Firm Size and Credit Accessibility of MSEs in Kenya

Abstract: Micro and small enterprises have been known to be drivers of socio economic development. Despite the effort of the government in formulating and implementing policies intended to enhance entrepreneurship, several challenges are still being experienced by entrepreneurs, with the major ones being the requirements of lenders of different financial institutions. This research aimed at determining the influence of firm size characteristics on MSEs credit accessibility in Meru Town. The study employed the use of a questionnaire as the primary method of data collection. A target population of 800 registered MSEs was used for random sampling yielding a sample size of 89 respondents, all of whom were owners or managers of these enterprises. The data was analysed using descriptive statistics and a multiple linear regression model. The finding was that firm size significantly influenced credit accessibility of MSEs. The study results show that firm size and credit accessibility of MSEs account for (79.2%) of the variation in independent variables.

Keywords: Credit accessibility; Firm size; Firm characteristics.

1.0 INTRODUCTION

Many academicians and scholars have mentioned unusual characteristics that are linked to credit accessibility. However, one of the characteristics linked to credit accessibility has been mentioned: firm size. (Swacha-Lech, 2017), found that large firms are no longer affected by financial institution restraints such as collateral, bureaucracies, or courtship at the cross-national stage, using a company database that encompasses fifty-four nations. However, MSEs, particularly little businesses, are. Creditors have used this attribute of firm size to assess the company that is borrowing money. In a few cases, this is reflected in the MSE's general assets and human capital. According to (Chimucheka & Rungani, 2011), asymmetrical float of facts has a disastrous effect on small businesses, which thrive on difficulties obtaining loans due to the loss of facts. On the same point, (Fatoki & Asah, 2011) discovered that a firm size influences its capacity to obtain loans from commercial banks. Most economic theories were concerned with the factors that influence the size of a firm and the quality of its possible outputs. Some of the available hypotheses, according to (Zawadzka et al., 2021), do not speak about the connection between business longevity and outside finance. On the other side, (Cassar et al., 2007; Macchiavello, 2012), conducted research in a variety of Asian countries and discovered that remarkable organizations borrow for extraordinary reasons, whether for a short or long period. Large corporations, in particular, borrow for a short time, whereas small businesses are interested in borrowing for a long period of time. However, according to (Osano & Languitone, 2016), small businesses are 5-10% less likely than large connected businesses to seek outside funding. More evidence was provided by (Macchiavello, 2012), who demonstrated that the size of a firm is a significant predictor of debt adulthood in the United States. Larger has a variety of strategies for making its coins more distinctive and, as a result, less volatile. Then there's the possibility that size has something to do with bankruptcy. They said that large corporations have access to the markets and can borrow at higher interest rates because their general assets will buffer and serve as collateral (Abbas et al., 2018). (Cassar et al., 2007), discovered that, even though credit accessibility centers pay close attention to the availability of business funding from various lending companies, most marketers are less willing to seek such money. This situation is attributed to high credit accessibility costs, poor credit accessibility control records, and variable financial institution lending charges, according to the study. According to (Zawadzka et al., 2021), the MSEs sector has played a significant role in the increased growth of the American Gross Domestic Product (GDP) by providing employment opportunities to people in the informal sector. This milestone was achieved because of government financial policies that improved access to low-cost financing from lending facilities, providing potential businesspeople with much-needed launch cash. MSEs, on average, have more transactional obligations than bigger businesses when seeking financing from a financial institution, (Macchiavello, 2012; Swacha-Lech, 2017).
This tendency is observed in European countries such as the United Kingdom, France, and Germany. MSEs are harressed, according to (Chimucheka & Rungani, 2011), because of a lack of collateral or the need to borrow against uncertain future earnings. However, according to the (World Bank, 2017), establishing a credit accessibility requires removing any barriers such as verbal interaction and hidden costs. Therefore, this study sought to examine the effect of firm size characteristics on credit accessibility of MSEs in Meru Town.

2.0 LITERATURE REVIEW

(Gamage, 2013), found that, the duration of a business, its capital, the amount of time it has been in operation, and its track record are all factors that influence loan access. The majority of MSEs are unincorporated, and financing institutions avoid investing in small business ventures that are frequently unregistered or controlled by family members. Low-scale activities deter monetary institutions from funding MSEs owned by members of one’s immediate family. According to research and several recorded evaluations, there is a link between the size of a company and its ability to get funds(Abbasi et al., 2018; Cassar et al., 2007; Chimucheka & Rungani, 2011). For example, (Phong et al., 2020) connected that the size of the business is an alternative for its unpredictability on its assets, particularly for small businesses. This is supported by (Cimirotić et al., 2017), who believe that increasing human resources in a company is likely to be beneficial to the financial system of those companies because there is more variety in abilities created or management creates a more aggressive in access than small companies or comparison to small companies.

Many researchers agree with this viewpoint, claiming absolutely that the dimensions of a corporation are consummated at the loan received (Shinozaki, 2015; Le, 2015 & Honhyan, 2019). As a result, the dimensions may also be obvious in terms of how much of an asset the organization has (Burkhart & Ellingsen, 2015). This, in turn, affects credit accessibility. In consideration of the company's size, Hernández-Cánovas and Martínez-Solano (2017) examined and discovered that small businesses face difficulties obtaining credit due to the high cost of credit. In the same breath, (Drakos and Giannakopoulos, 2016; Martinez, 2016), argue that small businesses with little human capital are apportioned much less financing than they require or can handle, resulting in a reliance on war to achieve goals. According to Bigstein et al. (2015), the likelihood of a large company obtaining financing is greater than 35 percent, compared to a smaller company with a success rate of less than 12%. They may also be able to provide a wider range of guarantees and a higher level of capital inventory and infrastructure, as well as more transparency in their financial records. In a few studies, the level of possessions, income, or range of personnel were used as proxies and have been linked to the likelihood of gaining access to credit score (Grand, 2015; Menkhoff, Neuberger, and Suwannaporn, 2016; Nguyen and Ramachandran, 2016).

According to Honhyan (2017), there is consensus that the degree earned by scholars indicates that the dimensions of a corporation reveal strengths and flaws, which are reflected in its total performance. According to Alemany (2015), an MSE's overall performance is demonstrated by how it decides on its capital structure. Furthermore, Cassar (2015) points out that income might result in higher quality in contrast to assets that show negativity as a result of a unique feature of the company's duration, resulting in a unique financial proposition. For example, a market cap is more market-oriented and forward-looking, and it shows capital ownership, but an asset measures the company's assets (Berkart & Ellingsen, 2015). To be more precise, Okura (2018) found that the use of bank loans to finance working capital will rise with the size of a company in a study of MSEs in China. In the case of MSEs in Malawi, the use of outside finance is significantly and negatively connected with small and medium-sized businesses and unquestionably associated with large businesses (Mulaga, 2016). According to Honhyan (2009), large corporations can utilize their assets as collateral to obtain mortgage access from banks.

Fatoki and Odeweni (2018) found that credit scoring software from medium-sized businesses is 3.79 times more likely to succeed than software from small businesses in South Africa. Kenya (Biggs, Raturi, & Srivastava, 2015), India (Allen et al., 2017; Byiers, Rand, Tarp, and Bentzen, 2016), Tanzania (Kira & He, 2016), the United Kingdom, and the United States all had similar outcomes (Vos et al., 2017). According to Bigger, Nguyen, and Hoang (2017), there is a strong link between the longevity of a firm and its credit score. In Tanzania, Kira and He (2012) discovered that the size of a corporation, its industry, its location, its collateral, and its commercial enterprise facts all had a significant impact on credit score entry. Burkart and Ellingen (2004) stated that the size of a firm has a significant impact on debt financing.

3.0 METHODOLOGY

The study employed the use of a questionnaire as the primary method of data collection. A target population of 800 registered MSEs was used for stratified sampling, yielding a sample size of 89 respondents, all of whom were owners or managers of these enterprises. The data was analyzed using descriptive statistics and a multiple linear regression model. Descriptive research design was used to designate the contemporary circumstances, in a manner to indicate what folks believe as true or false currently, what activities the community is doing now, or practicing towards a certain goal (Beins and McCarthy, 2012). Lavrakas (2018) invokes the idea that descriptive research comprises fact-finding questions, surveys, and
observation in a manner geared to achieving the goals of the research at the end.

3.1 RESULTS AND DISCUSSIONS

3.1.1 Reliability Test

The study determined the effect of firm size on credit accessibility. The Cronbach's Alpha coefficient for the designed questions on the independent variables was found to be 0.895; hence the internal consistency of the items under the study was good since it was within the acceptable range of 0.7 to 0.9 as recommended by Siegle (2011) and cited by Engidaw, (2022).

3.1.3 Respondents opinion on influence of firm size on Credit Accessibility by MSEs

The study investigated respondents' opinions on how firm size influenced credit accessibility by the MSEs. The results were presented in table 2. Close to two thirds of the respondents (62.9%) opined that to a large extent, firm size influence credit accessibility of MSEs, (24.7%) indicated agreed on the influence of firm size on credit accessibility of MSEs, while the other measure statements opined at less than (10.0%) of the output. Hence, in the opinion of the respondents, firm size influence credit accessibility of MSEs since over 50% of the respondents upheld this opinion.

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
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<tbody>
<tr>
<td>Strongly Agree</td>
<td>56</td>
</tr>
<tr>
<td>Agree</td>
<td>22</td>
</tr>
<tr>
<td>Neutral</td>
<td>3</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>89</td>
</tr>
</tbody>
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3.3.4 Regression Coefficients for Firm Size

The coefficients table indicates how firm size contributed to the model. Since the p-value was < .05; it was concluded that firm size significantly contributes to the model. The model equation was expressed as:

\[ Y = b_0 + b_1X \]

Replacing the coefficients with the correct values, a predictive model is arrived at,

\[ \text{Credit accessibility} = 2.107 + (0.027 \times \text{Firm size}) \]

Table 1: Respondents opinion on influence of firm size on Credit Accessibility by MSE

Where, \( Y \) represents credit accessibility.

and \( X \) represents firm size.

4.0 CONCLUSION

The study focused on determining the influence of firm size on MSEs credit accessibility in Meru Town. The MSEs that were considered in this study were; general shops, salons and barber shops, cyber cafes, wholesales, supermarkets, hotels and restaurants, bars, wines and spirits, boutiques and clothing shops, groceries and dry cereal stores. In total, the MSEs considered in this study were 89. The obtained results suggest that firm size is crucial in credit accessibility in Meru town. The study results suggested that huge sales volume are required by lenders because they act as indicators for lending evaluations. Most MSEs lack loans from the lending institutions because they do not meet the desired sales volume thresholds. This shows size has no effect on loan accessibility of MSEs in Meru Town was rejected with 95% confidence.

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that credit accessibility increases with increase in firm size of MSEs in Meru town. This study makes a significant contribution to the current body of knowledge, particularly for academicians that may use it to advance their research in this field by analysing the literature and identifying gaps.

**REFERENCES**


