Understanding Performance of Small and Medium-Sized Enterprises in Nairobi City County, Kenya: The Influence of Financial Accessibility Practices

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Abstract

In any business or organization's endeavors, performance is the critical vision for management, growth, and improvement. Besides, in the unpredictable and competitive business environment, the availability of financial resources plays a significant role a sound financial accessibility practice leads to better business opportunities and innovative processes. Small and Medium Enterprises are part of the vast informal economy, which significantly contributes to job creation and poverty alleviation. In Kenya, however, within a few months of operation, about half of these businesses close, while most that remain perform poorly. The dismal performance has been linked to challenges in credit access in the banking sector, as these financial institutions play a key role in serving this segment. The study examined the influence of financial accessibility practices on the performance of small and medium-sized enterprises in Nairobi County, Kenya. Specifically, the study aimed to investigate the impact of entrepreneurial orientation, interest rate, collateral requirements, and credit rationing on access to credit and performance of Small and Medium Enterprises. This research was anchored in three theories: the asymmetric information theory, the adverse selection theory, and the Credit Rationing Theory. A descriptive survey research design was employed in the study to target 3,000 Small and medium enterprises registered in Nairobi County. The sample size was determined using Taro Yamane's formula, selecting 97 respondents as the unit of observation. Proportionate stratified and random sampling was used as the sampling technique. The data collection instrument was a pilot-tested questionnaire for accurate measurement examination. Descriptive statistical methods, such as the mean, standard deviation, frequencies, and percentages, were used to analyze the data. In addition, inferential statistical techniques, such as Pearson's correlation and multiple regression, were used to assess relationships among the variables. The data were presented through tables and charts. The empirical results indicate that the four independent variables had a significant impact on the performance of Small and Medium Enterprises in Nairobi County, Kenya (Adj R^2 = 0.743, F-stat = 54.485, $p < 0.005$). The study concluded that financial accessibility practices improve the affordability, profitability, growth, and cost efficiency of firms' financial services. The study's findings contribute to the body of knowledge, thereby enriching the formulation of policies and best practices for firms to access credit and loans. Management and directors of Small and Medium Enterprises should entrench credit access activities and practices to optimize organizational outcomes.

Keywords: *Performance, Small and Medium-Sized Enterprises, Nairobi City County, Financial Accessibility Practices*

1.0 Introduction

The performance of a firm, as an approach capable of comprehending financial performance barometers such as payback, added economic value, shareholder returns, and indicators based on market-like shares, has become more compelling in the 21st century than in the 20th (Vita & Muathe, 2023).The evolving nature of financial environments is recognized globally, prompting adherence to established regulations to ensure customer satisfaction and sound working relationships with stakeholders (Batool, Sajid & Hamid, 2024; Meressa, 2022). Alinitwe (2023), along with Ndemi and Mungai (2018), agrees with Meressa (2022) and argues that, to achieve financial health and stability, firms need suitable sources of financing across all stages of their life cycle – from creation to development and growth. For this reason, adequate financial accessibility is therefore pivotal to sustain economic development in countries which are developing, Kenya being one of them. Financial accessibility practices generally refer to enabling efforts to ensure financial services are accessible and affordable to all businesses, regardless of their size or personnel's net worth (Pham, 2017).

In economies where financial institutions ration access to financial resources, economic growth is constrained (Srithirath & Sukcharoensin, 2022). An analysis by Gatimu (2014) adds that these practices are designed to remove any barriers that may exclude businesses from participation in the financial sector and to use these variables to improve performance. Products may include deposits and loans, while equity products and insurance are some of the services. Access to financial services enables people to save for the future, invest in profitable business opportunities, and protect themselves against unpredictable shocks (Umejiaku, 2020). From empowering individuals to fostering economic growth, it is clear that financial accessibility is the cornerstone of an equitable and prosperous society (Meressa, 2022) and a fundamental enabler of small business resilience, innovation, and growth (Ioannidou et al., 2022). For instance, Small and medium-sized enterprises (SMEs) are the backbone of our economies. They represent around 9 out of 10 businesses, provide more than half of employment, and contribute to around 40% of gross domestic product (GDP), as affirmed by the International Trade Centre (2019).

Access to finance enables SMEs to withstand shocks, invest and grow, and participate in the green and digital economy and in local and global supply chains (Srithirath & Sukcharoensin, 2022). In Kenya, the critical role of SMEs in promoting employment and GDP, Munguti and Wamugo (2020) argue, is that SMEs constitute 98% of businesses, contribute 4% of the country's GDP, and annually create 30% of jobs. Besides, in developing countries, the majority of SMEs are unable to acquire the financing they need to reach their potential (Boutfssi & Quamar, 2024; Meressa, 2022).

The catalytic role and the challenges hindering SME development have been presented from global, regional, and local perspectives. According to International Trade Centre (2019) data, these challenges are most severe for micro-businesses (57%) and small companies (43%), compared with 24% for medium-sized firms and just 12% for large businesses. Indeed, companies consistently identify inadequate access to finance as their biggest obstacle (Mbedzi & Simatele, 2020; Ndemi & Mungai, 2018), surpassing other issues such as corruption, political instability, taxation, and skills shortages (Batool et al., 2024). Therefore, for SMEs to achieve performance in income, profits, and sales, intensifying targeted policies to improve financial access for small businesses is paramount.

A stream of research has presented a convincing case for interventions that can have an outsized impact on enabling small businesses to access finance. Tobias et al. (2024) contend that collateral requirement dimensions can be used to measure financial accessibility in lending institutions. Failure to comply with lending requirements, especially collateral security provisions, is the main challenge that SMEs face in accessing funding from lenders. It became evident that repayment terms, group guarantees, and other information required by the financing institution make it more difficult to access credit.

The existing body of management literature, for instance, Aminu and Shariff (2015), suggests that the lending institution acquires information comprising non-numerical factors, such as products or strategies that do not appear in the firm's financial statement analysis. In this regard, among some of the soft information that lenders acquire, entrepreneurial orientation, which is the firm's strategic orientation level towards dimensions like aggressiveness and proactiveness, is transmitted from the firm to the lending institution, which, as a result, improves credit access (Khan et al., 2021; Sherif et al., 2019).

A report shared by the Kenya Bankers Association (2019) measured financial accessibility in interest rate dimensions. The publication observes that most entrepreneurs face challenges in accessing credit due to high interest rates, credit insurance, inflation, and taxation. Besides, in developing economies, for example, Kenya, Maalim and Gikandi (2016) measured financial accessibility in terms of interest rates to achieve 80% of digital merchant payments. While the cost of credit is constraining for all borrower groups, there are indications that it is even higher for SMEs. This relative opacity increases monitoring and the assessment of the cost of credit variable costs in the current study, including interest spread, interest rate at risk, and inflation indicators.

Besides, on the demand side, Boutfssi and Quamar (2024), along with Sackey et al. (2023) proximity of fostering access to finance for small businesses, with a focus on the significance of firm characteristics, credit characteristics, and observable characteristics in the emergence of credit rationing, with most variables serving as proxies for the severity of informational frictions or indicators of profitability. Under conditions of imperfect credit markets characterized by information asymmetry, according to Gonzalez-Vega (2021), interest rates fail to play the market-clearing role of equating demand and supply. However, instead, the banks adopt a strategy of credit rationing through non-price mechanisms to maximize their expected profits. Other research continues to provide theoretical and empirical support for the existence of equilibrium rationing given the limited effectiveness of the price mechanism (Jin & Zhang, 2019; Ndem & Mungai, 2018).

1.1 Statement of the Problem

Small and Medium Enterprises (SMEs) play a vital role in Kenya's economic development through employment creation and contribution to gross domestic product. In 2015, SME output was estimated at Ksh 3,377.7 billion, accounting for 34.2% of the country's total output (KNBS, 2021). Despite this significant contribution, the sector remains vulnerable. Between 2011 and 2016, approximately 2.2 million SMEs closed, and economic growth declined from 5.6% in 2017 to 4.2% in 2020 (KNBS, 2021). These trends highlight persistent structural and financial challenges affecting SME sustainability. Limited access to finance remains a key constraint. Many SMEs are unable to meet collateral requirements imposed by formal financial institutions, restricting access to affordable credit (Kamara, 2022; Lilondo & Kimutai, 2023). KNBS (2022) further reports that only a small proportion of SMEs achieve returns on assets above 20%, while nearly three out of

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five collapse within the first quarter of operation. In Nairobi City County, SMEs continue to experience declining income, inadequate operating capital, and limited expansion capacity, reinforcing the existence of a financing gap.

Although prior studies have examined financial access and SME performance in various contexts, many rely on secondary data or focus on isolated determinants such as collateral requirements using different methodological approaches (Ashta, 2018; Rahman et al., 2017; Kysucky & Norden, 2016). Few studies integrate entrepreneurial orientation, interest rates, collateral requirements, and credit rationing within a single analytical framework in the Kenyan context. This study therefore sought to address this gap by examining the influence of financial accessibility practices on the financial performance of registered SMEs in Nairobi City County, Kenya.

1.2 Objectives of the Study

    i. To examine the effect of entrepreneurial orientation on the financial performance of SMEs in Nairobi City County, Kenya.

    ii. To determine the effect of interest rate on the financial performance of SMEs in Nairobi City County, Kenya.

    iii. To establish the effect of collateral requirements on the financial performance of SMEs in Nairobi City County, Kenya.

    iv. To examine the effect of credit rationing on the financial performance of SMEs in Nairobi City County, Kenya.

1.3 Research Hypotheses

The following null hypotheses were formulated and tested at a 0.05 significance level:

H_{01}: There is no significant relationship between entrepreneurial orientations and the financial performance of SMEs in Nairobi City County, Kenya.

H_{02}: There is no significant relationship between interest rate and the financial performance of SMEs in Nairobi City County, Kenya.

H_{03}: There is no significant relationship between collateral requirements and the financial performance of SMEs in Nairobi City County, Kenya.

H₀₄: There is no significant relationship between credit rationing and the financial performance of SMEs in Nairobi City County, Kenya.

2.0 Review of Literature

This section reviews the theoretical and empirical foundations relevant to financial accessibility practices and SME performance. It presents the key theories underpinning the study variables and synthesizes prior empirical findings to identify existing gaps. The review establishes the conceptual basis for examining financial accessibility practices within the Kenyan SME context.

2.1 Theoretical Review

This study was anchored on Asymmetric Information Theory, Adverse Selection Theory, and Credit Rationing Theory to explain the relationship between financial accessibility practices and SME performance. Asymmetric Information Theory, advanced by Akerlof (1970), Spence (1973), and further developed by Stiglitz, explains how information gaps between lenders and borrowers affect credit decisions. The theory posits that when lenders lack adequate information about borrowers, they impose mechanisms such as collateral requirements to mitigate risk. Empirical evidence suggests that collateral reduces information frictions and enhances loan approval probabilities (Ioannidou et al., 2022). Financial literacy gaps may further intensify information asymmetry (Srithirath & Sukcharoensin, 2022). In this study, the theory underpins collateral requirements and entrepreneurial orientation, as both influence lenders' perceptions of borrower credibility and risk.

The study also adopted Adverse Selection Theory (Weiss & Stiglitz, 1981), which explains how lenders differentiate between high-risk and low-risk borrowers when setting interest rates. In imperfect markets, variations in interest rates reflect perceived borrower risk profiles. The theory is relevant in examining how interest rate structures influence SME access to credit and, ultimately, financial performance. Further, Credit Rationing Theory (Stiglitz & Weiss, 1981) explains why lenders may limit credit supply even when borrowers are willing to pay higher interest rates. The theory argues that under information asymmetry, financial institutions restrict lending to minimize default risk. Factors such as credit history, firm age, and firm size influence rationing decisions (Jin & Zhang, 2019). This framework guided the analysis of credit rationing as a determinant of SME performance.

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2.2 Empirical Review

Empirical studies have examined the effects of entrepreneurial orientation, interest rates, collateral requirements, and credit rationing on SME performance across various contexts. Beltrame et al. (2023) found that entrepreneurial orientation enhances SMEs' access to finance in European contexts. Similarly, Khan et al. (2021) and Sidek et al. (2019) reported a positive association between entrepreneurial orientation and SME performance. Nonetheless, these studies were conducted outside Kenya, limiting contextual applicability. Regarding interest rates, Lubinza et al. (2024) established that microfinance interest rates significantly influence small enterprise performance in Tanzania. Studies by Msomi (2023), Nganga and Atheru (2020), and Musah et al. (2018) similarly found that high interest rates and financial sector regulations constrain SME growth. However, many of these studies relied on small samples or single-industry data, limiting generalizability.

On collateral requirements, Yu et al. (2022) found that asset-backed lending improves credit access in China. Studies in Kenya by Onkundi et al. (2023) and Kiai et al. (2019) also confirmed that collateral strengthens creditworthiness assessment. Nevertheless, geographical and contextual differences necessitate localized evidence within Nairobi City County. Credit rationing has also been identified as a key determinant of SME performance. Boutfssi and Quamar (2024) found that lenders screen firms based on risk profiles and credit history. However, Adair and Adaskou (2020) and Mbedzi and Simatele (2020) observed that unfavorable credit terms and monitoring costs contribute to rationing, particularly in emerging economies. While these studies provide valuable insights, most examine isolated determinants or apply varying methodologies. Few integrate entrepreneurial orientation, interest rates, collateral requirements, and credit rationing within a unified framework in the Kenyan context. This study therefore addresses this gap by providing empirical evidence on how financial accessibility practices collectively influence SME performance in Nairobi City County.

3.0 Research Methodology

This study adopted a descriptive survey research design to systematically examine the influence of financial accessibility practices on SME performance in Nairobi City County. The target population comprised 3,000 licensed SMEs registered under the Nairobi County Government, based on the 2019 licensing report, categorized into industrial plants, workshops and factories,

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general trade, wholesale and retail stores, transport, storage and communications, and professional and technical services. Using Taro Yamane's (1967) formula, a sample size of 97 respondents was determined, and stratified sampling followed by simple random sampling was employed to select SME owners, directors, and managers across the strata. Data were collected using structured questionnaires containing both open- and closed-ended items developed from existing literature (Meressa, 2022; Umejiaku, 2020), with closed-ended responses measured on a five-point Likert scale ranging from "Strongly Agree" to "Strongly Disagree." A pilot test involving 18 respondents (10% of the sample) was conducted to enhance validity and reliability, and a Cronbach's alpha coefficient of 0.8 confirmed internal consistency. Quantitative data were analyzed using SPSS through descriptive statistics (frequencies, percentages, means) and inferential statistics, including Pearson correlation and multiple regression analysis based on the model:

$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\varepsilon$

Where SME performance was regressed on entrepreneurial orientation, interest rate, collateral requirements, and credit rationing. Qualitative responses were analyzed thematically. Ethical standards were upheld through confidentiality safeguards, institutional approval from Kenyatta University, and a NACOSTI research permit prior to data collection.

4.0 Discussion and Findings

This section presents the findings of the study based on data collected from SME managers, directors, and owners across various sectors in Nairobi City County. Out of the 97 questionnaires administered, 75 were successfully completed and returned, yielding a response rate of 77.3%, which is considered adequate for statistical analysis and generalization. The section proceeds to present descriptive statistics, correlation analysis, and multiple regression results to examine the relationship between financial accessibility practices and SME performance. Pearson correlation analysis was used to assess the strength and direction of relationships among entrepreneurial orientation, interest rates, collateral requirements, credit rationing, and financial performance. Multiple regression analysis was then conducted to determine the explanatory power of the independent variables and to test the formulated hypotheses. The results are presented in tables and interpreted to demonstrate how financial accessibility practices influence SME performance within Nairobi City County.

Table 1: Correlation Matrix

Variables	1	2	3	4	5
1. Entrepreneurial Orientation	1				
2. Interest Rate	.620**	1			
3. Collateral Requirements	.605**	.920**	1		
4. Credit Rationing	.754**	.690**	.679**	1	
5. Financial Performance	.577**	.704**	.692**	.883**	1

The correlation analysis shows that all financial accessibility practices are positively and significantly associated with SME financial performance ($p < .001$). Entrepreneurial orientation ($r = .577$), interest rate ($r = .704$), collateral requirements ($r = .692$), and credit rationing ($r = .883$) demonstrate moderate to strong positive relationships with performance. Among the predictors, credit rationing exhibits the strongest association with financial performance. The inter-correlations among independent variables range from .605 to .920, indicating substantial relationships within accepted statistical thresholds. Overall, the findings suggest that improvements in financial accessibility practices are strongly linked to enhanced SME sales turnover, profitability, and employment growth.

Table 2: Regression Model Summary, ANOVA and Coefficients

Model Summary

R	R²	Adjusted R²	Std. Error
.869	.756	.743	.1575

ANOVA

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.410	4	1.352	54.485	<.001
Residual	1.737	70	.0248		
Total	7.147	74			

Coefficients

Variable	B	Std. Error	Beta	t	Sig.
Constant	.670	.197	—	3.251	.001
Entrepreneurial Orientation	.117	.037	.162	2.919	.004

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Interest Rate	.148	.045	.149	2.535	.009
Collateral Requirements	.130	.025	.408	3.966	.002
Credit Rationing	.167	.048	.154	3.763	.000

The regression model summary indicates a strong positive relationship between the set of financial accessibility practices and SME financial performance (R = .869). The adjusted R² value of .743 implies that 74.3% of the variation in financial performance is explained collectively by entrepreneurial orientation, interest rates, collateral requirements, and credit rationing. This demonstrates high explanatory power, suggesting that the model sufficiently captures the key determinants influencing SME performance within Nairobi City County. The remaining 25.7% of variation may be attributed to other factors not included in the model.

The ANOVA results further confirm the overall fitness and statistical significance of the regression model. The F-statistic of 54.485 with a significance level of $p < .001$ indicates that the combined independent variables significantly predict SME financial performance. This means that at least one of the financial accessibility practices has a statistically meaningful influence on performance, validating the robustness of the model. Examining the individual regression coefficients, all four predictors show positive and statistically significant effects. Entrepreneurial orientation (B = .117, p = .004) suggests that increased proactiveness, risk-taking, and strategic aggressiveness are associated with improved SME performance. Interest rate (B = .148, p = .009) demonstrates that favorable interest rate conditions or effective management of borrowing costs positively influence performance outcomes. Collateral requirements (B = .130, p = .002) indicate that the ability to meet collateral demands enhances access to finance and contributes to firm growth and profitability. Credit rationing (B = .167, $p < .05$) exhibits the strongest effect among the predictors, suggesting that firms with stronger credit profiles and lower perceived risk experience better financial outcomes.

5.0 Conclusion

This study examined the influence of financial accessibility practices entrepreneurial orientation, interest rates, collateral requirements, and credit rationing on the financial performance of SMEs operating for more than five years in Nairobi City County across diverse sectors. The findings confirm that all four practices exert a statistically significant and positive effect on SME performance, demonstrating that improved financial accessibility strengthens sales turnover, profitability, and employment growth. Entrepreneurial orientation enhances creditworthiness by

signalling innovativeness, proactiveness, and risk-taking behaviour to lenders, consistent with asymmetric information theory. Interest rate management was also found to influence performance, supporting adverse selection theory by showing how borrowing cost structures shape financing outcomes. Collateral requirements remain a central determinant of credit approval, reflecting lenders' efforts to mitigate information asymmetry through asset-backed lending. Credit rationing exhibited the strongest effect, indicating that firm risk profiles, credit histories, and operational stability significantly influence access to funding and long-term financial performance. Overall, the study provides empirical evidence that structured financial accessibility practices are critical drivers of SME sustainability and competitiveness within Nairobi City County.

6.0 Policy Recommendations

Based on the findings, the study recommends that SME managers and directors adopt deliberate financial strategies that strengthen credit profiles, enhance record-keeping, and improve entrepreneurial orientation to increase financing opportunities. Financial institutions should consider reviewing lending frameworks to promote inclusive credit policies, streamline collateral assessment procedures, and explore flexible interest rate structures that encourage sustainable borrowing. Government agencies and policymakers should intensify financial literacy programs, expand awareness of funding opportunities, and promote capacity-building initiatives through workshops, digital platforms, and sector-specific advisory services. SMEs are further encouraged to allocate resources toward market intelligence, innovation, and strategic partnerships with research institutions to improve competitiveness and resilience. Although the study provides valuable insights, it relied primarily on self-reported questionnaire data and a descriptive design, which limits causal inference. Future research should employ longitudinal or mixed-method approaches and replicate the study across different counties to enhance generalizability. Additionally, incorporating other financial accessibility dimensions such as sectoral engagement, financial reporting quality, and digital financing mechanisms would provide a broader understanding of factors influencing SME performance.

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