DETERMINANTS OF FINANCIAL PERFORMANCE OF PROCESSING SMALL AND MEDIUM ENTERPRISES IN KITUI COUNTY

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DECLARATION

I understand that plagiarism is an offence and I therefore declare that this project is my original work and has not been presented to any other institution for any other award.

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This research project has been submitted for examination with my approval as a university supervisor

Signature_____Date_____

DR. KEVIN WACHIRA, PH.D.

DEDICATION

This research project is dedicated to my wife Bernice, my children Vincent, Oscar and Michelle and my dear parents Mr & Mrs. Joseph Mbuva for their endless support as I pursued the course.

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ABBREVIATIONS AND ACCRONYMS

ABC   Activity Based Costing

BBL   Biashara Boresha Loan

CEO   Chief Executive Officer

CBD   Central Business District

GDP   Gross Domestic Product

IFRS   International Financial Reporting Standards

IMF   International Monetary Fund

KCB   Kenya commercial Bank

KNBS   Kenya National Bureau of Statistics

MPT   Modern Portfolio Theory

NGOs   Non-Governmental Organizations

ODI   Overseas Development Institute

POT   Pecking Order Theory

ROA   Return on Assets

ROE   Return on Equity

SAPs   Structural Adjustment Programs

SMEs   Small and Medium Enterprises

TCA   Traditional Cost Accounting

DEFINITION OF TERMS

Financial Performance The ability of an organization to cover its costs from self- operation without depending on external support (Al-shami, 2008).

Small Enterprise A firm whose turnover is between 500 thousand shillings and 5 million shillings annually and has between 10 and 50 employees (SMEs Act, 2012).

Medium Enterprise According to Kenya National Bureau of Statistics survey report (2016) a medium enterprise comprises between 50 and 99 employees.

Processing SMEs SMEs where the investment is in plant and machinery for transforming raw materials in to finished goods (SMEs Act, 2012).

Access to Finance Ability of firms to get financial services such as credit, deposits and insurance (Kipilyango, 2012)

Financial Corporate Governance The management practice to enhance proper financial reporting and internal auditing measures to minimize agency problems. (Sian & Roberts, 2009).

Product Costing Drury (2005) defines product costing as the allocation of expenses which are likely to be consumed in the manufacturing /processing a unit product.

Risk Management to plan, organize, direct and control resources to realize a set objective when either good or bad occurrence is expected (Head, 2009).

ABSTRACT

The SMEs play critical role in creating job opportunities and growth of the economy. Currently, the rate at which the new firms formed have stagnated and those with less than 5 years are closing down is very high. This has triggered research on the financial performance of the SMEs especially in areas with high levels of poverty since most studies concentrate on developed economies and urban centres. This study investigated the determinants of financial performance of processing SMEs in Kitui County. The general objective of study was to determine the factors that affected financial performance of processing SMEs in Kitui County. The specific objectives of the study included: determine the effect of access to finance on the financial performance; establish the effect of financial corporate governance on the financial performance; determine the effect of product costing on the financial performance; and to determine the effect of risk management practices on the financial performance of the processing SMEs in Kitui County. Descriptive research design was applied to conduct the study. The target population was the 25 processing SMEs in Kitui County where for each firm; the Chief Executive Officer, the finance manager and the Chief accountant were considered as respondents giving rise to a total of 75 respondents. An interview and Semi- structured questionnaires were used to collect primary data from the respondents. The data was inspected for completeness, accuracy, reliability and consistency then analysed using SPSS Version 20 Software. Descriptive statistics such as mean, and the standard deviation were computed to describe the data collected. Moreover, inferential statistics at 95% confidence level were used. The findings of the study indicated that financial performance positively correlated with the access to finance, corporate governance, product costing and risk management practices. The findings were supported by the literature reviewed by the study. With reference to the findings, various recommendations were made. To start with, the study recommended financial institutions to create favourable policies to enable SMEs access loans easily. Secondly, the study recommended government to offer incentives and funding to SMEs at a lower cost to boost their financial performance. Thirdly, the study recommended capacity building and training of staff to enhance financial performance. Finally, the study recommended more studies to identify other factors that influenced the financial performance of SMEs in Kenya.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter examines the background of the study, the statement of the problem, the research objectives and the research questions. Justification, scope, assumptions, limitations and delimitations of the study are also discussed here.

1.1 Background of the Study

In most economies globally, Small and medium enterprises (SMEs) play a major role for their employment creation and economic growth. A report by World Bank Group (2016) indicates that formal SMEs contribute up to 45% of the total employment and 33% to Gross Domestic Product (GDP) in the growing economies. Small and medium enterprises, by number, dominate the world business stage. Although precise and updated data is not easy to get, estimates show that about 95% of enterprises worldwide are SME's and about 60% consist employment in the private sector (Ayyagari, Demirguc-Kunt & Maksivovic, 2011).

Japan has the highest proportion of SMEs among the industrialized countries accounting for more than 99% of total enterprises (EIU, 2010). SMEs in the global economy contribute a lot to employment. A World Bank Survey of 47,745 businesses across 99 countries reported that enterprises having between 5 and 250 employees accounted for 67% of the total permanent full time employment. Between 2002 and 2010 about 85% of the total employment growth was attributed to SMEs (De Kok, Vroonhof, Timmermans, Kwaak, Snijders & Westhof, 2011).

In many western countries, such as the US and UK, small and medium enterprises are struggling with the aftermath effects of the 2007-2008 global financial crises which extensively hit new and growing small businesses resulted to a widened gap in productivity between SMEs and large-scale businesses (OECD, 2017). The adverse effect of this crisis in 2008 on availability of finance was alarming in most countries around the globe. Demand for credit declined and it became harder for businesses to access finance (OECD, 2009). Lending by banks to SMEs declined due to the high

risk involved. This falling trend in finance has resulted further to SMEs having themselves decline in demand for borrowing. (Williams, 2012)

Becoming internationally alive according to ACCA (2010) is clearly of a great achievement for businesses and the economy as a whole, but SMEs face numerous obstacles as they try to internationalize. Internal challenges they encounter include product pricing and exaggerated costs that comes with internationalization. External obstacles are inadequate capital needed to finance the activity, inadequate and unreliable information, inadequate support from the public and the high costs and complicated procedures of paperwork required for transport.

In African countries, about 90% of all businesses not in the agricultural industry are micro, small and medium enterprises and are great contributors of GDP (Abor & Quarterly, 2010). For instance, 93% of Morocco's industrial enterprises are small and medium firms which account for 38% in production, 33% in investment and 30% in exports. In South Africa approximately 91% of the formal entities that are small and medium enterprises contribute between 52% and 57 % to the country's GDP. Abor and Quartey (2010) observes that Ghana's SMEs are more pronounced in the country's economy, having approximately 92% of her business entities and representing over 70% to the GDP and about 80% of the total employment.

The financial crisis in 2008 which was followed by a widespread economic trough seriously affected finance availability by SMEs in Africa (Dalberg, 2011). Before the downfall, SME's in most of the developing economies had been highly restricted in accessing finance that they required for their growth. Financial institutions in many countries in Africa do not avail SMEs with adequate finance. In fact, studies show that about 20% of SMEs in Africa have a clear line to credit from banks. The global financial crises impacted negatively on the accessibility of capital for these SME's in the continent (Dalberg 2011). Research on SMEs growth has revealed that the rate at which small firms fail in developing economies in Africa is greater than in the already developed economies (Ihua, 2009). Improper financing, Poor planning and poor management are the major reasons why small enterprises in this continent fail (longenecker, Moore, Petty, Palich, & McKinney, 2006).

SME sector in Kenya operates locally, at subsistence level and on small-scale. Most of them have few employees; operate for short period and faces challenges in access to power and water and their operation is within the entrepreneur's locality (World Bank, 2006). According to Sessional Paper No.2 of 2005, SMEs sector contribution to GDP in Kenya rose from 13.8% to about 18% between 1993 and 1999. Economic survey (2017) reported that lately contribution to the Kenya's GDP is approximately 33% by the sector. it is therefore clear that regardless of the increased rate of failure of Kenya SMEs, their significant contribution to Kenyan economy should not be overlooked (Mbogo, 2011). According to Wachira and Musyoki (2015), preparation of business plans is essential for all kinds of business, small or large and therefore the government through the ministry of planning and that of industrialization should impact entrepreneurial and business planning skills among the youth to enhance survival of SMEs.

According to Were (2016), considering the global production capacity especially in the developed countries, it is a challenge for countries from Africa, Kenya included to use processing SMEs for poverty eradication. This is due to the stiff global competition exhibited in the processing industry. Regionally, she found that in East African countries, Kenya has the most sophisticated and largest processing SMEs. However, in terms of growth of SMEs, other countries in this region are growing relatively faster. In Kenya, processing SMEs in the informal sector outperform services SMEs in terms of growth and expansion, with 31% expansion of the former relative to 24 % expansion of the latter (Were, 2016). The World Bank Survey on informal Enterprises (2016) Processing SMEs were found to experience obstacles in running their businesses. These obstacles included corruption, access to finance, power supply, access to land, crime, access to technology water supply and incompetent workers.

Processing SMEs need to realize financial performance if they have to expand. Firm's financial information is got from financial statements that form the basis for evaluating and monitoring performance. According to Al-shami (2008) the best measures of profitability are Return on Equity and Return on Assets. Return on Equity is the ratio of Net Income after Tax to Total Equity. This ratio reflects how effectively management is using shareholders' funds (Khrawish, 2011). Return on Assets is got

by Net Income after Tax divided by Total Assets. Return on Assets according to Khrawish (2011) shows the firm's ability to generate revenue from the available assets. A number of theories have discussed more about the determinants of financial performance. They include; Pecking Order theory, Agency theory, Activity based theory and modern portfolio theory. These theories identified access to finance, financial corporate governance, product costing and risk management practices as having a great influence in financial performance of SMEs

Access to finance is considered to be a major challenge hindering financial growth of start-up SMEs (Mazanai & Fatoki, 2012). According to Haron, Ibrahim, Nor and Ibrahim, (2013) credit processing by financial institutions is becoming too complex for SMEs in most growing economies and this becomes a problem in accessing the finance they require to scale up. An observation by Pretorius and Shaw (2004) was that a big number of SMEs depend on owners' contributions and family or friends support and this may not be adequate for SMEs survival and growth. External finance accessibility is thus crucial in availing adequate funds for SMEs.

Financial corporate governance is the management's effort to enhance financial reporting and internal auditing measures to minimize agency problems (Sian &Roberts, 2009). Financial information provided assists small firms in managing short-term concerns through availing information to boost monitoring and controlling (Nandan, 2010). Maseko and Manyani (2011) argue that well managed accounting system can be an important engine that may be used by owners of SMEs to measure financial performance. Ayyagari and Demirguc (2012) noted that, internal auditing can be used as a tool to detect and control fraud and hence protects the resources of an organization. The main underlying constraint for SMEs to embrace financial corporate governance structure according to Abor and Adjasi (2007) is generally lack of awareness evidenced among these firms and/or the high cost of implementation. The few SMEs that has established internal audit departments lacks independence leading to inadequate internal control which greatly influence financial management and strategies (Huang, 2014)

Production costs according to Drury (2005) are expenses that are incurred in the processing of goods. Production cost is calculated by summing up direct materials, direct labour and overhead costs. The main aim of any firm is profit maximization.

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However, to realize good profit from an enterprise production costs must be well controlled. Robert (2007) observed that enterprises with well-set cost structures have a better chance of achieving their targeted profits. Innes, John, Mitchell and Sinclair (2000) confirmed that management of cost should be considered as a continuous and an improvement activity within an enterprise to enhance a higher profitability index.

Risk management practice entails assessing and responding to threats considered to affect the achievement of short term and long-term firm's objectives. Risks businesses face in their day to day operations may include credit risks, operation risks, natural disasters and political risks. However, due to limited resources SMEs experience and their weak structural features, they are more prone to the unfavourable effects of risks than the large-scale businesses (Henschel, 2006). According to Smit and Watkins (2012) management of risk assists in the establishment of a plan that can give a hand in stopping the organization income erosion and hence improving financial performance. SMEs therefore require risk management tools and techniques to aid in risks identification and eradication which may include, avoidance (elimination or withdraw), sharing (insure,) reduction (mitigate), retention (accept and budget) and diversification.

1.2 Statement of the Problem

Ngugi and Bwisa (2013) pointed out that SME sector lately is viewed as an important contributor to the Kenyan economy through employment provision to a great percentage of the country's population. Despite the importance of SMEs to the Kenyan economy, the rate at which new firms are formed, have stagnated and the already established SMEs younger than 5 years are collapsing a great deal (Ngui, 2014). The failure of these SMEs results in loss of employment leading to deteriorating economic growth. The Kenya processing sector in 2015 grew at 3.5% which is lower than GDP's 5.6 % growth rate in the same year (KNBS, 2016). This means the GDP share in the processing sector has been declining with time and therefore Kenya is experiencing premature deindustrialization. For Kenya to realize vision 2030 of being an industrialized economy, then effort should be done to promote the processing industry and this can be made possible by investigating what really can improve the financial performance of processing small and medium enterprises. Most studies are on the general performance of SMEs neglecting the fact

that SMEs must be financially fit to attain growth and solve economic problems. Not much has been done on determinants of financial performance of SMEs in areas that have high levels of poverty as most studies are on the developed economies and the established urban centres of developing countries. Further, most of these studies have not narrowed down to specific sectors of the economy, for instance trade, processing, manufacturing or service sectors

The main problem that led to this research was the high mortality rate of processing SMEs in Kitui County as per the data available from the ministry of industrialization Kitui Town office. For this reason, therefore, it was important to investigate the determinants of the financial performance of the processing SMEs in Kitui County.

1.3 Objectives of the Study

This study was guided by the following objectives

1.3.1 General Objective

To examine the determinants of financial performance of processing SMEs in Kitui County.

1.3.2 Specific Objectives

i. To examine the effect of access to finance on the financial performance of processing SMEs in Kitui County.

ii. To find out the effect of financial corporate governance on the financial Performance of processing SMEs in Kitui County.

iii. To assess the effect of product costing on the financial performance of processing SMEs in Kitui County.

iv. To examine the effect of risk management practices on the financial performance of processing SMEs in Kitui County.

1.4 Research Questions

i.   What is the effect of access to finance on the financial performance of processing SMEs in Kitui County?

ii.   What is the effect of financial corporate governance on the financial performance of processing SMES in Kitui County?

iii.   What is the effect of product costing on the financial performance of processing SMEs in Kitui County?

iv.   What is the effect of risk management practices on the financial performance of processing SMEs in Kitui County?

1.5 Justification of the Study

This study finding would be important to processing SMEs owners in Kitui County and others as the finding will assist them in identifying determinants of financial performance of processing SMEs and strategizing on how to deal with them. This study would help policy makers and development partners to formulate policies to better financial performance of these SMEs. The government can utilize the results to promote its development agenda and vision 2030. Development partners would also find this research useful in developing programs for funding of activities that would improve the financial performance of SMEs in Kenya. This study will provide a basis for future researchers to advance their arguments.

1.6 Scope of the Study

The scope of the study was on examining the determinants of financial performance of the processing SMEs in Kitui County. The scope was limited to four independent variables namely; access to finance, financial corporate governance, product costing and risk management practices. According to the available data from the ministry of industrialization Kitui town office, there are 25 processing SMEs in Kitui County that are in operation and all were considered for the research.

1.7 Assumption of the Study

This study assumed the respondents were honest while answering the questions provided by the researcher.

1.8 Limitations and Delimitations of the Study

With reference to research, the limitations entail the factors that hamper the research work from meeting the research objectives and of which cannot be controlled by the researcher. In line with this study, the following are envisaged parameters that potentially influenced the overall conduct of the research; unresponsive respondents who were difficult to persuade in giving responses as they thought that they are being investigated; the level of honesty from the respondents as well was not controlled by the researcher. Nevertheless, the researcher tried to put in place approaches to minimize the potential impact of the factors which included appropriate planning and employing of short questions to motivate the respondents to provide honest responses respectively in addition to assuring them of their confidentiality.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter outlines theoretical review, empirical literature including all the key variables, conceptual framework, and finally research gap.

2.1 Theoretical Review

According to Orodho (2004), Formulation of a theory is mainly for the purpose of predicting and understanding a given phenomenon, challenging and extending existing knowledge. Theoretical review is a structure that supports a research study theory. The theories that form the basis of this study include pecking order theory, agency theory, activity-based costing theory and modern portfolio theory.

2.1.1 Pecking Order Theory

Initially, Pecking Order Theory (POT) was pioneered in year 1961 by Donaldson. In 1984 it was modified by Myers and Majluf making it more popular. The theory states that, in making a choice on sources of finance, managers have an obligation in following a particular hierarchy. This hierarchy provides the first preference to internal sources followed by external financing. The external sources give priority to debt financing then finally considers equity financing as the last option. Mwarari and Ngugi (2013) summarized the pecking order theory of financing as internal financing followed by debt financing then equity financing in that order.

Pronca, Laureanoa and Laureanoa (2014) asserted that small enterprises prefer internal financing to external financing. However, as Agrebi (2009) argue, this depends on the capacity of internal funding to meet the firms' financial requirements at every stage. As per Matias and Serrasqueiro (2016) small and medium firms financing decisions are in line with POT predictions. If internal funds are inadequate, then according to Proenca et al (2014) the firms prefer short- term debts to long-term debts. Informed managers go for financing from internal sources while optimistic managers choose to maximize profit of a firm by supplementing internal sources with debt financing. (Chen, Chen, Chen & Huang, 2013)

In spite of finance costs associated with debt financing, Proenca et al (2014) pointed out managers who are risk averse will still prefer external financing. A research study by Zoppa and McMahon (2002) revealed that about 75% of SMEs makes financial decisions with conformity to pecking order theory. According to Cassar and Holmes (2003), the Pecking order theory conforms to SMEs since most of them are owner managed and thus they would not wish to dilute their businesses control. This theory is of great importance to this study because it provides an insight on sources of finance and the best modalities that can be put in place by SMEs in accessing finance.

2.1.2 Agency Theory

Agency theory assumes that the goal of the principal (owners) is different from and in conflict with that of the agents (managers) (Johnson, Daily & Ell strand, 1996). A board build from the agency theory perspective tends to have strict supervision, control and monitoring of agent's performance with the aim of protecting the interests of the principal (Hillman and Dalzell, 2003). They observed that corporate governance is a system of structures and control tools put in place internally and externally in the management of an enterprise, aiming to protecting stakeholders' interests. According to Kidd and Richter (2003) financial corporate governance is a system put in place to reduce agency costs enhanced by managers who act to serve their personal interests without minding the interests of the shareholders. Corporate governance as Solomon and Solomon (2004) argued, is an effort of checks and balances internally and externally to ensure firms discharge their mandate with accountability and in a manner that is socially responsible.

Agency theory advocates for managers of SMEs to enhance proper financial reporting and internal auditing measures to minimize agency problems (Sian & Roberts, 2009). Abor and Adjasi (2007) argue that well-established financial corporate governance aids SMEs in obtaining finance from banks. They suggest SMEs in the industrial sector requires inputs on day to day operations and good management. These inputs can only be provided for when there is a non-executive board similar to that of listed firms. The agency theory forms the basis for this study as it brings a clear understanding on the advantages that SMEs accrue from practicing financial corporate governance.

2.1.3 Activity Based Costing Theory

In 1988, Robert Kaplan and Robin Cooper developed the theoretical principles of Activity Based Costing (ABC) as an attempt to counter problems associated with traditional cost accounting (TCA). Traditional cost accounting laid emphasis in direct material and labour in product costing and merely estimating overhead costs, neglecting the importance of overheads. ABC theory identifies various activities of a firm then attaches each activity's cost with resources as per their actual consumption. Narong (2009) noted that TCA approach does not evaluate internal efficiency, quality and the profit per commodity line. Adoption of ABC by SMEs according to Kaplan (2004) is slow due to the costs involved in implementation and maintenance of the system. However, adoption of ABC can be much easier for small firms because their infrastructure is flexible and decision making does not require a long approval list.

ABC is an important tool in management of SMEs as it enhances accuracy in cost allocations and provides capability of systems updates. This system provides a strong basis for financial, strategic and operational decision. ABC can be very useful in budgeting and planning for small businesses (Stratton, 2009). The implementation of ABC concepts can be essential for processing SMEs since it helps them identify profitable and non- profitable processes, correctly calculate price of the products and provide optimal flexibility and profitability to products mixes. Recognition of problems and improving the decision-making process on all levels can bring these small firms back to profitability and probably to competitiveness. (Adams & Buckle, 2003).

2.1.4 Modern Portfolio Theory

Harry Markowitz put forth the Modern Portfolio theory (MPT) in a paper "portfolio selection" published in 1952. Most important to this theory is its qualification for the interplay between risks versus returns and further that investors should have a compensation for assuming risk. The MPT examines the magnitude the actual return deviates from expected return. An assumption in this theory in risk management is that the investor is rational in an efficient and perfect market (Chijorga , 2007).

Omisore, Munirat and Nwufo (2012) noted that the theory advocates for diversification of assets to mitigate market risks and also those risks deemed unique to a particular organization. MPT is an extension of the old saying, "don't put your entire eggs in one basket". It explains the benefits that accrue to an investor who spreads investment. This means that in a portfolio that consist a number of assets which are lowly correlated, failure of one asset is compensated by success of another asset.

The implication of the theory to the study is that SMEs should not only invest widely in different types of financial instruments but also assess the various risks involved. This implies that financial risk management is very critical in ensuring that there is diversification in case any financial management practice fails. The theory thus acts as a guideline in enhancing reliability in the financial management practices in SMEs in order to ensure positive influence on the financial performance.

2.2 Empirical Review

Empirical literature review entails research based on experience and observations by experts. It focuses on original research such as scientific experiments, surveys and research studies. Empirical review provides a critical assessment of work done by scholars on the field of study (Orodho 2004).

2.2.1 Access to Finance and Financial Performance

Macharia (2012) pursued a study with an objective of determining the extent to which accessibility to finance affect small and micro enterprise investments in Ongata Rongai Town. The findings of the study where that an average of 40% of these finance came from family and friends, 30% came from business savings and 24% came from financial institutions. Further, the study revealed the obstacles faced by SMEs in accessing funds were their collateral requirements, guarantors' requirements, banks procedures in vetting and cost of loans. Recommendation for the study was that banks should provide better environment for small firms to access loans.

A study by Cassar and Holmes (2003) on factors affecting capital structure and SMEs financing had an objective of establishing the effect of organizational capacity

on financing of SMEs. The study found that in developing economies, poor marketing, accounting, auditing, financial management and legal counsel services and other essential services that SMEs may require when facing financial institutions may result in SMEs unable to access and afford such services. The study concluded that for SMEs to have ease in accessibility to finance they should embrace, financial reporting and internal auditing processes.

Nyambura (2013) in a study to find out determinants of investments in the informal venture capital market in Kenya revealed that in developing economies, where financial institutions have remarkable progress, SMEs are still faced with obstacles as they endeavour to access finance from these institutions. According to the study, even though SMEs constitute the largest number of customers for commercial banks, finances extended to them are mainly short term and hence denying them long term investments. Recommendations were that the government should think of a fund for SMEs to access loans at low cost.

Mugo (2012) conducted a study to assess determinants of women entrepreneurs' financial performance in Nairobi Central Business District (CBD). The objectives of the study were to gauge their access to finance, to examine effect of budgeting on their performance, assess challenges in record keeping and to examine working capital management influence on performance. The study identified finance being the main impediment influencing women entrepreneurs' performance. It recommended that a product special to women entrepreneurs should be developed by banks to improve their access to loans.

A study by Kinyua (2014) to establish factors that determine SMEs performance in Nakuru town Jua Kali Sector with an objective to examine what role is played by finance, found out that finance accessibility positively affected performance of SMEs. The study recommended that the financial institutions should improve availability of funds in this sector by improving their lending conditions and requirements.

2.2.2 Financial Corporate Governance and Financial Performance

A study by McMahon (2009) with an objective of determining the effect of financial management practices on financial performance of small and medium enterprises found out that as SMEs grow, they experience financial challenges and thus management practices in finance should be given a great attention in particular financial reporting for SMEs to realize financial performance. Recommendation for the study was that for these firms to monitor and evaluate financial performance there should be timely and more sophisticated financial reporting and internal auditing system to enhance efficient use of these firms' resources in an attempt to realize their goals.

Adetula et al. (2014) did a study on readiness of SMEs in Nigeria in adopting International Financial Reporting Standards (IFRS) and the challenges they may encounter in the process of adoption. This study aimed at examining the effect of IFRS adoption on the financial performance of processing SMEs. The findings were that adoption of IFRS by SMEs was faced by great challenges that prevented the effective implementation of IFRS for SMEs. There was a recommendation that SMEs need to put necessary structures to embrace modern financial reporting.

Kutsaru (2014) evaluated the accounting practices of SMEs at Meikles Park in Mutare. The study established that most informal SMEs maintains single entry book keeping systems due to lack of qualified staff and low levels of modern computerized systems. Most of these informal enterprises never prepared financial reports which further mean they cannot be in a position to measure their firms' financial performance. Findings for this study show that SMEs growth has been slow and stunted evidenced by most of them winding up before their fifth anniversary. The researcher recommendation was that the current informal SMEs managers and owners should embrace modern accounting practices so as to produce a complete and clear picture of their firms' activities.

Odero (2014) examined the effect of accounting information system on SMEs financial performance in Nairobi city. The study main objective was to determine the influence of financial reporting on the profitability of these firms. The study found out that most SMEs had scanty financial records, had not adopted a specific

accounting system and was not acquitted with knowledge of using accounting information leading to poor financial performance. The researcher recommended that small firms should embrace computerized accounting information system to bring some light in making sound financial decisions hence improving the financial performance and reducing agency problems.

Muinde (2013) investigated the effect financial reporting and analysis had on financial performance of Small and medium enterprises in Kenya. The researcher had an objective of establishing the adoption of financial and analysis practices by SMEs in Kenya and their influence on financial performance. The finding of this study was that financial reporting and financial analysis were positively related to financial performance of SMEs. The study recommends need for management of small and medium enterprise in Kenya to enhance their financial reporting practices and financial analysis practices as this affects the SMEs financial performance.

2.2.3 Product Costing and Financial Performance

A study by Anand, Sahay and Subhashish (2004) investigating cost management practices took a sample of fifty-three Indian corporations with the study objective of assessing management practices that included how they account for overheads and apply budgetary control and costing. The study revealed that these enterprises were successful in applying ABC cost systems for value chain and supply chain analysis. The study concluded that the firms have better insight for bench marking and budgeting with ABC cost system yet the consistency in their priority of budget goals is lacking as opposed to firms using TCA.

Salawu (2012) conducted a research of adoption of ABC among Nigeria's processing entities. The objective of the study was to determine to what extent ABC adoption affects financial performance of small-scale processing firms. The study revealed that traditional cost systems inability to provide relevant product costing could have been the most likely reason for their deficiency in terms of improving financial performance. The recommendations provided for the study were that businesses should adopt ABC irrespective of the high cost involved in its implementation because the benefit arising from it in the long run outweighs the cost.

A survey was undertaken by Langat (2005) on cost allocation practices by processing firms in Kenya with an objective of determining the techniques used by these firms to improve their profitability. The report indicates that majority of processing firms in Kenya practices cost allocation. It was further noted that most of these firms still adopted traditional cost allocation approach meaning that these firms were making poor decisions emanating from poor cost allocations. The respondents noted that the main reason for allocating costs was to have adequate information that may be important in making decisions. The study recommends use of modern costing system to maintain growth and profitability mainly to the manufacturing/processing SMES in Kenya.

2.2.4 Risk Management Practices and Financial Performance

A study was done by Alrashidi and Baakeel (2012) aimed at measuring operational risk management influence on the financial growth and development in SME in Saudi Arabia. Online Survey done among fifteen users from various Saudi Arabia SMEs showed that operational risk management is positively related to the financial growth and development in the Saudi SMEs. The study recommended adoption of mitigation measures against operational risks by SMEs.

Dansu (2013) conducted a study in Nigeria on SMEs that aimed at examining the effect of business risks and SMEs financial performance. Primary data from fifty SMES in Lagos state was generated. The researcher used Chi-Square and descriptive statistics for data analysis and hypotheses testing. The results revealed by the study was that risk management strategy used by small and medium firms led to an increase in profitability. Recommendation for the study was that entrepreneurs should embrace risk management as an important part in business management.

Boubala (2010) conducted a study using 150 SMEs as the sample in Cape town, South Africa seeking to investigate management of risks as employed by SMEs. Results revealed that a few small and medium enterprises managers and owners used risk management techniques in these enterprises to enhance financial performance. This study recommended that SMEs should attach more importance in management of risk for the financial success of these enterprises.

In his study Kagwathi et al (2014) using a sample 100 SMEs in Nairobi with the objective to determine risk mitigation strategies employed by the small firms. The study found that customer relations, capital market, global view, operational-economic, and branding risks as the main risks SMEs face. The main strategies for risk mitigation according to the study were collaboration, diversification, use of credit scorecards and insurance. It was found that 66 % of SMEs adopted at least one strategy. Recommendations for the study were that SMEs should adopt at least one risk mitigating strategy to safeguard against eventualities.

2.3 Conceptual Framework

Independent Variable   **Dependent**

Access to Finance
• Sources of Capital • Accessibility to Loans

Financial Corporate Governance
• Financial Reporting • Internal Auditing.

Product Costing
• Cost Management • Pricing

Risk Management Practices
• Risk Management Techniques • Challenges in Risk Management

Financial Performance of processing SMEs in Kitui County
• Profitability • Turnover
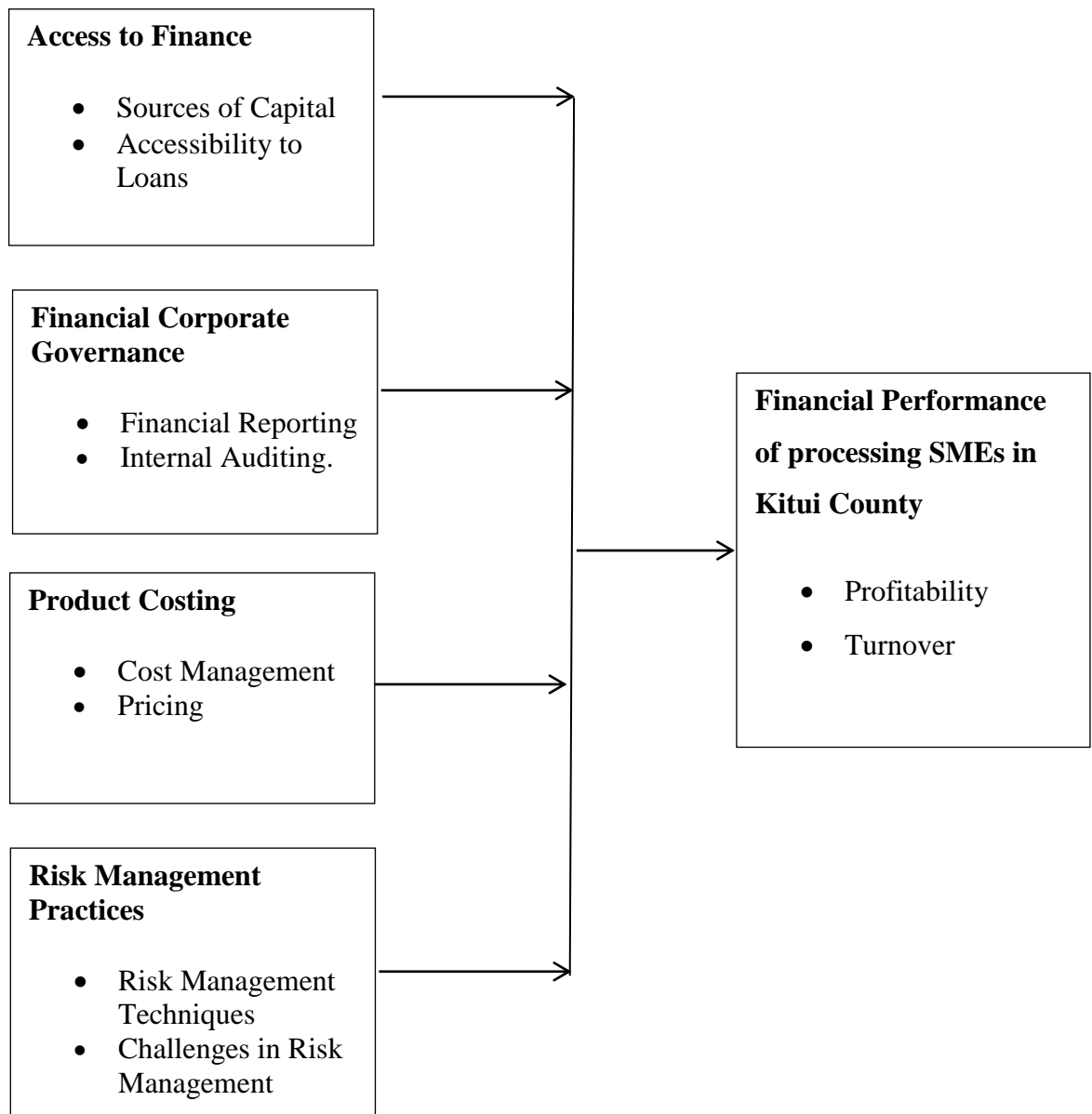
Figure 2.1: Conceptual Framework

2.4 Research Gap

Numerous studies have been done locally and globally concerning performance of SMEs. Most of the studies concentrate mainly on small and medium enterprises in urban centres and major cities leaving rural establishments not extensively done. This study concentrated on determinants of financial performance of processing SMEs based in rural area. Similar studies that have been carried out focused more on the obstacles by SMEs as they grow but the study emphasised on what realy affects the financial perfomance of these firms. Most of the studies done have not narrowed down to specific sectors of the economy, for instace trade, processing, manufacturing or service sectors. This study narrowed down to only processing SMEs unlike what most researchers have studied generally. Further a lot has been done on the general performance of these firms neglecting the financial aspects of performance of SMEs. This study aimed at establishing the determinants of financial performance of processing SMEs in Kitui County.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The chapter describes the procedures and strategies used while carrying out this research. It describes study design used, target population, sample and sampling technique, piloting, data collection instrument and procedure, data analysis and finally data presentation.

3.1 Research Design

This study adopted descriptive research design. Descriptive design according to William (2006) is a process of collecting data in order to test hypothesis or to answer questions concerning the current status of the subject(s) in the study. Kothari (2004) pointed out that descriptive research design describes the features of specific unit or a group and is concerned with narration of facts and predictions.

The researcher chose this design for the study because it provides a deep and elaborate study of determinants of financial performance of processing SMEs in Kitui County. Mwania (2011) in his study on the extent to which BBL influence performance of small and micro enterprise and Mugo (2012) study to examine determinants of women entrepreneurs' performance in Nairobi CBD adopted the descriptive research design which was successful.

3.2 Target Population

Mugenda and Mugenda (2003) describe a population as consisting elements that meet a particular selection criterion to be used for a study. The population targeted by the study comprised Chief Executive Officers and officers in the Finance/Accounts department of all the 25 processing SMEs in Kitui County as per the data available in the ministry of industrialization in Kitui town.

Table 3.1: Target Population

Processing SMEs	CEOs	Finance/Accounts Officers	TOTAL
25	25	112	137

3.3 Sample and Sampling Technique

According to Mugenda and Mugenda (2005), a sample is a subset of a target population of a study. Sampling is therefore a statistical procedure concerned with the selection of units from the target population so that by collecting data from the selected elements one can understand the characteristics of the whole population. In this study, all the 25 processing SMEs in Kitui County as per the data available in the ministry of industrialization in Kitui town were considered. For each firm, all the 25 Chief Executive Officer were considered for the study. The 25Finance Managers and 25 Chief Accountants were selected as respondents to represent the finance/accounts department translating to 22% of the officers in that department. This is in agreement with Mugenda and Mugenda (2005) who assert that for a population of less than 10,000 a sample size of 10% to 30% is sufficient representative of the target population. The study therefore comprised of a total of 75 respondents.

Table 3.2: Sample Size

No. of Processing SMEs	No. of CEOs	No. of Finance Managers	No. of Chief Accountants	Sample size
25	25	25	25	75

3.4 Data Collection Instruments

Primary data was collected through an interview guide conducted to CEOs and structured questionnaires administered to the Finance Managers and Chief Accountants. The CEOs' interview was used to obtain data that was supported by information available in the firm records. Questionnaires were based on a 5- point

Likert scale and open ended questions. Ember and Ember (2009) describe primary data as one collected by the researcher from the field meant for comparative study.

3.5 Data Collection Procedure

Introduction letter from the board of postgraduate studies in SEKU was sought to be used as permission to proceed with data collection from processing SMES in Kitui County. An interview process was conducted by the researcher to the Chief Executive Officers to obtain quantitative data. Additionally, questionnaires were distributed to the finance managers and chief accountants of the processing SMEs then collected after three days to allow for the filling.

3.6 Pilot Study

Piloting is performed to test validity of the research instrument and its reliability. Questionnaires were piloted on 10 respondents obtained from 10 processing SMEs in Machakos County which were not considered in the main study. Validity according to Creswell (2003) refers to extent to which the research instrument employed, investigated what it was supposed to investigate. The researcher discussed the questionnaire's validity with his supervisor who advised on the matter. Reliability according to McMillan (2002) is the consistency of the research instrument in measuring what it was supposed to measure. Reliability analysis was tested by use of Cronbach's Alpha which determines internal consistency. Brown (2000) suggested that a 0.7 and above Cronbach's alpha depicts a sufficiently reliable research instrument

3.7 Data Analysis

Both descriptive and inferential statistics were used in this study. Collected data was cleaned and coded to measure completeness of the information obtained. Descriptive analysis entails changing raw data into tables, charts, frequency distribution and percentages, having an objective of making sense to the data available. Statistical program for Social Sciences (SPSS) was used to statistically analyse the data.

Inferential statistics involving relationship analysis adopted the regression model:

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

Y = Financial Performance of Processing SMEs

X_1 = Access to Finance, X_2 = financial corporate governance, X_3 = product costing, X_4 = risk management practices, β_0 = constant and ε = Error term

β_1, β_2, β_3 and β_4 represents the Regression co-efficient of X_1, X_2, X_3 and X_4 respectively.

3.8 Data Presentation

Presentation of data was by use of tables and figures which includes pie charts and bar charts. Frequency distribution and percentages were used to present the participants' demographics. The study used mean and standard deviation of each variable to provide more meaning to the data.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.0 Introduction

This chapter entails the data analysis and presentation as proposed under the methodology chapter. The chapter is divided into sections beginning with the questionnaire response rate, the data reliability test, the background information, the dependent variable and the independent variables. The dependent variable is the financial performance of processing SMEs in Kitui County. The explanatory variables include access to finance, financial corporate governance, product costing and risk management practices.

4.1 The Response Rate

All the 25 CEOs were interviewed translating to 100% interview response rate. The questionnaires issued to finance managers and chief accountants of the processing SMEs in Kitui County were responded to as shown in the table 4.1 below.

Table 4.1: The Questionnaire Response Rate

Respondents	Sample Size	Returned	Response rate (%)
Total	50	46	92.00 %

The questionnaire response rate was 92% which is higher than the recommended threshold of 30% by Saunders and Lewis (2009). This implies that the data collected was adequate to meet the study objectives.

4.2 Data Reliability Test

The data reliability as stated by McMillan (2002) is the consistency of the research instrument in measuring what it was meant to measure. The measurement of the consistency of the research variables encompasses the reliability. The Cronbach's

alpha test was used to measure data reliability against the independent variables of the study as shown in the table 4.2 below.

Table 4.2: Cronbach's Alpha Test

Independent variables	Number of items	Cronbach's Alpha
Access to finance	6	0.772
Financial corporate governance	6	0.820
Product costing	7	0.739
Risk management practices	6	0.790

The Cronbach's alpha statistics for the independent variables are greater than the recommended value of 0.7 (Brown, 2000). This signifies that there was consistency and reliability of the data collected hence allowing for data analysis.

Validity alludes to the legitimacy or credibility of the examination (Khan, 2011). It is essentially an idea of distinguishing if the instruments are really estimating what they should enumerate. The researcher with the approval of his supervisor was concerned with content validity by essentially looking at the substance of information gathering instruments to find out if they were legitimate.

4.3 Background Information

The researcher sought to establish the overview of the processing SMEs in Kitui County. Therefore, the study inquired the duration the firm had been in operation and the number of employees in the firm. The quantitative data obtained has been presented in form of graphs and charts in the sections below.

4.3.1 Duration of the Firm in Operation

The study aimed at establishing the duration the processing SMEs had been in operation. The results are depicted in figure 4.1 below.
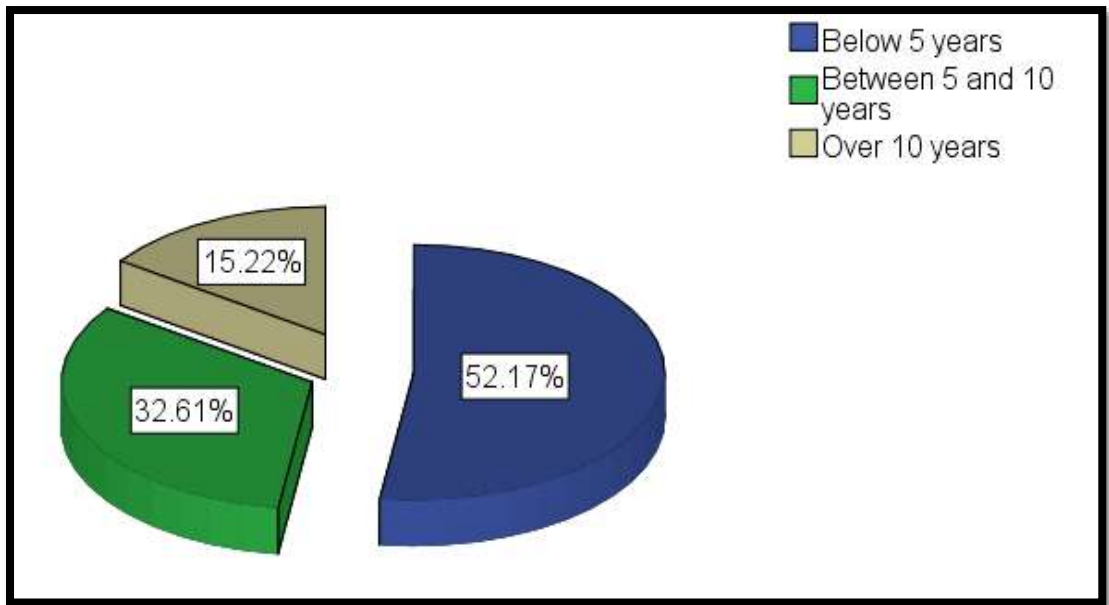
Figure 4.1: Duration of the Firm in Operation

The findings revealed that 52.17% of the processing SMEs in the Kitui County had been in operation for less than 5 years, followed by between 6 and 10 years represented by 32.61%. Further, the firms above the age of 10 years accounted for 15.22%. The results enabled the study to establish that there was influx of processing SMEs in Kitui County. The growth of SMEs directly increases the employment opportunities to the youths.

4.3.2 Number of Employees in the Firm

Figure 4.2 below indicates that 43.48% of the processing SMEs in Kitui County employ 20 to 49 employees and 21.74% employ 50 to 69 employees. Further, 19.57% and 15.22% employ below 20 and 70 to 99 employees respectively.
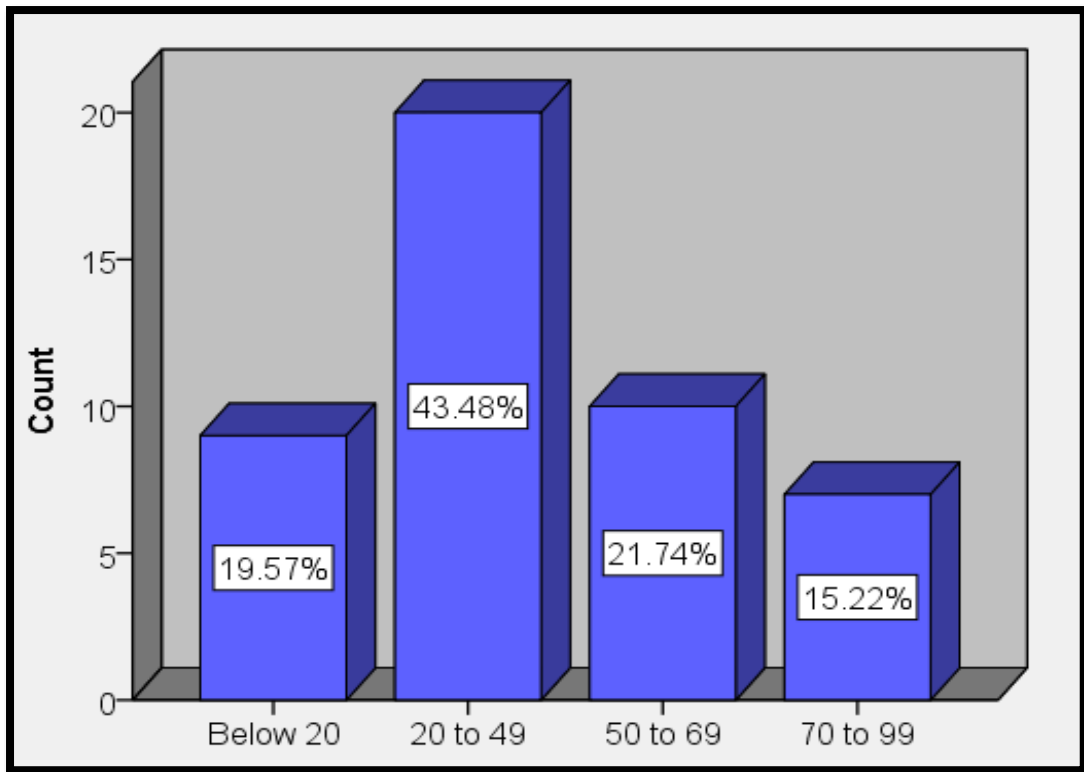
Figure 4.2: The Number of Employees in the Firm

The findings of the study imply that the processing SMEs create many job opportunities in Kitui County.

4.4 Access to Finance

In line with the first objective of the study to determine the influence of access to finance to the processing SMEs financial performance, the researcher designed questions analysed in the sections below. The questions aimed to assess the accessibility of the finances by the SMEs and the ability to finance their activities. Access to finance is key to the financial performance of any firm in order to ensure efficient flow of its operations.

4.4.1 The Interview Results

The summary of the findings with regard to the access to finance was presented in the tables below.

Table 4.3: The Amount of Equity

Range of Equity (Kes)	Frequency
0 – 1M	5
1 – 3 M	10
3 – 6 M	7
Above 6 M	3

The study found out that majority of the processing SMEs had owners contributing capital to a tune of between 1M and 3M.

Table 4.4: The Accounts Maintained

Type of Account	Frequency
Bank	15
Saccos	1
Microfinance Institutions	9

The table above depicts that most processing SMEs in Kitui County maintains bank accounts and this is where they could access finance

Table 4.5: The Annual Borrowing

Range of Borrowing	Frequency
0 – 0.5 M	4
0.5 – 1 M	16
1 – 2 M	3
Above 2 M	2

The researcher sought to establish approximate loans these SMEs acquired from financial institutions on average annually and the findings as per the table above was that majority range was 0.5M and 1M and just a few could borrow above 2M.

4.4.2 Questionnaire Results

The researcher aimed to measure the extent to which the respondents agreed with the given statements on access to finance. The respondents indicated on a Likert scale of

1-5 where; 1- strongly disagrees, 2- disagree, 3- neutral, 4- agree and 5- strongly agree. The degree of satisfaction was an average of above 3 and degree of dissatisfaction was below 3. The descriptive statistics for the statements are presented in the table 4.3 below.

Table 4.6: Descriptive Statistics for Access to Finance

Statements	Mean	Std. Deviation
Loans from banks are readily available and accessible for start-ups firms	2.67	1.266
Financial institutions exhibit reluctance in extending long term finance to existing SMEs	3.24	1.336
Interest rate capping has improved access to finance for your firm.	3.02	1.358
Regulatory and administrative environment is an obstacle in accessing finance.	2.70	1.348
SMEs are capable of paying loans on time.	2.33	1.317
Accessibility to finance has a great influence on financial performance of your firm.	3.28	1.393

The findings revealed that the financial institutions exhibit reluctance in extending long term finance to existing SMEs, interest rate capping had improved access to finance to SMEs and accessibility to finance had great influence on financial performance of the SMEs with a mean of 3.24, 3.02 and 3.28 respectively and standard deviation of 1.336, 1.358 and 1.393. Therefore, the respondents were satisfied with the three factors though the level of satisfactory differed significantly across SMEs since the standard deviation is more than one. The findings are relevant to the study since they help us to evaluate the challenges in access to finance by the SMEs in Kitui County.

4.4.3 Major Source of Finance

The researcher sought to identify the main source of funding for the processing SMEs in Kitui County. The study findings indicated that 50% of the financing was loans from financial institutions mainly attributed to short term loans since the financial institutions were reluctance in offering long term loans to SMEs, 21.74% from the business savings while donations from family and friends accounted for 13.04% of the finance as shown in figure 4.4 below.
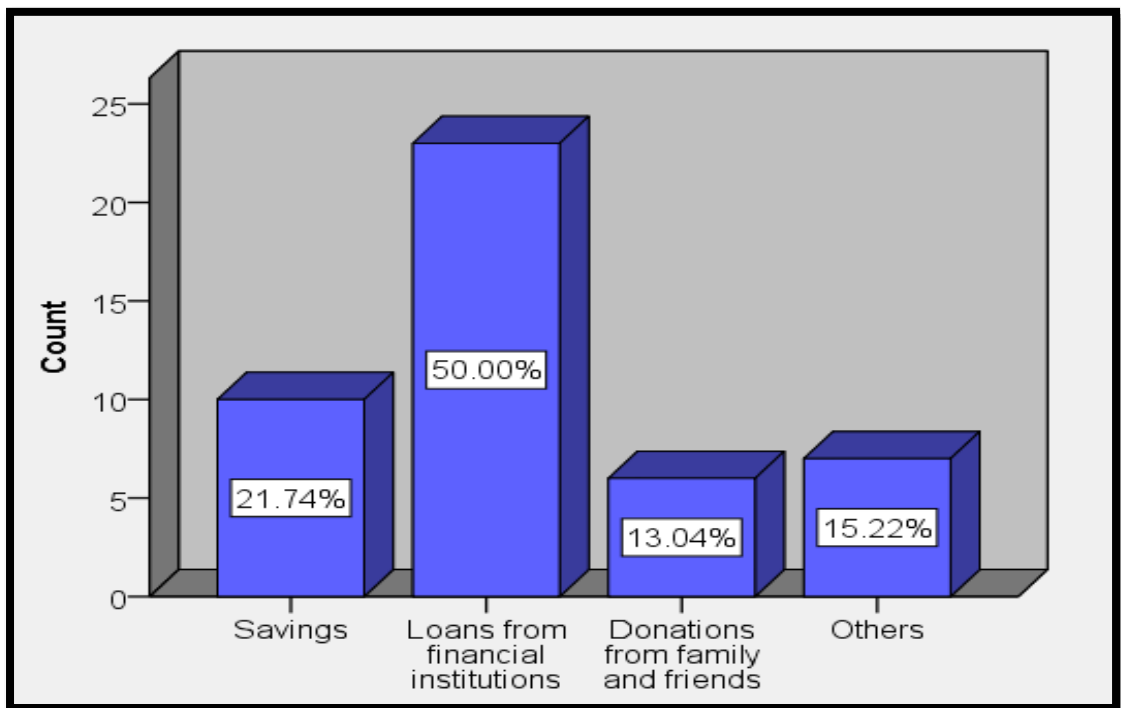
Figure 4.3: Major Source of Finance

4.4.4 Sufficiency of the Source of Finance

The results of this study indicated that 39.13% of the loans from financial institutions were very sufficient while 34.78% believed it was sufficient, 17.39% less sufficient and 8.70% not sufficient to meet the objectives of processing SMEs as shown in the figure 4.5 below. Relevancy of the findings lies on financial stability of the processing SMEs in Kitui County.
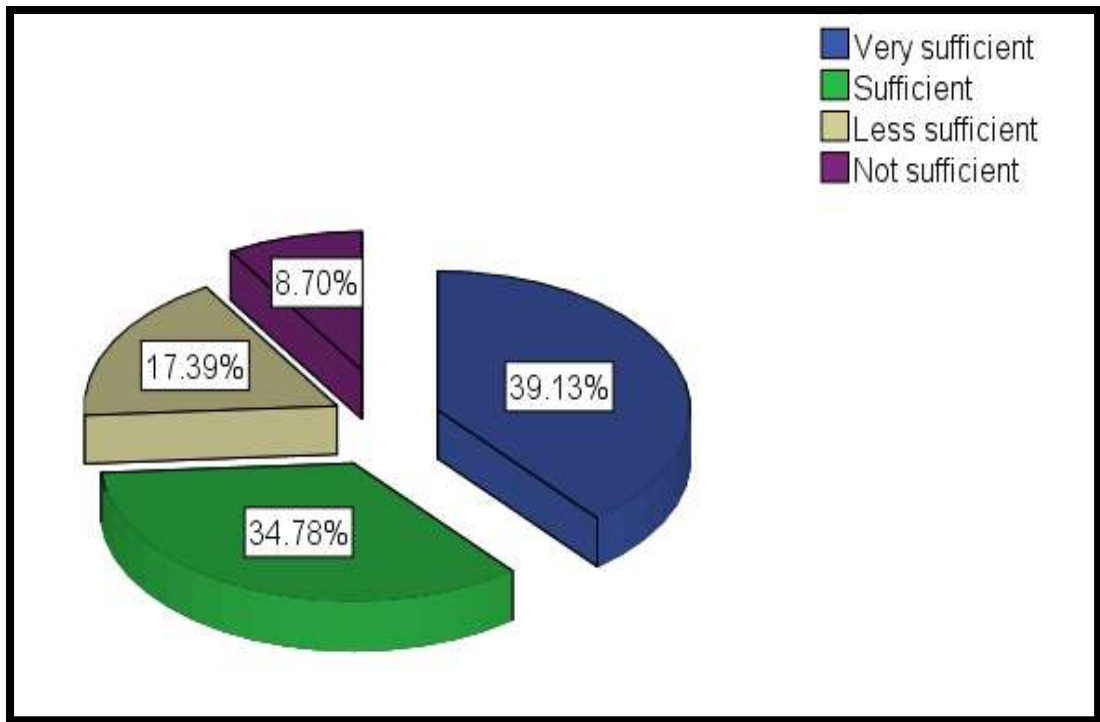
Figure 4.4: Sufficiency of the Source of Finance

4.5 Financial Corporate Governance

With regard to the second objective of the study, the financial corporate governance is fundamental in financial reporting and internal auditing. The respondents were required to answer several questions to assess the financial corporate governance strategies in the processing SMEs in Kitui County. The responses obtained were analysed and presented in form of tables and a graph.

4.5.1 The Interview Results

The interview findings revealed that balance sheet, the cash flow statement and the income statement were the main financial statements prepared by the small and medium processing firms in Kitui County.

Table 4.7: Frequency Table for Financial Statements and Auditing

Statement	Semi-Annually	Annually	Never
Preparation of Financial statements	1	20	4
Conducting of Auditing	0	7	18

The interviewer found out that a majority 20 SMEs prepared financial statements on annual basis, 1 semi-annually and 4 did not have specific financial periods. Further most SMEs did not have specific time intervals when auditing is done.

Table 4.8: Feedback Mechanism

Feedback Mechanism	Frequency
Suggestion Box	17
Email	3
Mobile Phones	5

Processing SMEs in Kitui County mainly use suggestion boxes to get feedback from staff and customers as shown in the table above.

4.5.2 Questionnaire Results

The research required the respondents to indicate the extent to which they agreed with the statements on financial corporate governance. They were supposed to indicate on Likert scale of 1- 5; where 1-strongly disagreed, 2-disagreed, 3-neutral, 4-agreed and 5-strongly agreed. The responses were aggregated and descriptive statistics presented in the table 4.4 below.

Table 4.9: Descriptive Statistics for Financial Corporate Governance

Statements	Mean	Std. Deviation
There is a functional board in my firm.	3.26	1.405
The business prepares financial statements annually.	3.11	1.418
The business follows accounting principles.	2.93	1.436
Financial corporate governance enhances proper bookkeeping, preparation of financial statements and internal auditing.	2.96	1.414
Accounting skills and quality of financial reports affect financial performance of your firm	2.52	1.472
Internal auditing can improve the financial performance of your firm	3.11	1.524

The respondents affirmed that there is a functional board in their firm, annual financial statements were prepared by businesses and internal auditing could improve the financial performance of the firm represented by a mean of 3.26, 3.11 and 3.11 respectively. Moreover, the standard deviations were 1.405, 1.418 and 1.524 respectively, thus the three statements differed significantly among the SMEs since the standard deviations are more than one. The findings on financial corporate governance were relevant in assessing the extent to which SMEs embraced financial reporting, internal auditing and corporate governance.

4.5.3 Financial Statements Prepared by SMEs

The study aimed at establishing the main financial statement prepared majorly for decision making by the processing SMEs in Kitui County. The findings indicated that 47.83% of the respondents prepared cash flow statement, 21.74% prepared income statement, 17.39% prepared balance sheet and 13.04% prepared other types of financial statements such as the statement of retained earnings, notes to financial

statements and statement of change in equity as shown in the figure 4.6 below. The study required the respondents to indicate the main financial statement prepared majorly for decision making from the possible financial statements prepared by the SME.
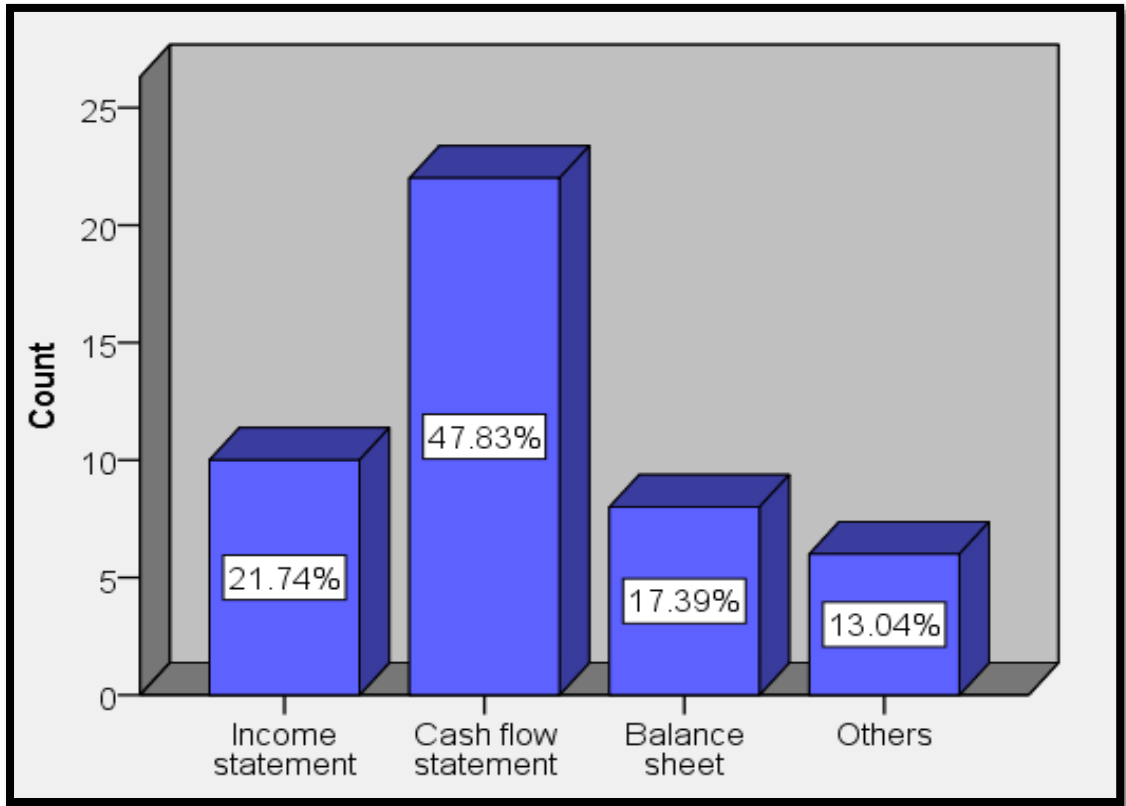
Figure 4.5: Financial Statement Prepared

4.6 Product Costing

The product costs incurred should be mitigated amicably so that the firm can realize improved performance. The researcher gathered the data in order to assess the influence of product costing to the financial performance of the processing SMEs in Kitui County. The section below indicates the responses obtained and the analysis.

4.6.1 The Interview Results

The interview findings were presented by the tables below.

Table 4.10: The Cost Management Techniques

Cost Technique	Frequency
Traditional Costing	20
ABC	3
None	2

As to the cost management technique employed, the interviewer found out that 20 SMEs used traditional costing, 3 used activity based costing and 2 never employed any technique in product costing.

Table 4.11: The Price Determination

Pricing Technique	Frequency
Price Mechanism	13
Estimation	12

There was a balance between price mechanism and estimation in determination of prices.

4.6.2 Questionnaire Results

The respondents were asked to indicate their degree of agreement to the given statements on the product costing by the SMEs. The cut line between the degree of acceptance and non-acceptance were 3. An average of more than 3 signified satisfactory while below 3 showed dissatisfactory. The aggregated responses were used to compute the descriptive statistics to enhance data description. The results are shown in table 4.5 below.

Table 4.12: Descriptive Statistics for Product Costing

Statements	Mean	Std. Deviation
Your firm is guided by at least one cost management Technique.	3.37	1.236
The firm allocates costs using traditional cost allocation method.	3.13	1.408
The firm uses activity-based costing in allocation of costs.	3.39	1.238
SMEs incur high costs in an attempt to counter the effect of adverse environment and this affects their profitability index.	3.13	1.408
Product costing provides the basis in calculating the price of the product.	3.20	1.376
Product costing helps in making informed decisions on profitable processes	3.07	1.482
Enterprises with working cost structures have higher opportunities in realizing improved profit index.	3.20	1.360

From the findings of the study, all the statements on product costing were applauded by the respondents since all of them had an average of more than 3 and standard deviations of above 1.

4.7 Risk Management Practices

Management of risk is core in any business. In order to achieve the fourth objective of the study, the researcher asked the respondents to express their opinion on risk management practices. The responses obtained were analysed and presented in the section below.

4.7.1 The Interview Results

The interview findings indicated that majority of the firms did not keep register of the risks.

Table 4.13: Risk Evaluation

Evaluation	Frequency
Semi- annually	2
Annually	8
Never	15

The interviewer affirmed that more than half of the processing SMEs in Kitui County never carried out risk evaluation. Only 10 out of 25 embraced risk evaluation where 8 firms did on annual basis and 2 semi-annually

Table 4.14: Risk Management Technique

Risk Technique	Frequency
Insurance	10
Diversification	8
Avoidance	6
None	1

The mostly used risk management tool as shown by the table above was taking an insurance cover. 8 firms used diversification, 6 used avoidance and 1 never employed any technique.

4.7.2 Questionnaire Results

The respondents were asked to indicate the extent to which they agreed with given set of statements on the risk management practices. They were to indicate on a Likert Scale of 1 -5. The responses were aggregated and the descriptive statistics computed as shown in the table 4.6 below.

Table 4.15: Descriptive Statistics for Risk Management Practices

Statements	Mean	Std. Deviation
Risks are a threat to attainment of short term and long-term business objectives.	3.57	1.148
The firm manages risks through avoidance (elimination, withdrawal From or become involved).	3.61	1.085
The firm manages risks through reduction (mitigation).	3.72	1.205
The firm manages risk through diversification (mixing a wide variety of investments within a portfolio).	3.70	1.227
The firm manages risk through taking an insurance cover	3.09	1.547
Enterprises that embrace risk management practices are likely to improve their financial performance.	3.50	1.441

From the findings, all the statements on risk management practices were affirmed by the respondents since the average for each statement was above. However, the degree of agreement differed significantly across the respondents since the standard deviations were more than 1. The respondents believed that risk was threat to attainment of short term and long-term business goals. Additionally, the study established that the firms managed risk through avoidance, reduction, diversification and taking insurance cover. Further, the study found out that firms that applied risk management practices improved their financial performance. The relevancy of the findings was key in understanding various forms of risk management such as taking insurance cover, diversification and mitigation.

4.7.3 Major Challenge in Risk Management

The researcher intended to establish the major challenge in risk management practices. The findings of the study indicated that the major challenge was limited

resources represented by 45.65%, followed by weak structural features at 26.09%. Moreover, inadequate risk management skills accounted for 15.22% while other challenges such as political instability, cyber-crime and economic down fall accounted for 13.04% as depicted in figure 4.7 below.
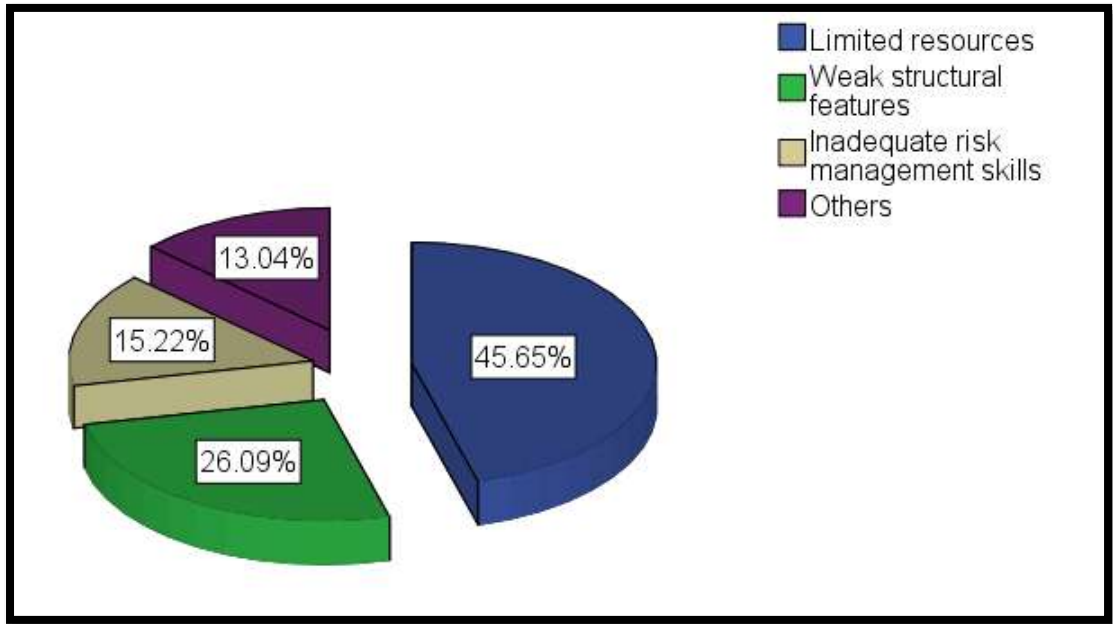
Figure 4.6: Challenges in Risk Management in the SMEs

4.8 Financial Performance

Financial performance monitoring and evaluation is based on the financial statements prepared by the firm (Al-Shami, 2008). The researcher investigated how access to finance, financial corporate governance, and product costing and risk management practices influenced financial performance.

4.8.1 The Interview Results

The findings of the interview process revealed the turnover of firms performed averagely in the past few years.

Table 4.16: The Profitability Trend

The Trend	Frequency
Upward	10
Downward	6
Unstable	8
Stagnant	1

The researcher found out that for the past three years a majority 10 firms recorded an upward profitability trend, 8 unstable trend, 6 a downward trend and 1 stagnated.

4.8.2 Questionnaire Results

In order to measure the financial performance of the processing SMEs, the researcher asked set of statements to the respondents using a Likert Scale of 1-5. The responses obtained were aggregated to allow for computation of descriptive statistics shown in the table 4.7 below.

Table 4.17: Descriptive Statistics for Financial Performance

Statements	Mean	Std. Deviation
Our firm's financial performance is superior.	3.33	1.431
The firm possesses competitive advantage over other firms in the industry.	2.93	1.289
Our firm as compared to others is highly profitable.	2.83	1.403
The business has realized upward trend in total revenue over the past 3 years.	3.02	1.390
Financial performance enhances SMEs to make better investment decisions	3.04	1.414
Financial performance reduces agency problems.	3.00	1.461

The results revealed that the financial performance of the firms was superior, the business had realized upward trend in total revenue over the past 3 years, financial performance enhanced making of better investment decisions and reduced the agency problems since the average is above 3. Nevertheless, the respondents disputed that the SMEs possessed competitive advantage over other firms in the industry and were highly profitable when compared to others. Moreover, the degree of satisfaction and dissatisfaction differed significantly across the firms since all the standard deviations were more than 1. The findings were relevant in understanding the superiority of the financial performance of the SMEs, the agency problems, better investment decisions and increase in the turnover of the firms.

4.8.3 Annual Turnover of the Firm

The study established that 41.30% of the processing SMEs in Kitui County had an average turnover between 2 and 5 million, followed closely by 39.13% of the SMEs with a turnover less than 2 million. Moreover, 19.57% of the SMEs had a turnover between 5 and 10 million as displayed in the figure 4.3 below.
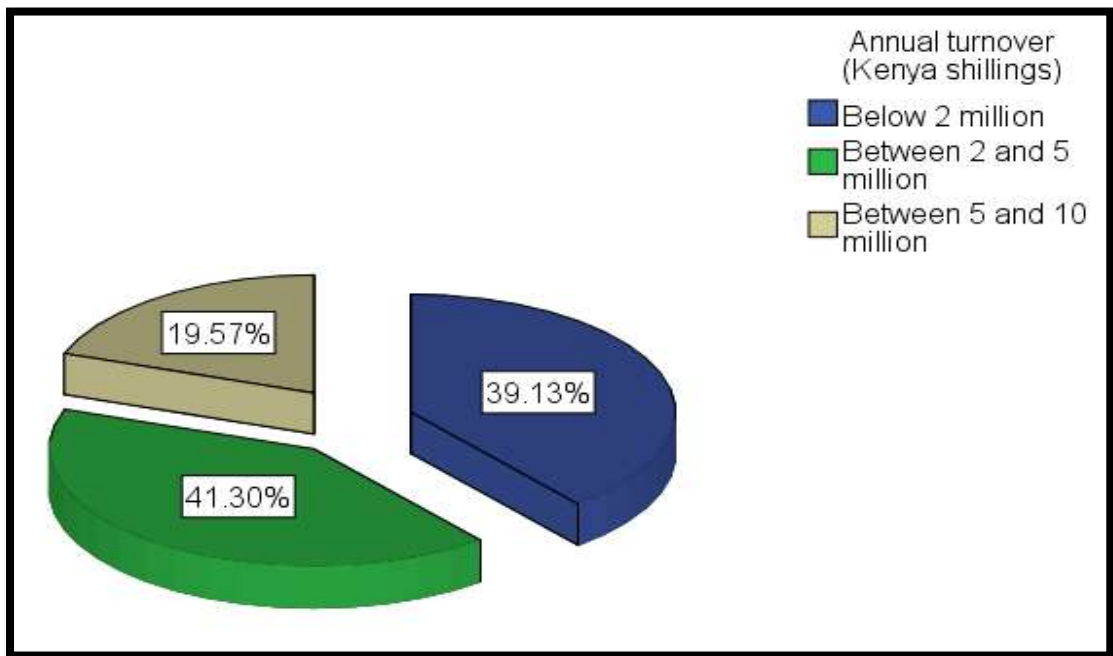
Figure 4.7: Annual Turnover in Kenya Shillings

The findings on the turnover help the study to assess the annual financial performance of the SMEs.

4.9 Regression Analysis

The researcher used a multiple regression technique to understand the effect of the independent variables; access to finance, financial corporate governance, product costing and risk management practices on the dependent variable; financial performance of the SMEs in Kitui County. The regression results are presented in the tables that follow.

Table 4.18: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.537	.288	.219	1.07064

From the table 4.8 above, the correlation coefficient denoted as R of 0.537 indicates that financial performance and the independent variables have positive correlation. Moreover, relationship is strong since the correlation coefficient of 0.537 is greater than 0.5. The coefficient of determination denoted as R Square of 0.288 implies that the explanatory variables account for 28.80% of the changes in the financial performance of the SMEs ceteris paribus while when adjusted for the degrees of freedom it explains about 21.90% of the changes in financial performance. The value for the disturbance term is 1.07064.

Table 4.19: ANOVA Table

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	19.028	4	4.757	4.150	.006
Residual	46.997	41	1.146		
Total	**66.025**	**45**			

Table 4.9 above is used to test for the significance of the overall regression model. At 95% confidence level, the significance value of 0.006 is less than the alpha value of 0.05 therefore the study concludes that the regression model is significant. This implies that the model can be used for prediction and forecasting the financial performance of the SMEs with respect to the independent variables.

Table 4.20: Regression Coefficients

Model	B	Std. Error	t	Sig.
(Constant)	.006	1.774	.003	.998
Access to finance	.013	.274	.046	.963
Financial corporate governance	.270	.347	.777	.441
Product Costing	.026	.195	.134	.894
Risk Management Practices	.757	.194	3.909	.000

Dependent Variable: Financial Performance of processing SMEs

From the table 4.10 above, the regression coefficients are explained at the confidence level of 95%.

The study established that the access to finance positively influenced the financial performance of the SMEs in Kitui County. Therefore, a unit increase in the level of access of finance triggered 0.013 units increase in financial performance of the SMEs. However, the influence on financial performance was non-significant since the significant value of 0.963 is greater than the Alpha value of 0.05.

Further, financial corporate governance positively influenced the financial performance of SMEs. A unit change in the level of financial corporate governance resulted to 0.270 increase in the financial performance of SMEs. Also, the influence on financial performance was non-significant since the significant value of 0.441 is greater than the Alpha value of 0.05.

Moreover, researcher found out that the product costing was positively related to the financial performance of the SMEs. A unit change in the level of product costing yielded 0.026 increases in the level of financial performance of the SMEs. Additionally, the influence on the financial performance was non-significant since the significant value of 0.894 is greater than the Alpha value of 0.05.

Finally, risk management practices were discovered to have a positive influence on the financial performance of the SMEs in Kitui County. A unit change in risk

management practices resulted to 0.757 changes in the financial performance of the SMEs.The significant value of 0.000 is less than the Alpha value of 0.05 and therefore risk management practices had a significant influence on financial performance.

CHAPTER FIVE

DISCUSSION OF FINDINGS

5.0 Introduction

The study aimed to investigate the determinants of the financial performance of processing SMEs in Kitui County. In order to meet the research gaps noted under literature review, the relationship between the access to finance, financial corporate governance, product costing, risk management practices and financial performance was assessed. The four determinants of financial performance were evaluated by use of an interview to the CEO and questionnaires administered to the Finance manager and Chief accountant of the 25 processing SMEs in Kitui County.

The research general objective was to establish factors that affected financial performance of processing SMEs in Kitui County. The specific objectives that informed the study entailed; to determine the effects of access to finance on the financial performance of processing SMEs, to establish the effect of financial corporate governance on the financial performance of processing SMEs, to determine the effect of product costing on the financial performance of processing SMEs, and to determine the effect of risk management practices on the financial performance of the processing SMEs in Kitui County. The study adopted a descriptive research design to answer the research questions.

5.1 Access to Finance

The interview found out that all the firm's owners had contributed capital to some extent and the rest was acquired from financial institutions mainly commercial banks. Most processing SMEs in Kitui County maintain accounts with banks as opposed to SACCOs and MFIs and therefore depend mainly on bank loans to access finance. The CEOs reported reluctance by banks and complicated procedures in acquiring these loans and this post an obstacle in the firms' accessibility to finance.

The findings from the questionnaire revealed the major source of finance for processing SMEs was short term loans from financial institutions and was very sufficient followed by savings and then donations from family and friends. Moreover,

the study established that the decision by the government to cap the interest rate improved the access to finance for the SMEs since cost of borrowing was hugely reduced. To that effect therefore, the processing SMEs felt that the regulatory and administrative environment was favourable for accessing finance. The findings further reported that SMEs lacked the capability to pay loans on time.

However loans from banks were not readily available and accessible to start-up processing SMEs. The SMEs claimed that the processing of credits from the financial institutions was an uphill task and the conditions were unfavourable. The financial institutions extended little or no capital to the SMEs due to their inability to demonstrate their credit worthiness. Further, the financial institutions exhibited unwillingness to extend long term finance to the existing processing SMEs. The SMEs cited the collateral requirements, guarantors' requirements, the techniques followed by banks to vet applicants and the costs of the loans as the obstacles to accessing finance.

The regressions results revealed a positive influence of access to finance on the financial performance of the processing SMEs. The findings are supported by another study by Kinyua (2014) who established that the accessibility to finance positively affected the performance of SMEs. Further, Macharia (2012) disputed the statements that loans from banks are readily available and accessible for start- ups and SMEs are capable of paying loans on time as reflected in study findings.

5.2 Financial Corporate Governance

The findings from the interview depicted that the commonly prepared financial statements by processing SMEs in Kitui County included Balance Sheet, cash flow statements and income statements. These financial statements were mainly prepared annually and a majority of the firms did not audit their books of accounts. However feedback mechanism was mainly done through suggestion boxes which the management could use to gauge the satisfaction of the employees and customers.

The questionnaire's findings indicated that processing SMEs in Kitui County had effective and functional boards managing the firms, the SMEs prepared annual financial statements and internal auditing improved financial performance of these

firms. Further, the study revealed the SMEs lacked qualified personnel to prepare the financial statements. This resulted to poor management of the books of original entry and consequence loss of transactions records. Additionally, the processing SMEs in Kitui County were not aware that financial corporate governance enhanced proper bookkeeping, preparation of financial statements and internal auditing.

The respondents disagreed that the businesses followed accounting principles, enhanced proper book keeping and accounting skills and quality affected the financial performance. The assertions were supported by Kutsaru (2014) who indicated that most SMEs lacked qualified personnel to prepare the financial statements. In addition, Odero (2014) revealed that SMEs maintained single entry books and were not able to measure their financial performance.

A positive relationship between the financial corporate governance and financial performance was noted from the regression results. The findings are supported by Adetula et al. (2014) who concluded that effective financial corporate governance in firms contributed positively to the financial performance of the firm. In addition a study by McMahon (2009) recommended that management practices in finance should be given a great attention in particular financial reporting and internal auditing for SMEs to realize financial performance.

5.3 Product Costing

The interview findings revealed that traditional costing was mainly used by processing SMEs in cost management as opposed to activity based costing. Respondents cited absence of well-set structures to use the ABC and also the high cost associated with it. Price determination was done either through price mechanism or just mere estimations. Both approaches stroke a balance of their application by processing SMEs in Kitui County.

The processing SMEs were found to have adopted at least one technique of cost management according to the questionnaire respondents. The SMEs applied either traditional method of cost allocation or activity-based costing technique. Additionally, the study established that the SMEs incurred high costs in countering the influence of unfavourable environment which affected their profitability. Further, the study found

out that product costing provided basis for computation of the prices for products and aided in decision making for profitable processes. Also, the firms that had embraced working cost structures reported higher opportunities for improving their performance.

As per the regression results, the study established positive association between product costing and financial performance of the processing SMEs in Kitui County. The findings corresponded with the Salawu (2012) that the firms applied at least one method of cost management, applied traditional and activity-based cost allocation techniques. Further, Langat (2005) postulated that product costing was the basis for pricing and informed decision making as also found out in this study. Finally, Anand et al. (2004) was in agreement with this study in that firms with working cost structures had higher opportunities to achieve improved performance.

5.4 Risk Management Practices

Small and Medium Enterprises in Kitui County were found not to keep and maintain risk registers as per the CEOs' interview. Further it was revealed that majority of these firms could not evaluate the risks of their businesses. The mostly employed risk management techniques were taking insurance cover, diversification and avoidance in that order. Only one firm was found to take no measure in controlling and dealing with risks.

To determine the effect of risk management practices on the financial performance of processing SMEs in Kitui County, the questionnaire findings indicated that risk was a major threat to the attainment of the short term and long-term business goals and objectives. The operational risk was a hindrance to the credit rating by the financiers hence subsequently affected the financial performance. The findings revealed that processing SMEs used various risk management techniques namely; avoidance, reduction, diversification and by taking insurance cover. Further, the study revealed that the firms that adopted risk management strategy improved their financial performance by a reasonable margin.

The study identified the limitation of resources as the main challenge in risk management. Alrashidi and Baakeel (2012) established similar results that resources

ranged from inadequate finances, personnel capacity to physical resources. Also, weak structural features and inadequate risk management skills were identified as the other challenges. Several managers of the SMEs lacked the basic skills needed to mitigate risks.

Finally, the findings discovered a significant and positive relationship between the risk management practices and financial performance of the processing SMEs in Kitui County according to regression findings. The findings were supported by Danse (2013) while examining the effect of business risks and the financial performance of SMEs revealing that risk management practices enhance increase in profitability. Boubala (2010) study also corresponds to this study that SMEs should attach more importance in management of risk for the financial success of these enterprises.

5.5 Financial Performance

Financial performance of processing SMEs in Kitui County was found to have an upward trend according to the CEOs. This was measured through turnover and profitability index over a period of three years. Turnover was found to have performed averagely over the past three years with minimal positive change realized. Profits were found to be improving over the three years but a few firms experienced unstable trend and downward trend while one firm maintained its profitability over the three years. Khrawish (2011) supported the findings of the questionnaire that revealed that SMEs had superior financial performance which increased the growth of revenue over the past 3 years. Further, the financial performance of SMEs led to better investment decisions and reduced the agency problems; assertions supported by Al-shami (2008).Finally, the findings differed with khrawish (2011) who postulated that SMEs had competitive advantage over other firms which increased their turnover.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.0 Introduction

This chapter entails the conclusions drawn from findings of the data analysis and discussions of the study. The recommendations provided here are based on the conclusions of the study.

6.1 Conclusions

The study concluded that access to finance, financial corporate governance, product costing and risk management practices were positively related to the financial performance of the processing SMEs in Kitui County. The following conclusions were drawn with reference to each objective.

6.1.1 Access to Finance

The research concluded that loans are not readily available and accessible to processing SMEs in Kitui County. The SMEs expressed their worry that the banks were reluctant to offer them long term investments to boost the firms. Also, the study concluded that the interest capping policy by the government should be adhered fully by financial institutions to the interests of the SMEs in Kitui County. Further, the study concluded that the favourable regulatory and administrative environment had been created by the government for the SMEs to thrive and grow. Moreover, research concluded that the major source of finance for the SMEs is the loans from the financial institutions, business savings, and donations from family and friends.

6.1.2 Financial Corporate Governance

The study concluded that management of processing SMEs in Kitui County was very effective and had a functional board of governance. Additionally, the study concluded that the SMEs prepared annual financial statements and internal auditing improved the financial performance of the SMEs. Further, the research concluded that the accounting standards and principles were not adhered to fully by the SMEs. This was attributed to the lack of inadequate personnel with the relevant skills and expertise to

prepare the financial statements for the SMEs. It was also concluded that the SMEs were not aware on the importance of the financial corporate government on the proper bookkeeping, preparation of the financial statements and the internal auditing.

6.1.3 Product Costing

The study concluded that the processing SMEs in Kitui County were guided by at least one technique of cost management. Also, the traditional method of cost allocation and the activity-based costing were concluded as the most used techniques in allocation of cost. Moreover, the study concluded that firms used the product costing techniques to price the products and make informed decisions on the financial performance of the SMEs. Additionally, the research concluded that there was a positive relationship between the product costing and financial performance of the firm. Further, the study concluded that working cost management structures increased the level of profitability hence improved financial performance.

6.1.4 Risk Management Practices

It was concluded that risks threatened the attainment of the business goals and objectives. Also, study concluded that the methods of risk avoidance, reduction, diversification and taking insurance cover were most practised techniques of cost management. Further, the study concluded that limited resources were a major challenge to risk management of the SMEs. Finally, the study concluded that risk management practices was positively related to financial performance

6.1.5 Financial Performance of the SMEs

The study concluded that the SMEs had a superior financial performance. The SMEs were in a position to manage the finances well to meet their objectives. Further, the research concluded that competitive advantage was not applied by the SMEs to edge out their competitors which hindered their profitability index. Additionally, it was concluded that the better decisions were made due to proper financial performance by SMEs which translated reduced agency problems in the SMEs. Finally, the study concluded that over the past 3 years, the SMEs had realized upward growth in the total revenue.

6.2 Recommendations

Drawing inferences from the research findings and conclusions, the following recommendations were made.

6.2.1 Recommendations for Policy Making

The study recommended banks to create favourable policies to enable processing SMEs to access finance through loans easily. This is likely to boost the financial performance of the SMEs since they will have enough financial resources to invest. Further, the banks should create infrastructure to allow for better transaction with the SMEs. Accessibility to finance easily by the SMEs will trigger improved financial performance thus creating job opportunities to the youths.

It was recommended that government should offer funding to processing SMEs at lower cost to boost their financial performance. Also, sound financial and regulatory policies such as interest capping should be formulated and implemented to enhance accessibility of finance for SMEs across the county.

6.2.2 Recommendations for Practice

The study recommended the training and capacity building of the processing SMEs staff. The employees of SMEs especially in the accounting department were required to be familiarised with accounting principles and standards in the preparation of financial statements and reports for the management of the SMEs. Further, creation of awareness on the access to finance, financial corporate governance, product costing and risk management practices was recommended. Provision of information on the trends of financial performance of SMEs was recommended to be key in assessing the performance.

The research also recommended adoption of the measures of mitigation, avoidance, reduction and taking insurance cover against the business risks. Additionally, the study recommended the establishment of internal auditing department in each SME to enhance the evaluation of the financial performance and put measures to curb business risks. Further, it was recommended that more emphasis to be put in risk management practices to improve the financial performance of processing SMEs.

Moreover, proper budgeting and allocation of costs were recommended as the methods of solving the challenge of limited resources in risk management across the processing SMEs in the Kitui County.

6.2.3 Recommendations for Further Research

Based on the findings and conclusions of the study, studies are recommended to be carried out to determine factors considered by the financial institutions when financing processing SMEs. The criteria followed should be well elaborated so that SMEs can access the funding easily to run their operations effectively and efficiently.

Moreover, this study concentrated on the influence of; access to finance, financial corporate governance, product costing and risk management practices on the financial performance of processing SMEs in Kitui County, other studies are recommended to identify other factors that influence the financial performance of the SMEs in other parts of the country. This will necessitate comparison of research results and improved financial performance of processing SMEs in Kenya.

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APPENDIX I

DATA COLLECTION APPROVAL LETTER

SOUTH EASTERN KENYA UNIVERSITY
OFFICE OF THE DIRECTOR
BOARD OF POST GRADUATE STUDIES

P.O. BOX 170-90200
KITUI, KENYA
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Our Ref: D61/KIT/20125/2012

DATE: 3rd December 2018

Muli Dickson Mbuva
Reg. No. D61/KIT/20125/2012
Masters of Business Administration
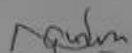C/O Dean, School of Business and Economics

Dear Muli

RE: PERMISSION TO PROCEED FOR DATA COLLECTION

This is to acknowledge receipt of your Master in Business Administration Proposal document entitle; *Determinants of the Financial Performance of Processing Small and Medium Enterprises in Kitui County."*

Following a successful presentation of your Masters Proposal, the School of Business and Economics Board of Examination in conjunction with the Directorate, Board of Postgraduate Studies (BPS) have approved that you proceed on and carry out data collection in accordance with your approved proposal.

During the research work, you will be closely supervised by Dr. Kevin Wachira. You should ensure that you liase with your supervisor at all times. In addition, you are required to fill in a Progress Report *(SEKU/ARSA/BPS/F-02)* which can be downloaded from the University Website.

The Board of Postgraduate Studies wishes you well and a successful research data collection exercise as a critical stage in your Master of Business Administration.

Prof. Felix Ngunzo Kioli
Director, Board of Postgraduate Studies

Copy to: Deputy Vice Chancellor, Academic, Research and Students Affairs
             Dean, School of Business and Economics
             Chairman, Department of Business and Entrepreneurship
             Director, Kitui Campus
             Dr. Kevin Wachira
             BPS Office – To file

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LETTER OF INTRODUCTION

P.O BOX 406-90101,

MASII.

Dear Respondent,

RE: RESEARCH PROJECT

My name is Dickson Mbuva Muli, a student at South Eastern Kenya University pursuing a degree of Masters in Business Administration. I am carrying out a research on **Determinants of Financial Performance of Processing Small and Medium Enterprises in Kitui County** as partial fulfilment for my degree.

I hereby kindly seek for your valuable participation through responding to questions provided in the questionnaire. Be assured that the information you give will remain confidential and will only be used for this study.

Yours faithfully,

DICKSON MBUVA MULI

Phone No. 0712435962

Adm. No. D61/KIT/20125/2012

Email: dickmmuli@gmail.com

The following Interview Guide was developed to provide quantitative data on the determinants of financial performance of processing small and medium enterprises in Kitui County. Since the research has quantitative aspect in the study design, the questions were quantitative in nature. They prevented the researcher from missing significant quantitative data on the access to finance, financial corporate governance, product costing, risk management practices and financial performance. The same set of questions was used to interview all the Chief Executive Officers of the processing small and medium enterprises in Kitui County.

Section A: Access to Finance

1. How much is your Equity?

2. Do you have access to or possess a bank / Sacco / Microfinance account?

3. Approximately, how much loans do you acquire from financial institutions on average annually?

Section B: Financial Corporate Governance

1. What kind of financial statements do you prepare?

2. How often do you prepare financial statements?

3. How often does your firm conduct auditing of the financial records?

4. Which feedback mechanism do you have to measure Satisfactory Levels of your staff and customers?

Section C: Product Costing

1. Which cost management techniques does your firm embrace?

2. How do you determine the prices of your products?

Section D: Risk Management Practices

1. Does your firm keep a risk register?

2. How often are risks evaluated?

3. What measures do you employ to deal with these risks?

Section E: Financial Performance

1. Generally, how has your firm's turnover performed over the past three years?

2. What is your profitability index trend over the past three years?

QUESTIONNAIRE

Please take your time to complete this questionnaire. The information provided will remain confidential and for the benefit of this study only.

Kindly use a tick where appropriate. Write in the provided blank spaces for open ended questions.

SECTION A: BACKGROUND INFORMATION

1. For how long has the firm been in operation?

a) Below 5 years ☐

b) Between 5 and10 years ☐

c) Over 10 years ☐

2. How many employees are there in your firm?

a) Below20 ☐

b) 20 to 49 ☐

c) 50 to 69 ☐

d) 70 to 99 ☐

SECTION B: EFFECT OF ACCESS TO FINANCE ON THE FINANCIALPERFORMANCE OF PROCCESSING SMEs

3. Below is a table with statements relating to effect of access to finance on the financial performance of processing SMEs. Rate these statements where 1 is strongly disagree, 2 is disagree, 3 is neutral, 4 is agree and 5 is strongly agree.

	Statement	1	2	3	4	5
a)	Loans from banks are readily available and accessible for start-ups firms					
b)	Financial institutions exhibit reluctance in extending long term finance to existing SMEs					
c)	Interest rate capping has improved access to finance for your firm.					
d)	Regulatory and administrative environment is an obstacle in accessing finance.					
e)	SMEs are capable of paying loans on time.					
f)	Accessibility to finance has a great influence on financial performance of your firm.					

4. What is your firm's major source of finance?

a) Savings. ☐

b) Loans from financial institutions. ☐

c) Donations from family and friends. ☐

d) Others (specify) _____

5. How sufficient is this source of finance for your business?

a) Very sufficient ☐   c) Less sufficient ☐

b) Sufficient ☐   d) Not sufficient ☐

SECTION C: INFLUENCE OF FINANCIAL CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF PROCCESSING SMEs

6. Below is a table with statements relating to effect of financial corporate governance on the financial performance of processing SMEs. Rate these statements where 1 is strongly disagree, 2 is disagree, 3 is neutral, 4 is agree and 5 is strongly agree.

	Statement	1	2	3	4	5
a)	There is a functional board in my firm.					
b)	The business prepares financial statements annually.					
c)	The business follows accounting principles.					
d)	Financial corporate governance enhances proper bookkeeping, preparation of financial statements and internal auditing.					
e)	Accounting skills and quality of financial reports affect financial performance of your firm					
f)	Internal auditing can improve the financial performance of a firm					

7. Indicate by a tick the main financial statement your business prepares

a) Income statement ☐

b) Cash flow statement ☐

c) Balance sheet ☐

d) Other (specify) ……………………………

SECTION D: INFLUENCE OF PRODUCT COSTING ON FINANCIAL PERFORMANCE OF PROCCESSING SMEs

8. Below is a table with statements relating to effect of product costing on the financial performance of processing SMEs. Rate these statements where 1 is strongly disagree, 2 is disagree, 3 is neutral, 4 is agree and 5 is strongly agree.

	Statement	1	2	3	4	5
a)	Your firm is guided by at least one cost management Technique.					
b)	The firm allocates costs using traditional cost allocation method.					
c)	The firm uses activity-based costing in allocation of costs.					
d)	SMEs incur high costs in an attempt to counter the effect of adverse environment and this affects their profitability index.					
e)	Product costing provides the basis in calculating the price of the product.					
f)	Product costing helps in making informed decisions on profitable processes					
g)	Enterprises with working cost structures have higher opportunities in realizing improved profit index.					

SECTION E: INFLUENCE OF RISK MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF PROCESSING SMEs

9. Below is a table with statements relating to effect of risk management practices on the financial performance of processing SMEs. Rate these statements where 1 is strongly disagree, 2 is disagree, 3 is neutral, 4 is agree and 5 is strongly agree.

	Statement	1	2	3	4	5
a)	Risks are a threat to attainment of short term and long-term business objectives.					
b)	The firm manages risks through avoidance (elimination, withdrawal From or become involved).					
c)	The firm manages risks through reduction (mitigation).					
d)	The firm manages risk through diversification (mixing a wide variety of investments within a portfolio).					
e)	The firm manages risk through taking an insurance cover					
f)	Enterprises that embrace risk management practices are likely to improve their financial performance.					

10. What do you find to be the major challenge in risk management in your firm?

a) Limited resources ☐

b) Weak structural features ☐

c) Inadequate risk management skills ☐

d) Other (specify) _____

SECTION F: FINANCIAL PERFORMANCE

11. Below is a table with statements relating to financial performance of processing SMEs. Rate these statements where 1 is strongly disagree, 2 is disagree, 3 is neutral, 4 is agree and 5 is strongly agree.

	Statement	1	2	3	4	5
a)	Our firm's financial performance is superior.					
b)	The firm possesses competitive advantage over other firms in the industry.					
c)	Our firm as compared to others is highly profitable.					
d)	The business has realized upward trend in total revenue over the past 3 years.					
e)	Financial performance enhances SMEs to make better investment decisions					
f)	Financial performance reduces agency problems.					

12. What is your annual turnover (Ksh)?

a) Below2 million ☐

b) Between 2 and 5 million ☐

c) Between 5 and 10 million ☐

Thanks for your Cooperation

APPENDIX V

PROCESSING SMES IN KITUI COUNTY

REPUBLIC OF KENYA

MINISTRY OF INDUSTRY, TRADE AND COOPERATIVES
STATE DEPARTMENT OF INVESTMENT AND INDUSTRY
DATA BASE ON INDUSTRIAL ESTABLISHMENT
PROCESSING SMES IN KITUI

S.No.	Name of the Firm	Physical Location	Type of the Product	Contact Person
I	Flour Milling Industry	Mwingi Town	Maize Flour	0722398595
2	Cotton Ginnery	Kitui Town	Cotton Ginning	0706440496
3	Chuluni Horticultural Enterprises Ltd	Chuluni Market	Fruits Juice	0722294189
4	Saab Enterprises Ltd	Mwingi Town	Lulu Water	0710461147
5	Mwingi Honey Refineries	Mwingi Town	Honey Refineries	0731307841
6	Kitui Flour Mills	Kitui Town	Maize Flour	0781638698
7	Meema Multipurpose	Kitui Town	Fruit Juice and Water Packaging	0722268067
8	Mutito Sweet Waters	Mutito	Water Packaging	0721739059
9	KituiEnterprise Promotion Co. Ltd	Kitui Town	Mango Juice, Water Packaging	0754916869
10	Kiusyani Beekeepers	Kiusyani	Honey Refineries	0722510324

11	Honey and Fruit Processors Ltd	Kiseveni Market-Mwingi	Honey / Fruit Juice	0733663657
12	Mbitini Wood Carvings	Mbitini Market	Wood Carvings	0711952051
13	Isolo Weavers	Matinyani	Textiles Apparel	0725884477
14	Stamad Agencies	Matinyani	Textiles Apparel	0720808725
15	Kitui County Processors	Migwani	Mango Juice and Fortified Flour	0725996755
16	StarliteValley Producers Ltd	Kitui Town	Baobab Fruit Powder and Oil	0722899829
17	Eco fuel Enterprises	Kitui Town	Briquettes and Improved Jikos	0721338672
18	Murky Ardap	Kamuwongo	Improved Jikos	0726518699
19	Mwingi Beekeepers and Food Crop Cooperative Society	Mwingi	Honey Processing	0712182909
20	Kitui Aloe Gardens	Mwingi	Aloe Soap/Lotion	0725996755
21	Kyanika Adult Group	Kyanika	Popped Cereals and Guard Value Added Products	0722251829
22	Mumu Self Help	Kitui	Textile, Apparels and Accessories	0728096456
23	Kamaki Coop. Society	Ikutha	Honey Refinery	0724618837
24	Zombe Women Multipurpose Cooperative	Zombe	Maize Flour and Honey Processing	0727563761
25	Lower Yatta Honey	Kanyangi	Honey Refineries	0724161117