

Access to Credit and Firm Performance: Evidence from Micro and Small Enterprises in Murang'a County, Kenya

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Abstract Report on the Kenya National Human Development [1] showed that among the challenges still facing MSEs in Kenya is lack of access to credit due to financial institutions requiring collateral as well as inadequate entrepreneurial skills. Despite the provision of affordable credit through the funds, micro and small enterprises in Murang'a County that has continued to record poor performance, which begs the question of the effectiveness of the various efforts and their contribution to improved performance of the MSEs. The study focused on collateral requirement, credit assessment, credit information sharing and cost of credit and their implication on performance of micro and small enterprises in Murang'a County, Kenya. The study was anchored on the resource-based view, dynamic capability theory, pecking order theory, entrepreneurship theory of Shane, innovation of entrepreneurship theory as well as the traits theory. The study adopted a descriptive research design where 1,020 registered SMEs in Murang'a County were targeted, of which 287 were selected through a stratified and random sampling techniques. A questionnaire was used to collect primary data which was later analyzed through means and standard deviations as well as multiple regression analysis and presented through tables and figures. The study established that collateral requirements ($\beta=.420$, $p<0.05$), credit assessment ($\beta=.402$, $p<0.05$), credit information sharing ($\beta=.310$, $p<0.05$) and cost of credit ($\beta=.599$, $p<0.05$) all significantly predicted performance of the studied firms. It was recommended that financial institutions should adopt flexible collateral policies such as group-based guarantees to enhance credit access by MSEs lacking traditional collateral. They should also simplify credit assessment procedures and focus on easily accessible data such as sales volume, while offering capacity building to MSE on financial record keeping to improve their credit worthiness. To enhance credit information sharing, the Central Bank of Kenya (CBK) and credit reference bureaus (CRBs) should promote awareness and accessibility of credit reporting for MSEs, enabling them to build positive credit histories. On cost of credit, the CBK should enforce stricter regulations on interest rates and appraisal fees, to make credit more affordable. Financial institutions should also reduce accompanying costs such as legal and valuation fees. Murang'a county government on its part, should, in collaboration with MSEA, implement capacity building programs on financial literacy and entrepreneurial skills to improve the ability of MSEs to meet credit assessment criteria.

Keywords: Access to credit, Business performance, Collateral requirement, Credit assessment, credit information sharing, cost of credit, regression analysis, Kenya

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1. Introduction

From the global point of view, Small and Medium Enterprises (SME) entities are enablers of growth of an economy [2]. According to the 2018 ICSB convention at the United Nations (UN), MSEs are vital to the world development and achievement of the 2030 UN Sustainable Development Goals (SDG). Their potential in helping achieve the SDGs is even much bigger than their size. With the world population growth increase, MSEs provide the most viable route to achieving the SDGs.

Regionally, the population of persons within the working age bracket in Africa and sub-Saharan Africa is expected to increase by close to 265.8% and 306.6 % respectively by 2030 [3]. This expected increase in population will further compound the unemployment challenges. According to the UNDP [3], 5% of the world population, translating to 172 million people worldwide as at 2018 were jobless. This number was expected to reach 174 million by 2020. The MSEs provide a cure to these unemployment problems [4]. An estimated thirty percent of the national Gross Domestic Product (GDP) was accounted for by SMEs in developing nations around the world [5]. Another study by international finance

corporation (IFC) in 2012 showed that Micro and Small Enterprises provide 50% of all formal jobs globally. When the contribution of the medium enterprises is included, the total contribution is even higher making the SME business sector a vital component of the economy of a nation. According to Mishi [6], SMEs play a role in generation of employment opportunities which in turn leads to reduction in level of poverty.

Locally in Kenya, the available evidence shows that the micro and small business sector is an instrumental component of the economy and it has attracted greater attention [7]. A central bank of Kenya (CBK) survey showed that 98% of all Kenyan enterprises are SMEs contributing to 3% of Kenya's GDP [8]. Another report by the MSEA [9] indicates that twenty-four percent of the GDP of Kenya can be explained by the SMEs in Kenyan context. These businesses offer a sustainable opportunity to create numerous employment opportunities and are a key source of income for many households. In 1999, the micro and small enterprises employed about 2.3 million people, in 2003, about 4.6 million people were employed by the sector and by the end of 2013, the MSEs had employed about 6.4 million people accounting for about eighty four percent (84%) of the overall employment in the country [10]. The MSE sector has provided jobs over time and they have the capacity to generate numerous new jobs in the economy as more individuals enter the sector.

A survey in 2020 established that between 2015 and 2019, the informal sector enterprises created 50 % of the new job openings. Of the 846,000 new jobs created in Kenya in 2019, 768,000 were within the MSME sector, accounting for close to 90% of the opportunities [11]. While SMEs contribute a lot to the national economy, they encounter a range of constraints affecting their growth and make a large number of them die in their early stages [12]. The challenges include constrained access to funds and limited accessibility to information among others. Consequently, the government and other key stakeholders have been introducing various programs aimed at boosting the MSME sector in the country. A number of interventions have been introduced over the years to encourage the growth of MSEs in Kenya, mostly through the Sessional Papers. Later on in 2012, the SME Act came into law with establishment of a relevant regulatory body, named the Micro and Small Enterprises Authority (MSEA).

1.1. Statement of the Problem

SMEs are economic development drivers. However, despite this key role, it is unfortunate that the failure rate among MSEs in Kenya is still alarming. Most SMEs are not able to operate in their initial years into business due to a number of challenges like limited entrepreneurship education, inadequate capital and credit inaccessibility are among the challenges faced by the MSEs that leads to increased failure [13]. This therefore created the need for the business owners to be provided with affordable credit access. In 2022, the government of Kenya introduced the financial inclusion fund regulations which seek to promote financial inclusion through expanding credit accessibility by MSEs, individuals and businesses. The regulations aim at promoting interventions that improve supply of

affordable financing to MSEs through creditworthiness based lending and lending on the bases of credit risk pricing

In Murang'a County, a large proportion of businesses are MSEs and a majority of the people relies on these enterprises to survive. However, despite the significance of the MSEs, there has been an alarming rate of failure which created need for intervention measures [8]. One of the measures that have been adopted is provision of affordable and accessible credit by the Government of Kenya through the Uwezo fund as well as efforts by CBK and KBA to expand credit accessibility in the country. A report on the Kenya National Human Development [1] showed that among the challenges still facing MSEs in Kenya are lacks of access to credit due to financial institutions requiring collateral as well as inadequate entrepreneurial skills.

Various programs have been in place by Kenya's government to ensure credit accessibility among small scale entrepreneurs. This includes the Youth Enterprise Development Fund which was launched in 2007, the Women enterprise which was launched in 2008 and the Uwezo Fund of 2013. Since inception, the funds have disbursed more than Seven billion, two hundred million Kenya Shillings with an absorption rate of an average of 107.5% [14]. However, despite the provision of this affordable finance, MSEs in Murang'a County continue, to record poor performance [15]. This has created the question of how effective has the various efforts been and whether they have any contribution to the improved performance of the MSEs.

The available studies include Ndolo [16] who noted that superior growth from an SME point of view is influenced by efficiency in the level of production. Mumin [17] examined factors affecting access to credit by SMEs from banking entities in Nairobi. The study noted that collateral requirement hindered efforts to access credit facilities. However these studies create gaps like Ndolo [16] covered growth that is conceptually different from performance. The study by Mumin [17] covered SMEs in Nairobi County away from those in Murang'a County. All these create gaps that were addressed by the present study.

1.2. Objectives of the Study

- i. To evaluate the influence of collateral requirement on performance of MSEs in Murang'a County, Kenya
- ii. To determine the influence of credit assessment on performance of MSEs in Murang'a County, Kenya
- iii. To determine influence of credit information sharing on performance of MSEs in Murang'a County, Kenya
- iv. To determine influence of cost of credit on performance of MSEs in Murang'a County, Kenya

2. Review of Literature

2.1 Theoretical Review

The underpinning theories of the study are as reviewed in this section:

2.1.1. Resource Based View

Barney [18] developed this theory and it connects firm's resources and competitive edges. According to Barney [18], resources should be rare and non-substitutable. The firms with strategic internal resources will have an advantage over firm which do not have these resources. This means the performance of an enterprise over other enterprises depends on resource usage [19]. The theory assumes that resources are heterogeneous and immobile. This means that resources should be diverse and not easily transferable. As such, not all resources in a firm can give the firm competitive advantage, but the unique and rare ones [18].

In accessing credit, MSEs consider RBV as way of identifying the unique resources that are internally available to the firm and how they can be acquired. On the other hand, financial institutions consider a firm's resources in evaluating their credit worthiness. Some of this resources may be used as collateral for the loans and provide a fall back to the lending institution in case of loss of advanced credit [20]. Lending institutions would more likely advance credit to firms that have resources than those which do not have them. These firms would therefore have a competitive advantage when it comes to access to credit.

2.1.2. Dynamic Capability Theory

Teece et al [21] came up with this theory and it reflects the firm's ability to reconfigure competencies and resources with external environmental dynamics. Chien and Tsai [22] regarded dynamic capability as the process of utilization of resources to come up with new resources which can trigger changes in the market. An important assumption of this theory is that firms should leverage their core competences in modification of short horizon edges for long term orientation [23].

The theory indicates that firms need to align competencies with volatilities in the environment. Compared to operational capabilities that focus more on business operation, dynamic capabilities are characterized by uniqueness as established in specific resources [24]. The theory assumes that an organization always operate in a static environment. This however is not the case as most environments is dynamic. This theory was relevant in supporting the dependent variable organizational performance

2.1.3. Pecking Order Theory

The proponents of this theory included Donaldson [25] and Myers and Majiluf [26]. According to Myers and Majiluf [26] there are three sources of finances for a business entity, which include, retained earnings, debts and equities. The three sources can further be divided into two; internally as well as externally available funds. Internal sources refer to the finances that the owners of the business provide. This is the most preferred by managers and comes on top on the pecking order. Firms only turn to external sources of finance when and if the internally generated finances are not adequate [26]. This means highly experienced enterprises have accumulated a huge amount of retained profits do not have to turn to external borrowing compared to small firms that may not have many options

when it comes to financing sources. The external sources comprise of two forms; debts and equities [26].

On a pecking order, the internal sources are the most preferred. As a last resort debts are used as sources of financing the business. The theory created insight on how entrepreneurs can use other sources of finance to grow their businesses. Due to inaccessibility of credit by MSEs, most of them use the pecking order theory to finance their growth where the owners result to credit as a last resort [27].

2.1.4. Entrepreneurship Theory of Shane

Developed by Shane [28], this theory suggests that the different people have different abilities to identify entrepreneurial opportunities and access information that can improve their business, as well as willingness to take risks that can improve their business. Shane tries to explain the entrepreneurial process as comprising of opportunities, those to take the initiative to pursue them, the skills involved in organizing the opportunities and the favorable conditions that work for them. According to Shane, entrepreneurship involves discovering, evaluating and exploiting opportunities [28]. The decision undertaken by the owners to act on opportunities sustains performance of an enterprise. These opportunities are presented by the environment.

However, opportunities do not necessarily lead to their exploitation, but rather must be acted upon by human effort [29]. This means that the difference in performance of different enterprises results in how they differently act on opportunities. The attributes if individual entrepreneurs affect their discovery of opportunities presented by the environment. These attributes include risk averseness, motivation, and level of education, vocational training as well as experience. Risk averseness is vital in exploitation of opportunities. This is because opportunities themselves are very uncertain. Whether the opportunity will be profitable or not cannot be known unless the opportunity is taken and exploited. Accessing credit from financial institutions involves risk taking and exploiting the opportunity of getting finance [20].

2.1.5. The Traits Theory

Allport [30] developed this theory who argued that there are some traits that dominate and shape the behavior of human beings. He refereed these traits to as the cardinal traits. The theory attempts to study human personality. Other authors such as Brockhaus [31], Greenberge and Sexton [32], Huefner and Hunt [33], Schumpeter [34] among others argued that the success of entrepreneurs depends on certain traits that are innate and this gives them competitive advantage over the less successful entrepreneurs. According to this theory, entrepreneurs are born natural risk takers, who have the ability to identify opportunities which other business people cannot [35]. This theory was useful in this study as we try to study how networking among entrepreneurs help change the traits of some entrepreneurs to conform to those of the more successful entrepreneurs.

2.1.6. Innovation of Entrepreneurship Theory

The proponent of this theory was Schumpeter [34] and it argues that innovation is driven in an organization by

entrepreneurship and this requires high level of creativity. The theory argues that innovation is a force that drives progress of firms in the world. Entrepreneurship is seen to comprise of process that helps to introduce a novel product in an organization in line with the needs of customers [36]. Innovation is seen as a process that entails technological breakthrough and advancement that can positively affect performance of an organization. Firms that give priority to innovation are likely to gain competitive edge in a dynamic environment which is an important parameter of performance [37].

In this theory, entrepreneurship serves as a bridge that transforms innovative ideas into viable, tangible and profitable opportunities. It involves recognizing market opportunities, mobilizing resources and executing strategic plans to realize a vision. Entrepreneurs take calculated risks and navigate the dynamic and complex nature of business environments [38]. They generate employment and drive innovation within organizations, which is critical for economic development. Through innovation, entrepreneurs develop new ideas and products that lead to supernormal profits.

This theory has been criticized for overemphasizing the role of innovative and creative processes as essential components of entrepreneurship within organizations [39]. Nevertheless, an innovative mindset is central to firm performance, which is the primary focus of the present study. This theory guides the understanding on how entrepreneurship can trigger innovation, a key enabler of firm performance.

2.2. Empirical Review

This section examines existing empirical studies by analyzing relevant literature with an aim of identifying patterns, gaps and insights for the current study.

2.2.1. Collateral Requirements and Performance

Kambura and Mwenda [8] determined the need for collaterals and SMEs performance in Isiolo. Descriptive survey design was adopted targeting 120 SMEs. Collection of data was from primary sources. It emerged after analysis that collateral requirement and performance were negatively but significantly linked with each other. While Isiolo was the context, Murang'a County featured in the present study. Mutai [40] evaluated the effect of collateral requirement on loan provision focusing on SACCOs in Kenya. Descriptive research design was adopted targeting 84 participants from 74 SACCOs. Gathering of data was from primary sources. It emerged from the analyzed data that requirement of collaterals ad loan provision were significantly linked with each other.

Kiai, Kiragu and Githinji [41] evaluated how collateral requirement affected monetary achievement of set goals of agribusiness firms in Nyeri County. The financial intermediation theory guided this study. From the 950 licensed firms that were targeted, 274 were sampled as determined through Krejcie and Morgan table. With an 86.5% response rate, inverse nexus between variables was registered. It confined itself to monetary performance and not general term performance.

Kaimenyi [42] linked collateral requirement and SME performance in Meru context. The analysis was that

collateral requirements were inversely linked with performance. The most common source for entrepreneurs to access external finance in most counties is bank credit [5]. Despite the positive influence of external fund sources on SME performance, majority of them continue to encounter challenges in credit accessibility (Oginji & Ejembi, 2007). A study by Munoz (2010), found that small firms experience slow growth as they are constrained to access funds. This is because small firms often lack the necessary asset base to use as collateral for securing credit from financial institution. The asset base is used as collateral, acting as a fall back for the financial institutions in case of loan default. A study conducted in India, Japan and Indonesia by Farhad and Yoshino (2015) noted accessing funds is a challenge particularly for smaller entities.

Kimanzi [20] linked access to funds and management of an enterprise. It emerged after analysis that collateral requirements hinder access to credit by SMEs. It was noted that these requirements discourage business owners from pursuing credit services from financial institution. In another study by Makena, Kubaison and Njati (2014), one hundred and forty-seven entrepreneurs were surveyed to link fund access and requirements for collaterals. The study concluded that inadequate collateral negatively affects accessibility of credit by MSEs which in turn slows their growth and success

Namusonge and Mole (2016) did a review of key issues interfering with credit access among small firms in Kitale. The analysis was that collateral requirements hugely affected access to credit by small entities. A large number of enterprises have had their loans rejected due to insufficient collateral, while others shy off from seeking credit from financial institutions from the notion that they would never access credit without collateral (Kamau, 2009). This, in turn, impacts the growth and performance of the enterprises.

2.2.2. Credit Assessment and Performance

Muthoni, Mwangi and Muathe [43] linked the aspects of managing credit and performance of loans by banks. The variables included collateral evaluation, examination of credit history and financial statement analysis. Survey design was adopted targeting 44 credit managers that were purposively selected. The analysis demonstrated that credit management exerted significant effect on loan performance.

Francis [44] did a review of how credit assessment affected loan repayment among banks in Sudan context. Collection of data was from primary sources. It was noted that credit approval, monitoring, analysis and identification all have significant effect on loan repayment. Apart from collateral requirements, others factors are also considered by financial institutions before advancing credit to MSEs.

A study by Chepkoech (2014) on the credit assessment process by Kenyan banking entities found these entities utilize various parameters under the credit appraisal process. The mostly used parameter, referred to as CAMPARI as way of determining whether an entrepreneur qualifies for credit or not. However, the assessment methods are varied in regard to lenders (Getabu et al, 2018). The assessment of credit worthiness

is the overall determinant of the amount and repayment period and sometimes the interest to be charged to an entrepreneur

A study aimed to examine the constraints of accessing credit facilities Karanja et al [45] noted that a direct nexus exists between loan procedures and fund access. Another study by Karanja [45] on access to credit by women entrepreneurs concluded that the procedures put in place by financial institutions for potential borrowers to access credit were very rigid and non-accommodative which affected their performance and growth

2.2.3. Credit Information Sharing and Performance

Sarun and Koori (2020) determined how sharing of data on credit impact default in banks in Kenya. The moral hazard, information asymmetry and adverse selection theory provided anchorage to the study. Panel data was the methodology that was adopted to guide the analysis of results. It was apparent from the analysis that credit information sharing positively and significantly affected loan default rate.

Odhiambo and Ndede [46] determined how sharing of data on credit and monetary performance of banks in Kenya were linked. The variables included information accuracy, lending volume and customer credit reports. The analyzed findings were that monetary goal achievement of an entity is linked with accuracy degree of information, volume of funds lend and reports on customers. However, this study covered commercial banks and it concentrated on financial performance as the dependent variable.

Credit information sharing through credit reference bureaus (CRB) and CBK guidelines are also considered in determining the credit worthiness of an entrepreneur. CRBs act as information brokers, by getting credit information about a client from one financial institution and providing the same information to another financial institution (Namusonge & Mole, 2016). In Kenya, credit information sharing started in 2010 with the gazettement of Credit Bureau regulations of 2008. According to Financial Sector Deepening report, with the regulation, it was mandatory for financial institutions (FSD, 2008). The bureaus keep the clients credit history for a number of years and can grant a credit score based on the borrowing history of the client, with potential borrowers with high scores accessing credit easily than those with low scores (Namusonge & Mole, 2016). With credit information sharing, financial institution exchange information such as outstanding balance and performance of the advanced facilities through a reference bureau. The information provided by one institution is relied upon by another institution in determining the credit worthiness of an entrepreneur (Getabu et al, 2018). The financial institutions are able to see how their client are paying or not paying loans with other financial institution, and use this information to make a decision on whether to advance or not advance credit (Ndung'u, 2009).

A study conducted by Ngugi and Nasieku (2016) on credit information sharing in Kenya, found that banks in Kenya share credit information of borrowers with CRBs. A study conducted by Waari (2015) on access to credit by MSEs in Meru County, Kenya found information asymmetry to be a factor that influenced access to finance by the SMEs. A Cytonn report (2022) noted that bad

credit history or lack of a credit history at all is a huge hindrance to access to credit.

2.2.4. Cost of Credit and Performance

Alumasa and Muathe (2021) reviewed the nexus between mobile credit and performance of MSEs. Cost of credit, accessibility, mobile loan amount as well regulation and performance were variables. The linked between cost of mobile credit and MSEs performance was inverse. Lagat and Njaramba (2024) determine loan access and goal actualization among SMEs in Nandi. Primary data was gathered in this study through questionnaire from 340 respondents. Sampling was done through stratified random method. Analysis was guided by descriptive as well as probity regression. It was clear after analysis that gender, tertiary level of education, business registration and perceptions regarding credit are direct enablers of performance.

Bitta and Omagwa (2022) appraised affordability of loans and monetary performance of SMEs in Machakos context. A total of 100 enterprises were purposively selected and included in the study. The analysis demonstrated that credit affordability was a positive and significant predictor of monetary actualization of outcomes in an entity. Mwangi and Wanjiru (2021) linked high-interest rates and MSEs' access to credit and their operational costs. The research found out that high-interest rates often lead to reduced profitability and financial strain on MSEs, affecting their overall performance and growth potential. Karanja and Mwaura [45] determined nexus between high interest rate and borrowing cost in enterprises. The research finds that elevated interest rates can significantly strain business finances, leading to higher operational costs and reduced profitability. Njiru (2014) determined the implication of credit cost on monetary realization of the established goals of dairy SMEs in Kiambu County. The data for the study was obtained from quantitative studies that were reviewed. The analyzed findings provided an indication that cost of credit has an influence on monetary goal realization of SMEs.

3. Research Methodology

3.1. Research Design

This guides how the study is executed to realize the established objectives (Kothari, 2004). Explanatory research design was used. Liamputtong (2019) shared that an explanatory design is ideal in studies that have limited information available on the subject matter. The design linked credit accessibility on MSEs performance. Regression elements were covered which were taken care by the explanatory design.

3.2. Target Population, Sampling and Sample Size

In the present study, 1,020 MSEs operating in Murang'a County were targeted as categorized into manufacturing, wooden furniture, textiles, selling and distributorship as well as service oriented (Murang'a County, 2024) as shown in Table 1

Table 1. Target Population

Category	Target population	Sample proportion
Manufacturing	180	17.6%
Wooden Furniture	202	19.8%
Textiles	230	22.5%
Selling and Distributorship	240	23.5%
Service Oriented	168	16.5%
Total	1020	100.0

Source: KNBS (2019)

The below formula computed study sample:

$$n = \frac{N}{1 + N(e)^2}$$

n = Respondents

N = Entire population

e = Level of significance i.e. 5% or 0.05

Therefore, sample size (n) = $1020 \div (1 + 1020(0.0025))$

$$= 1020 \div (1 + 2.55)$$

$$= 1020 \div 3.55$$

$$n = 287 \text{ respondents}$$

The study employed a stratified random sampling method to select the micro and small enterprises (MSEs) that participated. The method provided an equal opportunity for selecting all population elements. This technique ensured that the MSEs in all economic sectors are covered and that the entire sample is representative. Consider Table 2

Table 2. Sampling Technique

	Target population	Sample size	Percentage
Manufacturing	180	51	17.6%
Wooden Furniture	202	57	19.8%
Textiles	230	65	22.5%
Selling and Distributorship	240	68	23.5%
Service Oriented	168	47	16.5%
Total	1020	287	

3.3. Data Collection and Analysis

Structured questionnaire helped in data collection. MSEs Owners provided primary data using structured questionnaires. There were various sections included on the question in a structured manner. Questionnaires are appropriate in obtaining information from large number of participants in the study with time constraints (Mazhar, Anjum, Anwar & Khan, 2021). The questionnaire had seven sections covering general information, collateral requirement, credit assessment, credit information sharing as well as cost of credit and performance presented in relevant sections respectively.

3.3.1. Validity

Validity pertains to what an instrument measures and

the extent to which it accurately measures it (Mohajan, 2017). With a validity test, the accuracy and honesty of the test instrument can be ascertained. For this study, content validity and face validity were utilized supported by supervisor and two experts in the field of entrepreneurship.

3.3.2. Reliability

In any research, there are some errors in the data collected. The intention is usually to minimize the amount of errors so the findings are as truthful as possible. The study instrument used should ensure that errors are minimized. Reliability analysis was done throughout the pilot process. A group of 5 respondents were used in the piloting process. The study tool was pilot tested to determine its reliability through computation of Cronbach Alpha Coefficient with the value 0.7 taken as the threshold. Table 3 gives a breakdown of the reliability results:

Table 3. Reliability Results

	Number of items	Cronbach Alpha Coefficient
Collateral Requirements	4	.765
Credit Assessment	4	.873
Credit Information Sharing	4	.882
Cost of Credit	4	.793
Performance	4	.763
Overall		.815

From Table 3, the overall Cronbach Alpha Coefficient was 0.815, collateral requirement had 0.765, Credit Assessment had 0.873, Credit Information Sharing had 0.882 and Cost of Credit had 0.793 while performance has 0.763. As all these values are above 0.7, it can be deduced that the scale adopted in this study was reliable. The finding agrees with Amirrudin, Nasution and Supahar (2021) who indicated that an above 0.7 Cronbach Alpha Coefficient value indicate that the study tool has a reliable scale.

3.3.3. Data Collection Procedure

The study focused on MSEs operating in Murang'a County, specifically in Murang'a South Sub-County. The MSEs selected were diverse in terms of industry, size, specific location and age of the owners to ensure the findings as representative. The study included MSEs that had been in operation for at least one year and have attempted to access or accessed credit from financial institutions or other sources.

3.3.4. Data Analysis

Once the data had been collected, it was thoroughly reviewed to ensure it was consistent and complete. The SPSS version 27 was used to code and analyse the data collected. This was done using both descriptive and inferential analysis methods. Below is the model that aided data analysis:

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

Where:

Y = performance

β_0 = constant

β_0, β_1 = beta coefficients

X_1 = Collateral requirement

X_2 = Credit assessment

X_3 = Credit information sharing

X_4 = Cost of credit

ε = error term

3.3.5. Ethical Considerations

Ethics ensure that the study is done in line with established standards (Roberts & Termuehlen, 2021). No participant was compelled to undertake this study. Literature was acknowledged through APA. None of the respondent was allowed to disclose the name on the questionnaire. No monetary reward was provided to respondents for participating in this study.

4. Research Findings and Discussion

This section interprets and discusses the findings presented in chapter four of the study, focusing on the influence of credit accessibility more so; collateral requirement, credit assessment, credit information sharing and cost of credit on the performance of micro and small enterprises in Murang'a County, Kenya. The findings are compared with theoretical and empirical literature reviewed in chapter two and aligned with the study's objectives.

4.1. Response rate

The findings on response rate are as presented in Table 4.

Table 4. Response Rate

Variable	Frequency (F)	Percentage (%)
Response	217	75.6%
Non-Response	70	24.4%
Aggregate	287	100.0%

Source: Survey data (2025)

Table 4 indicates that from a total of 287 questionnaires that were administered to owners of MSEs operating in Murang'a County, 217 of them were dully filled in and returned hence a response rate of 75.6% as supported by Babbie (2010).

4.2. General Information

The following table 4 presents the general information for the study.

Table 5. General Information

Category	Classification	Frequency	Percentage
Gender	Male	109	50.2
	Female	108	49.8
Years of operation	0-5 years	43	19.8
	5-10 years	130	59.9
	over 10 years	44	20.3
Level of education	Primary	43	19.8
	Secondary	116	53.5
	College/University	58	26.7

Source: Survey data (2025)

The findings in Table 5 indicate that while 50.2% of the respondents were male, 49.8% were female. The findings also indicate that while 59.9% of the studied enterprises had been operations for 5-10 years, 20.3% had operated for over 10 years and 19.8% for 0-5 years. While 53.5% of the respondents had secondary education, 26.7% were graduates with a university degree or a college diploma/certificate and 19.8% had primary education.

4.3. Regression Analysis

In this study, it was necessary to conduct regression analysis in order to test the study's objectives, quantify the impact of credit accessibility on MSE performance and provide statistical evidence to support the theoretical and empirical review. The analysis enable the study to address the objectives and fill the literature gaps as well as offer evidence-backed recommendations for enhancing credit accessibility and MSE performance in Murang'a County.

Table 6 is a breakdown of the model summary:

Table 6. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.939	.881	.879	.73928

Source: Survey data (2025)

From Table 6, adj. R^2 value is .879, this means that 87.9% change in performance of micro and small enterprises in Murang'a County, Kenya can be explained by their credit accessibility. ANOVA findings are indicated in Table 7.

Table 7. ANOVA Results

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	856.955	4	214.239	391.995	.000 ^b
Residual	115.865	212	.547		
Total	972.820	216			

Source: Survey data (2025)

The analysis of variation presented in Table 7 above assesses the significance of the regression model examining the relationship between access to credit and firm performance. The table indicates that the model was fit ($F=391.995$, $p<0.05$). This aligns with the entrepreneurship theory of Shane and innovation of entrepreneurship theory which emphasize resource mobilization and innovation as drivers of performance

Table 8 gives coefficients

Table 8. Coefficients and Significance

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	7.294	.524		13.928	.000
Collateral Requirements	.420	.024	.029	17.500	.012
Credit Assessment	.406	.023	.009	17.652	.000
Credit Information Sharing	.310	.019	.014	16.316	.012
Cost of Credit	.599	.016	.935	36.844	.000

Source: Survey data (2025)

From table 8, a detailed insight into the relationship between access to credit and firm performance is provided. The table examines four considerations for access to credit; Collateral Requirements, Credit Assessment, Credit Information Sharing and Cost of Credit and their contribution to firm performance. From Table 8, the following equation is fitted between accessibility to credit and performance, with cost of credit having the largest impact.

$$Y = 7.294 + 0.420X_1 + 0.406X_2 + 0.310X_3 + 0.599X_4$$

Where:

Y = performance

X₁ = Collateral requirement

X₂ = Credit assessment

X₃ = Credit information sharing

X₄ = Cost of credit

From Table 8, collateral requirements had $p=0.012$, which is less than 0.05. Thus, it can be inferred that collateral requirement had significant effect on performance. Kimanzi [20] established collateral requirements hinder access to credit by SMEs. It was noted that these requirements discourage business owners from pursuing credit services from financial institution. Makena, Kubaison and Njati (2014) noted that inadequate collateral negatively affects accessibility of credit by MSEs which in turn slows their growth and success. Namusonge and Mole (2016) established collateral requirements hugely affected access to credit by small entities. It emerged that majority of the respondents agreed that some household items were required as collaterals to access credit and that lack of title deeds had been a challenge to access credit. Respondents also agreed that pay slips were required as collaterals in order to access credit and that to access credit, one had to have logbooks which were a challenge for most borrowers.

The resource-based view theory argues that a firms unique resources such as assets that can be used as collateral for accessing credit gives it competitive advantage in accessing credit. The finding of the current study aligns with the resource-based view theory with firms with collateral assets such as title deeds and logbooks better placed access credit, enhancing their performance.

Empirical literature review however, shows a negative relationship between rigid collateral requirements and performance of MSEs. A study by Kambura and Mwenda [8] found negative link between collateral requirement and performance of SMEs in Isiolo. Kimanzi [20] the requirement of provision of collateral discourage access to credit, affecting performance.

In the current study, a positive beta coefficient (0.420) suggests that collateral requirement facilitate credit for MSEs, but stringent requirements such as title deeds limit credit access for some MSEs. This is supported by Makena et al (2014) and Namusonge and Mole (2016). This shows that collateral requirement remains a barrier to credit accessibility by MSEs.

The significance effect of collateral requirement ($p=0.012$) emphasizes their influence in enabling credit accessibility, which in turn encourages entrepreneurial activities such as innovation and expansion. This aligns with the entrepreneurship theory of Shane as discussed in chapter two. With 74% of the respondents citing lack of title deeds as a barrier to credit accessibility, the study shows that MSEs in Murang'a County face challenges in meeting collateral requirements by financial institutions. This is consistent with Munoz (2010) and Farhad and Yoshino (2015) who observed that small firms' limited assets restricts their access to credit

The findings indicated that credit assessment had p -value as $p=0.000$ which is less than 0.05. This means that credit assessment significantly predicted performance. The significant of credit assessment ($p<0.001$) indicates that the assessment process ensures that only MSEs which are financially viable are able to access credit from financial institutions. From the study, a low beta coefficient (0.009) indicate that credit assessment has a limited direct effect compared to others factors. With 68.8% of the respondents agreeing with the need for financial analysis, this shows that MSEs with financial records are likely to access credit while those lacking are likely to face barriers in accessing credit as noted by Karanja et al. [45]. From the study, Participants were in agreement that credit risk analyses were conducted required to access loans and that sales volume analysis was paramount to access credit facilities. Respondents also agreed that breakeven analysis information was required to get credit and that profit margin analysis was required to qualify for credit.

The dynamic capability theory suggest that firms must adapt competencies, such as financial management, to dynamic environments to enhance performance. Analysis such as sale volume and profit margins in credit assessment aligns with the dynamic capability theory since MSEs must show strong financial positions in order to access credit. A study by Karanja et al [45] found that stringent application procedures, which include credit assessment, are a barrier to credit accessibility, thereby affecting firm performance negatively. Chepkoech (2014) noted that CAMPARI is a model widely used in Kenya to assess credit worthiness. This aligns with the finding of study that credit assessment plays a critical role in credit accessibility.

Karanja [45] on access to credit by women entrepreneurs concluded that the procedures put in place by financial institutions for potential borrowers to access credit were very rigid and non-accommodative which affected their performance and growth, supporting the finding in table 8, which indicates that credit assessment has a significant impact on firm performance.

From the results, credit information sharing had p -value as $p=0.012$ which is less than 0.05. Thus, it can be deduced that credit information sharing had significant

effect on performance. Waari (2015) found information asymmetry to be a factor that influenced access to finance by the SMEs. A Cytonn report (2022) noted that bad credit history or lack of a credit history at all is a huge hindrance to access to credit. The high agreement (83.4%) for positive credit reports, supports the effectiveness of CRBs in Kenya. However, a low beta (0.014) suggests a moderate effect most likely because most MSEs lack established credit histories which aligns with Waari (2015). Study participants were in agreement that positive credit reports improve chances of getting credit and that credit was approved based on credit score. At the same time, respondents agreed that CRB status of applicant determined chances of getting credit and that information sharing determined the credit worthiness.

The entrepreneurship theory of Shane emphasizes the role of information access in identifying and exploiting opportunities. Credit information sharing through the credit reference bureaus aligns with this theory by providing financial institution with data to be used to assess the credit worthiness of MSEs. This enables MSEs with good credit history to access credit easily. Sarun and Koori (2020) found that credit information sharing reduces loan default rates thereby supporting firm performance indirectly by ensuring sustainable lending. Ngugi and Nasieku (2016) as well as Namusonge and Mole (2016) noted that CRBs facilitate access to credit by reducing information asymmetry. However, Waari (2015) and a Cytonn report (2022) noted that poor credit history is a barrier to credit access.

From the study, the effect of cost of credit ($p < 0.001$ and $\beta = 0.935$) suggests a critical role in performance of MSE. The beta value shows that affordable credit enhances firm performance by enabling investments in innovation and operations as suggested by the innovation of entrepreneurship theory. With 68.7% disagreement against attractive interest rates aligns with CBK (2020) data showing higher interest rates for micro enterprises compared to larger firms. This suggests that reducing cost of credit could substantially improve MSE performance in Murang'a County.

The pecking order theory suggests that firms prefer internal financing but will resort to external financing, when necessary, with high costs acting as a barrier to external financing. The findings of the study align with the pecking order theory as high credit costs deters MSEs access to credit thereby impacting performance. Mwangi and Wanjiru (2021) as well as Karanja and Mwaura [45] found that high interest rate increases operational costs which in turn reduces firm profitability thereby negatively affecting firm performance. This aligns with the study's findings that unaffordable credit costs hinder performance. Alumasa and Muathe also noted that there is an inverse relationship between mobile credit costs and MSEs performance, while Bitta and Omagwa (2022) found a positive relationship between credit affordability and performance.

5. Conclusion

Based on the study findings and the study objectives, it

was concluded that collateral requirements significantly influence MSE performance ($p = 0.012$). While assets such as title deeds and logbooks facilitate access to credit, their restrictive nature limits credit accessibility. This aligns with the resource-based view theory, as resource-endowed firms' gains a competitive edge.

Credit assessment significantly predicts performance ($p < 0.001$), as rigorous financial analysis ensures credit is advanced to MSE that are viable, supporting the dynamic capability theory. Rigid procedures can however hinder MSE from accessing credit as noted by Karanja et al. [45].

Credit information sharing has a significant effect of firm performance ($p = 0.012$) by reducing information asymmetry as per the entrepreneurship theory of Shane. Positive credit reports and strong CRB status enhance credit access. However, limited or lack of credit history creates a barrier to credit accessibility.

Cost of credit has the strongest influence on performance ($p < 0.001$ and $\beta = 0.935$) with high costs hindering credit accessibility by MSE. This aligns with the pecking order theory and also with empirical finding by Mwangi and Wanjiru (2021) as well as Karanja and Mwaura [45]. Affordable credit enhances performance through increased investments.

Overall, the study finds that credit accessibility is a critical determinant of MSE performance in Murang'a County, with 87.9 % performance variance. The findings validate the theoretical framework and highlight the need for interventions to address barriers to credit accessibility by MSE.

5.1. Policy Recommendations

Financial institutions should adopt flexible collateral policies such as group based guarantees to enhance credit access by MSEs lacking traditional collateral. As supported by Kimanzi [20] and Namusonge and Mole (2016). They should also simplify credit assessment procedures and focus on easily accessible data such as sales volume, while offering capacity building to MSE on financial record keeping to improve their credit worthiness.

To enhance credit information sharing, the Central Bank of Kenya (CBK) and credit reference bureaus (CRBs) should promote awareness and accessibility of credit reporting for MSEs, enabling them to build positive credit histories.

On cost of credit, the CBK should enforce stricter regulations on interest rates and appraisal fees, to make credit more affordable as supported by Mwangi and Wanjiru (2021). Financial institutions should also reduce accompanying costs such as legal and valuation fees. Murang'a county government on its part, should, in collaboration with MSEA, implement capacity building programs on financial literacy and entrepreneurial skills to improve the ability of MSEs to meet credit assessment criteria.

Policy makers within the Kenya government, should also expand initiatives like Uwezo fund and Women enterprise fund with lower interest rates and simplified requirements, addressing gaps noted in the study by Wairimu and Mwilaria (2017).

5.2. Limitations and Future Research Direction

Micro and small enterprises in Murang'a County should maximize their sales and profit and seek to achieve break-even. These are important parameters that are considered by lending institutions during credit assessment.

Owners of the micro and small enterprises in Murang'a County should seek to improve their credit scores and worthiness through early repayment of their outstanding loans in order to access more credit from lending institutions in future.

The Central Bank of Kenya should regulate the interest rate charged by lending institutions in accessing credit facilities by borrowers. Lending institutions should reduce the loan appraisal fee as it was identified to be a hindrance towards access to credit facilities by micro and small enterprises in Murang'a County.

In the present study, it was discovered that 87.9% change in performance of micro and small enterprises in Murang'a County, Kenya can be explained by their credit accessibility. Hence, other factors affecting performance of these enterprises should be established by future scholars.

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