



Financial Inclusion and Performance of Top 100 Small and Medium Enterprises in Kenya

Joram Nyaga Njagi¹, Dr. Nathan Mutwiri²

¹*School of Business, Economics and Tourism, Kenyatta University, Kenya*

²*Lecturer, Department of Accounting and Finance, School of Business, Economics and Tourism, Kenyatta University, Kenya*

ABSTRACT

Access to services such as credit, insurance, and savings enables Small and Medium Enterprises (SMEs) to invest in growth, innovation, and operational efficiency. SMEs leveraging financial inclusion can enhance their revenue generation, cash flow management, and overall profitability. The study sought to find out what impact finance inclusion has had on the performance of Kenya's top 100 SMEs. This study was guided by finance intermediation theories, technology acceptance theory, TAM signal theory and pecking order theory. The study was carried out on the basis of a descriptive research design. The target population consisted of top 100 medium size enterprises in Kenya as shown in the annual survey carried out by KPMG and nation media group in the years 2020. Respondents were financial officers from Kenya's top 100 mid-sized companies. Stratified sampling was used to interview respondents based on company category. Respondents were selected using a purposeful selection process. Data was collected using structured questionnaire. A pilot survey was conducted with 10 respondents, but the final survey did not include these respondents. Validity of research instruments was measured using content validity. The study examined the effects of micro savings, micro credit, micro insurance, and digital banking on the performance of Kenya's top 100 SMEs, revealing that tailored financial products significantly enhance operational efficiency and growth. Findings indicated that micro savings improve financial stability, while flexible repayment options for micro credit support sustainable business practices. Additionally, awareness and customized solutions for micro insurance products were found to bolster risk management among SMEs. Digital banking was highlighted as a critical enabler of faster transactions and better cash flow management. The conclusions suggest that targeted financial services and educational initiatives are vital for empowering SMEs to optimize their performance. Recommendations include developing customized financial products, enhancing digital banking infrastructure, and providing financial literacy training to improve overall business resilience and sustainability.

Key Words: *Financial Inclusion, Financial Performance, Small and Medium-Sized Enterprises*

DOI 10.35942/esjas758

Cite this Article:

Njagi, J., & Mutwiri, N., (2024). Financial Inclusion and Performance of Top 100 Small and Medium Enterprises in Kenya. (2024). *International Journal of Business Management, Entrepreneurship and Innovation* , 6(3) 1-14. <https://doi.org/10.35942/esjas758>

1.0 Introduction

1.1 Background to the Study

The economies of a lot of countries are heavily dependent on SMEs. The promotion of SMEs AlSharji, Ahmad & Bakar, 2018 has been given a lot of attention by governments and development



organisations in order to increase private sector participation. Sarapaivanich and Patterson (2019) point out that there is a considerable influence on SMEs' performance, particularly in terms of ranking and transaction planning. In order to improve and maintain the business performance of SMEs, funds and other resources are being used by investors as well as SME owners. Funds and other resources are invested by investors and business owners with a view to improving and maintaining the performance of their businesses. In order to take this country forward, SME's play a vital role and are an important source of employment and income. Furthermore, on the one hand, SMEs still play an essential role as part of Pakistan's economic and innovation growth and procurement activities for large enterprises with a view to promoting industry renewal. Financial inclusion in Pakistan allows small companies to gain new customers and make better use of the current ones, as demonstrated by Sherazi, Iqbal, Asif, Rehman and Shah (2018). In addition, it has been demonstrated that SMEs have the ability to attract new clients and make better use of performance and efficiency in order to improve their growth and competitiveness.

Tanzania's SMEs rely on financing inclusion in order to overcome a number of business challenges. The improvement and maintenance of the performance of SMEs in Ndesaulwa & Kikula (2019) needs to be supplemented by funding and other appropriate resources. The Tanzania financial inclusion framework sets out a strategy to combat discrimination, Mpunga (2020). As a core enabler of financial inclusion, they overcome the challenges that face financial inclusion. The beneficiaries have been chosen on the basis of their contributions to mitigate transaction costs, facilitation of two fundamental functions of money, namely payment and value storage as well as constraints such as information asymmetry for financial services operators and consumers in Tanzania. The significance of increasing input into the trade is considerable. Therefore, in order for SMEs to achieve better results, they need a great deal of assistance and that is why increasing the level of input into businesses is so important. Otiato (2018) notes that Kenya's financial environment has been significantly influenced by market structure changes and in particular the emergence of branchless banking over the last ten years. The development of technologies, which allow financial institutions to offer their customers other financial services such as Mobile Banking, has been a key factor in Kenya's transformation. As Bonface and Ambrose (2018) argue, branchless banking is a possibility for mobile phone users to access bank services by means of the use of wireless telecommunication technologies which can allow banks and their customers to interact with each other in good faith through local retail outlets.

Financial inclusion plays a vital role in enhancing access to financial services, particularly for underserved populations, by offering them products tailored to their specific needs. One of the core aspects of financial inclusion is the provision of microsavings products, which allow individuals and small businesses to save small amounts of money regularly. These savings products are designed to provide a secure platform for low-income earners to accumulate savings over time, which can be instrumental in promoting financial security. Aduda & Kalunda (2018) highlight that microsavings not only offer a safety net for the poor but also facilitate business operations for SMEs, allowing them to plan and invest more effectively. Additionally, Berger, Klepper, and Udell (2020) assert that microsavings products can lead to improved financial stability for both individuals and SMEs, enabling more efficient trade transactions. In this study, microsavings products will be examined to assess their role in empowering small businesses and improving financial accessibility for vulnerable populations.

SME performance is directly linked to how well they achieve these objectives, with performance acting as a critical indicator of organizational effectiveness (Will, 2015). According to a study by



Gustavson et al. (2016), business owners and managers must continuously monitor their companies' performance to implement necessary changes and improve results. Without regular performance assessments, it becomes difficult for management to determine the optimal time for adjustments. This issue can hinder a company's capacity to improve and compete, particularly in an environment where SMEs are constantly striving to enhance efficiency and effectiveness. McWilliams and Siegel (2019) note that a company's efficiency, often tied to innovative strategies, plays a significant role in improving performance by generating new business opportunities and achieving sustained growth. For SMEs, this interaction between their internal operations and external environment is crucial for success.

Small and medium-sized enterprises (SMEs) play a crucial role in driving economic growth and financial inclusion in various nations, including Kenya. SMEs are classified based on the number of employees: micro-enterprises employ fewer than five full-time workers, small enterprises have between 5 and 49 employees, and medium-sized businesses have between 50 and 99 employees (GOK, 2015). In Kenya, SMEs contribute significantly to wealth creation, job opportunities, and technological advancements, all of which foster financial inclusion. Expanding their operations further can enhance income distribution and ensure that resources are more equitably shared, which is crucial for financial inclusion, especially in underserved communities.

1.2 Statement of the Problem

Access to services such as credit, insurance, and savings enables SMEs to invest in growth, innovation, and operational efficiency (Okwatch, 2022). SMEs leveraging financial inclusion can enhance their revenue generation, cash flow management, and overall profitability. This positive relationship underscores the importance of financial inclusion as a driver of better financial health, competitiveness, and resilience in the face of market fluctuations (Kilonzo, 2021). However, despite these benefits, many SMEs do not fully capitalize on available financial services due to barriers such as high interest rates, insufficient financial literacy, and limited access to formal banking systems. Studies have shown that firms that adopt comprehensive financial inclusion strategies outperform their peers in terms of profit margins and return on investment (Kamau, 2022). Therefore, financial inclusion is essential for enhancing SME performance and ensuring long-term sustainability.

Despite their potential, SMEs in Kenya face significant performance challenges. According to government statistics, three out of five SMEs fail within the first three years of operation (RoK, 2005). This high failure rate is attributed to various factors, including poor financial management, limited access to capital, and high competition. In 2021, Kenya's SME sector contributed approximately 40% to the GDP but was marked by stagnant growth due to structural inefficiencies (Kenya National Bureau of Statistics, 2021). A 2019 report indicated that 80% of SMEs struggle with cash flow issues, while only 30% have access to formal credit, significantly hindering their capacity to grow (World Bank, 2019). Moreover, the COVID-19 pandemic further exacerbated the struggles of SMEs, with over 75% reporting a decrease in revenues (Kenya Private Sector Alliance, 2020). These statistics paint a grim picture of the SME sector, where poor performance is not just a temporary issue but a systemic challenge, impacting the broader economy by slowing job creation and innovation.

The relationship between financial inclusion and SME performance has yielded mixed, contradictory, and inconclusive findings in various studies, revealing a clear research gap. For instance, Otiato's (2016) study found an unfavorable correlation between SMEs' financial inclusion



and their performance, particularly in budgetary aspects. In contrast, Mdasha, Irungu, and Wachira (2018) highlighted that financial inclusion significantly enhances SME performance, especially through access to financial services. However, their research focused on Dar-es-Salaam, limiting its applicability to the Kenyan context. Similarly, Mutinda, Jagongo, and Kenyanya (2018) emphasized a strong positive correlation between financial inclusion innovations and the performance of commercial banks, which may not reflect the unique financial struggles of SMEs. The lack of context and sector-specific analysis in these studies underscores the need for more targeted research into the nuanced impacts of financial inclusion on SME performance in Kenya. Furthermore, methodological limitations, such as narrow sample sizes or the exclusion of key financial variables, suggest that further studies are needed to fully understand the dynamics of financial inclusion and its role in boosting SME performance in diverse contexts.

1.3 Objective of the Study

This study seeks to ascertain how financial inclusion affects the performance of 100 top small and medium enterprises in Kenya.

2.0 Literature Review

2.1 Theoretical Review

2.1.1 Financial Intermediation Theory

The theory of financing intermediation in the 20th century was developed by Gurley and Shaw in 1960. The notion of agency and informational asymmetry serve as the foundation for the financial intermediation theory. The cost of doing business and availability to credit are two topics covered by the theory of financial intermediation. In theory, the existence of high transaction costs, the absence of complete information in a timely manner, and the system of regulation all account for the existence of financial intermediaries. The theory primarily examines how financial intermediation affects the economy, how it serves as a function of the economy, and how government policies affect financial intermediaries.

The relevance of Financial Intermediation Theory extends to contemporary discussions on financial inclusion, particularly concerning aspects like micro savings, micro credit, micro insurance, and digital banking. These components significantly impact the performance of small and medium-sized enterprises (SMEs). For instance, micro credit allows SMEs to access essential funding that they might not obtain through traditional banking channels, enabling them to invest and expand their operations (Odedokun & Ekwueme, 2023). Similarly, micro savings and micro insurance provide SMEs with a safety net against unforeseen financial challenges, fostering stability and encouraging entrepreneurial activity. Moreover, digital banking enhances accessibility and convenience, allowing SMEs to manage their finances more efficiently and respond swiftly to market demands. Thus, FIT illustrates how these financial inclusion elements collectively contribute to improved SME performance by increasing access to capital, reducing risks, and promoting financial stability.

2.1.2 Technology Acceptance Model

The Technology Acceptance Model (TAM) was developed by Davis, (1989) which aims to explain the factors influencing user acceptance and usage of technology. The model primarily posits that perceived ease of use and perceived usefulness are the two key determinants of technology adoption (Davis, 1989). This model is particularly relevant in understanding how individuals and



organizations accept and utilize new technologies in various contexts. TAM is grounded in several assumptions. First, it assumes that individuals are rational actors who make decisions based on the perceived benefits of technology (Davis et al., 1989). Second, it posits that user acceptance is a precursor to actual system use, indicating a direct relationship between acceptance and usage behavior (Venkatesh & Bala, 2018). Additionally, TAM assumes that external variables, such as organizational support and social influences, can indirectly affect perceived usefulness and ease of use, thereby impacting acceptance (Venkatesh et al., 2023).

TAM effectively explains how financial inclusion aspects such as micro-savings, micro-credit, micro-insurance, and digital banking impact the performance of small and medium enterprises (SMEs). By focusing on perceived ease of use and perceived usefulness, TAM suggests that when SMEs recognize the benefits and accessibility of these financial services, they are more likely to adopt them. For instance, if micro-savings platforms are perceived as easy to use and beneficial for managing cash flow, SMEs may integrate these tools into their operations, thereby enhancing their financial stability and overall performance. Similarly, if digital banking services are viewed as convenient and effective in facilitating transactions, SMEs can optimize their operations and improve profitability through increased financial access.

2.1.3 Signaling Theory

Signaling Theory, initially articulated by Michael Spence in 1973, postulates that in situations of asymmetric information, parties convey information about themselves through signals to reduce uncertainty for others. According to Ross (1977), signaling theory says when a company issues new debt, it signals to investors and shareholders the prospects of the company improving. By adding debt, the company will be faced with limited cash flow and a corresponding financial burden which makes it difficult for the manager to issue new debt as long as he is convinced that the firm can meet its obligations in the future. The signaling theory of financing decisions holds that decisions are made primarily to let outside investors know that managers are confident in the firm's future prospects.

Additionally, the theory has practical implications for policy-making, particularly in developing economies, where signaling can facilitate access to resources and opportunities for marginalized groups (Mokhber & Alavi, 2023). Furthermore, the emergence of digital platforms has enhanced the relevance of Signaling Theory, as businesses increasingly rely on online reviews, ratings, and certifications as signals of quality in a digital marketplace. In the context of financial inclusion, Signaling Theory provides a framework for understanding how aspects such as micro savings, microcredit, micro insurance, and digital banking influence Small and Medium Enterprises (SME) performance. Access to microcredit can signal an SME's potential for growth and reliability, attracting further investment and support. Similarly, utilizing digital banking solutions can signify an SME's modernity and adaptability, potentially increasing customer trust and market reach. Therefore, financial inclusion serves not only to enhance the operational capabilities of SMEs but also to communicate their viability and value in a competitive market, ultimately influencing their performance positively.

2.1.4 Pecking Order Theory

Pecking Order Theory, first proposed by Myers and Majluf in 1984, posits that firms prioritize their sources of financing based on the principle of least effort or least resistance. According to this theory, firms prefer internal financing over external financing and prioritize debt over equity



when external financing is required. This preference arises from information asymmetry between managers and investors; managers, having more information about the firm's value and risk, are more likely to utilize internal funds first. When internal funds are insufficient, firms then seek debt financing, with equity as a last resort due to potential dilution of control and negative market perceptions regarding the firm's financial health (Myers & Majluf, 1984).

The relevance of Pecking Order Theory in today's financial landscape is notable, particularly in emerging markets where access to capital can be constrained. The theory offers insights into how businesses manage their financing strategies in the context of limited resources and financial markets. It also emphasizes the importance of cash flow management and the need for firms to maintain a healthy balance sheet, especially in industries where financial stability is critical for survival (Nguyen et al., 2020). Pecking Order Theory postulates that access to micro-savings and microcredit provides SMEs with essential internal funds, reducing reliance on external financing sources and allowing for greater flexibility in capital management. Microinsurance mitigates risks that could otherwise jeopardize an SME's financial stability, promoting a more secure environment for investment and growth. Digital banking facilitates smoother transactions and better financial management, further supporting SMEs in their pursuit of growth opportunities. Collectively, these aspects enhance the financial resilience of SMEs, aligning well with the core tenets of Pecking Order Theory by empowering them to prioritize internal financing options effectively.

2.2 Empirical Review

Swarnika and Pushpanathan (2020) conducted a study in Sri Lanka to evaluate the impact of microfinance services on micro-entrepreneurs using SPSS version 20 for data analysis. The researchers administered a structured questionnaire to gather quantitative data from respondents. Employing regression analysis and factor analysis, they examined the relationship between microfinance services—specifically micro-credit, micro-savings, and training—and entrepreneurs' performance. The findings indicated that these microfinance services significantly enhance the performance of micro-entrepreneurs. However, while the study highlights the benefits of microfinance services, it fails to address potential long-term impacts on sustainability and growth of micro-enterprises beyond immediate financial performance, leaving a gap in understanding the broader implications of microfinance on entrepreneurial ecosystems.

Chikalipah (2018) focused on microsavings and their influence on the financial performance of microfinance institutions (MFIs) in Sub-Saharan Africa. Utilizing data from the Microfinance Information Exchange for the period between 1998 and 2012, the study employed panel estimation methods across 350 institutions in 36 countries. The results revealed a statistically significant negative relationship between microsavings and MFI performance. This suggests that rather than enhancing financial stability, the reliance on microsavings may create liquidity challenges for MFIs. The study's primary limitation is its focus on a narrow time frame and region, which may not capture varying economic conditions or regulatory environments across different countries. Moreover, it did not investigate the individual factors affecting microsavings uptake, representing a significant research gap.

Mulili (2017) examined the determinants affecting microcredit performance by analyzing data from 180 borrowers using a systematic sampling approach. The study employed questionnaires to gather data and applied a Logit model for analysis. It focused on all types of microfinance loans issued between July 2009 and June 2012, revealing a high default rate of 46.36%. While this alarming statistic underscores the challenges faced by borrowers, the study primarily reflects a

historical snapshot without considering the evolving landscape of microfinance in Kenya. The reliance on data from a specific timeframe limits the applicability of findings to current practices and trends. Additionally, the study does not delve into the reasons behind the high default rates, representing a critical area for future research.

Chodokufa and Chiliya (2014) investigated the relationship between SMEs and insurance companies in the Nelson Mandela urban area of South Africa. The study focused on the importance of reputation, staff knowledge, and brand perception in building trust between SMEs and insurance providers. Through qualitative analysis, the researchers gathered insights from SMEs regarding their experiences with insurance companies. The findings suggested that a lack of trust significantly hampers engagement between these two sectors. While the study effectively highlights critical factors influencing the relationship, it primarily relies on qualitative data without robust quantitative support. Furthermore, the research does not address how insurance companies can enhance their services to foster better relationships with SMEs, representing a notable research gap.

Alando (2019) conducted an analysis of micro-insurance's impact on the financial performance of insurance companies in Kenya. The study utilized statistical surveys and correlation analysis involving ten companies that underwrote micromedical and property insurance. The findings revealed that microinsurance, premiums, and claims significantly influence the financial performance of insurers. However, the study focused solely on a limited number of companies and did not account for the broader insurance market dynamics in Kenya. Additionally, the reliance on published secondary information may introduce biases, as it does not encompass all relevant factors affecting financial performance. There remains a significant gap in understanding how microinsurance can be effectively integrated into the overall product offerings of insurance companies to enhance performance.

Kinyua (2018) examined the effect of microinsurance on the profitability of listed insurance companies in Kenya, employing a descriptive research design. The study involved six listed insurance firms and utilized fixed regression analysis to assess the impact of microinsurance factors on financial performance. The results indicated that insurance claims did not adversely affect profitability, while premium charges negatively impacted financial performance. While these findings are valuable, the study's focus on listed companies limits its applicability to the broader insurance sector, which includes numerous unlisted firms. Additionally, the study does not explore the reasons behind the negative impact of premium charges, highlighting a gap in understanding how pricing strategies can be optimized in the microinsurance context.

Mehir et al. (2021) conducted a study to assess the impact of digital banking on the growth rates of small and medium-sized enterprises (SMEs) in the Katihar district of Bihar, India. Using primary data collected through questionnaires, the researchers focused on 454 micro, small, and medium enterprises to gather insights on their experiences with digital banking services. The study found a positive relationship between digital banking adoption and SME growth, suggesting that access to digital financial services can enhance operational efficiency and market reach. However, the study does not address potential barriers to digital banking adoption, such as technological literacy or infrastructural challenges, which could limit the applicability of its findings. The lack of longitudinal data also means that the study does not account for changes over time, representing a significant gap in understanding the sustained impact of digital banking on SME growth.



Iravonga and Miroga (2018) explored mobile banking's role in providing financial services to micro, small, and medium enterprises in Kakamega County, Kenya. The study employed a random sampling method, collecting data from 373 SMEs using structured questionnaires. The findings indicated that mobile banking services significantly enhance financial performance by improving access to capital and facilitating transactions. Despite these positive outcomes, the study did not explore the potential risks associated with mobile banking, such as security concerns or user fraud. Additionally, the study lacks a comparative analysis with traditional banking methods, which would provide a more comprehensive understanding of the relative advantages of mobile banking. Thus, further research is warranted to explore these factors.

3.0 Methods

Large amounts of data can be collected across disciplines using non-experimental designs using a representative sample of members of the target population. Observing subjects without manipulating their surroundings is the essence of a descriptive research design. Thus, data was collected from respondents and analyzed based on their perspectives in accordance with the descriptive research design. In addition, descriptive designs minimise biases in the study since the researcher is constrained in how much he or she can manipulate the variables during the study. The target population for this study comprised the top 100 SMEs in Kenya, as identified in the 2023 annual survey conducted by KKP and the Nation Media Group. The top 100 SMEs in Kenya are appropriate for studying the effect of financial inclusion on performance because they represent the most successful and rapidly growing enterprises in the country, providing a valuable context for understanding financial dynamics. Their significant turnover and established market presence make them ideal candidates for examining how access to financial services influences operational efficiency and growth. Additionally, these firms are likely to have diverse financial needs, allowing for an exploration of various financial inclusion strategies and their impacts. The study involved engaging the finance managers from each of these firms, with one manager selected from every company.

A census approach was employed, where all 100 firms were included in the study rather than relying on sampling methods. This decision is justified because it allows for a comprehensive analysis of insights and experiences from the top-performing SMEs, ensuring that the findings accurately represent the entire population of interest (Creswell, 2017). Structured questionnaires were used for data collection. Among the six sections of the questionnaire, the first provided information about the respondent's background, the second covered search for micro-savings products, the third covered microcredit products, The fourth concentrated on micro insurance products, the fifth relating to electronic banking and the sixth related to performance of the 100 largest publicly traded companies. Questionnaire items were rated on a liker scale based on how much respondents agree or disagree with them. Interview of the open-ended questions that follow each study variable, respondents were provided with an explanation as to how independent variables affect dependent variables. In addition, secondary data was collected using a review of documents containing available data on statements of finance that have been made available covering a period of 4 years from 2018 to 2022.

Respondents were informed that the data collected is for the academic purpose of the study on the basis of a letter of proposal from NACOSTI and an application for research authorization submitted by NACOSTI, as well as during the introduction of the study from Kenyatta University. The letter was used as a demonstration of the study's compliance with all ethical standards. To see



the sampled respondents, 100 of the top SMEs were visited. Respondents were able to stay with questionnaires for up to two weeks after dropping them off and picking them up once the questionnaires were filled out, the researcher collected them. For the calculation of descriptive statistics, means and standard deviations was used in quantitative analysis. To create tables and figures that give qualitative data, the SPSS Statistical Package for Social Sciences was used. For the purpose of determining a relationship between variables, correlation analysis and multiple regression was performed.

The research’s objectives, the process that would be used, the researcher's reputation, and how the findings will be used were adequately disclosed to the study's respondents. This was done so that they can decide for themselves whether or not they want to take part in the study. The confidentiality of the participants was not be jeopardized because they were advised not put their names in the questionnaire.

4.0 Results

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.804053	0.646501	0.616543	1.035581

Dependent variable: Performance

Predictor variable: (constant), micro-savings products, micro-credit products, micro-insurance products and digital banking

For the purpose of determining the effect of predictor variables on performance, the coefficient of determination-R-squared was used. It was found that 24 predictor variables explained 64.6% of changes in performance in this study, according to its R-square value of 0.646. An R-square column indicates how well an independent variable predicted the outcome. In this study, the predictor variables and the response variable exhibited a strong relationship with an R value of 0.804.

Table 2: ANOVA of the Regression

	Sum of Squares	df	Mean Square	F	Sig.
Regression	98.85	4	24.712	21.580	0.000002
Residual	99.62	87	1.1451		
Total	198.47	91			

Dependent variable: Performance of 100 SMEs

Predictor variable: (constant), micro-savings products, micro-credit products, micro-insurance products, digital banking

Table 3 summarizes the ANOVA results. In this study, the selected predictor variables have good predictive power for performance, as indicated by a P value of 0.000 and a F statistic of 21.580, and this is further confirmed by 0.05 critical p values. The coefficient of correlation is shown in

Table 3: Model Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	3.936	0.765		5.145	0.0000



Micro saving products	0.741	0.236	0.646	3.140	0.0032
Micro credit products	0.667	0.215	0.526	3.102	0.0035
Micro insurance products	0.737	0.123	0.645	5.992	0.0000
Digital banking	0.549	0.2654	0.442	2.069	0.0452

$$\text{Performance} = 3.936 + 0.741X_1 + 0.667X_2 + 0.737X_3 + 0.549X_4 + \varepsilon$$

Besides estimating the independent variables, it also shows the standard error and the t-ratios. The average performance for the 100 largest SMEs in Kenya was 3.936, when all other independent variables were kept at 0, based on a regression model shown below. When microsaving products are increased to firms' financial inclusion, 0.782 improvements will be seen in the top 100 small and medium enterprises in Kenya. Similarly, an increase of 0.667 percentage points in performance is expected to be achieved by changing unit values for microcredit products within the firm financial inclusion. The number of micro insurance products increases by 0.737 for every unit increase in performance of Kenya's 100 smallest and medium-sized businesses. Kenya's top 100 small and medium sized firms will also benefit from an increase in digital banking of 0.549 percentage points. In addition, when the number of companies in Kenya is increased with a single unit, the performance of the 100 best performing SMEs will increase by 0.463.

Small and medium enterprises in Kenya that use microsaving products do not show significant impact on their performance. In Kenya, commissioners in the ministry of interior and national administration are found to have a relationship between human capital and their career advancement. This study examines the financial performance of small and medium enterprises: A case from Machakos town, Kenya, similar to Omwansa's (2018) study. The results showed that MFI products were strongly linked to SMEs' financial performance through micro savings, micro credit and training. Kisumu County, Kenya, small and medium enterprises (SMEs) are significantly affected by microfinance savings products, according to Omondi and Jagongo (2018). Several factors contributed to the financial performance of Microfinance products, according to the study

This study rejected the null hypothesis and found that microcredit products did not significantly affect the performance of small and medium enterprises in Kenya. However, it was concluded that micro credit products were significantly associated with the performance of Kenya's 100 largest MSEs. It is similar to the study findings of Babajide (2012) that examined the effects of microcredit products on micro and small enterprises (MSEs), which also found strong evidence that access to microfinance does not lead to the growth of micro and small enterprises (MSEs). The Mulili (2017) study examined factors determining microcredit performance in Kenyan microfinance institutions. There was a 46.36 percent default rate found in the study. In line with similar trends reported by public development finance institutions, this percentage also confirms the findings of the institutions.

A study that rejected the null hypothesis that there was no significant association between micro insurance products and business performance of Kenya's top 100 SMEs determined that micro insurance products had no significant effect on their performance. Results from Kenya's top 100 small and medium businesses indicate that microinsurance products positively affect their performance. Alando (2019) also examined various aspects of micro-insurance's impact on insurance companies in Kenya, as did the study findings. Several factors were found to significantly impact insurance companies' financial performance, including micro-insurance claims, micro-insurance costs, and micro-insurance premiums.



Although the null hypothesis of digital banking not being significantly impactful on Kenya's 100 largest small and medium businesses was rejected, the research concluded that digital banking has an impact on Kenya's 100 largest small and medium businesses. When mobile banking is adopted by small and medium enterprises in Nairobi County, Muchiri (2018) found that they perform better. Study results revealed that SMEs continue to use mobile banking services due to its convenience, affordability, security, accessibility, and diversity. Also, mobile banking has increased customer base due to its ease of payment, time-saving ability, ease of access to bank accounts, increased transactions, increased profits, and increased business efficiency, in addition to giving them more time to perform other business activities.

5.0 Conclusions and Recommendations

5.1 Conclusion

The findings of this study reveal a strong positive relationship between micro saving products and the performance of the top 100 SMEs in Kenya. The study concludes that these businesses benefit significantly from systematic saving mechanisms, which enhance their financial stability and operational efficiency. The ability to save and manage cash flow effectively allows SMEs to navigate financial shocks and invest in growth opportunities. The study underscores the importance of micro saving products as a fundamental component of financial management for SMEs. These products not only contribute to business resilience but also foster a culture of financial prudence among enterprises, ultimately enhancing their overall performance.

The study found a positive relationship between access to micro credit products and the performance of the top 100 SMEs, although the impact was not as strong as that of micro saving products. The study concludes that while access to credit is essential for financing growth and expansion, it must be managed carefully to avoid potential over-indebtedness. The findings emphasize that micro credit products play a significant role in enhancing the performance of SMEs, but prudent financial management is necessary. Policymakers and financial institutions should aim to provide tailored credit solutions while educating SMEs on responsible borrowing practices to optimize the benefits of micro credit. The study highlights the need for a balanced approach to credit provision that considers the financial health of SMEs to prevent future financial distress.

The results indicate a significant positive relationship between micro insurance products and the performance of the top 100 SMEs. Micro insurance serves as a protective mechanism against unforeseen risks, enabling SMEs to operate with greater confidence and pursue growth opportunities without the fear of catastrophic financial losses. The study concludes that protective aspect of micro insurance is crucial, as it allows businesses to mitigate risks that could otherwise jeopardize their operations. The study highlights the critical role of micro insurance in safeguarding SMEs from financial risks. To maximize the potential of micro insurance, there is a need for increased awareness and educational initiatives that inform SMEs about the benefits and importance of insurance coverage in enhancing their performance.

The findings reveal a positive relationship between digital banking and the performance of the top 100 SMEs, indicating that digital banking facilitates efficient transaction processes and improves cash flow management. The study concludes that the ability to access global markets and streamline payment processes contributes to enhanced operational efficiency and growth potential. Digital banking has emerged as a transformative tool for SMEs, allowing them to focus more on



their core business activities while efficiently managing financial transactions. The study underscores the transformative impact of digital banking on SME performance. However, to fully realize these benefits, it is essential to address technological barriers and ensure that all SMEs have the necessary infrastructure and knowledge to leverage digital banking effectively. This will ultimately foster an environment conducive to sustained growth and development for SMEs in Kenya.

5.2 Recommendations

The study recommends that financial institutions develop tailored micro saving products specifically designed for SMEs. These products should take into account the unique cash flow patterns and operational challenges that small and medium enterprises face. By offering savings accounts with flexible terms and favorable interest rates, banks can encourage SME owners to prioritize savings. This, in turn, can lead to improved financial stability and growth opportunities for these businesses. Additionally, a focused marketing approach should be adopted to raise awareness about these micro saving products among SMEs. Such efforts will ensure that business owners understand the potential benefits of saving and how it can positively impact their operations.

The study recommends that microfinance institutions offer flexible repayment options tailored to the cash flow cycles of SMEs. This approach is essential for ensuring that businesses can meet their loan obligations without jeopardizing their operational viability. By aligning repayment schedules with the income streams of these businesses, financial institutions can help prevent over-indebtedness. Additionally, this flexibility can provide SMEs with the necessary breathing room to reinvest in their operations. Financial institutions can also benefit from improved loan recovery rates as businesses become more capable of repaying their debts. Overall, tailored repayment options can foster a healthier relationship between lenders and SMEs.

The study recommends that insurance providers create awareness campaigns specifically targeting SMEs to educate them on the benefits of micro insurance products. Many small businesses remain unaware of how these products can safeguard against potential risks and losses. By demystifying the concept of insurance and showcasing its advantages, these campaigns can encourage greater uptake among SMEs. Moreover, highlighting real-life success stories can effectively illustrate the positive impact of micro insurance on business resilience. Increased awareness can lead to more informed decisions by SME owners regarding risk management. Ultimately, these efforts can significantly enhance the protective measures SMEs take to safeguard their assets and operations.

The study recommends that financial institutions invest in enhancing digital banking infrastructure to ensure that all SMEs have access to reliable and secure online banking services. Access to effective digital banking solutions is crucial for facilitating seamless transactions and improving cash flow management. By investing in technology, banks can empower SMEs to manage their finances more efficiently. This empowerment can lead to improved operational efficiency, allowing businesses to focus on their core competencies. Furthermore, an enhanced digital banking experience can attract more SMEs to engage with financial institutions. Ultimately, robust digital banking infrastructure will significantly contribute to the growth and performance of SMEs.

References

Alando, T. A. (2019). *An assessment of the effect of micro-insurance on the financial performance of insurance companies in Kenya* (Master's Project, University of Nairobi)



- AlSharji, A., Ahmad, S. Z., & Bakar, A. R. A. (2018). Understanding social media adoption in SMEs: Empirical evidence from the United Arab Emirates. *Journal of Entrepreneurship in Emerging Economies*, 4(1), 2 – 14
- Babajide, A. A. (2012). Effects of micro credit products on micro and small enterprises (MSEs) growth in Nigeria. *Asian Economic and Financial Review*, 2(3), 463-477
- Berger, A. N., Klapper, L. F., & Udell, G. F. (2020). The ability of banks to lend to informationally opaque small businesses. *Journal of Banking and Finance*, 25(12), 2127–2167
- Chikalipah, S. (2018). Do microsavings stimulate financial performance of microfinance institutions in Sub-Saharan Africa?. *Journal of Economic Studies*, 4(1), 9 – 14
- Cooper, D. R., & Schindler, P. S. (2011). Qualitative research. *Business research methods*, 4(1), 160-182
- Davis, F. D. (1989). Perceived usefulness, perceived ease of use, and user acceptance of information technology. *MIS Quarterly*, 13(3), 319-340.
- Gall, M. D., Borg, W. R., & Gall, J. P. (2012). *Educational research: An introduction*. Longman Publishing
- Iravonga, J. J., & Miroga, J. (2018). Effect of Mobile Banking on Financial Performance of Small Scale and Medium Enterprises in Kakamega County. *International Journal of Management and Commerce Innovations*, 6(1), 2063-2072.
- Lin, T. C., Hsu, Y. S., Lin, S. S., Changlai, M. L., Yang, K. Y., & Lai, T. L. (2020). A review of empirical evidence on scaffolding for science education. *International Journal of Science and Mathematics Education*, 10(2), 437-455
- Lu, J. W., & Beamish, P. W. (2019). The internationalization and performance of SMEs. *Strategic management journal*, 22(6-7), 565-586.
- McWilliams, A., & Siegel, D. (2019). Corporate social responsibility and financial performance: correlation or misspecification? *Strategic management journal*, 21(5), 603-609
- Mdasha, Z., Irungu, D., & Wachira, M. (2018). Effect of Financial Inclusion Strategy on Performance of Small and Medium Enterprises: A Case of Selected SMEs in Dar es Salaam, Tanzania. *Journal of Strategic Management*, 2(1), 51 – 70
- Mokhber, M., & Alavi, S. (2023). Signaling theory in developing economies: The role of microfinance. *Development Studies Research*, 10(1), 19-29.
- Mpunga, H. S. (2020). Examining the factors affecting export performance for Small and Medium Enterprises (SMEs) in Tanzania. *Journal of Economics and Sustainable Development*, 7(6), 41 - 51
- Muchiri, J. W. (2018). Effect of mobile banking adoption on the performance of small and medium enterprises in Nairobi County. *International Journal of Economics, Business and Management*, 2(4), 445-486.
- Mulili, M. (2017). *Determinants of Micro Credit Performance in Microfinances in Kenya* (Master's Project, Kenyatta University)
- Mutinda, N. J., Jagongo, D., & Kenyanya, H. (2018). Financial inclusion innovations and financial performance of top 100 small and medium enterprises in Kenya. *International Journal of Management and Commerce Innovations*, 5(2), 849-856.
- Mwangi, W. P., & Cheluget, J. (2018). Role of Financial Literacy, Financial Innovation, Financial Inclusion on SME Access to Credit in Kenya: A Case of Kumisa SACCO. *Journal of Finance and Accounting*, 2(2), 5 – 11
- Myers, S. C., & Majluf, N. S. (1984). Corporate Financing and Investment Decisions When Firms Have Information That Investors Do Not Have. *Journal of Financial Economics*, 13(2), 187-221.



- Ndesaulwa, A. P., & Kikula, J. (2019). The impact of innovation on performance of small and medium enterprises (SMEs) in Tanzania: A review of empirical evidence. *Journal of Business and Management Sciences*, 4(1), 1-6.
- Nguyen, T. D., Nham, B. T. N., & Hoang, M. L. (2020). Financial Inclusion and Firm Performance: Evidence from Vietnamese SMEs. *Journal of Asian Finance, Economics and Business*, 7(12), 907-917.
- Odedokun, M. O., & Ekwueme, I. C. (2023). Microcredit, financial inclusion, and SME growth in developing economies: A review. *Journal of African Business*, 24(3), 341-360.
- Omondi, R. I. A. & Jagongo, A. (2018). Microfinance services and financial performance of small and medium enterprises of youth SMEs in Kisumu County, Kenya. *International Academic Journal of Economics and Finance*, 3(1), 24 – 43
- Otiato, E. H. (2016). Determinants of financial inclusion and performance of small and medium enterprises in Nairobi City County. *International Journal of Finance and Accounting*, 1(3), 62-78.
- Otiato, E. H. (2018). Determinants of financial inclusion and performance of small and medium enterprises in Nairobi city county. *International Journal of Finance and Accounting*, 1(3), 62-78.
- Sarapaivanich, N., & Patterson, P. G. (2019). The role of interpersonal communication in developing small-medium size enterprise (SME) client loyalty toward an audit firm. *International Small Business Journal*, 33(8), 882-900
- Sherazi, K. S., Iqbal, Z. M., Asif, M., Rehman, K., & Shah, H. S. (2018). Obstacles to Small and Medium Enterprises in Pakistan. Principal Component Analysis Approach. *Middle-East Journal of Scientific Research*, 13(10), 1325-1334
- Spence, M. (2002). Signaling in retrospect and the informational structure of markets. *American Economic Review*, 92(3), 434-459.
- Swarnika, K. L., & Pushpanathan, A. (2020). *Effect of microfinance services on the performance of micro-entrepreneurs: A study in pilimathalawa area* (University of Vavuniya Sri Lanka)
- Wang, T., & Wang, L. (2021). Quality signaling and market dynamics: A comprehensive analysis. *Journal of Marketing Research*, 58(2), 200-215.
- Will, M. G. (2019). Successful organizational change through win-win: How change managers can create mutual benefits. *Journal of Accounting & Organizational Change*, 11(2), 193-214
- Zhang, R., Liu, J., & Chen, S. (2023). Behavioral aspects of financial decision-making: Insights from financial intermediation theory. *Journal of Behavioral Finance*, 24(2), 150-165.

This is an open-access article published and distributed under the terms and conditions of



the [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by-nc/4.0/) of United States unless otherwise stated. Access, citation and distribution of this article is allowed with full recognition of the authors and the source. Copyright, content ownership and liability for content herein remain with the authors.

This is an internationally double-blind peer reviewed article.



© (2024) Joram Nyaga Njagi, Dr. Nathan Mutwiri