# THE INFLUENCE OF DEBT FINANCING ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI COUNTY

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# DECLARATION

**Student declaration**

I hereby declare that this research work is my own and has never been submitted in any other institution of higher learning and where other research work has been considered, acknowledgement of the author has duly been referenced.

Kamau, Victor Ndekei          Sign…………………….   Date ………………….

Admin No. 112532

**Supervisor's declaration**

I do hereby declare that I have supervised the stated student and have confirmed that everything is in accordance with the expected level of research and therefore am satisfied with the research work

Name: John Waweru Kamau

Sign: J.W.K

Date : 28th Feb 2022

# DEDICATION

I dedicate this work to my parents who played a key role in ensuring that I was able to meet all my academic needs.

## ACKNOWLEDGEMENT

First and foremost, I would like to acknowledge the presence of the Supreme Being who gave me the power and good health to undertake this research. I am grateful for the gift of life bestowed upon me which encompasses adequacy of the state of bodily health.

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## ABSTRACT

Lack of sources of finance by small and medium enterprises have caused many of them to cut off their operations. This has been caused by an inability to secure any source of credit from the available financial institutions. Lately, through upcoming of different financial institutions which can offer them credit, they have been at cross-roads on which type of debt financing to choose. Therefore, this study sought to analyze the influence of debt financing on the growth of SME's in Nairobi County. The study incorporated how short-term debt financing had influenced their growth, the influence of long-term debts towards the growth of SME's as well as the influence of trade credit on their growth. It also applied the use of different literature in literature review through consideration of different theories such as pecking order theory, theory of the firm growth and grounding theory. The study used descriptive research design whereby the population of the study was all small and medium enterprises in Ngara market. The sample size used was based on use of Fisher's et al (2007) formula. Data was collected through the use of questionnaires whereby the analysis was through the help of SPSS version 26 and the presentation was by use of tables with calculated means. Upon data analysis, the study concluded that short-term credits influenced the growth of SME's in different ways based on how the owners/management configured them. The study also revealed that long-term credits had a great impact on the growth of SME's as they were inducing them to long term payment period. Finally, it was uncovered that trade credits influenced growth of SME's through ensuring the suppliers of the payment periods for the good supplied on credits. Therefore, the study recommends that short term credits should not be heavily relied upon by businesses as they have great implications due to their high rate of interest and short repayment period. Furthermore, long term credits should be considered due to their long period of repayment and, trade credits should not be much considered due to their high rate of risk caused by occurrences which are unexceptional to businesses operations.

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# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the study

Engaging in small and medium enterprises requires finances which are ultimately utilized in the process. This implies that when an individual or a group considers undertaking a certain business peripheral, they have to bear in mind that in order for those businesses to experience growth, they require their time and capital to thrive (Mwangi & Birundu, 2015). It therefore configures the aspect of capital structure for its endeavors which means that the business personnel have to structure out the key components required by the business. When coming to what an SME entails, its definition differs based on its country of origin which implies that different countries have different understandings of what it is all about. A small and medium enterprise is a kind of business that is very engaging and requires much concentration for it to have a return. This is because it is a source of employment for a majority of people and therefore setting one's mind in it has to be committal (Biswas, 2014). When it comes to the issue of the source of funds, there is the need for the businesspeople to be very vigilant on which source will best fit their demands and therefore be a crucial component of their day-to-day operations. This implies that they have to seek out credit facilities which are key players in the development of the enterprises. This is based on the consideration that they are deeming for the growth through expansion of productivity of their activities (Odero-Wanga, Mulu-Mutuku & Ali-Olubandwa, 2013).

Debt financing which encompasses the funds that are borrowed, implies that they have to be paid on with interest by the borrower who in this case are the SME's. Businesses loan advancement by small and medium enterprises inform of microcredits is based on eradication of the higher level of poverty when they are in need of developing into a new market as well as when they are in need of promoting their culture of entrepreneurship (Njeru, 2013). This implies that when these small businesses experiences credit shortage, they pose a threat of incapacitation in operations (Biswas 2014). In this, SMEs are therefore considered to seek for loans from different sources such as banks, SACCO's as well as microfinance institutions.

In accordance with Payne (2017) small and medium enterprises in Kenya are key players in the growth of the gross domestic product which was affirmed to be among the 50% contributor of the economic growth. This is crucial in business world which 98% of its engagement s through small and medium enterprises. Rouser (2021) asserted that GDP was expected to grow at a steady state of 4.5% due to economic recovery from the pandemic which led to stalling of business both in the country and the world at large.

It is easy to see, therefore, the significance of SMEs in spurring the growth of the economy, and it is therefore important for governments all around the world, more so in developing economies, to lend a helping hand to SMEs in terms of debt financing. Governments, banks, investors and other eligible financiers may do this through offering short term loans, long term loans, as well as trade credit (Jepkorir & Gichure, 2019).

Ebaid (2016) conducted research to see if there was a link between debt levels and the growth of companies listed on the Egyptian stock exchange. With return on assets and equity as well as gross profit margin acting as the dependent variables in the study and short-term, long-term and total debt acting as the independent variables, his findings demonstrated that short-term and overall debt have a negative influence on return on assets.

That said, however, researchers like Fosu (2013) have garnered more successful results when looking into the link between debt financing and business performance, especially in terms of competition, where it was found to have been positive. It was also proven that the performance effect of leverage was boosted by product market competitiveness (Jepkorir & Gichure, 2019).

### 1.1.1 Small and Medium Enterprises.

Small and Medium-sized Enterprises have definitions that range depending on country, number of staff, the rate of turnover as well as the value of noncurrent assets, among others. They may be defined as businesses that have employees ranging from six to twenty-nine in number, or those firms that have non-current assets that are less than or amount to 100,000 dollars (Jepkorir & Gichure, 2019). In Kenya, however, small enterprises are firms that have a minimum of 11 and a maximum of 50 employees, and whose annual turnover falls between KES 5 million and 100 million. Medium enterprises, as defined by the Public Finance Management Bill of 2019, are businesses employing 51-250 people and do not exceed an annual turnover of 100 million shillings (Mputhia, 2020).

Another definition, given by Srinivas (2015) in the Regional Frontiers of Entrepreneurship, states that they are registered firms that have less than 250 employees who contribute both to development and GDP, as well as face difficulties in accessing financial services, and whose growth is associated with the formalization of an economy.

SMEs have popularly been dubbed the 'drivers of economic growth' for a multitude of reasons. Their knack for creation of employment is shown by the fact that they create up to 80% of job opportunities in low income countries, as well as up to two-thirds in developing countries (Essen, Deilj & Kok, 2013) . They have also been found to be responsible for over 65% of total employment in high-income countries, as well as up to 45% of total employment in budding economies.

Creation of employment is not the only benefit brought about by SMEs. According to the Central Bank of Kenya's (CBK) 2017 National Economic Survey report, SMEs account for 98 percent of all businesses in Kenya. In accordance with a report by World Bank 2020, SMEs are also responsible for generating higher production volumes, contributing over 55% of GDP in high-income countries, and 40% in developing countries, including Kenya. They also increase exports, with published empirical studies showing their contribution in industrialized east-Asian economies to be as great as 56% in Taipei, 40% in China and 31.5% in India as compared to 1% in Tanzania and Malawi. Innovation, entrepreneurial skills, provision of reasonably priced goods and services, and countless others are but a tip of the iceberg in terms of the value SMEs add to developing and developed countries (Asare & Angmor, 2015).

When it comes to the growth of SMEs, there are many factors that come into play, the most important of which, inarguably, is debt financing (Jepkorir & Gichure, 2019). Though one can neither understate nor ignore other factors outlined by Afande (2015) in the Journal of Poverty, Investment and Development such as age of the firm, access to credit and an entrepreneur's level of education, journals published suggest that they are not nearly as important as debt financing when looking at the level of influence they have on the growth of SMEs (Jepkorir & Gichure, 2019).

As defined by Horne (2013) debt financing refers to the process of capital acquisition from a lender in order to run business operations, and the repayment of said capital within a predetermined time period with interest. Similarly, as stipulated by Bratton (2016), it is the act of borrowing funds from firms, investors and other financiers with the aim of supporting corporate operations, with an expectation by the aforementioned financiers to be paid back a sum including the accumulated interest at a later date.

### 1.1.2 Debt Financing and SME's Growth

Though the main aim of SMEs may be creation of employment, realizing growth potential is yet another business objective they—along with other businesses—seek to achieve. The growth of an enterprise may be measured in many ways, including assessment of stock turnover, asset base, market share, and profit (Ngoze, 2015).

On the other hand, adequate finances and capital supply, labor, and suitable management, as well as chances for successful investments, can all influence a company's growth (Jepkorir & Gichure, 2019). Therefore, without adequate capital supply and financing, it does not come as a surprise that SMEs are unable to compete with the swiftly expanding global market, let alone the budding local one. When funds that may have been used to hop onto the trend of incorporating technology into day-to-day business operations, or to absorb equally beneficial strategies are lacking, SMEs cannot be expected to report unbridled success.

As a matter of fact, a survey conducted early in 2017 by the Kenya National Bureau of Statistics shows that though there are quite a large number of SME startups in Kenya (estimated at 7.41 million in 2021), as many as 400,000 do not have the luxury of celebrating their two-year anniversary, and lack of adequate financing is the indisputable culprit (Otieno, 2018).

Consistent with a report published by the Republic of Kenya (2012), government financial programs can help counties grow their economic potential. The aforementioned programs may include transparent and open consultative county government meetings, and candid policy-development processes which give forums for SMEs to express their concerns and interests via the county legislative bodies.

There has also been a reported surge in the use of debt financing by SMEs, and well-managed enterprises have attained not only marked growth, but also profitability in a variety of industries in the market. The up-and-coming SME sector has reported growth at a rate nearly twice that of the GDP, and economic forecasts suggest that it will continue to do so at the staggering rate of 10-12% annually (Jepkorir & Gichure, 2019).

## 1.2 Statement of the Problem

The role of SMEs in any developing and developed country is an important one. Small firms, in addition to large corporations, play an essential role in the development of nations' economies (Afande, 2015). In light of this, developed countries around the world have launched strategic financial programs in an attempt to aid them in their path to success. The USA is a prime example of this, having set into motion a system where the government offers legal aid, expert consultation, counselling on exports and, most importantly, loans, all of which is done through the Small Business Administration, a government agency aimed at supporting SMEs (Afande, 2015).

Likewise, in the United Kingdom, a minister specifically for SMEs within the Department of Trade and Industry was appointed. To go a step further, the Small Business Service is a government agency formed with the aim of carrying out data collection and analysis in hopes of better understanding the requirements of small businesses. There is also the annual 'National Small Firms Policy and Research Conference' organized by the Institute for Small Business Affairs (ISBA) that gives researchers and policymakers a platform to discuss any new ideas and policies pertaining to the support of SMEs (Afande, 2015).

The strenuous effort put in by developed countries to support SMEs goes to show just how important they are in boosting economic growth and proves that the Kenyan government needs to do the same. The sad reality is that 70% of all SMEs started up in Kenya fail within their first three years of existence, putting them at a meagre survival rate of 30% (Douglas, Douglas, Muturi & Ochieng, 2017). Though there may be numerous factors to blame, inadequate funding and research in the SME sector stand out as the most imperative. Although the significance of SMEs remains the same in both developing and developed countries, developed countries have the benefit of having adequate research on the crucial factors needed to boost the success of SMEs—developing countries, however, do not.

According to Afande (2015), despite small businesses' prevalence in Kenya, academic interest in the vital role of small firms in economic growth remains low, which in turn means that there is inadequate research carried out, and therefore there exists a large information gap that desperately needs to be filled. Without this crucial information, SMEs cannot even begin the journey to realizing their growth potential and success, as they lack the key factors needed to do so. With lack of adequate funding as the central problem at hand, the study sought to gather the necessary information on debt financing so as to fill the aforementioned gap.

## 1.3 Objectives of the study

### 1.3.1 General Objectives

The general objective of this study was to analyze the influence of debt financing on the growth of small and medium enterprises in Nairobi County.

### 1.3.2 Specific Objectives

i. To evaluate the influence of short-term debt in the growth of SMEs in Nairobi County.

ii. To establish the influence of long-term debt in the growth of SMEs in Nairobi County.

iii. To ascertain the influence of trade credit in the growth of SMEs in Nairobi County.

## 1.4 Research questions

i. What is the influence of short-term debt on the growth of SMEs in Nairobi County?

ii. What is the influence of long-term debt on the growth of SMEs in Nairobi County?

iii. What is the influence of trade credit on the growth of SMEs in Nairobi County?

## 1.5 Justification of the study

Small and medium enterprises are a kind of business which requires a calculated amount of capital for its establishment. This implies that those who have a need to establishing these kinds of businesses have to consider various factors, one of the key ones being a source of finance. They may opt to seek for financial assistance in terms of debt from financial institutions or their peers to embrace growth. It is then for this reason that this study will seek to analyze how debt financing influences the growth of the SMEs whereby it will incorporate the capital structure context so as to elaboratively align the magnitude on how they posit growth. Through consideration of debt financing aspects, the study will elaborate on how they influence the growth of the small and medium enterprises in a comprehensive context based on the type of debt the business personnel intend to seek for assistance.

## 1.6 Significance of the study

The study findings will be of key importance to different stakeholders such as:

### 1.6.1 The Government

The government of Kenya will be a key beneficiary of these study findings in that, through its stakeholders who are key contributors of the growth of the economy (SMEs), it will come up with different strategies to improve their financial status through offering of alternative credits to boost their overall activities.

### 1.6.2 The Financial Institutions

This study findings will help financial institutions to come up with different means of boosting the SMEs in order to have a continuity in their operations which will also help them regain more confidence in their financial base through interest during repayment.

### 1.6.3 Other Researchers.

This study findings will help future researchers to boost their knowledge base through using the current study as their reference materials and consider making adjustments based on the situation that will be exposited at their time of study. They will also use it as a guide in relation to finding out on how debt financing can be the best alternative for the growth of SMEs.

## 1.7 Scope of the Study

The main concept of this study was based on analyzing how debt financing influences the growth of SMEs in Nairobi County. This therefore implies that this study concentrated on small and medium enterprises in Nairobi County with specification of those SME's how are within Ngara market. The study considered different types of SMEs in operations such as those in hospitality industry, service industry among others which are categorically in the SME's class. The period of the study was from August to February 2022.

# CHAPTER TWO

## LITERATURE REVIEW

## 2.1 Introduction

This chapter looks at literature based on the study case which was aligned to past research materials scrutinization related to the current study. The researcher therefore highlighted the relevant ones which helped in extrapolating information which was meaningful in terms of debt financing to the growth of small and medium enterprises. This was encompassed by theoretical review, empirical review, research gaps exposition as well as conceptual framework.

## 2.2 Theoretical Review

Theories which are related to the current study objectives looked at in this study which included: pecking order theory, theory of firm growth, and the grounding theory.

### 2.2.1 Pecking Order Theory

This theory was developed by Donaldson in the year 1963 but thereafter was enhanced by Meyers and Majluf in 1984. The main context of this theory was based on how entities sequence their preferences based on the needs arising from their capital structures. This implies that any firm that is in operation, raises funds from different sources based on their needs enabling them to categorize the needs in relation to their urgency. In accordance with Deng (2018), the firms exhaust all the possible financial sources within their jurisdiction before they embark on the next step which attributes it to its preferences.

The pecking order theory likewise posits that an entity has to exploit its retained earnings before embarking on external debt and thereafter concentrates on internal issues which are in need of capital. Therefore, this means that the order of the preference of the entity will be based on their viable shareholders. Meyers (1984) argued that equity, one of the sources of funds of an entity, is not the best way of raising funds due to the fact that its notion in investors' minds is that an entity management mostly issues shares when the entity shares are hyped based on its marketability. Ahmad (2016) asserted that a firm’s management rigidity context on their share value causes investors to downsize their needs and therefore to bid the prices of a firm’s shares—which are low—based on new equity issuance.

In a study, Awuonyo (2012) disclosed that in this context, most small and medium enterprises have no capacity to accumulate much internal finances during their growth stage which opt them to seek for external assistance to carry on with their operations. This greatly delineates those small and medium enterprises that have been in operation for a long time, thereby having their internal finance of operations. In relation to how short-term debt financing is critical to an SME based on this theory, it is key in that it helps the entity in its day-to-day operations and has short-term periods of repayment which are achievable through an agreeable payment term to cover the debt in a short time.

An entity from these precepts is therefore required to have exploited all its internal source of funds such as retained earnings before embarking on external sources of debt so that it has a wedge on its operations in terms of debt accumulation. This signifies that debt financing, no matter whether its short-term or long-term, has to be the last option for an external source of finance (San & Heng, 2014).

In this study, this theory will be of significance since it helps explain how small and medium enterprises are supposed to prioritize their preferences before embarking on different sources of finance. This means that they have to fully utilize their retained earnings before seeking out external sources and in this, short term debts are key as they will help them achieve their short-term needs. They also have calculated payment terms which will help them achieve their short terms goals. This will go a notch higher in helping them consider the best external debt financing sources and which will be rhymed to their needs after they have fully exploited their internal means. This in turn helps them embrace associated short-term debts which leads them to achieve their desired needs based on preferences. Furthermore, through pecking order theory, SMEs will be able to understand what the best choices of short-term debt are that they need to embrace so as to realize their growth.

### 2.2.2 Theory of Firm Growth

Penrose developed this theory in 1959 and the main idea behind this theory development was based on firms having no long-run or optimum size which had to be determined in order to ascertain its capacity in terms of operations. Instead, the constraints on their current operations were the ones stipulating their growth rate. This implied that the growth of any entity in operations was determined by the causes which exposited it to that growth and these are based on external and internal factors. In relation to external causes of growth, Penrose (1959) in the study revealed that issues such as raising capital, demand condition and sales increment are the key external causes of growth. This means that whenever an entity is in operation, it must be faced off with external operations context and these influences its need to seek for long-term debt whose intention is to enhance a long-term operations achievement (Kaluma, Ndambiri & Oluoch, 2018). In line with this, it implies that the interest charged on the number of long-term debts in financing the activities of the small and medium enterprises cannot fully be aligned to the entity itself without consideration of the nature of its operations.

The long-term sources of finance therefore conceptualizes the operations of an entity, and this implies that it somehow hinders its growth due to lack of evidence on what the nature of the business operations is and the intended purpose of achievement in the long term. This is mostly based on the fact that many businesses that are in operation, do not associate themselves with the growth that is as a result of external sourcing and therefore, whenever they have issues of financial crisis, they tend to seek short-term sources which are merely for short-term need without consideration of the adverse effects which are uncertain (Kaluma, 2018). When small and medium enterprises consider using long-term debt in their operations, it will enhance their growth as this debt is encompassed to low interest rates which are payable in long term therefore, they will grab the benefits of low return rates.

In this study, this theory of firm growth will be of great significance in that it will factor in what is entailed in the growth of a firm and in this case growth of SME's. In order for an SME to experience growth, it has to have adequate sources of finance in its operations. This means that the source of finance, which is debt, has to be a calculated move. Long-term debt will best fit in the growth of any SME as it embraces long-term periods with low interest rates charged and therefore signifying high rate of growth. This is more also based on the fact that this source of finance does not consider the size of the firm but what it is undertaking in order to achieve its overall mandate.

### 2.2.3 Grounding Theory

This theory was developed by Glaser and Strauss in 1967. It was all about how SME's growth is associated with different terms of credit finance. This theory stipulates the importance of SMEs to have a large pool of financial assistance whereby they can be able to seek for credit which has different terms. Trade credit is considered a key source of finance to SME's and their growth. This is anchored in the fact that they help them to quell their financial constraints especially when credit institutions such as banks are not willing to offer them credit (Kapkiyai & Mugo, 2015). Trade credit is based on different contexts especially in terms of account's payables and receivables which are associated with business operation cycles. They are linked to economic activities, through exchange of goods and services in the market (Ferrando & Mulier, 2012). The use of trade credit terms is basically in the situation whereby the SME's which are exposed to low credit in their operations seek for financial assistance from their suppliers and this implies that there are higher chances of liquidation in terms of high interest rates charged by the suppliers. In this theory, countries that are considered to have poorly developed financial markets have higher chances of their industries growing faster as a result of availability of trade credit. More so, it implies that those firms that are faced with liquidity shock try to minimize these shortage distresses through taking of trade credit.

A study by Sola et al., (2012) revealed the existence of positive relation between firm performance as a result of trade credits which were associated with its surpassing those cost incurred when there was vendor financing. In this, it was implied that trade credit enables any business to perform especially when they do not have enough funds and therefore instead of seeking financial assistance from vendors, the next best option is through the use of trade credit in their operations. This means that there are diverse effects which are associated with receivables on firms' profitability based on its operational features. This is associated with the fact that large firms consider offering trade credit to smaller firms with the aim of increasing their sales which enhances their credit worthiness.

In accordance with the study by Ferrando and Mulier (2012), it was noted that many entities consider offering trade credit to various customers who are faced with temporary distress with an aim of ensuring that they remain in operations, and this increases their pool of sales based on the fact that the distressed customers are not capable of buying those goods. They will also offer trade credit when they realize that the customer is a long lasting one and they have an assurance of long-term relation when it comes to future surplus guarantee with that customer.

This theory will be of significance to this study in that it will help explain how trade credit is crucial in operationalization of SME's. This will help to elaborate on the role played by trade credit especially when the SME's do not have a sufficient flow of funds and they need goods and services and therefore their contract with the supplier in terms of offering the material on credit is a way of solving such operation problems. This will enhance the growth of the SME's and therefore the supplier on their part will be assured of increased sales. The grounding theory therefore best suits this study.

## 2.3 Empirical Review

### 2.3.1 Short-Term Debt Role in the Growth of SMEs

Karuma Ndambiri and Oluoch, (2018) affirmed that short term debts are those debts that are incurred by any entity and are due on demand within a certain fiscal year. This implies that the components entailed in a firm's financial performance encompasses the significant aspects of the short-term debt value. The firm's financial performance which is measured through the use of profitability accrues the benefits of short-term debt based on the fact that short term debt is less expensive due to its increasing low interest rates which in return leads to increased profits level and hence, to performance enhancement. Different studies have been carried out to ascertain how short-term debt leads to growth and performance of different entities and different findings have been exposed. Langat, et al., (2014) carried out a study on how debt financing affects profitability of Kenya Tea Development (KTDA) processing factories and used returns on assets as the measure of performance. The study thus ascertained that there existed a positive significant relationship between long-term debt and total debt at 5% while short term debt revealed a negative and significant relationship at the same level of 5%. This implied that the negative relationship between short-term debt and the firm profitability was associated with the aspect of provision of finance to the processing factories through debt, which was short-lived, and was not critical to the profitability of the entities.

Maina and Ishmail (2014) conducted a study on financial performance of listed firms in NSE. They used SPSS to calculate the regression model and they found out that debt and return to shareholders were the key determinants of financial performance of the listed firms in the NSE. They also revealed that there existed a negative and significant relationship between financial performance and the capital structure which encompassed short-term debt. This revealed that when a business relies more on debt, they have higher chances of experiencing low performance due to rate of paying that debt. In their findings, they further asserted that short-term debt used by firms listed in NSE had low survival rate though they were the majority compared to those who used short-term debt.

Karanja (2014), while focusing on effect of choice of financing on performance of SME's in Kiambu County, revealed that debt-to-assets ratio, liquidity and debt which were short term rated, positively affected the entity performance in the dairy farm sector. This was based on the usability of secondary data and regressed through the use of SPSS. This revealed that to small scale dairy farmers in Kiambu, the use of short-term debt positively influenced their performance based on the aspect of ease of securing animal feeds at low cost and they were able to repay their debts in due time. The study by Maina and Mwasa, (2014) on how capital structure had affected financial performance of firms listed in NSE found out that short-term debt affected the firms negatively therefore establishing that there existed a negative relationship between short term debts and financial performance of the firms listed in the NSE.

### 2.3.2 Long Term Debt's Role

This is the amount of debt that any firm owes a financial institution, of which, its repayment terms are not less than a year. In their study, Masiega et al (2013) on effect of capital structure on financial performance of listed firms in NSE used panel data of thirty listed firms within a period of 10 years from 2001 and 2011 and found out that there existed a positive significant correlation between the firm's assets and long-term debt. On their part, Githaigo and Kabiru (2015) while studying on effect of long-term debt on financial performance of SME's found there existed a negative relationship which was affirmed by the operation-type of the SME's.

A study conducted by Ng'anga (2017) on debt financing's effect on financial performance of private Secondary schools in Kajiado County, used descriptive research design and census sampling technique to form the total 61 private secondary schools in Kajiado. Secondary data for a period of 3 years from 2014-2016 was analyzed using SPSS and multiple linear regression model was carried out. The study used revenue growth debt financing, management efficiency as well as administrative efficiency as the determinants of financial performance. It determined that debt financing in terms of long-term debt had a positive insignificant relationship on the performance of the Secondary schools.

Furthermore, a study by Koskei (2017) carried out on the basis of finding out the relationship between long-term debt ratio, debt-to-assets ratio, debt-to-equity ratio and the financial performance of private sugar manufacturing firms in Kenya, used all the private sugar companies in Kenya totaling to 6 and made use of secondary data. The study found out that long-term debt-equity ratio had a positive significant relationship on the financial performance of the sugar companies.

Makanga (2015) revealed that long-term debt was negatively correlated to return on assets but had a less significant relation to financial performance of firms listed in NSE. This was based on his study on debt financing's impact on the financial performance of firms listed in NSE. The study used SPSS to analyze secondary data through descriptive research design analysis.

Lastly, a study was done by Gabrijelcic, Herman and Lenarcic (2016) to the end of finding out how financial debt and foreign funding impacted firms' performance prior to the current time of crisis. Through the use of panel data from large firms in Slovenia, it ascertained that there existed a negative effect of long-term debt on the performance of the firms which was attributed by some foreign leverage performing healthier than those that were domestically financed as these entities experienced decline in their performance when the total debt was hiked in their domestic operations.

### 2.3.3 Trade Credits Role and Growth of SME's

In accordance with Mian and Smith's (2015) definition, trade credit is the consensus to operate together between the buyer and the seller, whereby the seller confirms a delay in payment for the products rather than paying them in cash. This means that this agreement is based on trust amongst the market drivers and therefore it plays a key role in an entity financing policy. This has invited many researchers to carry out studies on the components entailed in trade credit, and they have come up with different findings based on their variables.

Li, Yu and Yang (2013) on their study based on whether trade credit boosted performance of firms in China, used ordinary least squares as the estimation techniques and in their findings, they revealed that trade credit exponents a positive significant relationship with the firm's performance. In his part, Kim (2016) revealed that trade credit was the reason for the growth of Korean firms which was carried out by use of questionnaires whereby it used 14,660 firms' years observation, but it is further implied that trade credit did not blend with the growth hypothesis.

In their study on the use of trade credit in financing companies in South Africa, Kwenda and Holden (2014) used structured questionnaires to collect data whereby stratified sampling was used and the findings revealed that firms ought to have used account payables in order for them to experience a competent source of finance. This implied that account payables would have been the next best alternative source of finance if only they opted to use it in their operations to enhance growth. This echoed similar findings of Andrieu, Stagliano and Zwan (2016) who concentrated on banks' debt and the trade credit to SMEs in European SMEs, thereby finding out that there existed a positive relationship with debt capacity as many small firms were subjected to defaults in payment which exposed them to higher operation risks brought about as a result of poor financing.

While studying bank consolidation on credit access and availability to SMEs in Nigeria for the period of 1999-2012, Eferekeya (2014) noted that there was reduction of SME's financing by 0.37% on average. This was through the study's main goal which was to examine whether there was any change in performance of SMEs through bank consolidation. The study revealed that there was no significant difference between SME's financing in post and pre-consolidation but there was reduction of the lending risk of bankers to the small and medium enterprises in post-consolidation. These findings were in contrast to how SME's financing had increased in Nigeria through bank consolidation. Abiodun and Ivanivna (2015) revealed that there existed positive relationship between trade credit and the profitability of firms. This was as a result of the study involved with investigating the effect of trade credit on profitability of firms in Nigeria where panel data analysis was employed.

Tang (2014) in his study on extrapolation, of whether there existed any connection between trade credit and profitability of firms in Holland, used questionnaires as the study instrument where a sample of 71 SME's which were in operation between 2009 to 2013 were used. The study findings revealed that there existed a positive relationship between accounts payable and the profitability of the small and medium enterprise. While determining how trade credit had influenced performance of SMEs in Nigeria, Ojenike and Olowoniyi (2014) upon using secondary data found out that many firms were restrained from credit and therefore they opted for trade credit in their operations as the next best alternative source of finance to fund their business operations. These findings even covered some of the government businesses that also used trade credit as their source of short-term finance to have continuity in their operations.

Trade credit has had a direct impact on organization profitability as it was brought forth by Rehman and Khurshid (2016) in their study in Pakistan. Their findings affirmed that trade credit providers improved the dormancy state on non-financial firms' growth. Similar findings were echoed by Akinbobola and Obanuyi (2018) on the dynamics of trade on SME's profitability in Nigeria whereby the Gaussian Mixture Model and panel data from 2014-2016 was used, leading to the discovery that there existed both a negative and insignificant relationship between trade credit and the profitability of small and medium enterprises.

## 2.4 Research gaps.

There have existed different research gaps in the empirical review and this study seeks to fill in those gaps in the current study. In the study orchestrated by Langat, et al., (2014) on the effect of debt financing on profitability of Kenya Tea Development (KTDA,) there was no elaboration on what kind of research design was used as well as the variables incorporated. It also did not indicate the kind of data used in order to arrive at those findings. Therefore, this study seeks to fill the research gap by analyzing the influence that debt financing may have on the growth of small and medium enterprises whereby it will look at the different capital structures such as short-term debt's role, long-term debt as well as trade credit.

Likewise, the study by Maina and Ishmail (2014) on financial performance of listed firms in NSE exhibited a research gap as it had not indicated what it was all about apart from how capital structure affects financial performance of listed firms in NSE. This research, consequently, aims to fill the gap in exposition through examining the role played by short-term debt financing on growth of SME's.

A study by Makanga (2015) which was based on establishing the impact of debt financing on financial performance of firms listed in the NSE, exposited a research gap as it did not postulate what the study objectives were, and this study will fill in the gap through analyzing specifically the role of long-term debt on growth of SMEs in Nairobi County.

Furthermore, the study by Gabrijelcic, Herman and Lenarcic (2016) brought forth a research gap as it concentrated on financial debt and foreign funding impacts on firms' performance prior to the current time of a crisis which is unknown and therefore this study will fill the research gap in existence through carrying out a study based on current financial crisis facing SMEs in Nairobi County.

From the study of Abiodun and Ivanivna (2015) based on effect of trade credit on profitability of firms in Nigeria, it was not elaborated which kind of firms whether large or small and in which sector of economy were used to arrive at those findings and therefore this study will seek to fill the research gap through analyzing the roles played by different sources of debt financing on growth of SME's.

There also exists a research gap from the study by Akinbobola and Obanuyi (2018) on dynamics of trade on SME's profitability in Nigeria whereby they have only talked of the findings but the variables used to arrive at those findings have not been exposed and therefore this study will seek to fill in that research gap through analysis of influence of debt finance on the growth of SME's in Nairobi whereby the variables to be used will be based on short-term debt role, long term-debt role and trade credit role.

Gaussian Mixture Model and panel data from 2014-2016 was used and they found out that there existed negative and insignificant relationship between trade credit and profitability of small and medium enterprises (Akinbobola and Obanuyi, 2018).

## 2.4 Conceptual Framework

From Mugenda and Mugenda's (2012) point of view, conceptual framework is based on presentation of the study variables in form of a diagram to show the relationship in existence especially pertaining to the dependent and the independent variables. In this case, it is a relationship between independent variables which are short-term debt, long-term debt and trade credit and how they influence the growth of small and medium enterprises which is the dependent variable.

**Independent variables** **Dependent Variable**

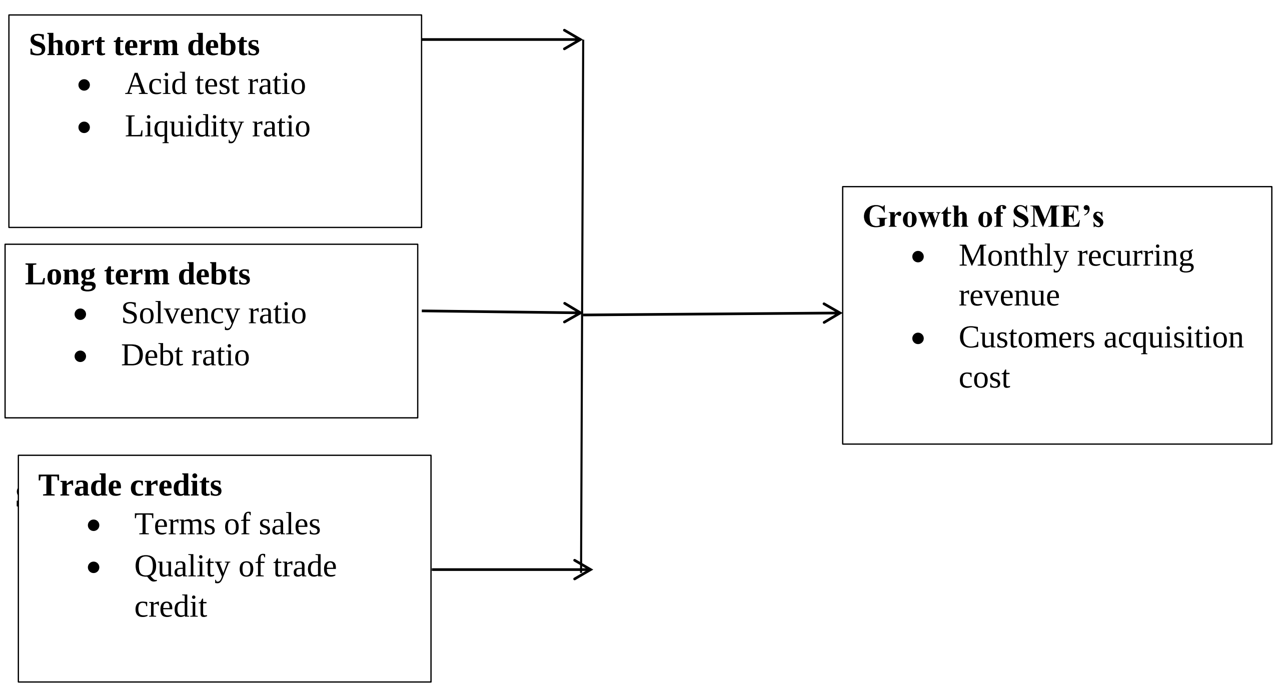

*Figure 2. 1: Conceptual Framework*

### 2.4.1 Operationalization of Variables

Short-term debts of an organization are those debts that an entity owns the financier and are payable within timeliness of current fiscal year. These kinds of debts are significant to an operative entity as they help to solve short term financial challenges. These debts are measured using the acid test ratio which is used to measure the short-term assets and short-term liabilities of any entity so as to ascertain of its capacity to pay its short-term debts (Karuma, Ndambiri & Oluoch, (2018). On other hand, it is also measured through liquidity ratio which is based on how the debtor is able to pay off the current debts without seeking for external assistance.

Long-term debts which are payable within long term period which exceeds a year, are significant to large firms as they have a large pool of operations which enhances them perform effectively in the long run. These kinds of debts help firm to pool resources for a long period of time thereby making them to have plan on how they will pay off their debts (Gabrijelcic, Herman & Lenarcic, 2016). These debts are measured using the solvency ratio which is used determine how an entity is able to meets its debt requirements and other needs within a long period of time. Furthermore, it is measured using debt ratio which shows the percentage in which the entity assets value in terms of leverage.

Trade credit involves the agreeable terms of payment between a buyer and a seller when the seller does not have cash and therefore, they have to strike a balance so that the seller does not have to incur losses and the buyer on the other hand has to be obliged on the payment terms (Kwenda & Holden, 2014). It is measured through agreeable terms of sales between the seller and the buyer as well as the quality of the trade credit they endorse themselves.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

Research methodology entails the processes involved in data collection and presentation which simply means that, it is a procedure which is systematic and theoretical in nature applied in the field of study. This implies that it deals with areas purported to be supportive in the methodology of data collection. Therefore, this chapter dealt with research design, population and sampling, data collection methods, data analysis, research quality which considered looking at validity, reliability and objective of the research and final the part looked at ethical issues in research.

## 3.2 Research Design

Research design is a blueprint in a study which helps to choose as well as integrate different components of the study in a systematic way. This helps to ensure that in research, the researcher effectively addresses the problem under study (Kothari, 2009). It therefore implies that research design acts as the heart of the research. The study, due to the fact that it is descriptive in nature, adopted the use of descriptive research design which helps to describe, explain and interpret the occurrence of a phenomenon - which are the events that leads to a certain happening - for instance, what influences the growth of small and medium enterprises as far as debt financing is concerned (Shields, 2013). On his part, Shield (2013) asserted that a descriptive research design entails strategies used in a study in their empirical context to investigate an event within its physical state. This research design was employed because the study extrapolated what factors influenced the growth of SMEs through incorporation of debt financing and therefore needed to have an elaborative context from individual SME's. Moreso in this context, this study sought to examine whether SME's experience growth as a result of seeking financial assistance in terms of debt.

## 3.3 Population

Population can be defined as wholeness of something and in relation to Mugenda and Mugenda's (2012) point of view, population encompasses entire groups of individuals, events or objects which pose features that are common and observable. Population is categorized into two: the population that a researcher intends to use during their study known as the target population and the population that can easily be accessible, referred to as the accessible population. In accordance with this study, it dealt with SMEs in Nairobi County, concentrating on the SMEs under the jurisdiction of Ngara market. In Nairobi, according to a 2020 report from Nairobi city Council, there were 123,600 registered SME's which were fully operational and whose licenses were conserved by the City Hall. However, in this study, in accordance with the report released by the Nairobi City Council in 2020, there were a total of 22,010 registered small and medium enterprises in Ngara Market. This study therefore targeted the managers and owners of businesses in the fields of electronics, hospitality, boutiques, catering, general trade, agricultural and forestry, professional and technical services, private education, health and entertainment, transport, storage and communication, industrial plants, factories and workshops and the Jua Kali industries.

## 3.4 Sampling

The sampling used encompassed a sampling frame which, according to Cooper and Schindler (2006), is the confirmed list of elements where a sample, its units and posed observable features sample are extracted from. This study used the stratified sampling technique which in accordance with Mugenda and Mugenda (2012), entails categorizing the population into strata which are small groups or clusters that enable effective extrapolation of the sample size. This study sample size, which is a subset of the larger population, was achieved through the use of Fisher's et al. (2007) formula which is:

$$\mathbf{n=Z^2\,pq/d^2}$$

where n=the desired sample size

z standard normal deviation to the confidence level of 95% (1.96)

p= business owners and managers (0.178) which is entire population of SME's

therefore, calculation is presented as: SME's in Ngara market/SMEs in Nairobi County* 100% which is,

22010/123,600*100=17.8(0.178)

q=1-p (the proportion without characteristics).

d=level of statistical significance (degree of freedom=0.05)

$n=1.96^2\,(0.178)\,(0.178)/\,(0.05)^2$

n=49 Respondents

***Table 3. 1: Category of SME's, target population and sample size***

| Category of SME | Number in Ngara | Percentage | Sample Size |
|---|---|---|---|
| Informal Sector (Jua Kali) | 1250 | 6 | 2 |
| General Trade, Wholesale, Retails, Stores | 6680 | 30 | 12 |
| Boutiques | 3,700 | 17 | 8 |
| Accommodation and Catering (Hospitality) | 4,500 | 20 | 9 |
| Professional and Technical Services | 2000 | 9 | 6 |
| Private Education, Health and | 566 | 3 | 2 |

| | | | |
|---|---|---|---|
| Entertainment | | | |
| Transport, Storage and Communications | 1814 | 8 | 6 |
| Industrial Plants, Factories and Workshops | 1500 | 7 | 4 |
| **Total** | **22010** | **100** | **49** |

**Source: Nairobi City County, Licensing Department (2020)**

## 3.5 Data Collection

The main tool for data collection was questionnaires which assisted in collecting primary data. As reported by Borg (2016) on the collection of information, questionnaires are feelings experiences, motivation and accomplishments of an individual. Questionnaires are considered to use less time during data collection and are less costly, which is an added advantage. The researcher visited the area under study based on a pilot study which helped in understanding their preferred method, keeping in mind the fact that the research was conducted in the midst of the Covid-19 pandemic, and therefore, all safety precautions were keenly observed. Consequently, the researcher heavily relied on the use of emails, a noncontact method of sending out questionnaire data. Email addresses had been acquired on a previous visit to registered SME's. The researcher also employed the use of Google Docs in order to facilitate the formulation and sharing of the questionnaires. To this end, semi-structured questionnaires were administered to a sampled population using the method agreed upon, in adherence to the guidelines put in place by the Ministry of Health to curb the spread of Covid-19. This was best achieved through a pilot study which the researcher had carried out in advance to the sample SME's.

## 3.6 Data Analysis

The collected questionnaires were examined on the basis of their reliability and the level of completion of the information required. According to Mugenda and Mugenda (2012), raw data from the field requires cleansing before it is coded and analyzed to avoid difficulties in interpretation. Qualitative analysis involves recombining, tabulating, categorizing and examining evidence presented to address the research questions.

Meaningful themes and patterns were used to group qualitative data observed which helped organize and summarize the data. The data analysis technique that was used for this study is descriptive data analysis in its quantitative nature. Descriptive data analysis involves the measures of central tendency such as mean, mode, standard deviation, graphs, pie charts and percentages. Statistical techniques such as frequency tables with calculated percentages and tabulation to show differences were used with the help of Microsoft Excel as an analysis tool.

## 3.7 Validity Testing

In research, the aspect of validity is termed as the level of accuracy to which meaningful inferences or considerations are made based on the outcomes. It can also be termed as the level to which the best fit results can be attained after an analysis in order to represent the actual happenings under a scrutinized study (Mugenda & Mugenda, 2009). The researcher ensured that the research instruments measured what they were intended to. Internal validity was ensured by checking the questions to ascertain that they provided the types of responses expected, while external validity was ensured by ensuring that the sample was representative of the target population.

## 3.8 Ethical Issues

Ethical issues in research are considered on the basis of how the researcher acknowledges the source material where the information was retrieved from. In this study, the researcher considered high level of ethical standards through acknowledging the source material in order to avoid unethical behavior in research which is known as plagiarism. This was ensured by keenly referencing and citing all external sources of information so that there was no possibility of penalization due to stealing other researchers' information without their consent or violating academic integrity.

# CHAPTER FOUR

## DATA ANALYIS AND PRESENTATION

### 4.1 Introduction.

This chapter dealt with data analysis and presentation based on the study concept which involved analyzing the influence of debt financing on the growth of small and medium enterprises in Nairobi County. The study analysis utilized the specific objectives concept from the research questions which were coded from the responses that were acquired. Descriptive statistics was used in this case.

### 4.2 Response of the questionnaires

The study distributed all the 49 questionnaires of which 43 were fully responded to and returned. This garnered a response rate of 88% while those that were neither responded to nor returned were 6 which reflected as 12%. The response was adequate for this study based on the argument posited by Mugenda and Mugenda (2012) which stated that a response rate of above 50% was adequate for data analysis process. This is presented in Table 4.1 below.

***Table 4. 1: Response Rate***

| **Category** | **Frequency** | **Percentage** |
|---|---|---|
| Responded | 43 | 88 |
| Not responded | 6 | 12 |
| **Total** | **49** | **100** |

**Source: analytical Data (2022)**

## 4.3 General information

This study considered evaluating the general information of the respondents based on gender, work experience, education level and age bracket. This data was then analyzed and tabulated as presented in the table below.

***Table 4. 2: General Information***

| **Category** | **Frequency** | **Percentage** |
|---|---|---|
| **Gender** | | |
| Male | 29 | 68 |
| Female | 14 | 32 |
| **Total** | **43** | **100** |
| **Education level** | | |
| Diploma | 9 | 22 |
| Degree | 19 | 44 |
| Postgraduate | 12 | 28 |
| Others | 3 | 16 |
| **Total** | **43** | **100** |
| **Work experience** | | |
| Below 2 years | 7 | 16 |
| Between 3-5 years | 10 | 23 |
| Between 6-8 years | 15 | 35 |
| Above 8 years | 11 | 26 |
| **Total** | **43** | **100** |

| | | |
|---|---|---|
| **Age bracket** | | |
| Below 30 years | 10 | 23 |
| Between 31-40 years | 13 | 30 |
| Between 41-50 years | 16 | 37 |
| Above 50 years | 4 | 9 |
| Total | 43 | 100 |

**Source: Research Data (2022)**

From the presentation above, the data was based on general information of the respondents whereby in relation to their gender, the study established that the majority were male who were engaging in businesses in Ngara who were 29 (68%) while their female counterparts were 14 which was equivalent to 32%.

In terms of education level of the respondents, the study established that those who had attained college level of education were 9 (22%) and those who had acquired a degree level of education were 19 (44%). On the other hand, the study noted that those who had a post-graduate level of education were 12 which was equivalent to 28 % and those who had other levels of education were only 3 (6%). The study therefore established that the business personnel were well educated enabling them to run their businesses effectively with the kind of debt financing they were acquiring from their source of finance.

The study based on the level of work experience of the respondents or the number of years they had been working in their kind of businesses confirmed that those who had an attainment below 2 years were 7 (16%). Furthermore, those who had been engaging in their business operations within a period between 3-5 years were 10 which was equivalent to 23%. By the same token, it revealed that those who had been engaging with their businesses within their areas of jurisdiction in between 6-8 years were 15 (35%). The study also confirmed that those who have been in operation for a period of above 8 years were 11 (26%). Accordingly, this affirmed that the respondents had been operational for quite some time, so they were well equipped when it came to the issue of operation from the source of debt they were receiving from their creditors.

In terms of the age bracket of the respondents, the study established that those who were below 30 years were 10 (23%). Those who were in between 31-40 years of age were 13 (30%). On the other hand, the study confirmed that those who were in the age bracket of between 41-50 years were 16 (37%) whilst those who were above 50 years were 4 (9%). From this analysis, the study established that majority of the businesspeople in Ngara market were in their youth and thus had the potential to exploit any available opportunities as a result of the debt financing they were getting.

## 4.3 Short-term debt and the growth of SMEs

The analysis below was based on the study's research question which sought to determine whether short-term debt had any influence on the growth of SMEs in Nairobi County.

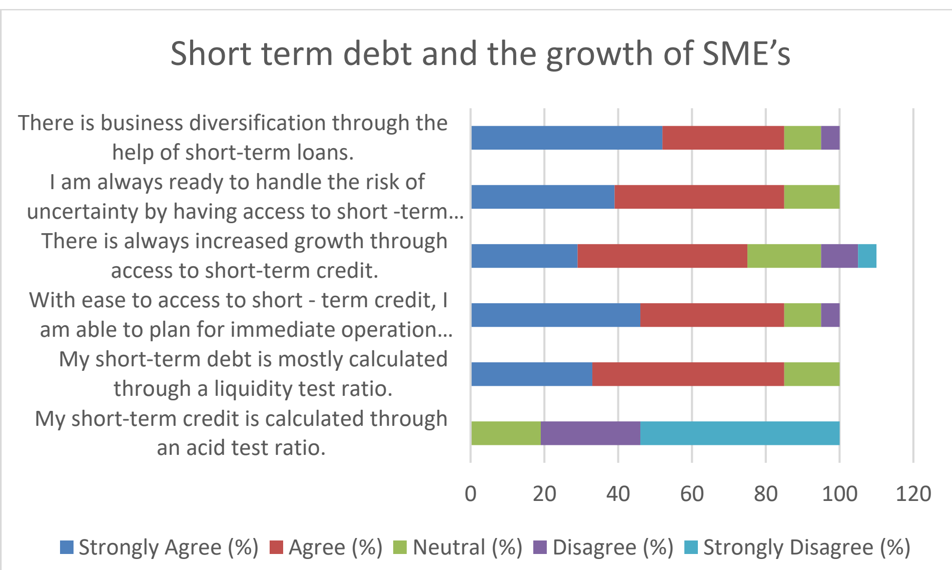


***Table 4. 3: short term debt and the growth of SME's***

**Source: Analytical data (2022)**

The presentation above was based on analyzing how short-term debt finance influenced the growth of SMEs in Nairobi County. With the of issuing of short-term credits being calculated through acid test ratio, it was discovered that 19% of the respondents were neutral on this front. Those that disagreed were recorded at 27% whilst those who strongly disagreed recorded at 54%. This analysis posited a mean of 3.83 which signified a higher parity rate in which the response was invariant.

In relation to the way the respondent's short-term debt is mostly calculated through a liquidity test ratio, the analysis revealed that 32% strongly agreed with the statement. Those who agreed were recorded at 52% and those who were neutral accounted for 15%. From the analysis, the study posited a mean of 4.10 which signified that those who gave positive feedback were the majority. Furthermore, in relation to whether with ease of access to short term credit they are able to plan for immediate operation deficiency, the study found out that it posited a mean of 4.26 which based on the fact that those who strongly agreed were rated at 46%. On the other hand, those who agreed had 39% rate. Those who were neutral accounted for 10% whilst those who disagreed accounted for 5%. This implied that there was a higher margin of those who had positive feedback compared to the one who were indecisive.

The study, with the aim of establishing whether there is always increased growth through access of short-term credits, discovered that there was a mean of 4.14 factored in through the specs that 29% of the respondents strongly agreed. Likewise, those who agreed were rated at 46%, being the majority. Those who were neutral were rated at 20%, those who disagreed at 10% whilst those who strongly disagreed at 5%. This response affirmed that growth rate of businesses was as a result of acquiring short term finance as shown by the majority of the respondents.

In relation to whether the respondents always ready to handle risk of uncertainty by having short term loan access, the study found out that 29% of them strongly agreed with this statement. Those who agreed accounted for 46% whilst those who were neutral accounted for 15%. This implied that the business personnel were capable enough to handle any case of risk exposed to them through the acquisition of short-term credit. More so, the study affirmed that from the respondent's point of view, there is business diversification through the help of short-term loans. This was based on the fact that the response exposited a mean of 4.32 which was proven by the majority (52%) of the respondents strongly agreeing with the study statement. Those who agreed accounted for 33%, 10 % were neutral and 5% disagreed.

## 4.4 Long Term Debts and the Growth of SMEs

The analysis below was based on answering the research question about whether long-term debt had any influence on the growth of SMEs in Nairobi County.

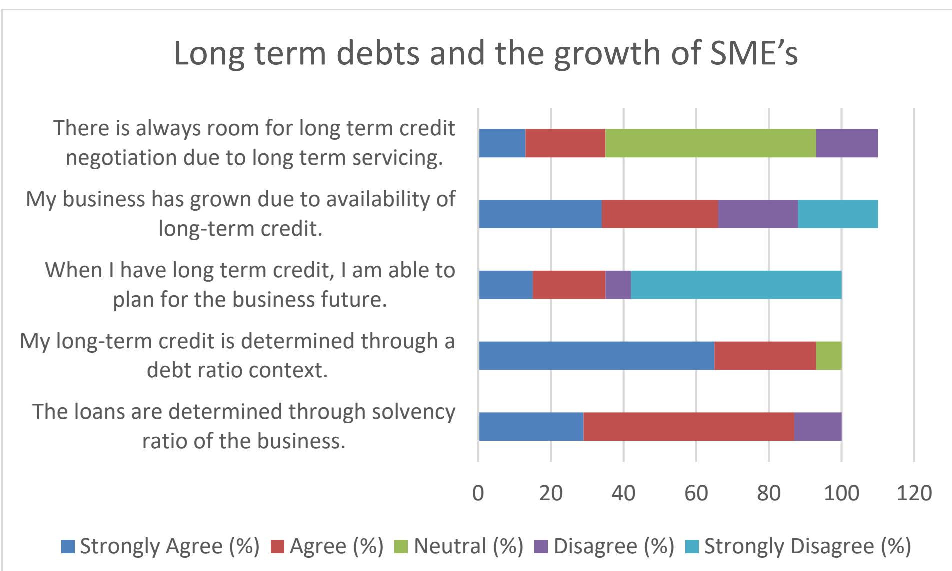


***Table 4. 4: long term debts and the growth of SME's***

**Source: Researcher (2022)**

The table 4.4 above was based on response concerning how long-term debt had influence on the growth of SME's whereby different issues were raised. In terms of whether loans are determined through a solvency ratio of the business, the study found out that it posited a mean of 2.67 which was based on different responses, whereby 29% of the respondents strongly agreed, 58% agreed and 13% disagreed. This meant that there was invariance in response arising from low parity discretion. The study also confirmed that the respondent's long-term credit was determined through their debt ratio context, where 65% of the respondents strongly agreed, 285 agreed, 7% were neutral with a mean of 4.58 which signified a higher parity is response rate.

On the issue of whether when the respondents have long term credit and are able to plan for the business' future, revealed that 15% of them strongly agreed with the study statement, 20% agreed. Those who disagreed were 7% whilst those who strongly disagreed accounted for 58%. This analysis had a mean response rate of 2.27 which signified a low parity based on those how strongly being the majority disagreed.

The study more also established that those who posited a positive response pertaining the issue of whether their business had grown due to availability of long-term credit were the majority accounting for 66%. Those who disagreed and strongly disagreed accounted for 22% each consecutively. This analysis had a mean response of 3.86 which was based on the fact that positive rate was higher than the negative feedback. Moreso, while tackling the question of whether there is always room for long term credit negotiation due to long term servicing, it was established that there was a mean of 3.68 because those who were undecided proved to be the majority. This was shown by the rates, whereby those who strongly agreed had rate of 13%, 22% agreed, and 58% were neutral whilst 17% disagreed.

## 4.6 Trade Credit and the Growth of SME's

The study analysis was in response to the research questions concerning how trade credit had influenced the growth of SMEs in Nairobi County.

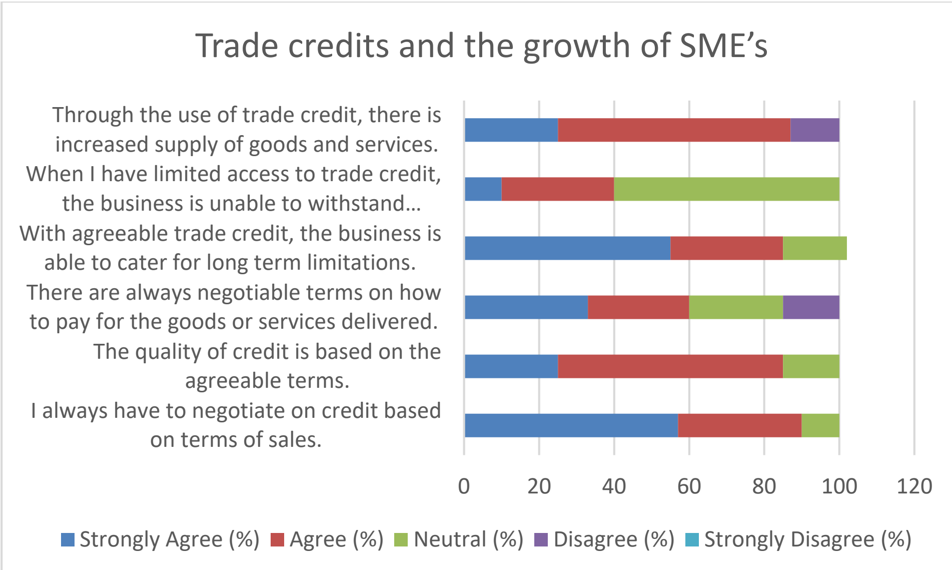


***Table 4. 5: Trade credits and the growth of SME's***

**Source: Research data (2022)**

The analysis from the Table 4.5 above was based on response to the research question which sought to provide insight on how trade credit had influenced the growth of SMEs in Nairobi County. From the analysis, different questions and statements were in need of response. For instance, the study wanted to establish whether the respondents always have to negotiate on credit based on terms of sales whereby it revealed that it posited a mean of 4.47 which was attributed by response whereby 57% strongly agreed with the study statement. On the other hand, 33% agreed and 10% were neutral. This signified that majority of the respondents gave positive feedback concerning the issue. The study, in relation to whether the quality of credit is based on the agreeable terms, also found out that majority of the respondents (60%) agreed, 25% strongly agreed and 15% were neutral. Therefore, the analysis posited a mean response of 4.10 which had a higher parity level due to majority agreeing to the study statement.

In relation to establishing the issue of whether there are always negotiable terms on how to pay for the goods or services delivered, it was found out that 33% strongly agreed to the study idea. On the other hand, 27% agreed, 25% were neutral and 15% disagreed. The mean response from this analysis was 3.78 which indicated that there was a variance in response as the higher magnitude lay on the positive side.

The study, in relation to whether, with agreeable trade credits, the business is able to cater for long term limitations, led to findings that 55% of the respondents strongly agreed, 30% agreed whilst 17% were neutral. This study bore a mean of 4.46 which was an indication that those who responded positively were the majority and therefore, in terms of having agreeable credit terms, their businesses were experiencing some sort of growth.

In terms of whether when the respondents have limited access to trade credit, the business is unable to withstand competition, the study from analysis found out that it posited a mean response of 3.50 which was based on configured response whereby 10% of the respondents strongly agreed with the statement, 30% agreed whilst 60% being the majority were neutral. This signified that the statement was invariant based on an assumption that they were unable to completely comprehend it resulting in a response accruing such neutrality. In relation to whether through the use of trade credits, there is increased supply of goods and services, the study reported a mean of 4.36 after data analysis which was based on the alignment of the response whereby 25% of the respondents strongly agreed, 62% agreed and 13% disagreed. This signified that the majority of the respondents posited a positive response.

# CHAPTER FIVE

## DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Introduction

This chapter entailed discussion of the findings whereby, conclusions were made which thereafter brought in recommendations. All these were based on the study concept which was all about influence of debt financing on the growth of SMEs in Nairobi County. Specific objectives of the study were keenly evaluated based on the analysis.

### 5.2 Summary of Findings

#### 5.2.1 Influence of short-term debt in the growth of SMEs in Nairobi County

The summarized findings were in relation to determining the influence of short-term debt in the growth of SMEs in Nairobi County. From the analysis, it was found that the respondents' short-term credit is calculated through acid tests ratio, whereby, majority of the respondents (54%) strongly disagreed with the statement. The study also found out that 54%, being the majority, agreed that their short-term debt is mostly calculated through a liquidity test ratio. From the study, especially as a result of data analysis, it was determined that minority of the respondents (5%) disagreed that with ease of access to short-term credit they are able to plan for immediate operation deficiency which was in correlation with the findings of Maina and Mwasa, (2014) who stated that short-term debt negatively influences the financial performance of entities. The study also established that 46% of the respondents agreed that there is always increased growth through access of short-term credit which was in relation to the findings of Karanja (2014) who found out that short-term debt influenced financial performance of small-scale farmers in Kiambu County. The study also revealed that 39% of the respondents strongly agreed that they are always ready to handle risk of uncertainty by having access to short-term loans. Finally, it was established that an encouraging number of respondents (52%) strongly agreed that there is business diversification through help of short-term loans. From the analysis of these findings, the study demonstrated that short-term debt has great influence on the growth of different entities regardless of their category.

### 5.2.2 Long Term Debt's Role on growth of SME's.

From the generated summary of findings in response to the study objective regarding how long-term debts had influenced the growth of SMEs, it was found that the long-term loans are determined through the solvency ratio of the business which was supported by a large number of respondents rated at 58% which is in relation to the findings of Koskei (2017) who found a positive significant relationship between long term debt and performance of sugar companies. More to that, the study garnered that the long-term credit of the respondents is determined through debt ratio context which was agreed on by an encouraging number of respondents at 93% these findings related to those performed by Ng'anga (2017) who noted that long term debt had a positive but insignificant effect on the financial performance of secondary schools in Kajiado. In relation to the matter of whether—when the respondents have long term credit—they are able to plan for the business' future, the study discovered that it was not supported by a large number of respondents as they strongly disagreed with the statement. Furthermore, the study found out that the respondents' businesses had grown due to availability of long-term credit which was strongly agreed on by the majority of the respondents which led to the conclusion that these findings were contrary to those posited by Githaigo and Kabiru (2015) who found that there existed a negative relationship between long term debt and financial performance of SMEs. Finally, the study found out that a large number of respondents were neutral in terms of whether there is always room for long term credit negotiation due to long term servicing. These findings were an affirmation that long term debt influences the growth of different businesses in different ways.

### 5.2.3 Trade credit's role on the growth of SME's

A study based on how trade credit had influenced the growth of SMEs in Nairobi found out that the respondents always had to negotiate credit based on terms of sales, whereby this was strongly agreed upon by the majority (57%) of the respondents. The study also established that the quality of credit is based on the agreeable terms which was supported by majority (60%) of the respondents, who agreed with the statement. These findings related to those done by Kwenda and Holden (2014) which revealed that accounts payable had great influence on financing companies in South Africa. In terms of whether there are always negotiable terms on how to pay for the goods or services delivered, the study indicated that majority (33%) strongly agreed with the statement, and this was in relation to the findings of Abiodun and Ivanivna (2015) who asserted that there existed a positive and significant relationship between trade credit and the performance of firms. The study also found out that with agreeable trade credits, the business is able to cater for long-term limitations whereby majority strongly agreed (55%) with the statement which related to the findings of Rehman and Khurshid (2016) who noted that trade credit had a direct impact on organization profitability in Pakistan. In terms of whether when respondents have limited access to trade credit, the business is unable to withstand competition, the study found out that the statement was neutrally agreed upon by the respondents (60%) and finally the study determined that through the use of trade credit, there is increased supply of goods and services which was agreed on by majority (62%) of the respondents. This implied that trade credit has great significance towards the performance of organizations.

## 5.3 Conclusion

The conclusion derived from the summarized findings based on how short-term credit had influenced the growth of SMEs established that their short-term credits are not calculated through acid tests ratio. This implied that short-term debt is mostly calculated through liquidity test ratio. Moreso, the study concluded that with respondent's ease of access to short term credits they were able to plan for immediate operation deficiency. It was also concluded that there is always increased growth through access of short-term credits. More to that, from the findings, the study concluded that the respondents were always ready to handle the risk of uncertainty by having access to short-term loans and finally, it was concluded that there is business diversification through the help of short-term loans.

The study concluded that in relation to long-term debt on the growth of SMEs in Nairobi County, long term loans are determined through solvency ratio of the business. This was, moreover, based on the fact that long-term credit of the respondents is determined through debt ratio. The study also concluded that when the respondents have long-term credit, they are able to plan for the future of the business. On the other hand, the study established that the respondents' businesses had grown due to availability of long-term credit and finally it was concluded that there is always room for long term credit negotiation due to long term servicing.

The study concluded that in relation to trade credit, the respondents always had to negotiate on credit based on terms of sales. This was also echoed by the fact that the quality of credit was based on the agreeable terms. Moreover, it was concluded that there are always negotiable terms on how to pay for the goods or services delivered. The study, on the other hand, concluded that with agreeable trade credit, the business is able to cater for long term limitations. These were also based on the fact that when respondents have limited access to trade credit, the business is unable to withstand competition as well as through the use of trade credit, there is increased supply of goods and services.

## 5.4 Recommendations

The study recommends that for small and medium enterprises to experience growth as expected, they need not to rely heavily on short term credit as the credit is for a shorter time period and proves to be very risky. Whenever they consider credit terms, they need to be more vigilant when seeking them for the short term, for they will only be quelling emergencies which are highly rated. This will go a notch higher in ensuring that they are not doomed in their operations due to a crisis arising from the inability to pay those dues on time.

The study recommends that in long term credit, they should embrace it as it has long payment period which will enhance their operations when it comes to issues related to finance. It will also enable them to plan for different activities such as pooling resources towards them so that they can diversify the financial sources. Moreso, the study recommends that SMEs should be considering long term credit so that they are able to adjust their way of carrying out their activities and this will induce their financial stability which will lead to growth.

The study recommends that when it comes to the issue of trade credit, they need to be more vigilant with the type of trade credits they seek for as this may lead them to financial crisis when those trade credits are faced with uncertainty in operation. This implies that they need to consider relying mostly on other sources of finance rather than the stipulation of trade credit as suppliers may offer them goods which may be affected by natural calamities and thereby, they may find themselves being forced to pay what they have not sold. Furthermore, the study recommends that trade credit, should be accepted in terms of whether the environment of operation is conducive or not so that they are able to gauge the outcome.

## 5.5 Suggestion for Further Research

This study was based on examining the influence of debt financing on the growth of SMEs in Nairobi County and therefore consecutive studies should be carried out on the same so as to see whether there is any change in the variables used. Moreover, the study would recommend that future researchers should consider looking at challenges faced by SMEs while seeking debt financing. Others should also consider researching on the impact of debt financing towards the growth of manufacturing firms. This will go a notch higher to ensure that there is a comprehensive understanding of debt financing's effectiveness towards operationalization of different businesses.

## 5.6 Limitations of the research

The study was faced by different limitations which were found in the course of researching. These included low turnout of respondents for the questionnaires which was considered to have fostered low morale for analyzing the data during the pilot study. To overcome this, the researcher considered assuring the respondents that this was purely for academic purposes and therefore they were able to change that during the actual data collection. The other challenge that was encountered during the research process was the way in which the respondents were responding to the research questions which exhibited an element of reluctance, in that, their responses were poorly done. However, in the actual data collection process, the researcher provided them proof of the academic nature of the research being undertaken by issuing them a research data collection letter from the university. The other limitation was experienced as a result of the respondent's victimization from their seniors forcing the researcher to prove that it was for academic purposes and therefore, they were assured of their data integrity.

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# APPENDICES

## Appendix A: Questionnaire

SECTION A: Demographic

1. What is your gender?

   Male ( ) female ( )

2. What is your level of education?

   Diploma ( )

   Degree ( )

   Postgraduate ( )

   Others ( )

3. How long have you been operating your business?

   < 2 years

   Between 3-5 years

Between 6-8 years

>8 years

4. Which age bracket do you fall in?

<30 years

Between 31- 40years

Between 41-50 years

>51 years

**SECTION B: RESEARCH VARIABLES**

In this section, you will be required to indicate the level of agreement in accordance with the variable under study. This will be in Likert scale whereby:

**5= Strongly Agree, 4=Agree, 3=Neutral, 2= Disagree and 1= Strongly Disagree**

**B1: SHORT TERMS**

**In this section you will be required to indicate your level of agreement based on a Likert scale from the statements provided**

Please tick appropriately

| **Statement/rating** | **5** | **4** | **3** | **2** | **1** |
|---|---|---|---|---|---|
| a) My short-term credits are calculated through acid tests ratio. | | | | | |
| b) My short-term debts are mostly calculated through liquidity test ratio | | | | | |
| c) With ease to access to short term credits am able to plan for immediate operation deficiency | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| d) There is always increased growth through access of short-term credits | | | | | |
| e) Am always ready to handle risk of uncertainty by having short term loans access. | | | | | |
| f) There is business diversification through help of short-term loans. | | | | | |

**B2: LONG TERM CREDIT**
**Please tick appropriately**

| Statement/ rating | SA | A | N | D | SD |
|---|---|---|---|---|---|
| a) These loans are determined through solvency ratio of the business. | | | | | |
| b) My long-term credit s determined through m debt ratio context. | | | | | |
| c) When I have long term credits, am able to plan for the business future. | | | | | |
| d) My business has grown due to availability of long-term credit. | | | | | |
| e) With access to long term finance, the business has been able to deal with suppliers effectively. | | | | | |
| f) There is always room for long term credit negotiation due to long term servicing. | | | | | |

**B3: TRADE CREDITS**
**Please tick appropriately**

| Statement/ rating | SA | A | N | D | SD |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| a) I always have to negotiate on credit based on terms of sales. | | | | | |
| b) The quality of credit is based on the agreeable terms. | | | | | |
| c) There are always negotiable terms on how to pay for the goods or services delivered. | | | | | |
| d) With agreeable trade credits, the business is able to cater for long term limitations. | | | | | |
| e) When I have limit access to trade credits, the business is unable to withstand competition. | | | | | |
| f) Through the use of trade credits, there is increased supply of goods and services. | | | | | |

**Thank you**