in order to maximize profit. An appropriate mix of capital structure is essential. The management should make prudent financial decisions in order to maintain profitable, as a high level of debt, profits tend to decline. debt finance decision is vital for any business firm. On the basis of funding short term debt has a significant positive relationship with profitability, which suggests that short term debt tend to be less expensive and therefore increase levels of profitability.

Cost of credit is an impediment in terms of high interest rates and other transactions costs. Financial institutions should relax and reduce interest rates to enable SMEs borrow funds required at affordable rates for their growth and investment. Financial institutions should simplify and relax their lending requirements by providing tailored packages that fit SMEs requirements. Credit to SMEs is still bottom low and therefore needs both government and banks to review their policies to become friendly to SMEs in

financing this sector. Financial institutions must relax borrowing conditions to do business with SMEs. Financially constrained SMEs are likely to face high costs of debt, which may prevent them from expanding their business.

Investment decision is a required managerial tool through which investment decisions are based. The importance of investment decision to financial performance is vital to firms including SMEs in assessing their effectiveness in investment decision they make, which is also critical to future success and survival. The results indicated that although SMEs managers are conversant with the existent of investment techniques, they do not make use of these investment appraisal techniques. It is therefore recommended that financial manager and others who have interest in the management of the business be well versed and acquire investment decisions knowledge in investment decision techniques to help them make good decisions for their organizations. The SME managers should be trained on financial investment decisions techniques in order to acquire adequate knowledge of basic investment concepts required to make prudent investment decisions. Also knowledge and awareness be created through training programs on investment decision issues for SMEs involving the stakeholders including the government to foster the performance of SMEs, which is important for the economy of the country.

The government has to play a big role in enabling SMEs obtains cheap finance from financial institutions and putting policies in place in enhancing credit guaranties to SMEs who find it costly for their business. Also the government should recognize SMEs

potential and support those financial channels that support financing of SMEs either directly or indirectly by formulating policies and framework of financing. Finance accessibility should be flexible in terms of collaterals asked by financial institutions since most SMEs are still small and unable to satisfy financial institutions credit granting requirements. The researcher recommends that government agencies to collaborate with financial institutions to establish several points and avenues to easy difficulties in accessing finance in terms of high interest rate from MFLs to spur their financial performance. Hotel industry should improve their internal financing to keep a breast with the current world of competition. Therefore access to finance is essential to the survival and performance of SMEs. The results indicated collateral requirement is a significant constraint to the financial performance of many SMEs who want to access credit from banks. The study therefore recommends that the government and financial institutions should come up with policies to make it easy for SMEs to access funds.

From the findings of this study it was established that determinants of financial performance positively affect financial performance of SMEs in Kenya. The SMEs especially for this study in the hotel industry is one of most important sector in Kenya, because it significantly contributes to job creation and economic growth. This study revealed that most SMEs owners, managers and accountants face difficulties of accessing finance. This is seen from reluctance of financial institutions in providing funds for SMEs growth and investment, due to reasons of and not limited to insufficient

collaterals and poor financial performance. Therefore this study made the following recommendations in order to help develop SMEs in hotel industry in Kenya.

### **5.5. Policy Recommendation**

The study would be of great importance in assisting managers in the determinants of financial performance of their SMEs firms. The government to attach great importance in SMEs development to foster entrepreneurship and innovations. The government of Kenya has great responsibility of ensuring that financial institutions facilitate SMEs to achieve their potential and financial performance, hence create more jobs and employment. The government should establish better financial environment for SMEs financing by guarantying credit needs of SMEs. The policy implication of the findings is substantial for the government of Kenya's policy makers based on financial institutions to support SMEs. The government to come up with relevant policies which will ensure SMEs survival and continual to survive, in order to create jobs and enhance small scale industries and innovations. Banking reforms have to be established through the government of Kenya initiative in enhancing credit accessibility to SMEs financial performance. The reforms should ensure financial stability to effect financial performance of SMEs by encouraging banks to play a critical role on financing SMEs.

### **5.6 The theoretical consideration and contribution for the study**

The study was guided by four variables including debt finance, cost of debt, investment decision and access to finance. The study findings have contributed to stock of other

existing studies on determinants of financial performance of SMEs in Kenya. The study also found that the theories for the study are relevant to the study and that the study provided empirical contribution to the determinants of financial performance on SMEs in tourism sector in Mombasa and environs, Kenya

### **5.7 Areas of further research**

This study only concentrated on the SMEs in hotel industry (Hotels, Restaurant and Tour safaris) in Mombasa county and environs, which may not be representative to all the SMEs in other sectors and industries. Only four independent variables including debt finance, cost of debt, investment decisions and access to finance were used and one dependent sub variable of profitability(return on asset) on financial performance. This indicates other many factors affecting SMEs financial performance have not been considered, and therefore further research in this area is important. Further studies can be conducted in other sectors of SMEs including that of multiple industries to enhance validity and generalization of the research findings. Similar studies research can also be conducted in other Counties not covered in this study. It is also important to undertake similar studies on large scope in other sectors of the SMEs on the effect of financial determinants on financial performance of SMEs.

There are other financial factors or variables not covered in this study to be researched. It is important to monitor a wide range of financial performance indicators in the SMEs sector, including enhancing internal financial base, long term financing of equity, bank interest rates, financial intermediation, and bank credit and bank lending rates. Similarly



study to be done to monitor a wide range of financial performance indicators in the SMEs sector.

There is also need for further research to be undertaken on the other financial factors affecting performance of SMEs in Kenya. It also suggested that research be conducted on the effectiveness of financial institutions financing of SMEs in Kenya. Further research could also be done using other financing determinants on financial performance of SMEs. The study should be conducted in other cities and rural areas where there is need of financing to understand the challenges facing SMEs.

It is important to carry out similar study among large enterprises in order to find the effect of financial determinants on financial performance.

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## APPENDICES

### APPENDIX 1; LETTER OF INTRODUCTION

George yugi onyiego

PhD student

Mombasa campus-

Mombasa

Dear respondent

This is a questionnaire on data collection for PhD Thesis on small and medium sized enterprises (SMEs), being carried by George Oyugi Onyiego HD443-C005-2001/2011. The topic is “Determinants of financing on financial performance of small and medium sized enterprises in Mombasa and environs in Kenya”. The researcher will conduct a survey of small and medium sized enterprises in Mombas

a County and environs randomly among registered SMEs from Tourism regulatory Authority. This is a requirement for the ward of a PhD in business administration finance of the University of Jomo Kenyatta of Agriculture and Technology. The approach to this study is to collaborate and ensure that all information given to us is for this thesis without any concern, description of your business activities whatsoever. We are kindly requesting if you can spare your valuable time and assist us to answer the questions which are intended to facilitate this research. Your response and information to the questions will be used purely and only for academic purpose and will be treated and held strictly and treated with a lot of confidentiality.

I will appreciate your sincere cooperation in this academic exercise.

Yours faithfully,

George Oyugi Onyiego - **0729596223**

Jomo Kenyatta University of Agriculture and Technology –Mombasa CBD

onyiegogeorge@gmail.com



**APPENDIX II; Research Questionnaire**

**General profile**

Name \_\_\_\_\_ of  
business.....

Business \_\_\_\_\_ type  
.....

Date \_\_\_\_\_ of \_\_\_\_\_ establishment  
.....

Location \_\_\_\_\_ of \_\_\_\_\_ your \_\_\_\_\_ business  
.....

Physical \_\_\_\_\_ address  
.....

E-Mail  
.....

**Section 1**

General descriptive data (please tick where appropriate).

**1.1Your age below**

21 - 30	31-40	41-50	51- 60	60 and above
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**1.2Your level of Education**

Primary

Secondary

Degree

Other

specify.....

1.3 Your gender.....

**1.4 Nature Of business**

Restaurants

Hotel

Tours safaris

Service

Other

specify.....

1.5 How long have you operated this business? (Years)

0-2

2-4

4-6

6 and above

1.6 Where have you been borrowing your finances from?

Commercial Banks

Micro finance

Capital

venture

Other specify.....

1.7 How long have you been borrowing? (Years)

1

2

3

4

5

and above

**Section B**

Please tick in according to your level of agreement. Sections B, C, D,E and F mark scale 1-5, 1 Strong disagree, 2 disagree, 3 Neutral 4 Agree 5 Strongly agree

**Debt finance on financial performance of SMEs in Mombasa, Kenya**

Debt finance	Statement	1	2	3	4	5
B1	Trade credit is an essential tool for financing SMEs growth					
B2	SMEs prefer short term loans because they are cheaper compared to other loans					
B.3	Short loan debt is used by SMEs to strengthen its cash flows					
B4	Debt ratio is an important measures of debt finance of your SMEs					
B5	Long term debt is permanent source of credit in financing SMEs					
B6	Trade credit is a free cost source of finance of your SMEs					
B7	Long term debt lead to improved long term liquidity problem of your SMEs					
B8	Trade credit seem to solve cash flow problems of your SMEs					
B9	You avoid long term debt for it expensive than short term debt					
B10	Short term debt financing is mostly preferred					

B11 Explain why you prefer using trade credit to bank credits.....

.....  
 .....  
 .....  
 .....

B12 An increase in short term debt reliance on lead to an increase in SMEs profitability Explain...

.....  
 .....  
 .....  
 .....  
 B13 Explain long term debt is the lasting solution for SMEs financing.....  
 .....  
 .....  
 .....

Section C

Please tick in according to your level of agreement. Sections B, C, D,E and F mark scale 1-5, 1 Strong disagree, 2 disagree, 3 Neutral 4 Agree 5 Strongly agree  
 To determine the effect of cost of debt on financial performance of SMEs in Mombasa, Kenya

Cost of debt	Statement	1	2	3	4	5
C1	High levels interest rates greatly affected loan borrowing by your SMEs					
C2	Transaction costs charged by financial institution are high and discourage the borrower					
C3	Tax benefit of debt increased your firms financial stability					
C4	Tax deductibility of cost of debt lowered cost burden to your firm					
C5	Interest charged on loans are acceptable by your firm					
C6	Cost of debt enabled your business increase after tax earnings by exploiting available tax shields					
C7	Transaction costs depend on the amount of loan borrowed					
C8	Measuring of cost of debt is helpful in understanding overall interest rate paid by a firm					
C9	Cost of debt finance in Kenya are high and discourage borrowing from banks					
C10	SMEs get loans at higher interest rate because banks consider them as high risk borrowers					

11 Explain cost of debt is used to assess the ability of the firm's management to utilize the financial resources at its disposal to generate profit.....

.....  
 .....  
 .....  
 .....

C12 Explain the relationship between cost debt and value of a firm?

.....  
 .....  
 .....  
 .....

C13 Explain if cost of finance can be a limitation to use of a given source of finance.....

.....  
 .....  
 .....

**Section D**

Please tick in according to your level of agreement. Sections B, C, D,E and F mark scale 1-5, 1 Strong disagree, 2 disagree, 3 Neutral 4 Agree 5 Strongly agree

Effect of investment decisions on financial performance of SMEs in Mombasa Kenya

Investment decisions	Statement	1	2	3	4	5
D1	Net present value is the most accurate method for valuing projects					
D2	Positive cash flows is critical live blood of SMEs to sustain g performance					
D3	Negative cash flow crippled your business profitability over time					
D4	Strong cash flow put your business in a better position to negotiate more attractive financing terms					
D5	Your calculated net present value is always positive					
D6	You monitor return on investment to compare gains in terms of profitability trends of the firm					
D7	Your firm use return on investment to evaluate efficiency of investment performance					

D8	Your net present value helps you make good project appraisals					
D9	The firm make better investment decisions about of capital projects					
D10	You effectively evaluate your projects using return on investment tracking financial performance					

D11 Which of these methods of project appraisal is known by you? Return on investment [ ] Net present value [ ] internal rate of return [ ] other (specify)

.....  
.....  
.....

D12 Investment decisions as a process of planning expenditure have helped in control expenditure of your firm. Explain.....

.....  
.....

D13 Profitability of an investment project is determined by evaluating its estimation of its cash flows. Explain.....

...  
.....  
.....

Section E

Please tick in according to your level of agreement. Sections B, C, D,E and F mark scale 1-5, 1 Strong disagree, 2 disagree, 3 Neutral 4 Agree 5 Strongly agree  
Effect of access to finance on financial performance of SMEs in Mombasa Kenya

Access to finance	Statement	1	2	3	4	5
E1	Firms that offer highly valued collateral are considered for loans quickly					
E2	Demand for collaterals hindered SMEs from access to finance					
E3	Borrowers who are deemed not credit worthy are denied loans completely					
E4	Lack of adequate collaterals denied					

	your firm access to finance from banks					
E5	Creditworthiness is usually charged on borrower's ability to repay their loans					
E6	Lending institutions consider the availability of asset before issue of a loan					
E7	You sourced all your loans from financial institutions					
E8	Banks evaluate SMEs creditworthiness before issue of a loan					
E9	Family and friends have always lent your SME money in form of loan					
E10	Credit access is your persistence problem for many years					

E12 List and briefly explain the constraints your business face in accessing finance.....

.....  
 .....

E13 From which financial institutions have you ever sourced funds:

- MFLs [ ]
- Commercial banks [ ]
- Government [ ]
- SACCOS [ ]

Other (specify).....  
 .....  
 .....

E14 What was the purpose of the loans application?

- Business startup [ ]
- Business expansion [ ]
- Other (specify).....

.....  
 .....

E15 Prior to the funding, what was your major source of financing for your business?

- Donations [ ]

- Friends and family [   ]
- Personal savings [   ]
- Other
- (Specify).....
- .....
- .....

**Section F. Financial Performance**

Please tick in according to your level of agreement. Sections B, C, D,E and F mark scale 1-5, 1 Strong disagree, 2 disagree, 3 Neutral 4 Agree 5 Strongly agree

Financial performance	Statement	1	2	3	4	5
F1	Profitability variable is an important indicator to explain performance levels of your firm					
F2	Your return on assets has improved for the las two years now					
F3	Profit is important for the survival of SMEs in a competitive environment					
F4	Your financial performance improved since you maintain adequate cash balance both in hand and at bank					
F5	Lack of profits for the last three years affected your financial performance					
F6	Your firm generated enough earnings indicating good profits					
F7	Your firm use profitability ratios in measuring financial					
F8	Your firm uses return on asset to measure financial performance regularly					
F9	Your business have adequate cash balances both in hand and bank for operations					



F10	Your firm is profitable and does not have cash flow problems to meet its immediate needs for operations					
-----	---	--	--	--	--	--

F11  
Your  
business

Do you use financial ratios to measure financial performance, of SMEs.....  
Explain.....  
.....

F12 Explain which of the following financial ratios you are familiar measure performance, profit margin ratio, net profit ratio, and return of capital employed  
.....  
.....  
.....

F13 Profitability ratios gauges the efficiency of a firm how it generates a given level of profits out of its sales. Explain the importance of the following ratios measure profitability of a firm.

Gross profit margin.....  
.....  
.....

Net profit margin.....  
.....  
.....

(iii) Return on capital employed.....  
.....  
.....

THANK YOU FOR YOUR CONTRIBUTION

### **Appendix III Interview guide**

This research is about the Determinant of financing on financial performance of small and medium sized enterprises, being carried out by George oyugi onyiego HD 433-C005-2001/2011 a PhD student at JKUAT Mombasa Campus. The purpose of the research is to assess the Determinants financing services on the financial performance of SMEs especially hotel industry in Mombasa County and its environs in Kenya. You are therefore requested to a conversation which will be taken very confidential for academic purposes only.

#### **Kind of information required.(Questions)**

##### **Debt finance**

- (i) Short term debt enhanced your business financial performance
- ( ii) Long term debt reduced your business financial performance
- (iii) SMEs should focus only on trade credit in order to optimize performance

##### **Cost of debt**

- (i) Interest charged by financial institutions is high and discourages borrowing
- (ii) Are you aware of various transaction costs involving borrowing funds from banks?
- (iii) Your firm always enjoy interest tax shield because you get benefits of tax deductibility

##### **Investment decisions**

- (i) Your firm uses net present value to decide which investment projects to pursue
- (ii) Return on investment a measurement of efficiency in converting your business into profit

(iii) Negative cash flow made your SMEs struggle to pay bills

**Access to finance**

(i) Credit worthiness played a major role in having your loan application approved

(ii) Where do you source all your finance for your financial performance?

(ii) Lack of collateral affected your firm from accessing funds from banks

**Financial performance**

(i) Measurement of financial performance is an important part of a running a growing business

(i) Your firm uses accounting ratios to measure financial performance

**Appendix IV List of participants among the registered, Hotels, Restaurant and tour safaris with Tourism regulatory authority**

NAME OF THE COMPANY	ADDRESS
<b>HOTELS</b>	
1. A Nassar Hotel Mombasa	P.O Box 610 -80100
2. Bahari beach hotel	P.O Box 86693 Mombasa
3. Bandari hotel	P.O Box 83924 Mombasa
3. Blue bubble hotel Mombasa	0723879261 Baroda
4. Brooklyne hotel.	PO Box 83836 Mombasa
5. Beaumont Resort hotel	0723388407 Mtwapa
6. Club grew hotel	P.O Box 725-80400 Ukunda
7. Coast pride hotel	P.O Box85585 Mombasa
8.Dian beach hotel 3202479,330105,	P.O Box (040)  0700999999
9.Danpark hotel	<a href="mailto:Julias@gmail.com">Julias@gmail.com</a>
10. Fine Breeze hotel	P.O Box 78 Voi  Finebrizhotel@gmail.com
11.Flaingo hotel	Mombasa <a href="mailto:flamingo@1998@yahoo.com">flamingo@1998@yahoo.com</a>

12.Darajan hotel Mombasa	P.O Box 43086 -80100
13..Ganjoni Wanainchi Hotel	P.O Box 40604 Mombasa
14.Grills café and restaurant Mombasa	0722415151 Vescon
15.Georgiab hotel	P.O Mtwapa  <a href="mailto:Info@georgias.com">Info@georgias.com</a>
16.Hotel dorte	Elkana <a href="mailto:79@yahoo.com">79@yahoo.com</a>
17. Hotel Dorse	0770050116 Mombasa  hoteldolchie@yahoo.com
18. Intercontinental beach hotel	Mombasa
19..Jambo paradise hotel Mombasa	P.O Box 5121-80100
20. Habibu Swahil dishes restaurant	Vescon II Bamburi  Info,HabibRest@gmail.com
21.Kimson Café & Hotel	P.O Box 93204 Mombasa
22.Kendas arcade hotel Mtwapa	<a href="mailto:kendasgroup@yahoo.com">kendasgroup@yahoo.com</a>
23.Kemdas village hotel	Judith@ yahoo.com
24.Kahama hotel	P.O Box Mombasa
25. Katimo enterprises	P.O Box 41 80300 Voi  jmmzera@jmail.com

26.Kaither café	P.O Box 97163 Mombasa
27.Kivulini Bahari hotel Mombasa	P.O Box 83935-80100
28. Kenda hotel	P.O Mtwapa
29 Kenya bay beach hotel	P.O Box 767 Mombasa
30.Josleejim Hotel Ltd	P.O Box 80094 Mombasa
31.Liwaza hotel	P.O Box 1254 Mombasa
32.Lambada hotel	P.O Box Mtwapa
33.Lavender hotels	P. O Box 125 Wundanyi Lavender
<a href="mailto:garden.hotel@yahoo">garden.hotel@yahoo</a>	
34.Lotus hotel	P.O. Box 90193 Mombasa
35.Mama tony café & restaurant Mombasa	P.O Box 41121-80100
36.Milele beach hotel	P.O Box 10119 Mombasa
37 Midview Central Hotel	P.O Box 34306 Mombasa
38.Matshi fast foods hotel	P.O Box 34592 Mombasa Abdulrama @gmail
39. Mombasa backpackers' hotel	P.O Box Mombasa 0787929345 davidnganga@hotmail.com

40. Mombasa beach hotel P.O Box Mombasa  
davidgona@gmail.com
41. Mgange Hotels P.O Box 821-80300 Voi  
Bjmsafin100@gmail.com
- 43.Mikindani west sunset hotel  
Mombasa P.O Box 41987-80100
- 44.Monalisa Hotel P.O Mtwapa  
monalisa@gmail.com
- 45.Magongo Inn Guest house P.O Box 40604 Mombasa
46. Minalove hotel restaurant  
[Info@mlove.co.ke](mailto:Info@mlove.co.ke)133.Milele Beach  
47.Merny villa hotel [Arisi@yahoo.com](mailto:Arisi@yahoo.com)158
- 48Neptune paradise hotel P.O Box 83125 Mombasa.
- 49.Nyali beach hotel P.O Box 1874 80100 Mombasa
50. Pundamillia Paradise Hotel P.O Box 2487 Mombasa  
51..Peal Beach Hotels Ltd P.O Box 90521 Mombasa  
52..Pancoffee hotel and restaurant  
(CBD) 0727469626 Mombasa
53. Pawezi hotel & restaurant P.O Box 10205 Mtwapa  
Pawezi hotel yahoo.com
- 54Papillion (Fontana hotel) P.O Box 8629 Mombasa
- 55.Panaroma Gardens hotel  
Mombasa P.O Box 88723 80100

- Mwikaliedith@gmail.com
56. Royal comfort hotel  
P.O Box 968 Mombasa
57. Royal court hotel  
P.O Box 41247 Mombasa
58. Mwanyaisio Guardian motel  
P.O Box 81226 Mombasa
59. Rosewood hotel & grill  
P.O Box 621 Voi
- [Rosewoodhotelgrill@gmail.com](mailto:Rosewoodhotelgrill@gmail.com)
- 60 Summerink Hotel  
P.O Box 99716 Mombasa
61. Shanzu Beach homes  
Shanzu  
P.O Box 4121-80100
- 62.. Sai Rock Beach hotel  
P.O Box 83063 Mombasa.
- 63 Tsavo lodge  
P.O Box 244 80300 Voi  
tsavolodges  
cumps@gmail.com
64. Rongai Quality meat & restaurant  
0725880224 Mtwapa
- 65.. Swahili Beach hotel  
P.O Ukunda  
[Swahilibeach@gmail.com](mailto:Swahilibeach@gmail.com)
66. Tsavo autopoints Ltd  
P.O Box 130 Voi  
tsavoap@yahoo.com
68. Midview central hotel  
Mombasa  
P.O Box 34306



69.Ziwa Beach Resort	P.O Box Mombasa gonganjambi@ya
70. Regency Park Hotel	P.O.Box 58527 Mombasa
71.Valence inn hotel Mombasa	P.O Box 192 800100  Petroneuakasi@gmail.com
72.Windsor Apartment Hotel 73.Taita rocks hotels	P.O Box 40654 Mombasa P.O Box 1086 Voi  taitarocks@yahoo.com
74.Third café	P.O Box 42039 Mombasa  Soup Okado@yahoo.com
75.Travelers Beach hotel	P.O Box 87649 Mombasa  Info@travelles.co.ke
76.Tudor water sports hotel	Mombasa
77.Tamutamu Dishes Hotel	P.O Box 2918 Mombasa  <a href="mailto:lamudishes@yahoo.com">lamudishes@yahoo.com</a>
78.Mama tony café &restaurant	Mombasa
79.Atoshi Guest house	st Thomas maternity hospital  hospital@yahoo.com
80.Annex fast food Mombasa8	P.O Box 3112-80100

81. Abdulahi café Mombasa	P.O Box 801 80100
82. Ack Guest House Mombasa	P.O Box 96170 -80100
83 African lodges ltd	P.O Box 610 80300 Voi  Infoafrkalodges.co.ke
84. Baxton leisure lodge Mombasa	P.O Box 71432- 800
85. Bamburi corner guest house Mombasa	P.O Box 1662-80100  Makenaawour@yahoo.com
86..Chicken Inn Mombasa	P.O Box-7857 -80100
87 Dodoma Serena Hotel	P.O Box 90 278 Mombasa 4.
88. Surfside villas Mombasa	P.O Box 90330 -80100
89. Sunner link hotel	P.O Box 99716 Mombasa
90. White castle hotel	P.O Box 42290 Mombasa
91. Dodoma Serena hotel	P.O. Box 90278 Mombasa
92. Cast gate hotel	P.O Box 93367 Mombasa
93. Royal comfort hotel	P.O. Box 968 Mombasa
94. Peal Beach hotels Ltd	P.O Box 90521 Mombasa
95. Darajani hotel	P.O Box 43086 Mombasa

- |                         |                        |
|-------------------------|------------------------|
| 96. Mombasa Beach hotel | P.O Box 90414 Mombasa  |
| 97. White sands hotel   | P.O. Box 87306 Mombasa |
| 98. White castle Hotel  | P.O Box42290 Mombasa   |
| 99. Yomoke Hotel        | P.O Box 90535 Mombasa  |

### **RESUARANT**

- |                                |                       |
|--------------------------------|-----------------------|
| 1.Ali Baba cave Restaurant     | P.O Box 8040Ukunda    |
| 2. Athus Bar and Restaurant    | P.O Box 97768 Mombasa |
| 3. Aisha restaurant<br>Mombasa | P.O Box 247-80100     |

aishamohammed@gmail.com

- |   |                    |
|---|--------------------|
| 4 . Babu juice palour & restaurant<br>Mombasa | P.O Box 8242 80100 |
|---|--------------------|

Sandamamod@yahoo.co

- |                  |                           |
|------------------|---------------------------|
| 5.B.B restaurant | B B restaurant @yahoo.com |
|------------------|---------------------------|

- |                       |         |
|-----------------------|---------|
| 6..Blecars restaurant | Mombasa |
|-----------------------|---------|

- |                          |         |
|--------------------------|---------|
| 7 .Bobs Bar & Restaurant | Mombasa |
|--------------------------|---------|

- |                                       |                   |
|---------------------------------------|-------------------|
| 8.Brazuca bar & restaurant<br>Mombasa | P.O Box1634 80100 |
|---------------------------------------|-------------------|

[Info@brazuca.co.ke](mailto:Info@brazuca.co.ke)

- |                          |       |
|--------------------------|-------|
| 9. Bahnof Inn Restaurant | Nyali |
|--------------------------|-------|

10. Container holding Bar & restaurant P.O Box 20164 Mtwapa
- 11.Casorina club and restaurant 0702925 233 Mtwapa
- 12.Coast car bark Restaurant P.O Box3034-80100  
Mombasa  
Elizabethchengo@gmail.com
13. Club Rio bar & restaurant P.O Box 2862-80100  
Mombasa
- chittywilliams@gmail.com
- 14.City mall restaurant Mombasa
- 15.Cafeteria Restaurant P.O Box2562-80100  
Mombasa
- RidhMawia@gmail.com
- 16.5Container bar & restaurant 0721445808 Shanzu
- 17, California restaurant 070590292 Shanzu
- 18.Casablanca Club (restaurant) P.O Box 98131 Mombasa
- 19.Catabus shade Restaurant P.O Box 829 Ukunda45  
Club 20.Legand bar &restaurant Info@Legend club.co.ke  
58Ethiopia 21.Bar and restaurant Mombasa
- 22.Emirates restaurant P.O Box 112 Bamburi
- 23.Fontanella Restaurant P.O Box 3082 Mombasa
- jmsempi@yahoo.com

- 24..Funzi keys restaurant P.O Box 5555 Ukunda  
[Info@funzikeys.com](mailto:Info@funzikeys.com)
- 25.Fantanus restaurant 0735951834
- 26.Havaca bar &restaurant P.O Box 80400 –Ukunda  
[Info@havano .co.ke](mailto:Info@havano.co.ke)
- 27Inland restaurant P.O Box4592-80400 Likoni  
Mombasa
- 28.Happy moments restaurant P.O Box 2245 -80100  
Mombasa
- .29 Indiana Restaurant P.O Box 648-80100  
Mombasa
- 30..Indiana Restaurant P.O Box 2782-80100  
Mombasa
- [franciscahmwamburi@yahoo.com](mailto:franciscahmwamburi@yahoo.com)
- 31.Ibrahims Restaurant [saida@gmail.com](mailto:saida@gmail.com) Mombasa
- 32..Kens chicK restaurant Mombasa
33. Kens chic Restaurant P.O Box 7045-80100  
Mombasa
- [Inne@gmail.com](mailto:Inne@gmail.com)
- 34 Kariuku restaurant P.O Box7452-80100  
Mombasa
- 35.Lollipop Grill Restaurant [teressia@gmail.com](mailto:teressia@gmail.com)

- 36..Ken chick inn restaurant 0718491584 Vescon  
Mombasa
- 37.Jeffs bar and restaurant [jeffs@yahoo.com](mailto:jeffs@yahoo.com)
- 38.Jamerad Restaurant 0712977566 Vescon  
Bamburi
- 39.Julumu Bar and Restaurant P.O Box 92124 Mombasa  
87.
- 40.Jones wines and spirits P.O Box 8012-80100J  
  
Joneswines@gmail.com
- 41.Kenleess Cateres Restaurant P.O Box 1667 Mombasa 42  
Kenlestarken@yahoo.com
42. Limuru bar &Restaurant P.O Box 99110  
43.Mims Inn Bar and Restaurant P.O Box 3239 Mombasa  
44.Mims Inn Bar and Restaurant P.O Box 3239 Mombasa  
45.Milka bar&Restaurant P.O BOX 553 VOI
- 46 Murpy bar and restaurant P.O Box 16790 Mombasa
- 47..Mundeke pub & restaurant P.O Box 43392 Mombasa  
  
[Neng.log@yahoo.com](mailto:Neng.log@yahoo.com)
- 48Olivia restaurant P.O Box 43215 Mombasa
- 49.Ole tapas cielo Restaurant P.O Box 94746 Mombasa  
Nyali
- 50.Oticara Restaurant P.O Box 4145 80100  
Mombasa  
  
Carukameni@gmail

51. Portland Bar and restaurant	P.O Box 42947 Mombasa
52. Pieses lounge bar & restaurant	077996025 shanzu
53. Penda restaurant	Bamburi Kisauni road
54. Paradise Mtwapa bar & restaurant	0776780308 Mtwapa
55. Paradise bar & restaurant	0776780308 Mtwapa
56. Palago restaurant	P.O Box 4053 Mombasa
57. Portland bar restaurant	P.O Box 42947 Mombasa
58. Pride inn restaurant Mombasa	P.O Box 8012- 80100
59. Pirates bar & restaurant	Mombasa
60. Nyama point bar and restaurant Mombasa	P.O Box 201-80100
61. Olympic restaurant Mombasa	0786651191 Baroda
62. Sheba lounge & restaurant	0707444333
63. Ngao club and restaurant	0715597841 Mtwapa
64. Oasis restaurant Mombasa	P.O Box 104 -80100
65. Rollers viler Park bar & restaurant	P.O Box 47851 Mombasa
66. Shilla Bat & restaurant	P.O Box 7980 Mombasa
67. Shasha restaurant	0717320308 Bamburi
68. Sandrus Restaurant	0726538967 Mombasa

69.Stars <a href="mailto:kineenemwangangi@yahoo.com">kineenemwangangi@yahoo.com</a>	garden inn (restaurant)
70Shaza Lounge Restaurant	P.O Box 3243 shanzu
71..Swift delicious restaurant	P.O Box 15 Mtwapa
72.Silent joy Bar and Restaurant	P.O Box 88743 Mombasa
73.Sadona Bar and Restaurant	P.O Box 93102 Mombasa
74Stadium bar and restaurant	0714 859304
75.Tips Pub &grill Restaurant	0728885663 Shanzu
76.The mornings restaurants	P.O Box 6700 Mombasa  Info @Mornings.co.ke
77.Tumaini Restaurant Bamburi	P.O Box 2312 -80100
78.The lounge Bar& restaurant Mombasa	P.O Box 725 80100
79.Tedy Blue Restaurant	Mombasa  Tedyblue2010@gmail.com
80.Athusi Bar and Restaurant	P.O Box 97769 Mombasa
81.Silent joy Bar and Restaurant	P.O Box88743 Mombasa
82. The edge beach restaurant	P.O Box 5107 Ukunda  Info@dianiblue.co.ke
83.Uptown Restaurant	P.O Box 208 Ukunda
84.Vumaz bar & Restaurant	0704415628 Shanzu



Cave@alibarbours.co.ke

85.Wimby restaurant  
2229815Mombasa

P.O Box 041

86 Sadona Bar &Restaurant

P.OBox 93102 Mombasa

87.Sonia Hotel& Restaurant

P.O.Box 83573 Mombasa

### **.TOUR SAFARIS**

1.Adventure Adrenalin Afrik LTD

P.O Box 5638 Dian

2. African Safari Diani Adventure LTD

P.O. Box 5664 Diani

3.Aquarium LTD

P.O. Box 10286 Bamburi

4.Around & About African Safaris

P.O. Box 16681 Mombasa

5. AL-Ubeid Agencies

P.O. Box 2398 Mombasa

6.Aktive Safaris(tours)

P.O Box 5769 Ukunda

Info@akitive safaris .com

7.Around the world Tours &Safaris  
Mombasa

P.O Box 85223 -80100

8.Across Africa Safaris  
Mombasa

P.O Box 82139-80100

9.Amani tours

P.O Box 3216 Ukunda

10. African route safaris

P.O Box 41112 Mombasa

11.Atlantis Travel international LTD

P.O Box 1297 Mombasa

12.Big six Kenya safaris  
Ukunda

P.O Box 108-80400

13. Beach air tour safaris P.O Box 5017 Diani  
[beachline@yahoo.com](mailto:beachline@yahoo.com)
14. Blue wines and spirits P.O Box 2412-80100  
Mombasa
- 15 Bahari Tours & Safaris CO.LTD P.O Box 154 Ukunda
16. Big five safaris tours P.O Box 184 Ukunda  
[bigfivesafaris199@yahoo.com](mailto:bigfivesafaris199@yahoo.com)
17. Breeze tours & safaris P.O Box 3606 Mombasa
18. Bentes tours & safaris P.O Box 5293 Diani
19. Eastern vacations tour & safaris P.O Box 3243 Mombasa
- 20 Coastal car rentals P.O Box 99160 Mombasa
21. Chirat tours & safaris P.O Box 321 Ukunda
- 22 Coast Africa car rentals LTD P.O Box 99160 Mombasa
23. Cannon tours P.O Box 1695-80100  
Mombasa
24. Coral sprit Tours LTD P.O Box 122 Ukunda
25. Coast prestige tours & safaris LTD P.O Box 90 237 Mombasa
26. Colorint Crab wasini P.O Box 5102 Diani
27. Diani tours & safaris P.O Box 5490-80401  
Ukunda

[Info@dianisafariskenya.com](mailto:Info@dianisafariskenya.com)

28. Diria tours P.O. Box 309-80400 Ukunda

29. Destiny tours & travel P.O. Box 1008 Mombasa

30. Diani tours and travels P.O. Box 5102-80400 Ukunda

[diantoursandtravels@gmail.com](mailto:diantoursandtravels@gmail.com)

31. Destiny tours P.O. Box 904-80400 Ukunda

32. Dominion holiday & safaris P.O. Box 83177 Mombasa

33. Demetrus tours LTD P.O. Box 81297 Mombasa

34. Zinjanthropus safaris & adventures P.O. Box 1539 Ukunda

35. Elgat tours and safaris P.O. Box 43019 Mombasa

36. Explore Africa LTD P.O. Box 5480 Diani

37. Evarest Africa safari P.O. Box 43 426 Mombasa

[Info@sunsettours.com](mailto:Info@sunsettours.com)

38. East coast tours P.O. Box 304-  
80400, Ukunda

[East@yahoo.com](mailto:East@yahoo.com)

39. Eagle travel services P.O. Box 80700 Mombasa

40. Eastern trails tour & safaris P.O. Box 92682 Mombasa

41. Explore Africa safaris LTD P.O. Box 5480 Diani

42. Fred link company LTD P.O Box8597Mombasa
44. Farmtech enterprise (tours & taxis) 0721122112 Kiembeni-  
Bamburi
45. Fast town tours P.O Box 1105 80400  
Ukunda  
  
jacobmulti@gmail.com
- 46.Farid Kings tours& safari P.O Box 99156 Mombasa  
  
Mwangibenson@yahoo.com
- 47.Fixus tour safaris P.O Box 907 97 Mombasa.
49. Fidex Car hire P.O Box 88068 Mombasa
- 50.Goafrika safaris & travel LTD P.O Box 5410  
Diani51.Guide to 51.Africa safaris LTD P.O  
Box 3206 Nyari
- 52.Gulf connections LTD P.O Box 87854 Mombasa
53. Gibran safaris LTD P.O Box1438 Ukunda
- 54.Global wild tours P.O Box 40161 Mombasa
55. Ikovio tours 0734046800 Ukunda
- 56..Islaners wines and spirit 0722531453 Vescon  
  
Rehemamwabosa yahoo.om
- 47.
- 57.Impala safari lodge P.O Box 185 80300 Voi

- sale@impalasafarilodge.com
58. Jean petit tours & safaris P.O Box 1511 Ukunda
59. Juletabi African adventure LTD P.O Box 442 Ukunda
60. Jonathan tours & safaris Ukunda P.O Box 5648 Diani Beach
- Info@Jonathan tours.Com
61. Kenya one tours LTD P.O Box 2831 Mombasa
62. Kuldips Tours 0733486494 Bamburi
63. Keittee tours and safaris P.O Box 490 Ukunda
64. Kenya real tours and safaris P.O Box 86683 Mombasa
65. Kenya wonders tours travel LTD Mombasa P.O Box 10023 -80100
66. Lorika adventure P.O Box 99868 Mombasa
67. Monica tours and safaris Box 989 Ukunda
- Info@monicatours.org
- 68 Milele tour guide hotel 077528155 Serena beach
69. Marcapolo safaris .com Beach P.O Box 733-80401 Dian
- Inf@ marcapolo safaris.com
70. Mweca Travells tour safaris P.O Box 41231 Mombasa

72. Merab universal safaris  
Mombasa P.O Box 80 357
73. Mafat travel LTD P.O Box 5100 Mombasa
74. Millele sunshine tours & safaris P.O Box 878 Mtwapa  
[Milele@gmail.com](mailto:Milele@gmail.com)
75. Melmax tours P.O Box 41231 ukunda
76. Mideast travel Kenya LTD P.O Box 85 830  
[Info@mtours.co.ke](mailto:Info@mtours.co.ke)
77. Magot tour Africa LTD P.O Box 40178 Mombasa
78. Mombasa African safaris LTD P.O Box 10501 Bamburi
79. Noor Travel LTD P.O Box 81268 Mombasa
80. Nakim tours & safaris LTD P.O Box 43358 Mombasa  
[Info@Neslotours.net](mailto:Info@Neslotours.net)
81. Netherken safaris & tours P. O Box 41987 Mombasa
82. Natural World Mombasa safaris P. O Box 89946 Mombasa  
83. Neslo tours & safaris P.O Box 98 824 Mombasa  
[Info@Nesttours.net](mailto:Info@Nesttours.net)
85. Nimbus tours & travel P.O Box 12395 Mombasa
84. Oliver tours LTD P.O Box 830 Ukunda
85. Oscapo (E.A) tours & safaris P.O Box 2297 Mombasa
86. Okologistic company LTD P.O Box 3199 Mombasa
87. Orange exclusive safaris LTD P.O Box 1679 Ukunda

88. Pwani tours safaris	P.O Box 16568 Mombasa
89. Paola safaris	P.O Box 5613 Diani
90..Pitia African tours Ukunda	P.O Box 105- 80400
91.Paws Africa safaris	P.O Box 88540 Mombasa
93. Pradan Car hire	P.O Box90448 Mombasa
95 Preasure ride tours &hire LTD	P.O Box 262 Mmbasa
96.Park adventure tours safaris	P.O Box 40693 Shanzu
97.Regal tours and safaris Ltd	Mombasa
98.Rytheme tours	P.O box 125-80400 Ukunda <a href="mailto:sales@regailtours.com">sales@regailtours.com</a>
99.Sand R.Safaris (tours)	info @steveandrichard.com
100. Salama marinesafaris LTD	P.O Box 1693 Ukunda
101. Sensational tours &safaris	P.O Box 95826 Mombasa
102.Suluman tours and safaris	P.O Box 972 Kilifi
103. South coast adventure &safaris	P.O Box 1472 Diani
104 Sek Tours &safaris	P.O Box 83035 Mombasa
105.Severine Air safaris LTD	P.O Box90653 Mombasa
106. Satao Ele rai LTD	P.O BOX 994456 Mombasa
107Sunflower safaris Mombasa LTD	P.O Box 84853 Mombasa
108. Sunset Kenya tours& safaris	P.O Box 42740 Mombasa

- |   |  |
|---|--|
| 109. Sunbreak Tours7& safaris                   | P.O Box 10533 Mombasa                          |
| 110. Stemo tours safaris                        | P.O Box 5706 Mombasa                           |
| 111. Severine sea Lodge tours                   | P.O Box 82169 Mombasa                          |
| 112 Smile Kenya tours &travel LTD               | P.O Box 288 mtwapa                             |
| 113. Lafrika tours &safaris                     | P.O Box 88540 Mombasa                          |
| 114 Shani tours &safaris                        | P.O Box 1648 Ukunda                            |
| 115. Tellus tours &safaris                      | P.O Box 539 Ukunda                             |
| 116. Tanke tours safaris<br>Diani               | P.O Box 5042-80400<br><br>Tanketours@yahoo.com |
| 117. Travel Africa safaris<br>Mombasa           | P.O Box 508                                    |
| 118. Stefan's tours safaris<br>Mombasa          | P.O Box 85223                                  |
| 119. Tanke wild adventure tours &safaris        | P.O Box 1446 Ukunda                            |
| 120. Three Star tours &safaris                  | P.O Box 191 Mtwapa                             |
| 121. Tsavo tours& safaris<br>Mombasa            | P.O Box 99852                                  |
| 122. Travelnet tours safaris LTD<br>954 Mombasa | P.O Box 93                                     |
| 123. Trory coast wines &spirits<br>Mombasa      | P.O Box 3749-80100                             |
| 124. Timken tours &travel                       | P.O Box 100 Ukunda                             |



- 125.Travel Africa safarisLTD  
126.. Tanke tours & safaris  
Ukunda  
P.O Box 508 Mombasa  
P.O Box 5769-80401  
Info@ tanke tours.Com
- Tyson Tours  
127. Tanken tours & safaris  
P.O Box 5769-80401 Ukunda  
Info@ tankentours.com
- 128.Trans African safaris  
P.O Box 87078 Mombasa
- 129.Unik car hire &safaris  
P.O Box 89200 Mombasa
- 130.Ukunda adventure tours &travel  
P.O BOX 786 Ukunda
131. Viva Kenya tours &travel LTD  
P.O Box 400 mtwapa
- 122.Vumbi jeep Safaris  
P.O Box 17 Ukunda  
[Info.@vumbijeeptours.com](mailto:Info.@vumbijeeptours.com)
- 133Viwan tours & safaris  
134.Voyager tours  
Ukunda  
P.O Box 97 992 Mombasa  
P.O Box 405-80400
135. Wayland tours &safaris  
P.O Box 10066 Mombasa
136. Wildlife Bush adventures  
P.O Box 5356 Diani
- 137.Wilmarine tours and safari  
P.O Box 93 491Mombasa  
[wilmarine@yahoo.com](mailto:wilmarine@yahoo.com)
- 138.White sands tours  
P.O Box 011-80100 Mombasa

139.WT Safaris	P.O Box 5648-8040 Diani
140.Waisons safaris LTD	P.O Box 93131 Mombasa
141.Xpedite solutions	P.O Box 2335 Mombasa
142. Yuda tours &safaris	P.O Box 1329 Ukunda
143.Zainabu tours & safaris	P.O Box 98138 Mombasa
144. Zaras travel	P.O Box 82018 Mombasa

## Appendix V Secondary data collection schedule

### SECONDARY DATA COLLECTION SHEET

This schedule was used by the researcher in collecting secondary data among hotels, restaurants and tour safaris. The data collected was based on profitability (ROA).

<b>Profitability</b>					
<b>Tour safaris –SMEs</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Sun flower safaris Mombasa Ltd	1462	1347	1678	5424	5435
Severine air safaris Ltd	(3425)	(2191)	3410	4139	4153
Smile Kenya tours travel Ltd	2561	4001	2176	1225	3477
Satao Ele rai Ltd	2441	2663	1151	1088	7190
Salama marine safarisLtd	1163	2041	2745	3363	3392
Pressure ride tour safaris	2140	3150	4110	3161	3983
Orange safaris executive	1918	2010	3114	2981	3560
Okologolic ucompany	1601	1492	1563	1417	2015
Olive tours Ltd	1718	1870	2012	2317	2023
Ken intra safaris	2010	2122	2016	2316	3100
Nakim tour safaris	2154	3106	2706	3104	3237
Noor travel	3001	2707	2905	3107	2154
Mombasa African safaris	1984	1716	2117	2310	2115
Magot tour Africa	4131	4150	4076	4547	4097
Mideast travel Kenya	2751	2716	2950	3011	3215
Kenya wonders tours travel	1753	1624	1514	1479	1778
Kenya one tours	3115	3114	3150	2984	3051
Juktabil African adventure	4322	4143	3997	4031	4154
Gibran safaris	2161	1987	2015	2234	2417
Gulf connections	2113	1857	2117	2119	2147
African safaris	2019	2373	2089	3101	4103
Goa Africa safari &travel Ltd	3114	3216	3501	3401	3317
Fred link company Ltd	4017	4314	4033	3570	3381

Explore African safari Ltd	1506	1344	1627	1421	2216
Explore African Ltd	3183	4023	4185	3879	4321
Demetrius tours Ltd	1789	1184	1569	(3525)	4312
Coast prestige tour safaris LTd	2781	2837	2114	4567	5141
Coral spirit tours	2718	3211	2915	4681	4113
Coast Africa car rental Ltd	2215	4718	3467	5327	3147
Bahari tours& safaris	2316	2649	2907	4322	3023
Atlantis travel international Ltd	3307	1863	4126	6516	(3114)
Adventures Adrenalin Ltd	2079	2986	2749	2547	3598
Africa safaris Dian adventure Ltd	4081	6121	5436	4725	4675
Aquarium travelers	5213	4321	5431	5432	3421
Around the world tour safaris Ltd	4325	3576	6421	3976	3945
Across Africa safaris	3786	5631	6874	4631	6268
Big five safaris Ltd	3845	2589	3432	5321	5342
Coastal car rentals Ltd	5432	3421	5432	3987	4537
Dominion holiday& safaris	3476	6321	5432	3780	4532
Elegant tours safaris	4532	3789	5421	3327	3456
East coast tours	4356	3357	3189	4231	6743
Farmtech enterprises tour& safaris	3421	2987	5476	2788	4110
Fidel car hire	1989	2785	3427	4321	3219
Global wild tours	2178	3129	2989	3676	4327
Kuldips tours	5135	4321	4236	3787	4620
Kenya real tours& safaris Ltd	6745	5431	4673	5626	4320
Milele tour guide	2134	3254	2456	3241	2232
Marcapolo safaris	3241	4321	2143	2236	1234
Merab universal tour safaris	1987	1568	1954	2067	3421
Milele sunshine tor safaris	2328	2145	3456	3281	4123
Intermax tours	4123	4351	3951	(1982)	3210
Netherken safari tours	2113	2256	2387	3961	4210
Oscapo (E,A) tour safaris	4231	3265	3175	3306	3428
Prdan car hire	1908	2307	2174	2085	2019
Park adventure tour safaris	3321	3247	2879	5432	4321
Salama marine safaris	1952	2954	3012	4103	3987
Sensational tour safaris	4121	3940	3743	2989	3653

Suluman tours safaris	4532	3399	4017	3976	4061
South cost adventures& safaris	3211	4328	3901	3395	4310
Sekar tours safaris	4509	3567	3420	4219	3776
Sun set Kenya tours	2909	2869	8903	8907	9875
Sun break tours safaris	3379	4170	3527	4101	3986
Sevarine sea lodge tours	4301	3874	2906	3874	4310
Lafricar tour safaris	2269	2397	2904	3210	3097
Tanken tour safaris	4301	4018	3987	3297	3197
Travel Africa safaris	3219	3398	2965	2244	3940
Tank wild adventures tour safaris	3753	3641	3206	3198	3300
Tsavo tour safaris	2904	2789	2449	3573	3091
Timken tour travel	3217	3454	3105	2904	2990
Trans Africa safaris	3973	2976	2809	3091	3362
Ukunda adventure tour safaris	1965	2819	2108	3000	3090
<b>Safari adventure tours</b>	2234	2109	2091	1978	2007
Luxury safari Kenya	1978	2375	1987	2341	2098
Beka day tour safaris	3041	2389	2785	3123	2970
Discovery Kenya confragile	2267	2198	2365	2297	2871
Kenya safari	3214	3012	3378	3209	3099
Roberto Topa safari Kenya	2783	2876	2976	2667	3001
Graibaldi safari Kenya	2441	2407	2361	2211	2498
<b>Totals</b>	<b>219,179</b>	<b>228,168</b>	<b>233672</b>	<b>203337</b>	<b>274992</b>
<b>Average</b>	<b>2774</b>	<b>2888</b>	<b>2957</b>	<b>2574</b>	<b>3716</b>

Restaurants					
Brazuca bar& restaurant	3976	3451	4035	3961	3800
B,B restaurant	2338	2299	4012	3970	3606
Bahnof inn restaurant	3708	3673	2977	3091	2229
City mall restaurant	1997	2889	4101	3903	3803
Container bar &restaurant	4111	3977	2198	4200	3948
Legand bar &restaurant	3765	3679	4321	4987	3445
Emirate restuarants	4327	3421	3210	3398	2987
Funzi keys restaurant	3298	2978	2789	3101	2987
Fantanus restaurant	3204	3983	2999	3786	2348
Inland restaurant	3456	3428	2987	3421	4201
Happy moment restaurant	4532	4452	4230	3422	4103
Indian restaurant	4321	3900	4532	4215	5104
Kariuku restaurant	3984	3762	4102	5423	4321
Lollipop restaurant	2987	2895	3859	3489	4122
Jeff bar &restaurant	3265	5321	4321	3241	4321
Jemarad restaurant	4430	4320	4032	4021	3489
Ibrhim restaurant	3987	3987	4017	3987	4108
Ken chick restaurant	4208	4303	4011	4532	4096
Julum wines 7spirit	3985	3987	3780	4041	3958
Kenless cartere restaurant	3587	3478	3380	4320	3876
Lumur bar &restaurant	3210	4975	2734	3398	4089
Mims inn restaurant	3567	3896	4531	3876	4015
Milka bar &restaurant	3216	2765	3421	3751	2987
Murphy bar& restaurant	3321	3280	3091	2995	3287
Mundeke bar& restaurant	1879	2964	1879	2176	2453
Olvia restaurant	3210	3219	2968	3710	3561
Ole tapes cielo restaurant	3207	3012	2975	2874	2761
Olicars restaurant					
Portland bar& restaurant	1987	1954	2017	2190	2198
Piess longe bar &restaurant	3215	2975	3421	3421	3210
Penda restaurant	2223	2319	2098	2298	2178
Pride inn restaurant	2329	2512	2986	3219	3279
Olympic restaurant	3219	3042	2309	2097	2907
Nyama point bar& restaurant	3276	3214	3109	3764	3120
Sheba lompo restaurant	2318	3256	2379	2398	2986
Ngao club restaurant	3265	3187	3098	2950	2875
Oasis restaurant	1989	1886	2108	2093	2219
Shill bar restaurant	2345	2678	2339	3010	2678

Sheshe restaurant	1988	2776	2319	3297	3321
Sandrus restaurant	2432	2109	2304	2965	2754
Star garden bar &restaurant	3211	2947	2897	3215	1890
Swift delicious restaurant	2534	2743	2654	2598	2749
Silent jot bar &restaurant	1986	1876	2100	2195	3110
Stadium bar& restaurant	3211	1987	2186	2759	2883
The morning restaurant	2974	2789	2678	2549	2189
Tumain restaurant	2179	2298	2345	2367	2479
Athus bar &restuaurant	2190	2280	2876	3217	2311
Aqua bar &restaurant	2311	1212	1963	3201	2229
Armani suit restaurant	2331	2435	2386	2456	2543
Yuls restaurant	3100	3345	3476	3379	3211
Shehani restaurant	2984	2765	2850	2728	3103
Mashua restaurant	1989	2178	2073	1895	2019
The morning restaurant	3309	3064	3103	2986	2802
Year	2012	2013	2014	2015	2016
Totals	169797	162121	149245	157092	148019
Average	3265	3117	2870	3279	3109

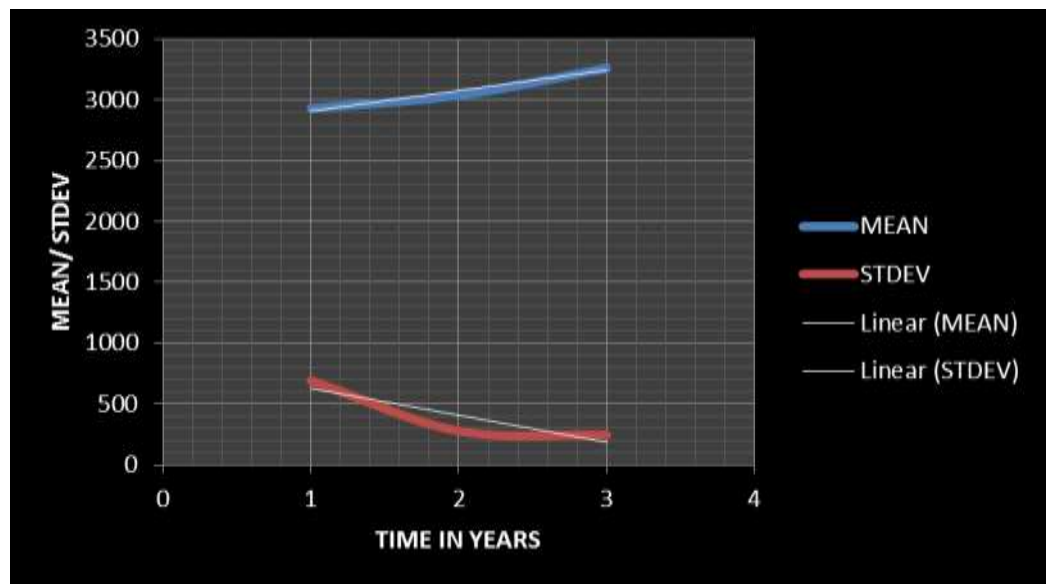
PROFITABILITY	2012	2013	2014	2015	2016
HOTELS					
Anassal hotel	2021	1978	2171	2240	2111
Blue bubble hotel	3121	3200	2190	2001	2309
Bahari beal hotel	2453	2326	2239	3210	2118
Coast pride hotel Ltd	3327	2776	1798	3213	1994
Dian beach hotel Ltd	1854	2641	2405	2203	2654
Fin breeze hotel Ltd	1997	2220	3202	3401	2117
Darajani hotel	1486	1967	3210	1893	2330
Beaumant resort hotel	2194	2987	1939	2334	2119
Ganjoni wananchi hotel	1654	2789	2589	2465	1932
Intercontinental beach hotel	3054	2093	3101	3119	1976
Kendas acade hotel	3334	3701	2947	2743	2689
Kendas village hotel	3245	3431	2976	2897	3200
Kivulini bahari hotel	2119	2996	3109	3017	2534
Kenya bay bahari hotel	2187	1974	3310	2343	2969
Josleem hotel Ltd	1876	2865	2789	2675	2908
Lavender hotel	2223	3215	1987	2180	2217
Milele beach hotel Ltd	2432	3428	3221	3218	2990
Mombasa beach hotel Ltd	2800	2776	2986	1890	2199
Nyali beach hotel Ltd	1908	3219	2233	2118	1997

Pundamilia paradise hotel	2300	2398	2190	1967	2219
Peal beach hotel Ltd	1764	1867	2105	1999	2321
Papillion /Fantana hotel	2333	2101	2224	2654	2431
Royal comfort hotel	3210	2198	2436	3104	2190
Mwanyaisio guardian hotel	2178	2109	2119	2234	2278
Surmalink hotel	3217	2178	2312	3219	2676
Shanzu beach hotel	1986	2787	2345	3112	3409
Swahili beach hotel	2345	2138	3217	3426	2193
Tsavo auto points hotel Ltd	1789	2388	2284	2094	1998
Midview central hotel	2202	2342	2176	2019	2322
Siwa beach resort	1983	1897	1654	1987	1756
Valence inn hotel	2311	2765	2875	2973	2345
Windor apartment hotel	3215	2310	2378	2980	1987
Taita rocks hotel	2345	2106	2335	2443	2155
Travelers rocks hotel	2466	2173	2360	2274	2189
Tamutamu dishes hotel	1969	1779	1778	2109	2456
Africa lodges Ltd	2674	2764	1993	2444	2199
Baxton leisure lodge	2322	2132	2245	2874	2770
White sands Ltd	3210	2109	1245	2908	2314
White castle hotel	3215	2075	3219	2190	2311
Yomoke hotel	3332	2289	2187	2367	2457
Dodoma serena hotel	2543	2432	2345	2359	3201
Royal court hotel Ltd	2880	3263	4212	4402	4123
Judan hotel	3243	4101	4302	4740	4989
<b>Hotel dorse</b>	3216	3091	2989	3021	2876
Bondeni silent hotel	2769	2956	2784	2688	3093
Josleen hotel	1980	2378	2789	2983	2967
Sherallon regency hotel	3321	3194	3077	3216	3044
Panaroma gardens hotel	2349	2097	2864	2091	2211
Hotel English point	3321	2984	2768	2876	3121
<b>Year</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Total</b>	117678	123207	108937	118039	123964
<b>Average</b>	2452	2567	2629	2811	2583



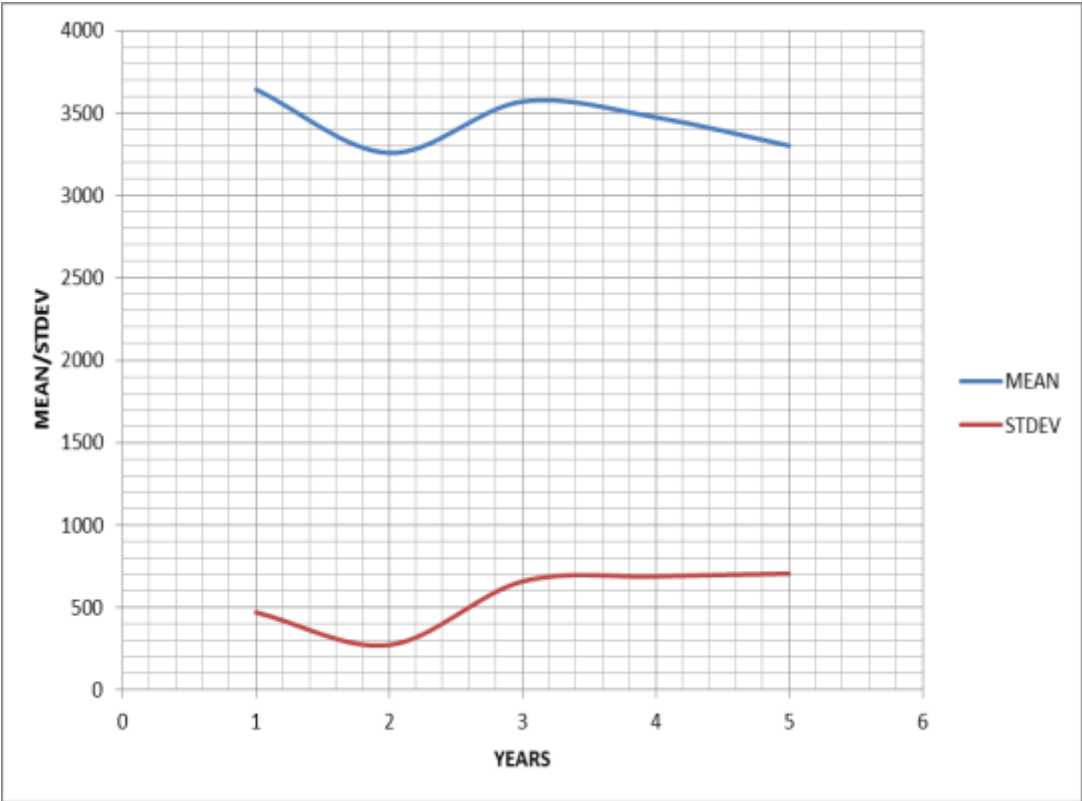
## Appendix VI Secondary data tables

TREND CURVES - PROFITABILITY IN TERMS OF MEAN AND STDEV (TOUR SAFARIS)



RESTAURANTS - PROFITABILITY IN TERMS OF MEAN AND STDEV

(TREND CURVES)



trend curves -

HOTELS

PROFITABILITY- BASED ON MEAN AND STDEV

