



**FINANCIAL STRATEGY IMPLEMENTATION AND PROFITABILITY OF SMALL
AND MEDIUM ENTERPRISES IN VOI**

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**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS,
ECONOMICS AND SOCIAL SCIENCE FOR THE AWARD OF DEGREE OF
MASTER OF BUSINESS ADMINISTRATION (MBA) IN TAITA TAVETA
UNIVERSITY**

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university

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DEDICATION

I wish to thank the almighty God for his grace and favor upon me all this while. I dedicate this study to my wife, Grace Muthoni and my children David Waweru and Mary Waithrerero for their unending love, patience, and support.

Acknowledgments

I thank my supervisors Dr. Karim Omido and Mrs. NdinyaFor their professional guidance and motivation which enabled me to compile this research project. I also extend my gratitude to my family, especially my wife Grace Muthoni and my parents David Waweru and Mary Waitherero for their unending love, patience, and support. Thank you for your prayers. I wish to thank everyone for allowing me to stand on your shoulders and be able to see beyond the horizon.

ABSTRACT

Finance is a major challenge for the prosperity of SME'S. Implementing revenue, cost and investments financial strategies are major drivers for improved profitability performance in SME'S. Achieving SME profitability by utilizing SME resources in certain situations and circumstances requiring strategic action over time is paramount. Implementation theory provides a way of integrating information from different agents involved in financial strategy implementation. Designing of systematic information exchange methods are at the heart of the theory, which is complemented by financial resource allocation rules which makes possible allocation decisions that are optimal in view of the profitability measurements in place. In A systematic sample of onehundredSME's was selected from a population of four hundred SME'sin Voi town area in Kenya by picking every third SME recorded starting from the second SME recorded. The quantitative data findings were presented using descriptive statistics methods including regression, Anova, and the F statistic.

Keywords: Financial strategy, profitability, investment, firm performance and SME challenges



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ACRONYMS

CSF	Critical success factors
EU	European Union
ICT	Information and communication technology
MDGs	Millennium development goals
MFI	Multinational financial institution
SME	Small and medium enterprises include any business which employs more than ten but less than one hundred employees
SPSS	Statistical Package for the Social Sciences
SWOT	Strengths, weaknesses, opportunities and threats analysis

DEFINITION OF TERMS

Owner:	The entrepreneur or founder of an SME.
Performance measurement:	A measure of the expected improvement in business activities.
Financial strategy implementation:	The phase of achieving the planned goals and targets by putting into practice
SME	Small and medium enterprises
Strategy	A plan put in place to achieve a certain end or attain a goal or objective.
Profits	The excess of revenues over costs for a business firm
Profitability	Continuous excessive revenues over costs in an SME firm



CHAPTER ONE: INTRODUCTION

1.1 Background of the study

SME's are the backbone of the economic growth and economic development of any country. As drivers of poverty eradication and in line with sustainable development goal one a lot of emphasis needs to be placed in SME strategy implementation as the foremost counter to SME failure.

According to (Morgan and Pontines, 2018) Vulnerable groups, like low-income groups of people should have access to financial services and should not be segregated from the industry. Such financial inclusion includes access to bank accounts and access to affordable credit and the most recent efficient payment systems.

(Chirchir and Maina, 2017) recognize the negative effects that credit rationing has on financial performance in SME's.

(Gathoni, 2017) cites challenges of accessing credit by SME's as the major drawbacks influencing and aggregating SME failure.

According to (Nyamwanza et al 2014) Financial strategy implementation defines the ways in which the organization puts in place its financial structures, control systems and culture to achieve competitive advantage and improved performance by following strategies (Sorooshian, Norzima, Yusof, & Rosnah, 2010). Financial strategy implementation is a key challenge for today's organizations (Li et al., 2008). A good strategy implemented in the wrong way will not help in achieving improved performance (Speculand, 2009); revenue is realized in the implementation of the strategy not the making of the strategy.

According to (Sooroshian et al 2010), Superior performance is realized in the firm when sound projects are implemented efficiently. A failure financial strategy implementation effort



causes enormous costs in the organization, besides wasting a considerable amount of time and money.

(Odongo,2014) cites (Kasekende& Opondo, 2003), SME'S need finances to function properly. SME, S fail within one year due to lack of entrepreneurial and technical skills and managerial support, (GEM report, 2008). SME's may not get credit from microfinance due to high administrative costs resulting from the location of operations of the microfinane (Sacerdoti, 2007).

In line with (IMF report 2006) low profitability, a high cost of borrowings, small loan size and the short period of lending to the clients all contribute to poor performance. The development of SMEs was intended for poverty eradication, job creation and increased income levels in relations to achieving Millenium Development Goals (MDGs), (MFPED, 2008).

According to Banham et al (2010), limited human, material and financial resources and SMEs focus on allocation of resources to achieve their maximum short-term advantage, leaves the SME's vulnerable to external pressures and causes loss of financial control within the SME and contributes to poor profitability performance (McAdam, 2002).

The need for SME'S to pursue financial sustainability through efficiency is checked by the owners of capital (MFIS) who charge exceedingly unaffordable interest rates and lending costs for SME investors (Odongo, 2014).

Fabbri and Klapper,(2008) mention SME profitability as widely used performance metric which is clearly visible through financial ratios like gross profit margin. It is therefore difficult for SME's to measure profitability as they rarely keep the accounting books and records necessary for such financial calculations(blank, 2002).



1.2 Statement of the problem

Despite the existence and continuous formulation of financial strategies designed to foster profitability and growth, reluctance to implement financial strategies and to cope with challenges associated with failure still remain the major problem of SMEs. There is no adequate follow-up on ways and means to rectify problems in strategy implementation and such factors affect organizational performance, (Nyamwanza, 2014).

The factors impeding SME strategy implementation can potentially affect making of a comprehensive strategy or a single decision. Difficulties usually arise during the subsequent implementation process (Li, Guohui, & Eppler, 2008).

According to (Khalique, 2011), worldwide, SMEs face common problems in respect of their survival or to take competitive advantage. According to the available resources, more than 50% of SMEs are collapse within the first five years of operation (Reiss, 2006; Ahmad and Seet, 2009).

Voss et al (2009), SME's suffer from the contraction of the financial market and in particular from more cautious banks and rising interest rates. SME's are not able to reduce prices significantly due to huge borrowing costs and so they experience reduced profitability.

According to (Ackah, 2011), Creditworthy SME'S lack access to credit because they are unable to raise the required collateral due to the inadequate capital base and they do not keep proper records to prove their repayment ability to the lender, (Coleman 2000). The major source of financing for SME's is the unfavorable debt financing with its long list of requirements and this has been cited as a major drawback to industrial growth and development.



This research study solved the problem faced by SME'S in financial strategy implementation. It provides solutions to challenges faced by SME'S in financial strategy implementation. The research study focused on cost, revenue, investment implementation strategies in SME'S and SME'S financing challenges and their effect on SME profitability. The solutions provided by this research study will solve the habitual SME access to finance and finance utilization decision implementation problems which have haunted SME'S since time immemorial and which do not seem as if they will stop any time soon.

1.3 Objectives of the study

The main objective of the study was to examine the effect of financial strategy implementation on the profitability of SME'S. It was guided by the following specific objectives.

- a) To determine whether cost strategies implemented in SME'S improve SME profitability
- b) To determine whether revenue strategies implemented in SME'S improve SME profitability
- c) To determine whether investment strategies implemented in SME'S improve SME profitability; and
- d) To determine whether challenges faced by SMEs in the implementation of the financial strategies have an impact on the profitability of SMEs

1.4 Research Hypothesis

- (a) H₀ - Cost strategies implemented in SME'S do not improve SME profitability
H₁ - Cost strategies implemented in SME'S improve SME profitability



- (b) H0 - Revenue strategies implemented in SME'S do not improve SME profitability
H1-Revenue strategies implemented in SME'S improve SME profitability
- (c) H0 - Investment strategies implemented in SME'S do not improve SME profitability
H1- Investment strategies implemented in SME'S improve SME profitability
- (d) H0 - Challenges faced by SME'S in financial strategy implementation do not have impact on SME profitability.
H1 - Challenges faced by SME'S in financial strategy implementation have impact SME profitability.

1.5 Justification of the study

Government agencies and parastatals, as well as non-governmental organizations and public institutions, will find the findings of this study as a vital tool for planning and a starting point to revamp the SME sector. Financial resources and policy engineering will make SME'S better when they are equipped with financial strategy implementation and profitability outcome evaluation skills.

The study will expand the horizon of focus for scholars, managers, and practitioners by creating a necessary departure from the traditional limitation to the corporate sector. Researchers will find the study vital as a reference point and guide for understanding and furthering the future survival and advancement of the SME performance.

Voi town is a good sample of an average town in Kenya. Most studies focus on major towns like Nairobi and Mombasa and are thus biased in reflecting a true and fair picture of the



economic and business trends of the more than eighty-five percent population of Kenyans outside the major towns.



1.6 Scope of the study

The study was out to find out the financial strategies being implemented by SMEs and the effect of their implementation on profitability. The study investigated registered SME'S in Voi town in Kenya. The respondents included SME owners, managers and finance officers. The finance officers include accountants and clerks.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the theoretical and empirical framework on financial strategy implementation on SME profitability variables according to the research objectives and research questions formulated in chapter one. It examines financial strategy implementation challenges and solutions and their impact on SME profitability. The chapter looks at relevant academic and peer-reviewed journals to identify the factors which enable or impede effective financial strategy implementation.

2.2 Theoretical framework

Many studies have recommended that SME failure is due largely to their failure to have strategy implemented. Financial strategy implementation assists in crucial decisions which enhance the performance of SME'S. The strategic management process is concerned with financial strategy implementation for improving SME performance. Establishing objectives and goals to ensure the success of an organization needs to be complemented with the implementation of the strategies. Implementation of strategies is the process that puts plans into action to reach goals. The study will determine the cost, revenue and investment strategies in SME'S, SME challen



ges in implementing these strategies and their relationship to the SME Profitability.

2.21 Strategic theory

According to (Smith, 2011), strategic theory is widely recognized as an analysis method for understanding decision making. Strategic theory compels us to compare the advantages and disadvantages of making decisions and weigh them with those of our competitors and partners. Strategy considers the means and not the end. The strategic analysis involves using the available resources to achieve certain objectives.

2.22 Implementation theory

Implementation theory is a component of mechanism design. It solves the problem where information needed for resource allocation to gain optimal decision making is privately held by agents who are concerned with self-utility or self-satisfaction maximization. In any situation where the information needed to make decisions is dispersed, it is necessary to have information exchange among the agents and users possessing the information, (Aumann et al., 2002). Implementation theory provides an adequate framework for an information exchange and allocation rule which necessitates optimal resource allocation decisions, (Kakhbod 2013, Palfrey 2002).

2.3 Empirical literature

According to (Foreman-peck et al, 2005), SMEs inadequate turnover is not sufficient to cover their fixed costs. They must buy in services and/or undertake tasks with less specialized staff. An example of these handicaps is VAT compliance costs, which are extremely regressive: 7.8% of revenue for the lowest turnover range of firm in 1986–87 compared with 3.69% for the



average. Not surprisingly, then, there is evidence that greater regulatory costs disproportionately force smaller firms out of business.

According to (Tang, 2014), the average Return on Asset is about 35%. Moreover, the accounts receivable average occupies almost 40% of total asset and accounts payable average is over 30% of total debts, which shows a great importance of trade credit in the SMEs. Meanwhile, the firms investigated have an average leverage rate of 74%, which means that SMEs in Netherland rely heavily on external debt financing. These firms, on average, are accompanied by a negative growth rate (-0.04%) in assets annually.

It is important to establish the problems that were faced by SMEs who were not financed the full amount. This is based on the fact that most financial institutions were not financing the SMEs the full amount applied for. It would help the researcher to be sure of the reasons that hindered financial institutions from giving funds as applied by the SMEs.

The reasons given for SME failure are of financial nature in 49.8%. In the study of perceptions of official receivers interviewed for the same small enterprises, 86.6% of the 247 reasons given were of a financial nature.

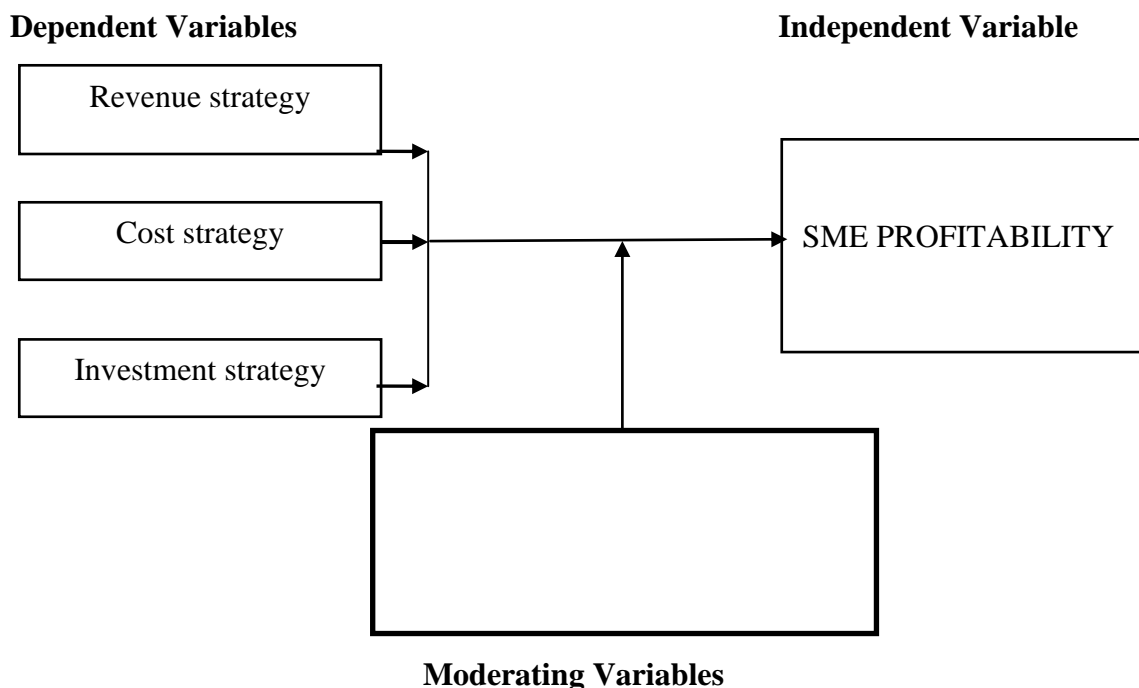
(Nyangori, 2010), reports that Small and medium enterprises are the major agents of economic growth and employment. Sixty percent of SME's are estimated to fail in Kenya annually, (Kenya National Bureau of Statistics, 2007). SME's success is a major contributor to the success of the whole economy. Government efforts to revive the SME sector have not been as effective as the efforts of the informal sector. Incomes for investment are greatly curbed by the unfavorable state of the entire economy. There is inadequate information about SME operations and structures to enable investors, analysts and other SME players to avoid the detrimental management mistakes which commonly lead to death of SME's.



2.4 Conceptual framework

The study determined whether financial strategies are implemented in SME'S. The researcher tested the independent variable of financial strategies implemented and its impact on the dependent variable, SME profitability. The researcher focused mainly on the effect of cost, revenue and investment strategies and the effect they have on the profitability of SME'S. The researcher while carrying out the study focused on the SME financial implementation strategies and the impact of solutions of implementing the strategies on SME profitability. The conceptual framework is set out in the figure below.

Figure 1: Conceptual framework of the relationship between financial strategy implementation and SME performance



Source: Author

2.5 Critique of existing literature



The existing literature is not sufficient to guide small and medium-term enterprises in choosing the right path in financial strategy implementation. There is little evidence of financial strategy implementation to aid in achieving the successful performance of SME'S in Kenya. Financial strategy implementation which is vital for SME performance is however neglected in theoretical and empirical studies and also in practice.

2.6 Summary of literature review

Performance drivers and variables should be carefully chosen by the SME'S for optimal decision criteria that will aid financial strategy implementation. Choice of strategies should be guided by adopting environmental variables to the SWOT and BSC analysis which were used in the study. This will ensure that SME'S implement strategies which address SME challenges and necessitate successful performance of SME'S.

2.7 Research gap combine with a critique

There exists a gap between theory and practice in understanding the importance of financial strategy implementation and its implications for SME performance. This gap exists because of the laxity of SME owners in implementing strategies to address real-life SME situations. Conducting this research will close this gap by creating awareness in SME owners about the importance of strategies and their impact on SME performance. It will ensure that SME strategies are actually implemented for successful performance in SME'S.

2.8 Operationalization framework.

The operationalization framework is set out in the table below:



PARAMETERS	INDEPENDENT VARIABLE	ANALYSIS	DEPENDENT VARIABLE
<ul style="list-style-type: none"> • Encourage the efficient production of unique products to increase sales • Maximizes revenues • Minimizes expenses • Encourages and puts in place cost reduction techniques in production • Retains and invests some of the profits generated from operations • Evaluates finance options to access debt at lowest interest rates in the market • Identifies niche markets to invest in. • Allocates finances to most viable investments • Identifies cheapest sources of financing 	<p>Revenue</p> <p>Cost</p> <p>Investment</p>	<p>Mean</p> <p>Variance</p> <p>Standard deviation</p> <p>Chi-square test of independence</p> <p>correlation analysis</p> <p>Multiple regression analysis</p>	<p>SME PROFITABILITY</p>

Table 1: Operationalization framework

Source: Author



CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research method. It is arranged as follows; research design, the population of the study, sample, sampling frame, and sampling techniques, instruments, data collection procedures, pilot study, and data processing and analysis.

3.2 Research design

A descriptive research studies the characteristics of the phenomena in a population. A descriptive research study identifies the situation as it is on the ground and uses categories for data. It establishes quantitative relationships by studying frequencies, averages and other statistical relationships applied in data analysis. The descriptive research design was used in this study.

According to (Mugenda&Mugenda, 2003), A descriptive research portrays the facts as they really are on the ground when the researcher conducts the research study. If another researcher were to conduct the same study, he or she will find a situation as it was described. The purpose of descriptive research is to establish the current status of the population under study.

3.3 Population of the study

A population includes all the data that will be necessary in investigation of the research problem in a study. The target population of this study included four hundred SME'S in Voi town in Kenya.



According to (Ngechu, 2004), a well-defined or specified set of people, group of things, households, firms, services, elements or events which are being investigated forms the population of a research study.

According to (Mugenda&Mugenda, 2003), a population refers to an entire group of individuals, events, and objects having a common observable characteristic ensuring homogeneity. The target population in the study is the group of people to whom we want our research results to apply. The target population is the sum of all the members of a real or hypothetical set of people, events or objects the researcher wishes to generalize the results of the research on.

3.4 Sample, Sampling frame and sampling techniques.

A sampling frame is a complete list of all the members of the population that we wish to study. A sample is a collection of population representative units chosen from the universe or population to represent it. The data was collected from Voi town SME'S and this was the researcher's sample frame. The sample was picked so as to be representative of the population. The study conducted a total population census of the identified respondents.

Cooper & Schindler, (2003), identify the sampling frame as the list of all population units from which the sample was selected.

(Kothari, 2004) describes a sample as a representative collection of units chosen from the universe to represent it.

(Mugenda&Mugenda, 2003), define a sampling frame as a carefully selected group which is smaller than the population but which should be representative of the whole population or universe of data chosen for investigation in an attempt to solve the research problem.



(Babbie, 2001), defines sampling as the process of selecting observations. Two main methods of sampling exist, namely non-probability and probability sampling, (Kothari, 1998). Probability sampling, also known as random sampling, on the other hand, aims at providing useful descriptions of the total population by selecting a sample of individuals who must have the same variations that exist in that population.

According to (Baffour et al, 2013), a census is a sample survey in which the sampling fraction is one. This means that all the items of the population are consisted in the sample. The study used census sampling method.

Table 2: Population, Sample and sampling frame

	Population	Ratio	Sample
SME's	400	0.25	100
Total	400	0.25	100

Source: Author

3.5 Instruments

Data collection involves operationalizing the research design into instruments of data collection with a view to collecting data in order to meet the research objectives. Data collection methods will include the use of interviews, observation, and questionnaires. The researcher used interviews with structured questionnaires as they were easier to be used by respondents and simpler to be analyzed by the researcher. A document schedule and data sheet were used to collect sales, cost, investment and other financial data from the respondent during the interview besides the questionnaire.



The sampling methods which was used in the study relies on using already identified initial respondents to act as informants to identify others with the desired characteristics is a combination of the snowball method and convenience sampling.

According to (Mugenda&Mugenda, 1999), the use of questionnaires is advantageous to the research and the researcher because, questionnaires are detailed in providing answers to the research problems, they are easy to use and are cost effective in their construction besides being a popular method of data collection.

According to (Owens, 2002), interviewing is a most effective multi-method, data collection instrument that combines questioning, cross-examination and probing techniques. Interviewing yields highest cooperation and lowest refusal rate while offering a high response quality with the advantage of having the interviewer and the respondent present.

3.6 Data collection procedures

Data were collected from respondents cited in sampling using the structured questionnaire with the aid of Likert tables and the interview method to probe the respondent. Interviews were conducted with the respondents to gather the data. The local authorities were informed about the research study and the purpose of the study.

Once cleared by the authorities the researcher collected data using the questionnaire while explaining the purpose of the study from the sampled SME population in Voi town. Using the questionnaire was advantageous in that the respondents were reached on time.

3.7 Pilot study

Implementation theory was heavily relied on in solving the problem in the research study.



Validity is ensured by the use of testing to ascertain test scores interpretations are supported by theory and evidence. The degree with which the research instrument measures what it is supposed to measure forms the validity of the research instrument. The extent to which the questions cover the specific areas covered relates to the content related technique. The consistency over time to yield the same result after repeated trials forms the reliability of the research instrument.

According to Saunders et al, (2007), the accuracy and appropriateness of the research design and instrumentation is established in pilot testing. Schindler, (2006) agrees that the purpose of the pilot test is to detect weaknesses in design and implementation and to provide a proxy for data collection of a probability sample.

According to (Mugenda&Mugenda, 1999), the consisted results of the research instrument in repeated trials forms its reliability. An instrument is reliable when it can measure a variable accurately and obtain the similar results over a period of time. Validity is the degree to which results obtained in the research study represent the variables of the study with accuracy and meaningfulness of inferences which are based on the research results.

McMillan and Schumacher, (2006) show that the explanation of the phenomena in relation to the realities of the world is the validity of the research study.

In the pilot study, the questionnaires for this study was re-tested on small and medium-term enterprises that have similar characteristics to those that were covered in the study. The research instrument was validated for face and content validity. The test re-test technique was used to estimate the reliability of the instruments. The pilot study was conducted in Mombasa. The researcher will administer the same questionnaire to ten respondents for pre-testing. Inferential statistics, which test for the relationship among the study variables, was applied.



According to (Latham, 2007), Systematic random sampling includes selecting sample units in random starting from the n th item and continuing in the same sequence. The pilot study followed the systematic random sampling technique. A sample list of forty SME'S was selected from a population list of one hundred SME'S starting from the fifth SME on the list.

Quantitative and qualitative data and information is acquired using activities in community engagement. The most common types of information collected include costs, resources, participant numbers time and date of activities and responses in the community engagement.

The price at the point-of-purchase and point of sale should have a large impact on supplier and consumer spending. Data collection for sales and costs in the SME was conducted by document and record analysis as both primary and secondary data sources. Past records and documentation in the SME will provide the necessary secondary data. A document and records schedule was prepared to collect cost reduction and sales increment data in the research study.

The statistical tests used were correlation and multiple regression. Covariance was tested between two variables at time, one independent variable and the dependent variable each time. Covariance was also tested whether it existed between the independent variables.

One dependent variable is predicted with several independent variables in multiple regression, which identifies the best set of predictor variables. SPSS allows for many predictor variables to be observed and in sequential regression the amount of variance the variables account for is used as a base for adding the variables one at a time.

Linear regression models were used to examine the relationships between SME profitability as measured by Sales, Cost, and investment financial strategy implementation. Correlation



and regression analysis were used to measure the degree of functional relationships between financial implementation strategies and SME profitability. Mean, variance and the standard deviation was calculated for the variables.

Changes and variability in the independent variables such as cost reduction or sales increment were measured by comparing data from different financial periods as shown in the SME financial records. These changes were used to evaluate the SME'S profitability.

3.8 Analytical methodology

The study estimated the following equation.

$$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \mu \dots \dots \dots (1).$$

Where X_1 are the SMEs revenue strategies, X_2 are the SMEs cost strategies and X_3 are the SMEs investment strategies and y is SME profitability.

Ghalib, (2017) show X_1 and X_2 as the independent variables and y as the dependent variable in the multiple linear regression model.

In the research study multi, co-linearity was measured by examining tolerance and the Variance Inflation Factor (VIF) which are the two co-linearity diagnostic factors that help to identify multi co-linearity.

Tolerance is a measure of co-linearity reported by most statistical programs such as SPSS; the variable's tolerance is $1-R^2$.



The table below shows the results of the multi-collinearity test;

Table 3: Multi-collinearity test results table.

	<i>AVERAGE PROFITABILITY</i>	<i>AVERAGE REVENUES</i>	<i>AVERAGE COST</i>	<i>AVERAGE INVESTMENT</i>
<i>AVERAGE PROFITABILITY</i>	1			
<i>AVERAGE REVENUES</i>	0.543496395	1		
<i>AVERAGE COST</i>	-0.071784243	0.229341651	1	
<i>AVERAGE INVESTMENT</i>	0.048534639	0.671196485	0.207009385	1

Source: Author

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

In this chapter the results of the research study are presented. It links the results of operationalizing the research study in light of the research objectives and hypotheses. A sample of one hundredand SMEs was taken from the population of four hundred SMEs.

4.2 Summary statistics

A sample of one hundred SMEs was run in analyzing the data. The results are of the summary statistics of the regression analysis are presented in table 4 below;



The multiple R of and the R Square of showing a positive relationship between the variables.

The sample means and sample standard deviations for the independent variable and the dependent variables results are presented in the table below;

Table 4: Summary statistics

Regression Statistics	
Multiple R	0.695206774
R Square	0.483312458
Adjusted R Square	0.467165972
Standard Error	0.146723974
Observations	100

Source: Author

Table 5: Mean and sample standard deviation from the mean

	AVERAGE PROFITABILITY	AVERAGE REVENUES	AVERAGE COST	AVERAGE INVESTMENT
Sample Mean	173901.43	538904.71	88151.27	158004.98
Sample Standard deviation	73414.90963	156059.8344	30959.0143	84090.40814

Source: Author

4.3 Regression analysis and coefficients

Table 6: Regression analysis results table

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>
Intercept	4.837391298	0.062406448	77.51428635
AVERAGE REVENUES	1.20657E-06	1.28513E-07	9.388717401
AVERAGE COST	-1.02493E-06	4.90787E-07	-2.088337505
AVERAGE INVESTMENT	-1.26466E-06	2.37175E-07	-5.33216653

Source: Author

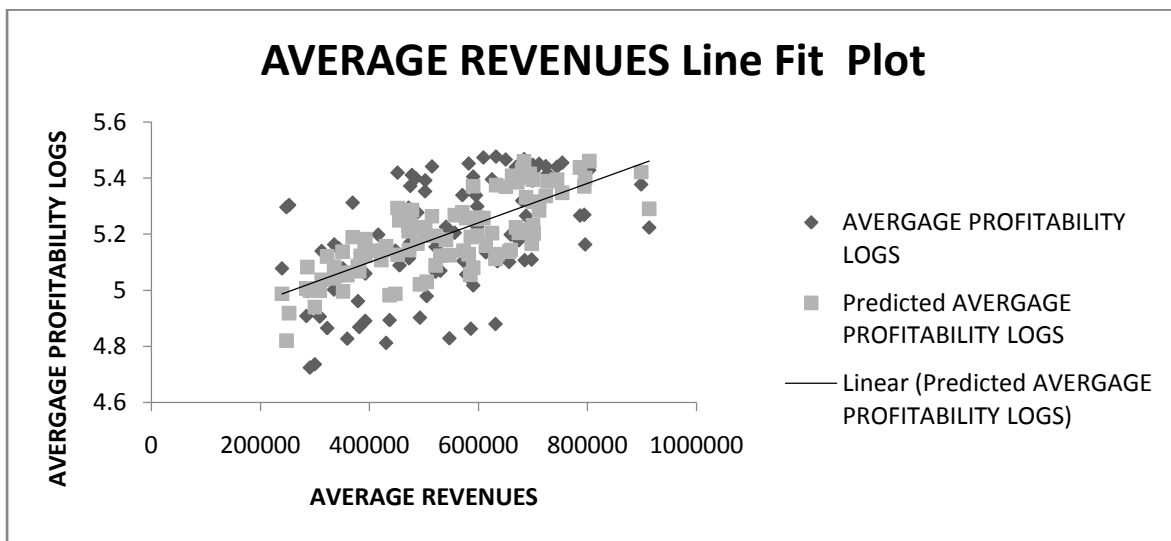


The regression analysis made it possible to formulate the linear regression equation as presented below;

$$y = 4.837391298 + 1.20657x_1 - 1.02493x_2 - 1.26466x_3 \dots \dots \dots (2).$$

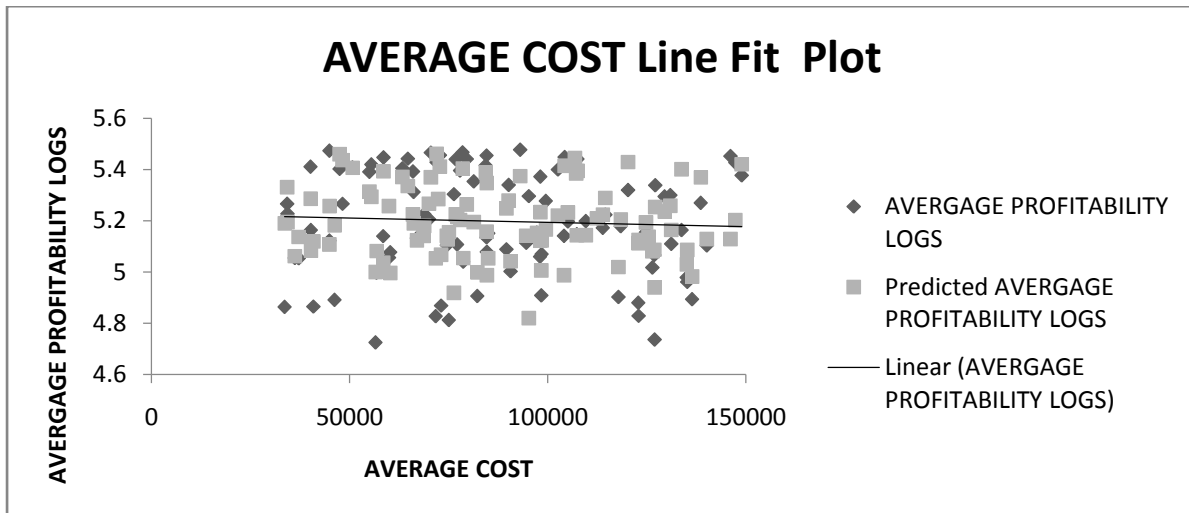
Where; y is profitability, x_1 is average revenues, x_2 is average costs and x_3 is average investments. The regression analysis in excel showed an almost proportional positive relationship between average revenues and profitability, an inverse negative relationship between costs and profitability and between investments and profitability. The regression analysis coefficient results are presented in the table and figures below;

Figure 2: Average revenues and average profitability



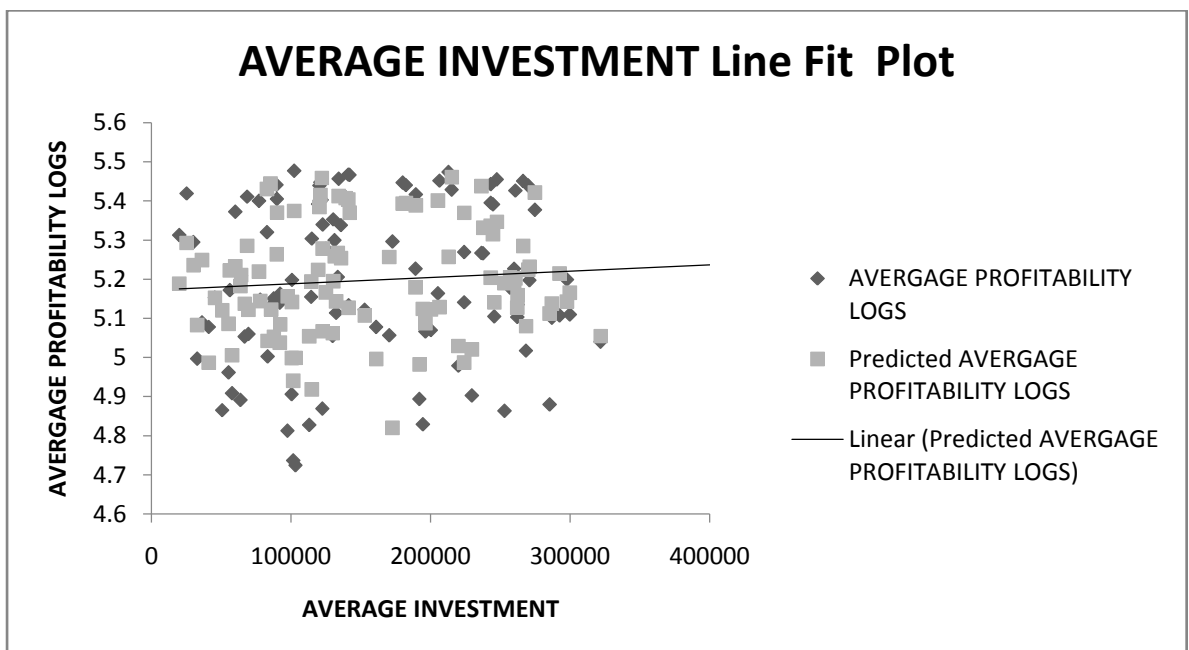
Source: Author

Figure 3: Average costs and Average profitability



Albalaki, F. (2018), identifies that costs influence profitability and also are a major component of determining profitability

Figure 4: Average investment and average profitability



Source: Author

4.4 Analysis of Variance (ANOVA) for Cost of sales, revenue and investment variables



The F-value is 29.93298155. The result is significant at F is equal to 9.50968E-14 as presented in the table above. ANOVA is used to investigate whether differences in means between samples are significant or not. The regression analysis coefficient results are presented in the table below.

Table 7: Analysis of variance table

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	1.933184897	0.644394966	29.93298155	9.50968E-14
Residual	96	2.066680748	0.021527924		
Total	99	3.999865645			

Source: Author

CHAPTER FIVE: SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings in chapter four. Conclusions are made from the research study and findings and the recommendations. The results are analysed with practicable solutions on the research study problem put forward.

5.2 Summary of findings

Each of the findings resulting from the analysis of each specific objective summarized here and their resultant effect on profitability as a measure of performance in SME's was highlighted.



The study observed that reduction of cost minimization strategies in SME's greatly increase the SME's profitability (Manisha gaur, 2011). Where an SME has had various suppliers of goods and factors of production they had a broad choice and could pick the lowest cost of operation and thus increasing their profitability.

The research also observed that while investing the type of debt financing and the rate of interest charged on the debt financing was a great determinant of the SME's profitability. SME's with low debt financing levels and interest payments on debt proved to have better profitability than those with high-interest rates on debt and larger portions of debt financing in their capital structure.

The research study established access to the debt during times of need as an important determinant for SME profitability and survival. Most respondents also agreed that the ability to generate profits in SME's and retain some of those profits for expansion objectives was heavily dependent on the ability to access and take cheap loan financing. Small microfinance companies are better in offering cheap credit products and services as opposed to banks and other financial institutions. The recent reduction in interest in all financial institutions contributed greatly to the profitability of the SME's in Voi town.

The research study established the return on investment as a major contributor to SME profitability. The research study established the ability to generate enough earnings before interest and taxes to cover up for costs of investing, retain some earnings and maintain the SME owner as a major contributor to continued profitability.

5.3 Conclusions

It was concluded in this study that the cost of debt or interest rate on debt contributes the most out of the other variables used to measure SME profitability in the study including



revenue, cost of sales, investment, and SME challenges- (interest on debt and outstanding debts). The research study determined that it would be important to put in place policies and mechanisms which will reduce interest rates on debt and preferably favor the SME's and small investors in terms offered in the loan agreement.

The research study also concluded that a reduction in the interest rate on the debt would make implementation of SME financing and investment decisions much easier resulting in improved SME profitability.

The research study has established a positive relationship between increases in SME revenues and increases in SME profitability. As revenues in SME's increase, the SME profitability also increases.

Increases in average cost show a resulting decline in SME profitability.

An inverse relationship between costs and SME profitability as when SME costs decrease the profitability increases.

Investment and expansion growth in SME's increase the SME profitability. This is because the resulting increase in SME profitability makes it possible for the SME to retain some of its profits as plowed back profits to enable such expansion, investment, and growth in the SME's.

5.4 Recommendations

The study recommended better financial policy engineering, financial control and use of specific government monetary control instruments by the central bank such as open market operations to control the money supply in the economy, and lowering discount rates to improve SME's interest rate of borrowing and investing environment.



The study commends the government on its various recent initiatives like the Uwezo fund, Youth enterprise fund and the Women enterprise funds which have made it possible for many SME's to access group loans as startup capital at relatively low interest rates.

The study recommends the government to create information symmetry channels to make these funds known to all Kenyans through advertising rather than channeling the funds through the county governments.

The research study also recommends the SME's to shift their focus of financing options to these funds so as to enjoy the reduced interest rates and better terms on debt financing.

The research study further recommends SMEs financial analysts to engage in the innovation of new SMEs financing systems other than the conventional borrowing from banks, large financial institutions, and micro-finance institutions.

The recommendation is for the SMEs financial analysts and SMEs investors to engage in the financial re-engineering of micro-finance institutions and to come up with financing institutions which offer savings and investments facilities to members and eliminate the loan facility from such financing institutions.

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Appendices

Appendix 1: Letter of introduction

WAWERU ASHINGTON NJENGA,
TAITA TAVETA UNIVERSITY COLLEGE,
SCHOOL OF BUSINESS,
P.O.BOX 635-80300,
VOI.

Dear Respondent,

**RE: A QUESTIONNAIRE ON THE FINANCIAL STRATEGY IMPLEMENTATION AND
SME PERFORMANCE IN VOI.**

My names are Ashington Waweru, a final year master of business administration student in strategic management at TaitaTaveta University College. As part of my course requirements, I am conducting a research entitled: financial strategy implementation on the performance of small and medium-term enterprises in Voi

Your business has been chosen to participate in this study. Please assist me to achieve the research objective by answering the following questions. The results of this survey will form a basis for formulating ways of promoting better management of these small enterprises.

In answering the questions, you are assured that your responses were kept confidential and answers are intended for research purposes only and therefore do not indicate your names on the questionnaire. Please read each question carefully and follow instructions preceding each section. Thank you for your cooperation.

Yours Faithfully,

Waweru Ashington Njenga.



Appendix 2: Questionnaire

Organizational information

1. Please indicate how long your enterprise has been in operation.

- Between 0 and 10 years
- Between 11 years and 21years
- Between 21 years and 31years
- Above 31years

2. Please state the size of your firm in terms of permanent employees.

- 1-20
- 21-40
- 41-60
- 61-80
- 81-100

3. Are these financial strategies implemented in your organization?

Implementation of formal and documented financial strategies in SME'S



Level	YES	NO
Revenue strategy implementation		
Cost strategy implementation		
Investment strategy implementation		

4. Do financial strategies implementation challenges exist in your organization?

Level	YES	NO
Revenue strategy implementation challenges		
Cost strategy implementation challenges		
Investment strategy implementation challenges		

5. To what extent has your organization been engaged in the various financial strategy implementation practices? Kindly tick where applicable on the following ranking:

Engaged in the various financial strategy implementation

Level	Not at all	Small Extent	Moderate Extent	Large Extent
Revenue strategy implementation				
Cost strategy implementation				
Investment strategy implementation				

6. Indicate the extent to which the following financial implementation strategies affect profitability in your SME: please rate them using the following criterion (tick appropriate box)



Financial implementation strategies affect profitability in your SME

Level	Not at all	Small Extent	Moderate Extent	Large Extent
Revenue strategy implementation				
Cost strategy implementation				
Investment strategy implementation				

7. To what extent do the following financial strategy implementation Challenges affect the profitability of your business?

Level	Not at all	Small Extent	Moderate Extent	Large Extent
Revenue strategy implementation challenges				
Cost strategy implementation challenges				
Investment strategy implementation challenges				

8. To what extent do the following financial strategy implementation factors affect the profitability of your business?

Strategies for addressing SME challenges



Financial implementation variables	strategy	Not at all	Small extent	Moderate	Large Extent
---------------------------------------	----------	------------	-----------------	----------	--------------

- Encourage efficient production of unique products to increase sales
- Maximizes revenues
- Minimizes expenses
 - Encourages and puts in place cost reduction techniques in production
 - Retains and invests some of the profits generated from operations
- Evaluates finance options to access debt at lowest interest rates in the market
- Identifies niche markets to invest in.
- allocates finances to most viable investments
- Identifies the impact of financial challenges in strategy implementation

9. State the extent to which monthly profitability in Kshs has improved as a result of applying financial strategy implementation practices?

0 - 10,000



11,000 -21,000	<input type="checkbox"/>
21,000-31,000	<input type="checkbox"/>
31,000-41,000	<input type="checkbox"/>
Above 41,000	<input type="checkbox"/>

10. To what extent has your SME put up strategies to ensure accountability in the use of allocated funds?

Strategies to ensure accountability in the use of allocated funds

Variable	1. Not at all	2. Small extent	3. Moderate	4. Large Extent
accountability				
Financial strategy implementation.				

11. What is the debt level of financing for investments in the SME?

kshs

0 - 10,000	<input type="checkbox"/>
11,000 -21,000	<input type="checkbox"/>
21,000-31,000	<input type="checkbox"/>
31,000-41,000	<input type="checkbox"/>
Above 41,000	<input type="checkbox"/>



12. Which is the time period for repayment of debts in the SME?

- Less than 3 months
- 3 months
- More than 3 months
- Less than one year
- More than one year

13. How long has your oldest supplier done business with you?

- Less than 3 months
- 3 months
- More than 3 months
- Less than one year
- More than one year

14. How long has your oldest customer done business with you

- Less than 3 months
- 3 months
- More than 3 months
- Less than one year
- More than one year

THANK YOU FOR YOUR CO-OPERATION



Appendix 3: Document and records schedule

	Retention Period (Years)
1. Financial Records Record Type	
2. Auditors' reports	Permanent
3. Bank debt deduction	7
4. Bank deposit slips, reconciliations, statements	4
5. Budgets	2
6. Checks – canceled	4
7. Contracts – purchase and sales	4
8. Credit memos	4
9. Depreciation records	4
10. Employee expense reports	4
11. Employee payroll records (W2, W-4, annual earnings records, etc)	6
12. Financial statements – annual	Permanent
13. Financial statements – interim	4
14. Internal reports (Work orders, sales reports, production reports)	4
15. Inventory lists	4
16. Invoices – Sales and cash register receipts, merchandise purchases	4
17. Invoices – purchases (permanent assets)	4
18. General ledger	Permanent



Appendix 4: List of Sample SME'S in Voi town

- 1) Bafaghi supermarket
- 2) Palmsea pharmaceutical
- 3) fine breeze hotel
- 4) new generations stores
- 5) daystar cybercafé
- 6) Kamukunji butchery
- 7) supa milk diary
- 8) oricha hardware
- 9) Maghonyi guest hotel and restaurant
- 10) Jadsa auto spares.
- 11) the real seven stars
- 12) Pwani multi-traders
- 13) Tailand county suppliers limited
- 14) Excelpreneurs enterprises
- 15) sansal enterprises limited
- 16) verse investments limited
- 17) mamamlezi enterprise
- 18) silversplash investment
- 19) dolack pharmaceutical ltd
- 20) jopetrade.a limited
- 21) mghamoz enterprises
- 22) augur company limited
- 23) judicious enterprises
- 24) bamako stationers
- 25) kishaukiweto enterprise
- 26) danwangaafrika innovation limited
- 27) beatel investments
- 28) gee quantico enterprise
- 29) sanuel investment
- 30) sanjemu investments
- 31) afrika lodges – voi
- 32) mindscopeinternational consultancy
- 33) chenga auto hardware
- 34) superscrubs
- 35) ngulia safari lodge
- 36) noormohamedadam& sons
- 37) taita enterprises
- 38) lodge voi safari
- 39) bushra
- 40) lucky hotel
- 41) superstar parcels ltd
- 42) ailaz self service
- 43) coast institute of technology voi campus



- 44) daido enterprises
- 45) dawida general store
- 46) distarr hotel
- 47) fariji chemists
- 48) g4s security services kenya ltd
- 49) hillz care guards ltd
- 50) jayeshbhagwanjiwanzah
- 51) lassymsam general supplies
- 52) josarahisi general hardware
- 60) ngonda pharmacy
- 61) primsams enterprises
- 62) r k supermarket
- 63) voibaraka bookshop
- 64) ash tech systems
- 65) moka films co ltd
- 66) mwanya traders ltd
- 67) new b p voi service station
- 68) power springs electrical sales & service
- 69) rickensself service store
- 70) tsavo institute
- 71) global woods & hardware ltd
- 72) silent guest resort hotel
- 73) voi dental clinic
- 74) voimlima timber & hardware
- 75) wama hardware
- 76) amedo centers kenya ltd -voi
- 77) eden books & stationery
- 78) elima holdings co. ltd
- 79) equator distributors (k) ltd
- 80) fahari enterprises ltd
- 81) frame tree enterprises
- 82) friends corner medicare
- 53) lalazi investment co & general agencies
- 54) lassymsam general supplies
- 55) mgongo investment co ltd
- 56) mini price self service store
- 57) mobicomkenya ltd
- 58) ndara safari lodge & cottages
- 59) new generation stores
- 83) gicheha farm ltd
- 84) goldmartself service store
- 85) havanna electronics
- 86) highway chemist ltd
- 87) home alive academy
- 88) honeyland bakery ltd
- 89) ikumi investments
- 90) jai harisuparmarket
- 91) jedama beauty & studio
- 92) jobessa food processors
- 93) joda& associates
- 94) joe timber & hardware investments ltd
- 95) kenya credit traders ltd
- 96) kenyaakiba micro finance ltd
- 97) mkunda investments company
- 98) mtito midway esso service station
- 99) nyacega enterprises
- 100) ogot and associates

Sources for Appendix 4: list of SME's in voi town

1. Public Procurement Oversight Authority, <http://www.ppoa.go.ke/list>
2. Kenya Business directory <http://www.businesslist.co.ke/location/voi>