EFFECT OF SHORT-TERM DEBT FINANCING ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN BOMET COUNTY

BY

BARNABAS KIPROTICH

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, FACULYF OF BUSINESS AND MANAGEMENT SCIENCES

UNIVERSITY OF NAIROBI

SEPTEMBER 2022

DECLARATION

I do hereby declare that this is my original work and has not been handed over to any institution of higher learning for examination.

Signed …  **……. Date …06th September 2022……**

BARNABAS KIPROTICH D61/6212/2017

This research project has been submitted with my approval as the university supervisor.

Signed **……..…** Date September 7, 2022……

DR. HERICK ONDIGO

Senior Lecturer

Department of Finance and Accounting

University of Nairobi

DEDICATION

Great dedication to my beloved family and friends for their unwavering aid on my education up to this level. I appreciated you for all the time you have encouraged and advised me. You built the strong foundation towards completion this research project.

ACKNOWLEDGEMENT

Praise to the highest God for his support and blessing, knowledge and the good health which has enabled me to complete this research study. I would like to thank my able supervisor and guider Dr. Ondigo Herick. His generosity of knowledge offered me opportunity to upgrade my professionalism and in-depth knowledge in Finance. This has enabled me to construct background of this project The duration sacrificed by the supervisor was a big landmark that has driven me to see light of day in research. My utmost goodwill and faith as well as prayers are all with you.

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LIST OF ABBREVIATIONS AND ACRONYMS

ANOVA	Analysis of Variance
CBK	Central Bank of Kenya
CMA	Capital Markets Authority
CP	Capital Structure
DF	Debt Financing
GDP	Gross Domestic Product
GPM	Gross Profit Margin
LTD	Long Term Debts
NIM	Net Interest Margin
NPM	Net Profit Margin
NSE	Nairobi Securities Exchange
POT	Pecking Order Theory
ROA	Return on Assets
ROE	Return on Equity
SCP	Structure-Conduct-Performance
SMEA	Small and Medium Enterprise Authority
SPSS	Statistical Package for the Social Sciences
SSA	Sub-Saharan Africa
TD	Total Debts
TOT	Trade-Off Theory
VIF	Variance Inflation Factor

ABSTRACT

The pillar of economic prosperity and economic transformation is associated with growth and performance of Small and Medium Enterprises (SMEs). The massive growth among the firm translates to economic development. SMEs are the game-changer in global market trends, innovation and transformation. Additionally, majority of SMEs relies on short-term debts for the financial performance and strives toward an empirical balancing to ensure optimal level of debts and equity. SMEs have spearheaded the crucial economic transformation to Kenya's economy. The objective of the study was to explore the effect of short-term debt financing on financial performance of SMEs in Bomet County. Theories underpropping the study include trade-off theory, stewardship theory and pecking order theory. The theories blueprint the importance of quality financing and protection of resources for business productivity. Data was garnered, analyzed and presented using descriptive research design. The design reinforced the study credibility, complete and the accurate information. The study targeted 75 SMEs however, complete data was obtained from only 59 SMEs. Hence, the secondary data relating to SMEs overdraft, lease finance, trade credit and performance was collected over a period 5years (from 2017 to 2021). Diagnostic tests were done for normality, multicollinearity and autocorrelation. The tests helped in conclusion and ascertaining if data met the designed rules. The model summary of regression tabulation postulated R of 0.784. This accentuates that the correlation amid the regressor verse the regressed variable is strong. Moreover, it explains the importance of selected predictor in explaining the predicted factor. Furthermore, R-square of 0.614 hence pinpointing the magnitude of regressor variables. Empirically, it posits that 61.4% of variation on the financial performance relates to; lease finance, short term loans, overdraft, and trade credit. It is imperative to conclude that 38.6% of the differences on financial performance are affected by varying determinants not captured in this assessment. Furthermore, the coefficient of determination illustrated the crucial parameter defining the existing model. The mathematical techniques postulated an autonomous value of 0.220. Therefore, the financial performance is 0.220 whenever all factors remain unchanged. Furthermore, a unitary change in overdraft leads to an increase in financial performance by 1.7% whenever other determinants are held constant. Moreover, an addition of a single unit of short-term loans translates to negative consequences on financial performance by 31.3% whenever all the other enablers are held unchanged. A unitary advancement in trade credit translates to the positive change of 10.5% on financial performance whenever all other determinants are kept constant. In summary, an addition of lease finance by one unit triggers the increment in the financial performance by 4.7% if all the influencers are held unchanged. What policy recommendations do you make? The study recommends a study on effect of short-term liability and growth, short-term digital loans and the financial performance of SMEs.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The critical role of SMEs in economy cannot be underestimated. SMEs have grown massively and this has been translated in economic growth. GoK (2021) provided several blueprints to encourage the growth in GDP through SMEs. However, the survival and sustainability of SMEs have relied on debts. The financial performance of SMEs realizable through short-term financial leverage. SMEs make decisions that favored their sustainability and survival. The financial mix is recipe for the financial performance. Short-term debts enhance the business performance if utilized to maximize opportunities (Nyabwanga, Ojera, Otieno and Nyakundi, 2013).

The theories anchoring the research include trade-off theory, stewardship and pecking order theory. Trade-off theory was embedded by Miller and Modigliani (1958) to blueprint the importance of using optimum debts and equity to promote the maximization of shareholders' wealth. In addition, stewardship theory by Donaldson and Davis (1989) provides substantial knowledge on the use and the safeguarding of resources. The pecking order theory formulated by Myers and Majluf (1984) stipulated the major preference utilized in sourcing finance for the firm. The corporate governance prefers re-investing the generated income to enhance business productivity instead of disbursing to the shareholders.

SMEs are the engine of global economic growth. The ranking of SMEs is based on the capital employed, employees, revenue, and asset valuation. In Canada SMEs are the driving force while in German it is creating jobs to greater population. In Zealand it drives the bandwagon of economic prosperity (Bell, 2015). The remarkable steps undertaken by SMEs have triggered competition, innovation, creation of jobs and even stabilized against recession. The economic transformation in the majority of Asia countries have been catalyzed by SMEs. Korea and Japan have rekindled their economy using SMEs. In China, 99% of the aggregate business are SMEs. In USA, the revenues sourced from SMEs are approximately 55% of total GDP (WorldBank, 2021).

1.1.1 Short-Term Debt

Short-term debt incorporates the borrowed money and become due before the end of the year. SMEs can accumulate the amount and repay in period not exceeding one year. The expansion of SMEs demands more financial reinforcement to back-up. Naz, Ijaz and Naqvi (2016) stated that SMEs endeavor to reinforce efficiency and productivity by optimizing short-term debts. SMEs strive to evade illiquidity and solvency by investing in profitable projects. Therefore, SMEs utilize overdrafts, account payable and lease obligations to guarantee their productivity and viability. Furthermore, it is imperative to state that short-term debts enhance the operation and the performance of SMEs whenever optimum utility is provided.

Short-term debt is crucial in the continuity and operation of the SMEs. It jumpstarts the business in the turbulence economic state. Moreover, it can stipulate the expansion of the business via extension of leasing among others. It is undoubtedly key lubricant useful in the service provision, economic development and operational efficiency. Ezeagbe (2017) opined that the prudent utilization of short term debts can magnify the sustainable development.

The parameters of measuring short-terms debts have varied among different scholars. Mugisha, Omagwa and Kilika (2020) used questionnaires to lay the foundation concerning the short-term debts, years in operation for the business and the size of the employees. Sabila (2021) maximized on liquidity to operationalized short-term debts. In contrast, Akenga (2015) optimized quick acid ratio and current ratios garnered from the secondary data. The analysis of overdrafts and accounts payable can intensive while bridging the knowledge gap. This study operationalizes the short-term debts using secondary data for short term debts, overdrafts, lease finance and trade credit from each specific firm as portrayed in the analytical model appendix I.

1.1.2 Financial Performance

Financial performance is the integral purpose of SMEs. It is the yardstick for tracking the business, revamping the budget and consolidating debts. It elaborates the fiscal fitness of SMEs. Moreover, it generalizes the financial health and economic prosperity in a snapshot. It is a useful metric for identifying profitable and non-profitable segments. It boosts the confidence of the lenders whenever the financial health is sound and improving significantly. The operationalization of

financial performance reinforces the SMEs to navigate in market with ease (Sabila, 2021). The financial performance is a yardstick in the modifying innovative results. It boosts the alignment and convergent goals to produce quality outcome. It is an indicator of the maximum utilization of available resources to reward the shareholders. The financial performance is geared by the prospective nature of SMEs. Besides stipulating the financial accomplishment, it outlines the internal capacity to deliver quality results. According to Makori (2017), it is a benchmark for ability to realize the sole purpose of generation of reward to the shareholders.

The financial performance metrics gives chief explanation of business capability. It quantifies the business capability and the capacity to clear their dues on time. The financial statements are critical pillars giving in-depth knowledge on the position, magnitude and the direction of SMEs. The accounting ratio quantify the data to enhance in sound qualitative decision making. Tharmila and Arulvel (2013) made quality use of ROA to quantify performance. Gitman and Zulter (2012) emphasized use of ROA. Besides that, Adekule and Sunday (2020) advocated for going beyond ROA and ROE to include Revenues. Ombuoro (2021) maximized ROE and ROA to get quality outcome. The current study adopts the secondary data and ROA to measure performance using techniques as per the analytical techniques and appendix I

1.1.3 Short-Term Debts and Financial Performance

Short-term debts are prioritized with an attempt to boost the financial performance. The investment of borrowed finance in the projects with positive NPV boosts the fiscal fitness and well-being. Financial stability of the business depends on the financial performance (Adekule & Sunday, 2020). Short-term debts boost the business to have ample cash to enhance smooth and efficient operation. The short-term debts and financial performance are intertwined and therefore higher short-term debts causes operational ineffectiveness (Makanga, 2015). Jones (2019) cautioned against too aggressiveness in the optimization of debts can be costly in the long-run.

Theoretically, the short-term debts and financial are integral in the business. Trade-off by advocated for the optimum use to debts to upgrade performance (Miller and Modigliani, 1958). Moreover, stewardship theory emphasizes the importance of utilization of resources to increase performance. This is possible through accountability, integrity and transparency based on the trust and autonomy bestowed on the management (Davis & Donaldson, 1991). Pecking order theory

spearheads the systematic process of utilizing resources at the disposal, then internal debts, external debts and equity respectively (Myers & Majful, 1984). In a nutshell, the presupposition from scholars have promoted the utilization of resources, optimum level of debts and the preference and systematic process in sourcing funds to reinforce the financial performance.

1.1.4 Small and Medium Enterprises in Bomet County

SMEs are vital contributors to the fast dynamic business transformation. The production of cheaper products to replace imports have intensified the massive development in all sectors. Khajar and Santoso (2021) indicated that revenues created from the operation of SMEs underprop the economic development. SMEs spark an increase in job creation, quality products, utilization of resources, economic transformation, entrepreneurship, intensive competition, and the utilization of resources. It triggers supremacy competition causing quality, quantity and bandwagon of innovation. It injects new ideas to the already saturated market (Adekule & Sunday, 2020).

SMEs in Kenya have given chief benefit to the counties as stipulated by Constitution of Kenya (2010). The devolution has promoted the growth and disbursement of SMEs national and across the counties. Muyukami and Muthama (2019) stated that SMEs increase the potential of both devolved units and the national government. Sabila (2021) postulated that SMEs minimize earnings inequality. Bomet County has developed holistic policies to support the SMEs growth and development. The county's manuscript encouraged a win-win situation between the county and SMEs (Bomet Couty, 2021).

1.2 Research Problem

Short-term debt and the financial performance need an empirical balancing to ensure optimal level is achieved. The optimum level of short-term liabilities have blueprinted the crucial economic transformation to Kenya economy. The impacts resulting from striking balance for liabilities and equity have translated to financial stability. The survival of any business depends majorly on the short-term debts. Despite importance of short-term debts and contributing more than 50% of all the funds sourced for the businesses and generating more than 70% jobs as per KNBS (2020), there are minimal studies that have concentrated on short-term debts and financial performance.

Globally, a crucial reflection has been ventured on the fundamental foundation of SMEs on the global economy (WorldBank, 2021). The profit- making business demands for adequate funds to promote their operations and earn maximum rewards (Chituru, 2012) Marttonen, Monto& Karri (2013). Ezeagba (2017) indicated that financial fitness of SMEs translated to economic progress. Adukule and Sunday (2020) opined that SMEs spurs entrepreneurship and innovation. Khajar and Santoso (2021) categorical illustrated that 90% of worldwide businesses are SMEs and provided an estimate of 55% of the global economy. However, the mass failures of SMEs globally have created a negative outlook on the financial performance and sustainability. The varying conclusion from different scholars inspires a local study.

Bomet County is among the 47 counties that have recorded SMEs with potential to grow (KNBS, 2021). Despite the significant milestone undertaken by SMES, a great number have collapsed and died. This increase havoc in the economy through joblessness and loss of revenue. The staggering economy has been associated with the immense failure of SMEs (Ali & Ali, 2016). The understanding of financial mix, capital structure and the short-term financing set a center for greater understanding. Kuria (2013) opined that SMEs are the ingredients for the financial performance. It enhance the prime techniques leading to financial stability. Moreover, dynamic SMEs are driven towards financial freedom from cumbersome obligations. The accomplishment of the objective lies on the capability to control risks and promote quality performance (Ontari & Muturi, 2018).

Short-term debt is critical in ensuring financial performance. It portrays the liquidity of the business. The business maximizes assets to generate revenue. Moreover, short-term debts are vital in investment in projects with positive net value. The government has allocated more money periodically to upgrade SMEs, hence, stimulating economic growth (SMEA, 2021). Nonetheless, little short-term funding decisions are immensely the trigger of numerous of the detrimental faced by the firm place under statutory management (Chebii et al., 2011). This condition of affairs has translated to loss of wealth as well as the confidence among investors participating in the stock market in Kenya (Maina & Sakwa, 2012). The outcomes that states either significant or insignificant besides positive, negative and neutral outcome is a clarion call for in-depth investigation.

The devolved government units have spearheaded development of SMEs. Nguyen (2020) elaborated on the negative nexus amid short-term debts and performance in Vietnam. Aziz and Abbar (2019) optimize FEM and three stage least square to explain an inverse association between short-debts and the financial performance in Pakistan. Mugisha, Omagwa and Kilika utilized stratified sampling and the descriptive cross-section analysis to expound on the research. The study was done in Uganda. Sabila (2021) utilized descriptive statistics and concluded on the positive association linking the short-term debts and performance in Kenya. Ezenmwal (2018) found no association while Adoye and Olojede (2019) stated a negative association while Nwaoliza and Chinelo (2019) stated a positive nexus amidst capital structure and performance in Nigeria. The preceding studies have concentrated on the leverage, capital structure, governance and the determinants of profitability. There are minimal studies on the effects of short-term debts funding on the financial performance of SMEs. The study attempts to resolve the existing contextual arising from global and regional study, methodology emanating use of different techniques, theoretical and conceptual gaps bases on different regressors and regressed variables as stimulated by the previous studies. The study seeks to answer the question on; what is the effect of short-term debt financing on financial performance of SMEs in Bomet County?

1.3 Research Objectives

To assess the effect of short-term debt financing on financial performance of SMEs in Bomet County.

1.4 Value of the Study

The study will be of great usefulness to different parties to several beneficiaries. The discoveries from this study, will be of great milestone to the SMEs, it will help the micro finance in designing better policies and regulations to assess and govern credit risks, liquidity and short-term finance. They will be able to utilize policies to gain confidence among investors.

The study will form basic foundation knowledge for the scholars. The academicians can obtain in-depth understanding paramount in carrying out research to dig more on the performance of SMEs and understand impact of short-term debts. The study will show the policy makers in the

formulation and execution. It reinforces knowledge to assist in the innovating ways useful in the dynamic business environment.

The uncovering from the study will be critical in the elimination of bottlenecks facing SMEs to encourage holistic development. The government can utilize its allocation and disbursement of resources to realize integration and economic transformation. In a nutshell, it gives direction on the utilization of resources and short-term debts to generate earning to the SMEs.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The study is arranged in systematic order starting from the theoretical foundation, criticism and their relevance for the study. Additionally, the key determinants are explained to shape imagination. The empirical reviews analyzes the past studies and contrast with the prevailing study. Furthermore, summary and gaps provide distinctive reasons why the current study is supreme. Finally, the study wrap-up by providing schematic representation to enhance understanding.

2.2 Theoretical Framework

The theories underpropping the study include the trade-off theory by Myers (1984). The theory proclaims the immense advantages associated capital structuring. The balance of debts and equity can elevate SMEs. Stewardship theory by Donaldson and Davis (1989) advocates for prudential usage of resources with utmost accountability and integrity. The pecking order theory by Myers and Majluf (1984) coins the importance of orderly sourcing of debts to enhance value. The management presuppose the re-investment to enhance business productivity.

2.2.1 Trade-off Theory

The theory coined by Miller and Modigliani (1958) and later expounded by Myers (1984) is useful in the setting of debt-equity ratio that is optimum and valuable to the business. The business strive to create a balance between debts and equity to reap advantage from debts and several leverage associated costs. SMEs have no exception in sourcing and utilizing debts. Optimal debts are useful for reaping the investment opportunities. The short-terms debts that can generate great value to SMEs are recommendable.

The drawbacks of the TOT left many questions on the sufficient and adequate trade-off that cannot drive the business to immense financial obligations. The theory proclaims the importance of balancing the expenditures and rewards though it does not provide quantifiable empirical metrics to spearhead the same. Moreover, the firms have different characteristics hence financial mix differs. The banking, Energy and SMEs have distinct trade that are crucial for analysis before stipulating the adequate debt-equity ratio.

The theory is relevant since it advocates for the equilibrium level of equity and debts. The theory protects businesses against too much debts that supersede the equity. The theory intends to enhance the steadiness of financial performance. The comparison and contrast amid debts and equity is critical in poising justice, fairness and stability while utilizing borrowings. TOT protects the shareholders from egocentric management driven by the borrowing spree. In a nutshell, it shapes the financial mix for SMEs.

2.2.2 Stewardship Theory

The theory was nailed by Davis and Donaldson (1991) to illustrate the mandate of management in ensuring the shareholders wealth are wealth taken care of. The maximization of resources while upholding integrity, professionalism and accountability to boost business. The theory opines that management are motived by the realization of objectives. The managers get satisfied by accomplishing the grand goal of the organization. Moreover, it states the benefits of goal-driven and result-oriented desires in the organization.

The shortcoming of theory is the unpredictable behavior of people. The managers can be persuaded to undertake their own mission. The mandate and jurisdiction of the firm can be at jeopardy if the management pursue personal and egocentric desires. The absence of control and evaluation mechanisms create loopholes for fraud and misappropriation of scarce resources. Moreover, the impact of losses resulting from negligence, fraud and mismanagement fall on the shareholders. Therefore, SMEs faces challenges whenever there is absence of auditing and quality control.

Stewardship theory advocates for elimination of costly procedures and expenditure that does not add value to the firm. Moreover, it stresses the chief mandate of being steward to promote organizational goals. The stewards must derive their satisfaction on the realization of goals since their empowerment is boosted by optimum autonomy reinforced by trust. Additionally, it strives to enhance reputation of managers since there are chief decision makers entrusted by organization.

2.2.3 Pecking Order Theory

As per Myers and Majluf (1984), the POT presuppose an orderly and logistic blueprint due to category of asymmetric information and agency predicaments. The preposition prioritize the internal funds by retaining earnings to invest in projects. The second category is utilizing the

secured debts to fund the investment and thereafter the business can resort to chancy debts, and equity respectively. The financial managers are informed by floatation cost associated with equity and the transaction cost relating to debts.

The drawbacks associated with the theory include the limitation of techniques and variables useful for funding the business. The theory does not address grants and venture capital. Moreover, the due empirical analysis between the risk and rewards have not been sufficient addressed by the POT. The theory advocate for the financial fitness through efficient use of resources in a specific preference order. However, it does not give alternative in cases of expensive mode of sourcing finances.

The relevance of theory help is realistic empirical analysis and sourcing of finances in systematic manner without random and disorganized expensive process. The theory aims to save the firm's resources. POT offer useful guideline while giving verifiable results on severe consequence from asymmetric information. Moreover, it elaborates and rank the cost associated with financing to promote sound judgment to the financial managers. It directs the business on the crucial route to take to finance the business. Short-term debts are beneficial and disadvantage to business in equal measures. The chief consideration is the utilization of finance to realize positive net value.

2.3 Determinants of Financial Performance

The determinants of financial performance in the relation to short-term debts financing incorporates the use of overdrafts, trade credit, short-term loans, and lease finance. SMEs have the goal to provide value on the cumulative amount invested. SMEA (2021). The business capability and financial fitness is gauge on its ability to clear obligations whenever they are due as well as the continuous increase in their net assets, revenues and net income. SMEs are the major players in economic transformation.

2.3.1 Overdrafts

According to Lomokori (2020) overdrafts are useful in the streamlining of business. It is a form incorporated in the capital cycle. Wachira (2017) explained overdraft as the amount funded by banking and Saccos due to higher expenditure than the available amount. Commercial banks do a thorough assessment of the overdraft limit before approving. SMEs with higher quality credit can

access higher amount than those with lower quality. However, the worse performing SMEs may not access overdraft due to the set standards and condition prevailing before the approval of overdraft.

2.3.2 Short-term loans

According to Thenassoulis and Somekh (2016) the short-term loans is only accessible where the borrower and lender make a binding agreement. The borrower furnish the lender with comprehensive information concerning the use and capability to repay. The lender undertakes intensive scrutiny of the borrower's capability before approving short-term loans. The loans are repaid within a year with specific interest rate charged. The short-term loans can aid the business in the operational activities and planning the business strategies for the business.

2.3.3 Trade Credit

The purchase and sale are complete whenever the cash exchange hands between the customer and the vendor. However, trade credit can be utilized by vendor to enhance their sales while maintaining loyal customers. Zeitun and Titan (2014) indicated that trade credit can be paid as constant, with interest or even in instalment. The customer utilizes trade credit to access products and promising to pay in the near future. It is buyer-seller strategy to defer payment till later date. It is an alternative available for instant cash payment. Sanghani (2014) proposed utilization of trade credit to ensure continuity of business. It can boost SMEs with voluminous products which they can resale and pay the vendor.

2.3.4 Lease Finance

This is a contract where one entity or person entrust another to use facility or products and pay in future (Lydon Garcia, 2015). The rental facility can be used by SMEs with the binding agreement stating when, how and how much to pay in future. Lomokori (2020) opined that there are various categories of leasing including leverage and sale. In addition, there are direct leasing and leasing back among others. The leasing is beneficial in the avoidance of impairment of assets and equipment. It gives the company authority to utilize what they have without necessarily owning it.

SMEs have utilized leasing to enhance smooth transactions, efficiency, effectiveness and financial performance.

2.4 Empirical Reviews

Nguyeu (2020) explored the correlation amid the capital structure as well as the profitability. The scope of the study were non-financial quoted firms. The study pivotal region was Vietnam firms. Additionally, it concentrated on 488 firms while data were sourced through secondary means. The study interval period was 2013 to 2018. The findings stated a negative and significant effect of CS on profitability.

Aziz and Abbas (2019) analyzed DF versus the performance. The study was spearheaded in Pakistan. The study was motivated to illustrate the relation between divergent finance and performance of non-financial companies. The data was assembled through secondary means. The population of 14 firms were examined and opined that short-term debts were inversely and significantly correlated with ROA. The research looked deeply on the Pakistan's quoted firms whose undertaking, location and socioeconomic differ from the Kenyan SMEs.

Narang (2018) examined the capital structure's consequences on the performance. The pivotal context was India with the desire to blueprint the existing association by providing factual proposition. The capital structure was best expressed through short-term debts, LTD, and TD on ROA. The concentration of study was Indian publicly quoted firms. The study utilized 5-years data emanating from 20 firms. The analysis emphasized on the positive correlation between short-term debts verse ROA.

Yazdanfar and Ohman (2015) explored debt financing and performance of business. The context was Sweden's SMEs. The study attempted to explain the association amid debts and performance. It combined FEM and three-stage least squares to delineate the knowledge gap concerning the prevailing association. The study was built on 15,896 SMEs shaping the 5sectors in Sweden. The results set forth a negative correlation between short-term debts and long-term in consideration to profitability. Empirically, the epicenter of the study was progressed economy where SMEs firms have stabilized while Kenya is a developing nation.

Lee and Dalbor (2013) investigated short-term debts and performance. The area of interest were the hospitality sector by assessing the restaurant companies in USA. The research was motivated to set out correlation relating to short-term debts and financial performance among the quoted restaurants. The data was garnered from the secondary meaning covering 10years. Pooled regression analysis outcome poised the inverse correlation between short-term debts verse performance. Contextually, the study maximize data from a developed nation while the prevailing study pivotal area is the Kenyan emerging market.

Regionally, several studies have reinforced the study. Mugisha, Omagwa and Kilika (2020) empirically analyzed short-term debts and financial performance. Contextually, the epicenter were SMEs in Uganda. WC shortage and short-term debts blueprinted the association. Descriptive cross-sectional research with the assistance of stratified random sampling of SMEs and purposive sampling the key respondents enhance smooth and efficient undertakings. The primary data was garnered to provide in-depth understanding. Nevertheless, the current study is looking at short-term debts, SMEs and Performance.

Jones and Edwin (2019) explored debt-finance and corporate performance. The driving force was the correlation existing and relating to debts and performance. Short-term debts, LD and TD were explained as the ramification of performance. The panel data was tabulated after assembling from secondary techniques. The study examined 15 companies quoted Nigerian Stock Exchange. The outcome elaborated a positive correlation amid Short-term debts, LD and TD with the performance. The prevailing study concentrates on SMEs in Bomet County, Kenya.

Prempeh and Asare (2016) explored debt policy verse the performance. The study's context was Ghana with chief purpose of assessing the debts policies and performance. The pivotal area were the manufacturing companies. The debt policies were explained by the short-term debts, LTD and TD. In addition, the metrics useful for gauging the performance was ROA, GPM and Tobin's Q. The data interval period of 10years delineated a negative correlation with performance. The research focal area was Ghana Manufacturing sector while the current study focusses on SMEs in Kenya.

Locally, Sabila (2021) scrutinized CS and financial performance. The center of concern was the non-financial companies that were listed at NSE. The period of study cumulated to 10years that ranged from 2011-2020. The variables considered included the leverage, firm size as well as

liquidity. The results indicated that leverage recorded a negative but significant correlation, while size positively and significantly linked, and liquidity showed a positively and significant association. The study advocated for balancing long-term-short-term debts.

Kobarach (2020) concentrated on STF and the performance. The pivotal concern was in firms quoted at NSE. The study maximized the explanatory non-experimental design in the census study. The period of study were spanned from 2015-2019 hence amounting to 5years. The SPSS method elaborated the outcome with the aid of descriptive statistics and Pearson correlation. All the predictor variables assimilated in the research portrayed positive though insignificant correlation. Nevertheless, growth and size registered a strong and significant correlation. The current study focuses on the SMEs in Kenya.

Eyimkele and Koori (2019) analyzed the financial leverage with great comparison to performance. The study considered companies listed in NSE to explain the correlation. Empirically, the debt-equity, short-term debts and long-term debts were elaborated as a function of performance. The secondary data was generated to give in-depth understanding. Explanatory and non-experimental design was useful. In addition, descriptive statistics shaped knowledge and understanding. The panel regression techniques gave chief latitude to debts and performance. The summarized outcome showed LTD being positively correlated, Short-term debts negatively linked and Debt-equity posted a positive correlation with ROA.

Hassan (2016) analyzed the PSE while trying to explain debts and profitability's association. The period of study accumulated to 10years from 2003-2012. The study utilized the random effect to demonstrate short-term debts, LTD verse ROA. However, the study specify an insignificant correlation. This study looks into short-term debt financing verse performance of SMEs.

2.6 Summary of Literature and Research Gaps

The reviews focusing on the international zones, continental regions, regional studies and local reviews have tried to identify the knowledge gap and the available solution. The chronological development and progressive steps made in the utilization of short-term debts to finance business have great support from the researchers. Sabila (2021) elaborated the presence of positive correlation amid short-term debts and performance. Short-term debts reinforce the productivity of SMEs via trade credit, lease and even overdraft to realize stability in growth.

The researchers' findings have indicated neutral results for instance Hassan (2016) stated an insignificant linked amid short-term debts and performance. Yazdanfar and Ohman (2015); Nguyeu (2020) as well as Aziz and Abbas (2019) coined a inverse relation between short-term debts and performance. Jones and Edwin (2019); Sabila (2021); Narang (2018) and Kobarach (2020) stipulated a positive association between short-term debts and the financial performance. From the ranking above, there three crucial categories of outcome neutral, positive and negative correlation. The study has delineated both the significant and insignificant consequences. From the empirical considerations, analysis and determination there are key fundamental drivers for this research which include conceptual, methodology and conceptual gaps.

2.5 Conceptual Framework

The conceptual framework is the schematic diagram explaining the linked amid regressor verse the regressed variable. The short-term debts focus on the overdraft, short-term debts, trade credit and the lease financing. Notwithstanding the role of short-term debts on the performance, minimal attention have investigated SMEs in Bomet County. Therefore, the study seeks to bridge the gap which has been summarized diagrammatically to create linkage in bold.

Independent Variable **Dependent variable**

Short-Term Debts Financing

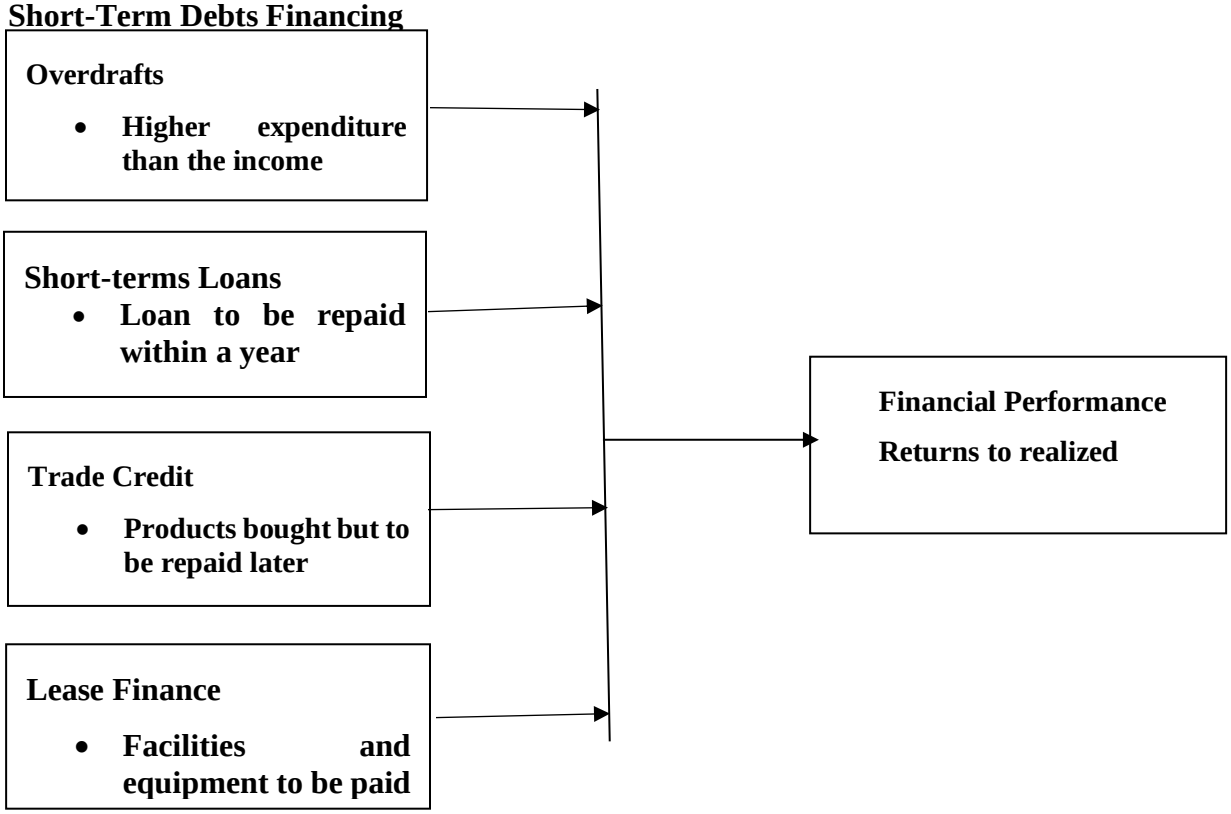

Figure 2.1: Conceptual Framework **Returns to realized---this is not an indicator of performance..**

Source: Researcher: 2022

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Chapter pinpoint the techniques useful in carrying out the research. It gives great interest to research design optimized to promote credibility of data. It also elaborates on the sufficient population that generate conclusive findings. The study also indicate the data analysis in addition to the analytical model and significance analysis.

3.2 Research Methodology

This is the epicenter of the study. The design must conform to the target population, objectives, data analysis and techniques for sourcing data. The design guided the study on credible, complete and the accurate information. It is the chief cornerstone highlighting logical and systematic footsteps toward accurate data (Creswell & Creswell, 2017). The data was collected, analyzed and presented using descriptive research design. It illustrated valuable process useful in data collection, measurement and categorization. It aids the answers-seeking process by providing relevant solutions to the objectives.

3.3 Target Population

Population blueprints the pivotal elements, objects or individual that exhibit similar traits, hence becoming the center of the research. The targeted population were SMEs in Bomet County. The researcher is guided by the location, availability, adequacy, relevance, process, and the research purpose. Kothari (2015) highlighted the quality of sufficient population to substantiate the study. Population is the pinnacle of the research finding since it wrap-up the information, data collection instrument used. There are 1637 SMEs in Bomet County as December, 2021. The study epicenter is dully registered SMEs.

3.4 Sampling

The research was source data by picking every 21st SMEs among 1637 to arrive at 75 registered SMEs in Bomet County. The stratified sampling techniques was useful for choosing SMEs in the five sub-counties. 15 SMEs from 5 Sub- County were picked from each sub-county research sampling ensured that sufficient data is obtain from the chosen population. However, the

researcher sourced the data the complete data from 59 SMEs. The other 16 provided incomplete data, others were reluctant to give financial information.

3.5 Data Collection

The data was sourced via the secondary to enhance the exhaustive and concrete outcome. Kothari (2015) opines that assemblage of data increase the likelihood of getting fact-finding. It is critical in ensuring adequate information are sourced to inform the data analysis. The secondary data relating to SMEs overdraft, lease finance, trade credit and performance was collected over a period 5years. The data collection is critical in comprehending the answers and solutions to the research objective. The study targets 75 SMEs to provide detailed and intensive factual-proposition through interrogation and examination.

3.6 Data Analysis

The data generated from secondary records passes through logistic steps that include; reviewing, classification, editing, summarizing, and coding to reinforce credibility, completeness and accuracy. The data was computed using SPSS. Moreover, data collection gives in-depth raw data while data analysis translate data to presentable, quality and interpretable findings (Kipkirui, 2020). SPSS is paramount due to the quantitative nature of data collected.

3.6.1 Diagnostic Tests

The research undertook crucial tests to help in the investigation of association. The correlation relates to each regressor variable and the regressed variable. Moreover, association among variable in addition to normality test enhance the understanding. The study was enhanced using Variance Inflation Factor to examine multicollinearity. ANOVA was maximized to expound the significance. Therefore null hypothesis is rejected if the computed F-Value is greater than 0.05. The autocorrelation was spearheaded via Kolmogorov-Smirnova to blueprint linkage between explained verse explanatory variable. The failure of normality examination triggers the examination of data to enhance completeness. Additionally, the absence of autocorrelation means the data needs to be subjected to other tests such as Breusch-Godfrey test. The presence of multicollineary is a clarion call for dropping the highly linked regressor variables.

3.6.2 Data Analysis Model

Multiple regression model stipulate correlation amid all the variables. It provides a link that intends to locate the line of best fit. The empirical model elaborates the association and linearity state. The variables can easily be checked to have a hint on the association. The association is summarized as;

$Y=\alpha_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+ \beta_4X_4\varepsilon$

Whereby

Y= Financial Performance (ROA)

A_0=Y intercept of the regression (constant variable)

X_1= Overdraft (Natural log of aggregate overdraft)

X_2= Short term-loans (aggregate short-term loan/total liabilities)

X_3= Trade Credits (aggregate Trade credits/Total Firm's credit)

X_4= Lease Finance (Natural logarithm of total lease finance)

ε= error term

3.6.3 Inferential Statistics

The Pearson linkage was computed empirically to enhance explanation of strength, magnitude and direction. The significance test via T-test and F-test elaborates the findings. $P\leq 5\%$, and $P>5\%$ which will indicate a statistical significance and insignificance respectively.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter execute the candid and objective problems solving. This is done through comprehensive computation and interpretation. The chapter is the pre-eminent for the presentation of outcomes. In addition, it dispenses the in-depth discussion useful for greater insight. The researched relied on secondary data covering a period of 5years. After rigorous and systematic procedure of reviewing, editing, cleaning and completing, the diligent analysis via SPSS was undertaken. Besides inferential analysis, descriptive computation played pivotal role.

4.2 Diagnostic Test

The diagnostic test are fundamental pillars of detection of errors and predicaments in the research. Besides enhancement of logical sequence that generate new knowhow, it ensure the data collected meet the minimal threshold required. The study undertook some test regarding normality, multicollinearity and autocorrelation. The tests helped in conclusion and ascertaining if data met the designed rules.

4.2.1 Test for Normality

Normality test supremacy is elaborated on the simplification of complex issues relating to data distribution. The researcher wanted to understand the nature of data distribution. Therefore, the study maximized Kolmogorov-Smirnova test and Shapiro-walk test via SPSS version 20. From the results Table 4.1, researchers constructed that all the variables in both tests exhibited significance values below 0.05. Empirically it deduced that the data was normally distributed.

Table 4.1 Normality Test

Tests of Normality						
	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
Financial Performance (ROA)	0.138	295	0	0.955	295	0
Overdraft	0.081	295	0	0.957	295	0
Short term loans	0.295	295	0	0.508	295	0
Trade credit	0.099	295	0	0.959	295	0
Lease Finance	0.251	295	0	0.672	295	0
a. Lilliefors-Sig Correction						

4.2.2 Autocorrelation

Autocorrelation was systematically computed to accentuate the trend and how the lagged version of the figures of variables are inter-related. Researcher spearheaded this test epitomizing the Durbin Watson test. The mathematical expression of Durbin-Watson value obtained was 0.564 as seen from the table. This value is in within the required standards of the Durbin Watson values which are from 0 to 4.

Table 4.2 Model Summary of Autocorrelation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.784[a]	0.614	0.609	0.04298	0.614	115.326	4	290	0	0.564

a. Predictors: (Constant), Lease Finance, Short term loans, Overdraft, Trade credit

b. Dependent Variable: Financial Performance (ROA)

4.2.3 Multicollinearity

Test for Multicollinearity was accomplished to check the connection among the predictor variables; lease finance, short term loans, overdraft and trade credit. The first principle for multicollinearity highlights that Tolerance values must be greater than 0.2 and VIF values must be lower than 10. For Multicollinearity to exist, Tolerance values should be less than 0.2 and VIF values should be greater than 10. The findings shows that Overdraft, Short term loans, Trade credit and Leas Finance had its tolerance values as 0.805, 0.722, 0.601, 0.787 respectively which are higher than 0.2 while, their VIF valued at 1.242, 1.386, 1.664 and 1.271 respectively which are

less than 10. In a nutshell, the researcher concluded on absence of multicollinearity among the regressors variables under study.

Table 4.3 Multicollinearity Statistics

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Overdraft	0.805	1.242
	Short term loans	0.722	1.386
	Trade credit	0.601	1.664
	Lease Finance	0.787	1.271

4.3 Descriptive Statistics

This summary explains the contents of the variables. Financial performance measured in ROA, registered a least value of 0.2386 and a highest value of 0.5880 with a mean of 0.453193 and standard deviation of 0.0687023. Overdraft had a mean of 0.945186 and standard deviation of 0.6134431. Short term loans registered an average value of 0.530928 while its standard deviation was 0.0574629. Trade credit and lease Finance had means of 3.625125 and 0.065878 respectively and their standard deviations were 0.4427861 and 0.0979362 respectively.

4.3 Descriptive Statistics

Table 4.4 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Financial-Performance (ROA)	295	0.2386	0.588	0.45319	0.068702
Overdraft	295	0	2.45	0.94519	0.613443
Short term loans	295	0.5	0.895	0.53093	0.057463
Trade credit	295	2.381	4.4055	3.62513	0.442786
Lease Finance	295	0	0.6762	0.06588	0.097936
Valid N (listwise)	295				

4.4 Correlation Analysis

Correlation is a cornerstone in expounding the connection among variables. Correlation is the extent to which variables under study relates to one another negative correlation is depicted by a (-) sign while a positive correlation is shown by (+). The findings below shows that overdraft and short-term loans have negative correlation towards the financial performance as shown by (r=-0.15902, r=-0.50526) respectively. Trade credit and lease finance have a positive correlation towards the dependent variable (financial performance, ROA) as shown by r=0.732864, r=0.168947 respectively.

Table 4.5 Correlation Statistics

	Financial Performance (ROA)	**Overdraft**	**Short term loans**	**Trade credit**	**Lease Finance**
Financial Performance (ROA)	1				
Overdraft	-0.15902	1			
Short term loans	-0.50526	0.059036	1		
Trade credit	0.732864	-0.42017	-0.39484	1	
Lease Finance	0.168947	-0.22269	0.213967	0.28589	1

4.5 Regression Analysis

Regression computation was performed by the investigator to scrutinize which of the variables matter the most and that which can be ignored. Regression also gives a view on how the variables relate.

4.5.1 Model Summary

This gives the R Square which describes the % of variation caused by independent factors against dependent variable. As seen from this table, R which is the correlation is 0.784. This shows that a strong correlation of 78.4% among the variables in this research. Coefficient of determination as indicated by R square, implies that 61.4% of variation in financial performance are caused by lease finance, short term loans, overdraft, and trade credit. While 38.6% of variation in financial performance are caused by factors not stated in this project.

Table 4.6 Model Summary of Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.784[a]	0.614	0.609	0.04298	0.614	115.326	4	290	0	0.564

a. Predictors: (Constant), Lease Finance, Short term loans, Overdraft, Trade credit
b. Regressed Variable: Financial-Performance (ROA)

4.5.2 Analysis of Variance

ANOVA shows the level of significance and the F statistics of the study. The F statistic tabulated is 115.326 and the significance value is 0.001. This significance value is below 0.05 hence pinpointing that the model is statistical significance at 95% (0.95) confidence level

Table 4.7 ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	0.852	4	0.213	115.326	.001[b]
	Residual	0.536	290	0.002		
	Total	1.388	294			

a. Dependent Variable: Financial Performance (ROA)
b. Predictors: (Constant), Lease Finance, Short term loans, Overdraft, Trade credit

4.5.3 Coefficient of determination

Coefficient of determination measures to what extent does a statistical model foretell an outcome. The unstandardized coefficients in column B helped the researchers in generating the predicting formula. Therefore, if all factors are held at constant, the effect of financial performance autonomous value is 0.220. A unit change in overdraft, brings about a positive consequence on the financial performance of 0.017 when all factors are kept at constant, Additionally, a unit change in short term loans translates to a negative effect in the ROA of 0.313 when other factors are maintained stable. A unitary change in trade credit brings about a positive change of 0.150 effect on the dependent variable financial performance measured in ROA when all factors are held at

constant. In addition, lease finance has 0.047 effect on Financial Performance whenever there a unit change and all other factors are held at constant.

Table 4.8 Coefficients of Determination

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	0.22	0.047		4.678	0	0.127	0.312
	Overdraft	0.017	0.005	0.155	3.817	0	0.008	0.026
	Short term loans	-0.313	0.051	-0.262	-6.094	.000	-0.414	-0.212
	Trade credit	0.105	0.007	0.676	14.357	0	0.09	0.119
	Lease Finance	0.047	0.029	0.066	1.615	0.107	-0.01	0.103

a. Dependent Variable: Financial Performance (ROA)

Therefore, a forecasting formula can be generated as;

Y = 0.220 + 0.017X1 – 0.313X2 + 0.105X3 + 0.047X4

Where by

Y = Financial-Performance (ROA)

X1 = Overdraft

X2 = Short term loans

X3 = Trade credit

X4 = Lease Finance

4.6 Discussion of the findings

The findings in the diagnostic statistics blueprinted that all the data portrayed normal distribution. Therefore, it pinpoints that the significance values in both test of all the five fundamental variables exhibited p-values lower than 0.05. The Durbin Watson value tabulated was 0.564 which lied between the required ranges of autocorrelation. Multicollinearity test proved that all the four predictor variables (Lease Finance, Short term loans, Overdraft, Trade credit) had no Multicollinearity. This was shown by all VIF values being lower than 10 and all the tolerance values being bigger than 0.2.

The correlation analysis showed that both trade credit and the lease in finances had a positive correlation towards the financial performance with trade credit showing a strong positive correlation towards the financial performance of r=0.732864. Overdraft and short-term loans had a negative correlation towards the financial performance with short term loans having a strong negative correlation of -0.50526. On the other end, Kobarach (2020) accentuated that short-term debts are positively and significantly correlated with financial performance. Eyimkele and Koori (2019) postulated that short-term debts remarkably changed the financial performance. Contrary, Hassan (2016) depicted an insignificant correlation between short-term debts and financial performance.

The regression computation showed a generally 78.4% strong correlation among the variables under study. The findings further showed that 61.4% of deviation in ROA was being explained by the lease finance, short term loans, overdraft, and trade credit. The significance value obtained in the ANOVA tables was 0.001 which was less than the p value of 0.05. Noteworthy, this postulated that the model was substantially significant in futuristic forecasting. Narang (2018) coined a positive correlation amid short-term liabilities and performance. Prempeh and Asare (2016) opined those short-term liabilities explained financial performance hence in concurrence with the current study.

Coefficient of determination showed that over draft, trade credit and lease of Finance posted a positive influence on financial performance whenever a unit changes in them. Overdraft had a 1.7% positive adjustment while trade credit had 10.5% positive effect and lease finance had a positive effect of 4.7% adjustment in financial performance whenever a unit changed. A unit

change in short term loans caused a negative effect of 31.3% on financial performance when all other factors were held at constant.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a general overview of results, summary and cornerstone discussion. Additionally, the research provides the recommendation and areas for more inquiry. It reaffirms the logical investigation, presentation and analysis. It is worthwhile stating that this chapter provides clarity, logical, organized and valid interpretation therefrom.

5.2 Summary of the Research Findings

The cardinal resoluteness of the assessment was to explore the effect of short-team debts on the financial performance of SMEs in Bomet County. The variables factored were; short-term loans, overdraft, trade credit and lease finance. The timeframe of the research was from 2017-2021 thereby giving sufficient years for sourcing data and exhaustive outcome. The period chosen was adequate for decision making, policy formulation and prediction.

The data was sourced from Small and Medium Enterprise Authority (SMEA) and individual SMEs. The SMEs took the frontline in the provision of secondary data on request. The vigorous and intensive procedure of edition, completion, review and computation through SPSS was done. The descriptive and inferential analysis was delineated to enhance exhaustive results. The diligent inquiry builds a pillar for conclusive and updated findings. According Narang (2018) development of new knowledge and expanding research solution is critical in an assessment.

From the descriptive statistics, with N being 295, the least value recorded in financial performance for the 59 firms was 0.2386 and maximum value being 0.588. Overdraft had a least figure of 0.0000 and optimum value of 2.4500. In short term loans the least value recorded in the period was 0.500 while the highest value was 0.8950. Trade credit ranged from 2.3810 and 4.4055 while lease finance ranged from 0.000 to 0.6762. From the findings it is paramount to coin that short-term debts are critical for the financial performance.

In concurrence to Eyimkele and Koori (2019) postulation that short-term liabilities significantly influence the financial performance. Kobarach (2020) illustrated the positive correlation between the short-term liabilities verse the financial performance. However, Nguyeu (2020) demonstrated that capital structure inclusive of short-term debts inversely influenced profitability. The same illustration was indicated by Leen and Dalhor (2013) stipulation of inverse correlation. Mugisha, Omagwa and Kulika (2020) emphasized on the positive association.

The correlation analysis from this computation postulates a positive association for both trade credit and lease finance verse the financial performance. From regression computation trade credit and lease finances exhibited a strong positive association as explained by r=0.168947 and r=0.732864 respectively. These findings contradicted Hassan (2016) insinuation that short-term liabilities have no influence on the financial performance. Nevertheless, Nguyeu (2020) stated a negative correlation amid short-term and financial performance. In addition, overdraft and short-term debts exhibited negative association as coined r= -0.15902 and r=-0.505226 respectively contrary to Yazdanfar and Ohman (2015) findings opining positive association. Nonetheless, Jones and Edwin (2019) blueprinted a positive linkage amidst short-term debts and financial performance.

5.3 Conclusion

The findings in the diagnostic statistics blueprinted that all the data exhibited normal distribution. Remarkably, the significance values in both test of all the five variables posted p-values below 0.05. The Durbin Watson value tabulated was 0.564 which lied between the required ranges of autocorrelation. Multicollinearity test proved that all the four predictor variables (Lease finance, short term loans, overdraft and, trade credit) had no Multicollinearity. This was shown by all VIF values being smaller than 10 and all the tolerance values being bigger than 0.2.

The R-Squares generated from computed described the variation resulting from predictor variable on the predicted variable. The model summary of regression tabulation posit that R of 0.784. This posit that the association amid the regressor verse the regressed variable is strong. Additionally, it explains the importance of chosen predictor in expounding the predicted factor. Furthermore, R-square is 0.614 thereby illustrating the magnitude of regressor variables. In a nutshell, it postulates that 61.4% of deviation on the financial performance relates to; lease finance, short term loans,

overdraft, and trade credit. It is worthwhile postulating that 38.6% of the deviation on financial performance are influence by divergent determinants not factored in this assessment.

Coefficient of determination is a crucial metric used to illustrate the prevailing association. The unstandardized coefficient demonstrated predictive formulae. This was cardinal in coming up with mathematical computation capable of defining association and multiple linear regression. The autonomous figure is 0.220, thereby whenever all factors remain either unchanged or zero, the financial performance stands at 0.220. Furthermore, a unit change in overdraft triggers an increment in financial performance by 1.7% whenever other determinants are maintained unchanged. Moreover, an increase in a single unit of short-term loans causes negative consequences on financial performance by 31.3% if all the other variables are held unchanged. A unitary advancement in trade credit translates to the positive change of 10.5% on financial performance whenever all other determinants are kept unchanged. Finally, an addition of lease finance by one unit triggers the increment in the financial performance by 4.7% if all the influencers are held constant. The findings mathematical postulation can be defined as;

$Y=\alpha_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+ \beta_4X_4\varepsilon$. This is further illustrated as;

$Y = 0.220 + 0.017X1 – 0.313X2 + 0.105X3 + 0.047X4$

Where:

Y = Financial Performance (ROA)

X1 = Overdraft

X2 = Short term loans

X3 = Trade credit

X4 = Lease Finance

5.4 Recommendation for Policy and Practice

From the findings stipulated by the coefficient of determination; all variables make headway in the same direction with the financial performance except short-term loans. Additionally, overdraft causes insignificant change on the financial performance. The investigator recommends the use of trade credit and lease finance to increase financial performance. The recommendation is based on the research findings. Nonetheless, overdraft and short-term loans have to be handled with care and caution. This is crucial for mitigation against risk among SMEs thereby increasing there going concern, stability and futuristic financial performance.

The regulators such as Small and Medium Enterprises Authority (SMEA), Kenya Revenue Authority (KRA) and the ministry of industrialization should formulate policies that protect the SMEs from high overdraft charges and short-term interest. SMEs should receive adequate attention, financial assistance from county government and stimulus from national government due to the substantial role in the county and national government's Gross Domestic Product (GDP). In a nutshell, the SMEs and banks should have partnership agreement to increase their efficiency.

5.5 Limitation of the Study

The study place immense reliance on data collected from individual SMEs and SMEA records. The period of data was from 2017-2021 with a target of 75 SMEs but only 59 provided complete data. The study therefore advocates for proper maintenance of financial records. The well documented data is crucial for decision making and forecasting. Moreover, the business can analyze the progress using the available records.

The study factored in minimal number of short-term liabilities affecting the financial performance. The four factors are; short-term loans, overdraft, trade credit and lease finance. Nonetheless, there are numerous short-term liabilities that need to be addressed. Therefore, momentous efforts to expound on other variables should be factored as a matter of urgency to increase knowledge. In summary, the researcher minimized inferences and strived towards quality outcome.

5.6 Suggestions for Further Study

The study recommends for intensive efforts to bridge knowledge gap. The study should factor more short-term loans' regressor variables to make informed decision. The researcher can replicate the same study in wider period of time of 10-20years to reach at the concrete and exhaustive results. An assessment on effect of short-term liability and growth, short-term digital loans and the ROA (financial performance) of SMEs can be an eye-opener. In summary, a study on the effect of debt-financing on the operational performance should be looked into to illustrate the future of the SMEs in the economy.

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APPENDICES

Appendix I: Data Collection Instrument

Name/Year	Overdraft	Short term loans	Trade Credit	Lease Finance	Financial Performance

Telephone: +254 728 599 508