IMPACT OF BANK CREDIT ON SMALL AND MEDIUM SIZED ENTERPRISES IN KENYA: A CASE OF KISUMU COUNTY

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Abstract

The fundamental objective of this study is to assess the impact of bank credit on Small and Medium Enterprises (SMEs) in Kenya. Simple random sampling technique was employed in selecting the 455 SMEs that constituted the sample size of the research. Structured questionnaire was used as an instrument of primary data collection. Descriptive statistics such as; Mean was used to evaluate some selected variables. Range and Standard deviation were used to determine the degree of variability of the estimates. The Pearson's correlations were used to establish the degree of relationship between the independent and dependent variables. The findings of the study reveal that volume of output; number of workers, sales volume and profit earned are positive and statistically significant. This indicates that there is significant impact of bank credit on volume of output; number of workers, sales volume and profit earned.

Key words: Small and medium enterprises; bank credit

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1.0 Introduction

Bolton (1971) defined small enterprises as the one having relatively smaller market share, managed by owners personally and independently from outside countries in decision making.

In Japan, small enterprises defined as one that employs less than three hundred people with average investment of less than one hundred million Japanese yen in manufacturing and mining sector. In wholesaling and retailing, a maximum employee of a hundred and investment of one million Japanese yen respectively.

Government of Kenya report (1989), described small enterprise as one employing up to fifty people, while industrial and commercial development corporation defined small enterprises as one with investment of up to Kenya shillings two million.

(Obamuyi, 2010) defines SMEs as any enterprise with a total capital employed of not less than N1.5 million, but not exceeding N 200 million (including working capital but excluding cost of land) and with the staff strength of not less than 10 and not more than 300 workers.

1.1 Research objectives

The general objective of the study was to determine the impact of bank credit on Small and Medium-Sized Enterprises in Kenya. The specific objectives of the study were;

1. To determine the impact of bank credit on the no of workers of the Small and Medium-Sized Enterprises.
2. To determine the impact of bank credit on the Sales volume of the Small and Medium-Sized Enterprises.
3. To determine the impact of bank credit on the Profit earned by the Small and Medium-Sized Enterprises.
4. To determine the impact of bank credit on the volume of output of the Small and Medium-Sized Enterprises.

1.2 Research questions

1. What is the impact of bank credit on the number of workers in the Small and Medium-Sized Enterprises?
2. What is the impact of bank credit on the sales volume of the Small and Medium-Sized Enterprises?

3. What is the impact of bank credit on the profit earned in the Small and Medium-Sized Enterprises?
4. What is the impact of bank credit on volume of output in the Small and Medium-Sized Enterprises?

1.3 Hypothesis

The following null hypotheses were tested in the course of this study.

H_{O1}: There is no significant impact of bank credit on the no of workers of the Small and Medium-Sized Enterprises.

H_{O2}: There is no significant impact of bank credit on the Sales volume of the Small and Medium-Sized Enterprises.

H_{O3}: There is no significant impact of bank credit on the Profit earned by the Small and Medium-Sized Enterprises.

H_{O4}: There is no significant impact of bank credit on the volume of output of the Small and Medium-Sized Enterprises.

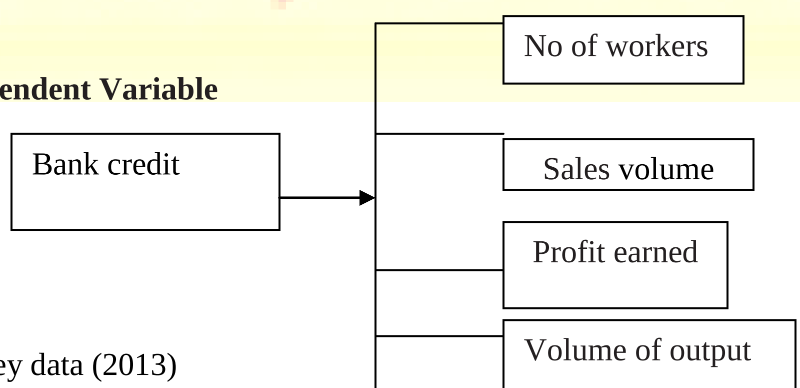
1.4 Conceptual framework

The conceptual framework shows the relationship between the independent and dependent variable, dependent is conceptualized by the provision of the bank credit while independent is conceptualized by the growth and development of small scale businesses.

The independent variables: number of workers, sales volume, and profit earned and volume of output will be used as a measure of growth and development of small scale businesses.

Independent Variables

Dependent Variable



Source: survey data (2013)

2.0 Literature review

SMEs play a pivotal role in the development of a nation. A healthy SME sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills.

Szabo, 1996, stated that Small and medium-sized enterprises (SMEs) are one of the principal driving forces in economic development. They stimulate private ownership and entrepreneurial skills, they are flexible and can adapt quickly to changing market demand and supply situations. They also generate employment, help in diversifying economic activities and make a significant contribution to exports and trade.

Schmiemann, 2006, stated that the enterprises which employ less than 250 employees, the so called SMEs have been the main source of employment growth within the non financial sector in the European economy. This means that the SME in Europe represent about 99.8% of all EU-25 enterprises in 2003, in which the SMEs employs about two third of the workforce in Europe and generate more than a half (57.3%) of its value added.

Vosloo, 1994, stated that the contribution towards growth, job creation and social progress is valued highly and small business is regarded as an essential element in a successful formula for achieving economic growth.

Bartel and Martin (1990: 775) state that a major reason why entrepreneurship has been receiving increased attention from both scholars and the public press is the growing recognition of the substantial economic and social contributions entrepreneurship brings. The economic contributions include economic growth, maintaining a favourable balance of payments and balance of trade and employment creation. Socially, entrepreneurship results in poverty eradication and improved standards of living. SMEs are, therefore, an essential panacea for improving the standards of living in a society and the stability of a country.

Mokaddem, 2006. Stated that in Africa, the SME sector accounts for almost 90% of all the enterprises, in which they are located in both the rural and urban areas, whereby they provide more equitable distribution of income in all areas of the countries. This means that the SMEs are the main source of providing employment to the people and stimulate the development of the countries by promoting the entrepreneurship and the business skills amongst communities and strengthen the local production sector as well as the industrial base. Therefore the SMEs in Africa have been considered to be a very important engine for obtaining national development goals, such as poverty alleviation and economic growth.

Maina, 2006, stated that the small scale enterprise sector plays a crucial role in the Kenyan national economy. This means that the focus on SMEs is very important due to the fact that they contribute a lot in employment, whereby about 5.1 million people are engaged in this sector, representing 74% of the total national employment and contribute about 88% of the total job creation at any one time. They also contribute in the Gross Domestic Product of the country, whereby they contribute about 24.5% to the GDP.

Kelly *et al*., 2006 stated that the majority of the population depend on small business in East Africa, i.e. Kenya, Uganda and Tanzania. Today, small enterprises are found in every corner of the three countries and have great potential to create a variety of jobs, while generating widespread economic benefits.

Ahmed *et al*., 2004 in his private sector survey, estimated that, nearly 20-25% of the GDP is contributed by the SMEs in Bangladesh. This means that in terms of output, private sector activities as well as employment opportunities, the SME undoubtedly play a very crucial role within the economy of Bangladesh. They also comprise over 90% of all enterprises in the industry, whereby they are quite predominant within the industrial structure of Bangladesh. Therefore the contributions of the SMEs are reported to be between 80-85% of the industrial employment and 23% of the total civilian employment. In the value added contribution, the SMEs seen to contribute between 45-50% of the total manufacturing value added.

3.0 Methodology

A descriptive research was adopted by the study. This is because it made it possible for the researcher to employs to reach as many small and medium enterprises as possible within a short period of time and in a cost effective way. The research was carried out in Kisumu County; Kenya .The population of the study constitutes all small and medium enterprises in different sectors. Simple random sampling technique was used to select 455 Small and Medium Enterprises operators from 1515 licensed in Kisumu Kenya. The study utilized primary sources of data in which structured questionnaire were extensively used to make it easy for the respondents to indicate their views. The purpose is to generate data about the opinion and perceptions of SMEs owners in relation to the effectiveness of bank credit to the performance of their firms. Thus, in addition provides means of analyzing the likely impact of bank credit on SMEs.In order to effectively conduct a valid analysis, the researcher used descriptive statistics such as; Mean was used to evaluate some selected variables. Range and Standard deviation were used to determine the degree of variability of the estimates. The Pearson's correlations were used to establish the degree of relationship between the independent and dependent variables.

4.0 Results and Discussion

4.1 Descriptive statistics

Table1 below present some of the descriptive statistics of the bank credit and the explanatory variables of Small Scale Businesses in Kisumu. A critical examination of descriptive statistics for dependent and independent variables reveals the following observations. The measure of bank credit reported mean of 15600. The minimum and maximum values of the bank credit were 700.00 and 60000.00 respectively.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean
B	455	700.00	60,000.00	15600
V	455	485.00	16,800.00	8573
W	455	0.00	4.00	1.2318
S	455	1,500.00	80,000.00	15838
P	455	-100.00	12,000.00	6457

Source: Survey data (2013)

B-Bank credit

V-Volume of output

W-number of workers

S-sales volume

P-Profit earned

4.2 Correlations anaysis

Pearson's correlations were used to establish the degree of relationship between the independent and dependent variables. The result presented in table 2 shows that there is strong positive significant correlation between volumes of output, number of workers, sales volume, profit earned and bank credit. Correlation values of these independent variables having with bank credit ie 0.972, 0.873, 0.984 and 0.835 respectively indicating that changes in these predictor variables positively contribute towards changes in bank credit. The correlation is significant at 0.01 levels (2- tailed).

Table 2: Correlations

	B	V	W	S	P
B	1				
V	0.972(**)	1			
W	0.873(**)	0.842(**)	1		
S	0.984(**)	0.997(**)	0.826(**)	1	
P	0.835(**)	0.829(**)	0.789(**)	0.941(**)	1

Source: Survey data (2013)

4.3 Discussion and interpretation of research findings

This study examined the relationship between bank credit and volume of output, number of workers, sales volume and profit earned by Small Scale Businesses in Kisumu.

The first objective of the study was to determine the impact of bank credit on volume of output. The relationship between the bank credit and volume of output is positive and significant. This finding rejects the null hypothesis which states that there is no significant impact of bank credit on volume of output in Small Scale Businesses in Kisumu.

The second objective of the study was to determine the impact of bank credit on the number of workers. The relationship between the bank credit and number of workers is positive and significant. This finding rejects the null hypothesis which states that there is no significant impact of bank credit number of workers in Small Scale Businesses in Kisumu.

The third objective of the study was to determine the impact of bank credit on sales volume. The relationship between the bank credit and sales volume is positive and significant. This finding rejects the null hypothesis which states that there is no significant impact of bank credit on sales volume in Small Scale Businesses in Kisumu.

The forth objective of the study was to determine the impact of bank credit on profit earned. The relationship between the bank credit and profit earned is positive and significant. This finding rejects the null hypothesis which states that there is no significant impact of bank credit on profit earned in Small Scale Businesses in Kisumu.

4.4 Summary of findings

The study was based on primary data collected from the individual business owners in Kisumu. The analyses are performed using Pearson's correlations to establish the degree of relationship between the independent and dependent variables. There is a strong positive significant correlation between volumes of output; number of workers, sales volume and profit earned and bank credit See table 3 below.

Table. 3 Summary of Correlation results

Dependent Variable	Independent Variable	Sign of correlation coefficient	Significant/ insignificant
bank credit	Volume of output	Positive	significant
	No of workers	Positive	significant
	Sales volume	Positive	significant
	Profit earned	Positive	significant

5. Conclusions

The study was based on primary data collected from the individual business owners in Kisumu. Analysis of the impact of bank credit on growth and development was done on small scale businesses. The analysis was done to find statistical evidence to support or reject the four hypotheses. Result for correlations analysis indicated that volume of output; number of workers, sales volume and profit earned are positive and statistically significant. This indicates that there is significant impact of bank credit on volume of output; number of workers, sales volume and profit earned.

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