Trade Credit and Performance of Wholesale and Retail Businesses in Kenya

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Abstract- In Kenya most businesses do not have enough internal finances to re-invest in their businesses and therefore they seek external finances which they obtain from various sources and it is not clear which source of finance contribute most to their improved performance and hence this study. Purposely this study was to determine the effect of sources of finance on the performance of wholesale and retail businesses in Kenya. The specific objective was; to identify the effect of trade credit on performance of wholesale and retail businesses in Kenya. The population of the study was all the 1.56 Million businesses in Kenya. The target population of the study was 510,000 licensed businesses in the selected counties. The accessible population was the 310,000 licensed businesses in the six selected counties by operational wholesale and retail trade. Simple random techniques were used to collect a sample of 384 respondents. Secondary and primary data was used to provide information which was quantitative or qualitative. Through a structured questionnaire data was collected and these questionnaires were dropped and later picked as the method gave respondents enough time to think about their responses carefully without interference. Determining of the reliability of the questionnaire was done by using Cronbach Alpha. The study made use of Statistical Package for Social Sciences (SPSS) version 22.0 to aid in coding, entry and analysis of quantitative data. By using regression and correlation analysis data was analyzed and this helped to test the connection between the independent and dependent variables. Data was analyzed by use of descriptive and inferential statistics and then presented through figures, tables, percentages, arithmetic means, standard deviations and tabulation to show differences in frequencies. The findings of the study revealed that there was a statistical significant relationship between the independent variables and the dependent variable. Businesses preferred to use simple credit over hire purchase as in the simple credit there was no interest that was charged. The study concluded that there was no one source of finance that fully contribute to the performance of the businesses in Kenya. The study recommended further research to be conducted to determine the other factors that influence performance of businesses other than the sources of finance.

Index Terms- Trade credit, performance, wholesale and retail businesses

I. Background of the Study

Wholesale and retail trade sector is one of the key sector that have been outlined by vision 2030 for transformation of the Kenyan economy to a trade competitive economy. In 2015 the GDP of the Kenyan economy improved to 5.6 from 5.3 in 2014 and one of the key contributor to this growth was the wholesale and retail sector (KNBS economic survey, 2016). In the current global economy, all business enterprises are progressively being regarded as very powerful engines for economic empowerment and development for most economies in the world (Apalia, 2017). According to White, Maru and Boit (2015) all businesses play a key role in economic growth by providing a source of innovation and in creating new products. Economies throughout the world are now days turning their attention to small and medium business enterprises due to the recognition as the powerful engines that drive the economic development of a country through job provision, contribution to GDP and tax provision among other things (Kangala, 2016). According to Nderitu and Githinji (2015) in the recent decades small and medium business enterprises are proofing to be the primary engines of the performance of any economy in the world.

Small and medium business enterprises are now days being viewed as important players in even and equitable economic development (Muriithi, 2017). According to the Kenyan small and medium finance survey (2018) small and medium business enterprises up to date continue to create jobs and highly boost the gross domestic product of any country, but these business enterprises they still face challenges that hinder their growth and development in one way or the other. The significant contributions of small and medium business enterprises contribute to GDP, entrepreneurial skill development, employment generation and innovation to many developing economies (Quaye & Sarbah, 2014).

According to Muriithi (2017) small and medium business enterprises are the engine that drives world economies and push for industrialization for both developing and developed economies. Small and medium business enterprises are the centerpiece of any economy in the world however limited access to finance may adversely affect the business operations and seriously limit their development and growth (Nderitu & Githinji, 2015). According to Quaye and Sarbah (2014) access to credit and finance continue to pose a barrier to small and medium business operations and development in any given country. According to Memba (2011) small and medium business enterprises are the vehicles that ensure increased industrial production and exports improvement.

According to Kangala (2016) there is no doubt that access to finance is of crucial importance for the ongoing and sustainable growth and profitability of small and medium business enterprises.

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Promotion of the wholesale and retail trade sector in Kenya is very important for attaining the national goals and vision 2030 (Wambui, 2015). According to Sitharam and Hoque (2016) a very strong small and medium business enterprises contributes highly to the country's economy, contributing to the gross domestic product (GDP) by reducing the level of unemployment, reduction in poverty levels and promotion of entrepreneurship activities. Any business enterprise is very important engine for job creation, innovation, poverty eradication hence main driver for economic growth and development (Katua, 2014; Emad, Suhail & Jabbar , 2014). Small and medium business enterprises are important for rapid technological development and provision of job opportunities in any country (Njeru, 2013).

One of the major causes of failure for small and medium business enterprise is limited access to finances (Njagi, Kimani & Kariuki , 2017). Small and medium business enterprises are very important and are the backbone of emerging economies and are a key source of income for most people in the country (Economic survey report, 2017). It is clear that finance helps catalyze savings and deploy capital into investments (Muriithi, 2014). However, accessing the right type of finance at an affordable cost is the fundamental financing difficulty for most of the business enterprises (Quaye & Sarbah, 2014). Sourcing finance is one of the big problems hindering start up and growth of business enterprises, in that the type of finance determines success of the business (Njeru , 2013). According to Njagi *et al*., (2017) when a wrong mix of funds are used then the performance of the business is adversely affected.

Small and medium business enterprises encounter many problems which make them perform poorly and reduce their growth (Kamunge, Njeru & Tirimba, 2014). Finance is very important for the betterment and development of any business enterprise (Kamau, 2011). According to Akinyi (2014) finance is very crucial to any business and is totally seen as the life- blood of any kind of business enterprise and no business unit can do well without enough monetary resources for investing. According to Muturi (2012) Increasing the rate of economic growth depends heavily upon having the financial resources which are highly required for investment . Finance is usually an important aspect that contributes to development of business enterprises, whether at their initial stage or at their subsequent stages in life (Onyiego, Namusonge & Waiganjo, 2017).

There are many kinds of financing sources that can be adopted for financing small and medium business enterprises and it is important for the business to choose the correct and appropriate financing sources to solve the financial difficulties (Kangala, 2016). Increasing the rate of economic development depends heavily upon having the finance required for investment (Rosana & Muturi, 2014). Financing is very much considered for the any business growth since it enables the firms to market their goods and services, expand production capacity, and sustain sufficient operating cash flow (Grover& Suominen, 2014). Business enterprises should always raise finance in the most efficient and effective means to enjoy tax allowances, low cost of funds, liquidity and reduce overall risk of the business (Kenduiwo, 2014).

Financing Challenges for small and medium business enterprises

The vital role played by the small and medium business enterprises both in developing and developed countries continue to be noticed as the core driver of these economies (Wangui *et al*.,2014). According to Yoshino and Taghizadeh (2016) small and medium business enterprises are recognized as the backbone of the Asian economy where by they make up more than 98% of the Asian enterprises 38% of the GDP, 66% of the labour force and 30% of the total exports. Despite the vital role by these small and medium business enterprises they however face several challenges ranging from limited access to finance, under developed sales channels, low level of financial inclusion which are just some of the factors behind the slow growth and development of these ventures (Wanambisi & Bwisa, 2013).

Small and medium business enterprises in India play a very significant role in employment creation and industrial development (Yadav & Tripathi, 2018). Despite the critical role played by small and medium business enterprises in India lack of access to relative cheap and effective source of finance has been identified as a major factor hindering economic contribution in terms of growth and development (Abdulaziz & Andrew, 2013). According to Varsha, Ujjawal, Ajit and Khan (2019) small and medium business enterprises are the driving stone of any economy both the developed and developing. In India small and medium business enterprises are faced with challenges like unavailability of raw materials, lack of improved technology, unstable government policies, lack of skilled work force, no proper clarity in business tax rates and lack of funding (Muriithi, 2017).

According to Wangui, Njeru and Tirimba (2014) small and medium business enterprises are seen to be the key driver of the economic and social development in most of the African countries as these business enterprises account for more than 90% of all the businesses and over 80% of the new jobs in many countries. In Ghana small and medium business enterprises account for 90% of the total business units, 85% of the manufacturing employment and 70% of the GDP but despite all these critical contribution by these business enterprises they face variety of difficulties in their start up and operations where access to finance remains a dominant constraint to them (Oteng, *et al*.,2015). In Nigeria small and medium business enterprises account for more than 90% of ventures outside the white collar jobs and these business enterprises are crucial in improving economic growth and eradicating poverty (Taiwo, Temitope & Agwu, 2016). In Nigeria small and medium business enterprises are faced with challenges like inadequate capital and inaccessible credit facilities with lack of access to relative cheap and effective source of finance identified as a major factor hindering economic contribution in terms of growth and development (Abdulaziz & Andrew, 2013).

According to Muriithi (2014) in Kenya small and medium business enterprises are the backbone of the Kenyan economy and they account for more than 80% of the workforce and contribute over 40% of the GDP. Despite the big contribution to the economic development, these business enterprises are unable to grow and become big ventures due to various challenges like financial constraints, poor management skills, inadequate information, poor technology, lack of collaterals required to take bank loans, delay in processing the loans and corruption, high cost of repayment, short repayment period and high processing fees in getting the funds (Wangui *et al*., 2014).

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According to Ombongi and Wei (2018) business enterprises in Kenya do not only have a share in the GDP but also provide a large portion of the employment openings where they provide 85% of the Kenyan employment. Even though small and medium business enterprises are big contributor of the Kenyan economy they face challenges that hinder their growth and some of the challenges are unfavorable government policies, weak financial institutions and access to finances as a major problem (Wangui *et al*., 2014). The small and medium business enterprises in Kenya are faced with problems like lack of sufficient collateral, regulatory rigidity, gaps in legal framework, lack of information from both the the businesses and banks with the major challenge being identified as lack of access to finance (Onyiengo, Namusonge & Waiganjo, 2017).

According to Janet and Ngugi (2014); Muriithi, (2017); Githire and Muturi, (2015) most small and medium business enterprises do not celebrate their third anniversary. Business enterprise failure may lead to social crimes with high probability of insecurity, low liquidity in the economy and losses of jobs and this result to threatening economic development and Kenya realization of vision 2030 (Janet & Ngugi ,2014). For business enterprises to effectively and efficiently carry out their set operations there is need for adequate finance (Oteng *et al*., 2015). According to Wangui *et al*., (2014) without adequate finances no business entity can achieve its set goals.

According to Njeru (2013) access to appropriate finance sources is an important factor for the survival and growth of any business enterprise. Wangui *et al*., (2014) clearly shows that finance is the backbone for growth and development of the business enterprises for both developing and developed countries. Access to finance in Africa is the major challenge facing small and medium business enterprises hence the main hindrance to growth and development and this limit the survival of these ventures (Muriithi, 2017). An important question then arises on what sources of finance significantly contribute to the best performance of the wholesale and retail businesses in Kenya. Then this study aimed at determining the effect of sources of finance on performance of wholesale and retail businesses in Kenya.

Finance sources for wholesale and retail businesses in Kenya

Wholesale and retail trade sector as outlined in vision 2030 is one of the powerful sectors to improve the Kenyan economy through provision of products and creation of employment. Small and medium business enterprises have been recognized as a greater contributor to the Kenyan economy offering both employment and platform for innovative ideas (Wambui, 2015). The small and medium business enterprises offer about 75% of the general employment and contributing about 18% of the GDP in the Kenyan economy (Kangala, 2016). Businesses in Kenya serve as live blood to the poor; create employment opportunities, generate income and contribute to economic growth (Mukoma & Masini, 2015). According to Wangui *et al*., (2014) small and medium business enterprises play the role of job creation, alleviating poverty and promoting industrialization.

According to Katua (2014) small business enterprises have been accepted as the core engine of economic growth and poverty eradication in the world and created 80% of the jobs in Kenya. Kenyan wholesale and retail trade sector is growing in its importance; as small and medium business enterprises are estimated to account for 20% of GDP and 80% of employment hence business enterprises have the scope to catalyze further industrialization in Kenya (Phyllis, 2016). According to Mwangi and Maranga (2015) in Kenya businesses are big contributors for economic growth and good financial performance of these entities is always very important and it is critically attributed with their economic contribution in one level or the other. Improved access to finance has high probability of benefiting business enterprises of all sizes (Kangala, 2016).

The availability of finance has been highlighted as a major factor in the development, growth and successfulness of any business enterprise (Abdulaziz & Andrew, 2013). Different businesses differ in their financial decisions and behavior and then use different financing methods, it is important for every business to choose the best source of finance (Njeru, 2013). Wholesale and retail trade sector as stated in vision 2030 is one of the key sectors in economic development as the sector may be more efficient in provision of jobs, innovation and provision of goods and services and for this reason the government of Kenya pays a special attention to the development of more efficient wholesale and retail businesses in the country. In Kenya businesses are divided into agriculture, trade, manufacturing and provision of services. This really shows a clear confirmation that Kenya business enterprises are mostly engaged in all sectors of the economy and then seen to have a big economic contribution and they support a large number of live hoods (Kangala, 2016). The government of Kenya has specified a number of key sectors that will prove instrumental in reaching its goals and mostly a middle income economy by 2030. In this plan, the government has aimed to create robust diversified and competitive small and medium business enterprises.

According to Abdulaziz and Andrew (2013) financing methods used by businesses may vary from internal financing sources like owners personal savings and retained profits or informal sources which may include informal money lenders and rotating savings and credit associations or formal external sources which may include bank loans and loans from other financial institutions or outside sources which may include financial assistance from family and friends, trade credit, angel investors or venture capitalist. For example in Kenya most startup business enterprises are financed through bootstrapping (internal equity financing) which means that the entrepreneur has to use personal savings at the beginning, which is only possible if the start-up does not require a big investment and if no financial investment has to be covered by third parties (Njagi *et al*., 2017).

According to Njeru (2013) 60% of small and medium business enterprises are financed by internal equity finances (self financing) in terms of personal savings and retained earnings. According to Onyiengo *et al*., (2017) most of the business enterprises at the initial stage prefer using internal equity financing in terms of personal savings due to the inability to secure loans from banks. Mostly the advantage of this approach is that the trader will have full control of the business (lack of co-owners), while on the other hand, the demerit is that the trader can be in some kind of isolation if he/she is young and less experienced and there is no help from experienced partners and business contacts.

In both developed and developing countries the government have recognized that small and medium business enterprises may be very much constrained from accessing external financing which may negatively affect the business ability on achieving the set objectives. Due to this many government initiatives and programs have been implemented to ensure easier access to financing (Abdulaziz & Andrew, 2013). For example the Government of Kenya has placed a lot of emphasis on development of small and medium businesses as a means of encouraging self-employment, poverty reduction and accelerating economic growth. According to KNBS Economic survey (2017) the Uwezo fund was established in the year 2014 with the main objective of expanding access to finance for the youth and women businesses. The Uwezo funds aims to expand access to finances and promotion of women and youth and persons living with disability.

Women enterprise fund is one of the flagship projects under the vision 2030 and in the year 2015 the government loans disbursed through women enterprises increased from 169 Million to 524 Milion from 2014 (KNBS Economic survey, 2016). The Kenyan government value the very high worthiness of the small and medium business sector to her economic development and for this reason the government has initiated finance schemes such as youth and women fund and Uwezo fund with a view to finance small and medium business enterprises (Njagi *et al.*, 2017). The Uwezo microfinance is regulated by the central bank of Kenya under the micro finance Act of 2006. The organization specializes in providing financial services to micro, small and medium enterprises nationwide. Uwezo funds and MFIs offer financial solutions and improve the livelihood of the citizens.

According to Abdulaziz and Andrew (2013) Majority of the formal financial institutions consider small and medium business enterprises as highly risky and commercially unviable, thus hindering them from accessing credit and worse case is in the rural areas where most small and medium business enterprises are located. According to Memba (2011) small and medium businesses in Africa and Kenya in particular require long term source of finance for them to grow. It is hard for the small and medium business enterprises to access finances from the financial institutions since they lack proper financial records as a requirement (Njagi *et al* ., 2017). Banks do not provide enough support to small and medium business enterprises (Chimaleni *et al*.,2015). Most banks in Kenya require small and medium businesses to provide collateral that includes land title deeds, motor vehicle log books, guarantees, listed shares, as well as cash in the form of deposits since these collateral is limited to most businesses use of bank loans is difficult with these business enterprises (FSD Kenya & Growth Cap, 2016). In Kenya about 70% of the small and medium business enterprises get their initial capital by borrowing from family, friends and relatives (Njeru, 2013). According to Kamau (2011) in Kenya mostly small and medium business enterprises rely on borrowing from family, friends and relatives or self-financing as their main source of finance.

Majority of the small and medium enterprise owners are too poor to enable them accumulate substantial savings for investments in income generating projects in order to break away from the vicious circle of poverty therefore they need external finance (Rosana & Muturi, 2014). According to Njeru (2013) in Kenya more than 90% of new business ventures are financed by informal sources of finance. Informal finances has the merit of flexibility and convenience, few restrictions and more affordable compared to formal financing (Muturi, 2012). In Kenya there is relatively strong competition between banks, Micro finance institutions (MFIs) and deposit taking Micro Finance Banks, (MFBs) to support and finance business enterprises in Kenya (FSD Kenya & Growth Cap, 2016). According to Mwenga (2014) small and medium businesses in Kenya are provided with financial services by a range of institutions; banks, non-bank financial institutions, savings and credit cooperatives (SACCOs), microfinance institutions and alternative sources.

Insufficient access to long-term finance for small and medium business enterprises has forced most business enterprises in Kenya to rely on high cost short term finances (Njagi *et al* ., 2017). According to Muriithi (2014) Personal income, Bank loans, Venture capital, Leasing, Sale of shares, Government loans and Microfinance loans are used to finance most small and medium business enterprises in Kenya, but commercial banks find it difficult to finance these small and medium business enterprises as they consider them as high risk clients. The government of Kenya channels financial assistance to small and medium business enterprises through reputable MFIs and other financial institutions in an effort to reduce poverty (Apalia, 2017). According Abdulaziz and Andrew (2013) countries with less developed banking and financial systems have pronounced use of trade credit to support their businesses. In Kenya small and medium business enterprises make use of trade credit to finance their operations (Kapkiyai & Mugo (2015).

II. Statement of the Problem

Despite the critical role played by the wholesale and retail trade sector in the Kenyan economy in terms of growth and development through creation of employment, contribution to GDP, alleviation of poverty and provision of tax revenue among many other importance there are many factors that challenge the business growth and survival in the sector. Finance has been cited by many researchers as the major constraint which limit the ability to drive the economy growth and development as expected (Njeru, 2013, Wangui *et al*., 2014, Muriithi, 2017 and Ombongi & Wei, 2018).

According to Muturi (2012) in many African countries the informal financial sector co-exist with the formal financial sector. The implication is that the informal financial sector can not meet all the financial needs of a business hence the need to seek finances from the formal financial sector. According to Muriithi (2017) most of the business enterprises in Kenya lack adequate internal finances and the implication therefore is that business enterprises do not have enough internal finances to meet the business needs at different levels of growth and development, hence they seek external finances. Most of the business units in Kenya do not have enough internal finances for financing the business activities hence they seek extra finances from external sources (Wangui *et al*., 2014).

According to Ombongi and Wei (2018) business enterprises do not have enough internal finances for re-investment in their business and then they have to seek external sources of finance to supplement the internal finances. This clearly shows that for effective growth and development of any business enterprise use of both internal and external finances must be witnessed. However it is not clear which source of finance contribute to a better performance of the wholesale and retail businesses hence the need for this study. An important question then arises on what sources of finance significantly contribute to the best performance of the wholesale and retail businesses in Kenya. Then this study aimed at determining the effect of sources of finance on financial performance of wholesale and retail businesses in Kenya.

Considering previous studies done on influence of sources of finance on business performance for example Njagi *et al*., (2017) studied on capital structure and financial performance of small and medium business enterprises in Embu county, Kenya. The findings of the study implied that sources of finance affects the financial performance of the business. Their study only collected data from only one town and used a small sample size of 60 SMEs hence these findings may be difficult to generalize to the Kenyan economy. Ndemi and Mungai (2018) using a sample size of 88 SMEs studied formal credit financing and financial performance of small and medium business enterprises in Nanyuki town, Kenya. The study identified a positive association between formal financing and financial profitability of SMEs. Onyiengo *et al*., (2017) using a sample size of 320 SMEs studied the effect of access to finance on financial performance of SMEs in Mombasa county Kenya. The results of the study showed that access to finance has a significant effect on financial performance of the business. This study had a gap as it had a limited scope since it only collected data form one county.

Mwangi and Maranga (2015) using a sample size of 40 SMEs studied the effect of capital structure on the financial performance of small and medium enterprises in Thika sub-county, Kenya. The findings of the study showed no significant effect of capital structure on financial performance of the business. Most of the previous studies considered had a gap in the scope of study, yielding conflicting results where some studies showed positive effect while others were negative also the sample used in some studies was small in size. This study filled this gap by considering more sectors of the economy which included wholesale and retail sector. The study also increased the study area by considering six counties other than a town or sub-county or one county. More so from the previous studies it is not clear which source of finance contributes most to the improved performance of wholesale and retail businesses in Kenya and hence this study was conducted to fill these gaps.

Objectives of the study

Generally this study was aimed at determining the effect of sources of finance on the performance of wholesale and retail businesses in Kenya.

Specific Objectives

The study was guided by following specific objective.

To identify the effect of trade credit on the performance of wholesale and retail businesses in Kenya.

Theoretical Framework

The study was guided by the following theories;

The trade-off theory

The developers of this theory were Modigliani and Miller (1958). This theory describes the concept that a company makes a choice on how much debt and how much equity to use by weighing the costs and benefits and balancing them out. The important part of this theory is to explain the fact that business units are usually financed partly with debt and partly with equity. The theory shows that there are merits of debt which may include tax benefit but on the other hand there are costs of debt which may be costs of financial distress including bankruptcy costs of debt. The marginal benefit of any increases in debt mostly decreases as debt increases, while the marginal cost increases. According to Myers (1984), the firm target capital should consider the benefits and costs of debts.

The target is determined by balancing debt tax shields against costs of bankruptcy. This theory is important as it helps the finance managers to make viable decisions when financing the business to ensure that benefits of the debt are more than costs. Trade off theory predicts a positive relationship between leverage and the profitability of the firm as bankruptcy costs decreases when the profitability of the firm increases. According to this theory many firms prefer to use debts due to the benefits like tax shields associated with them. The implication of this theory is that any firm has a specific maximum amount of debt. The empirical relevance of the trade off theory has been questioned. Myers (1984) suggested that if this theory was true, then firms in the real world ought to have much higher debt levels than we observe in reality. Large firms tend to have a greater diversification of activities that implies less likelihood of bankruptcy. According to trade off approach large firms tend to increase their level of debt so as to increase the debt tax shields. The usefulness of this theory to this study was testing the effect of debt financing on the financial performance of wholesale and retail businesses in Kenya.

Pecking Order Theory

Donaldson in 1961 suggested Pecking order theory and it was modified by Stewart Myers and Nicolas Majluf (1984). According to this theory firms are financially constrained due to the information asymmetry between managers/ owners and investors and then firms adopt a hierarchy in selecting sources of finance. According to this theory firms have to rank their sources of finances (Njagi *et al*., 2017). Depending on this theory firms have three main sources to fund the financial needs which are internal funds, debt and new equity. The theory claims that mostly firms prefer to use firstly internal finances such as excess liquid assets or retained earnings (Abdulaziz & Andrew, 2013). If it is necessary to turn to external finance firms use debt with little or no risk, which usually corresponds to short term debt and in the last place, firms will select external equity (Njagi *et al*., 2017).

According to Abdulaziz and Andrew (2013) puts it that finances contributed internally are preferred by business enterprises since they are usually very cheap and easier to arrange for by giving a short notification. If internal financing is not sufficient to fund investment projects, external funding may be sourced and if they do, in order to minimize costs the managers have to choose debt before using equity. According to Njeru (2013) internal finances are preferred to firms because they are cheaper and easy to get at a short notice. This theory observes that businesses follow a hierarchy of financing and prefer internal financing first; debt is preferred over equity as equity would mean bringing external ownership into the company. The POT may fail

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to hold for some business units where information asymmetry is an important problem (Njagi *et al*., 2017).

POT is important as it signals to the public how the company is performing. This means if the company finances itself internally it means it is a strong company and if the company has external financing then this shows high level of confident that the company has high chance of satisfying its obligations (Wahome, 2017). According to this theory firms prefer equity when they perceive that its relative cost is low otherwise debt finance would be appropriate. (Njagi *et al.*, 2017) observed that managers or business owners will use those financial tools that appear to be more favorable in the moment they need financing. Managers or business owners seek equity finance even when growth opportunities do not exist, so that such cash flow can be used for perquisites rather than for enhancing firms' value.

Manager wants free cash flows to invest in unprofitable project that generate cash so that salaries or perquisites may be enhanced rather than service debts. This means managers and business owners will use the financial tools that appear to be more favorable in terms of cost in the moment of financing the business (Njagi *et al.*, 2017). If pecking order theory applies then it means that higher profitability will always corresponds to a very lower level of debt ratio. Pecking order theory shows a negative relationship between leverage and profitability. The critique of Pecking order theory is that it does not explain the influence of taxes and financial distress. The theory assumes that there is no target capital structure. The firms choose capital according to the following preference order; internal finance, debt finance and then equity finance. This may not be the case for most business enterprises as they may lack retained earnings (Abdulaziz & Andrew, 2013). The theory was useful to this study by testing the effect of internal equity financing on performance of the wholesale and retail business enterprises in Kenya.

Conceptual Framework

According to Mugenda and Mugenda (2003), a conceptual framework is a model that gives an in-depth explanation on the connections between the dependent and predictor variables. The purpose of a conceptual framework is to assist the reader to quickly see the proposed relationship between the independent and dependent variables (Memba, 2011). In this study the dependent variable; the performance of business and it contains element indicators that show the performance which include profit, ROA and ROE. The independent variables of the study was sources of finance which included formal loans, trade credit, Internal equity finances (Internal finances) and informal finances. The moderating variable was the business size which was (Assets and number of employees).

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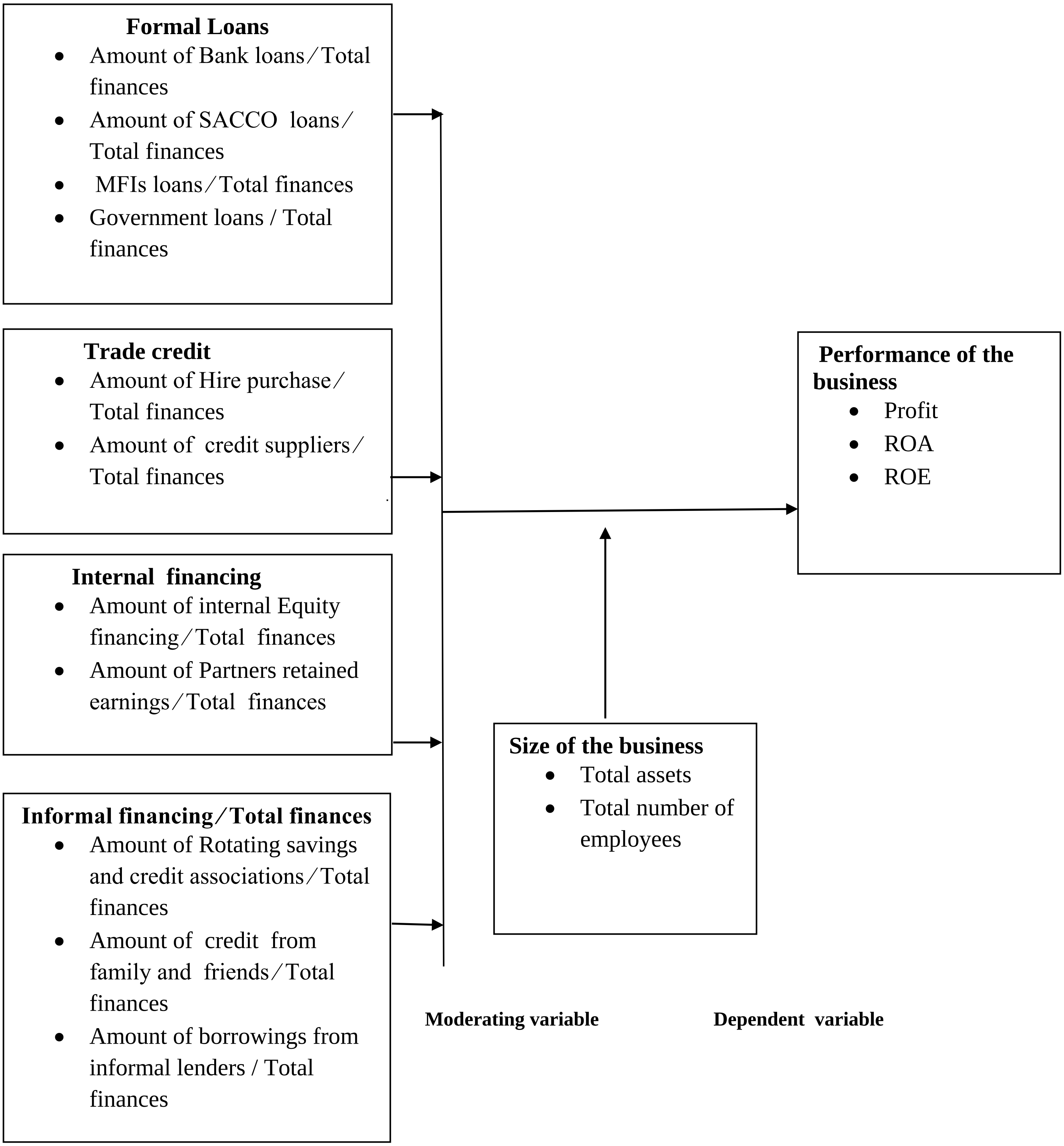

Trade credit

Trade credit is where the supplier delivers goods and services to their customers and payment is made at a deferred date (Vicente, 2012). Trade credit is an agreement between the supplier and the trade customers to delay payment of goods or services after they are delivered or provided (Abdulaziz & Andrew, 2013). It is where by the supplier agrees to provide raw materials or final products and the payment is made on a later date (Njagi *et al.*, 2017). The credit period is normally determined by the institution

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allowing the credit, and as agreed upon by both parties (Vicente, 2012). Trade credit amount may be determined by the type of products, where if they are fast moving or which have high turn over may need a shorter credit term, since the products which have slow turn over take long to generate cash flows may then need longer credit terms, the financial capability of the seller also influences the amount of credit the debtor should receive, buyers credit worthiness is also a very important factor in determining the credit amount and period of payment (Kapkiyai & Mugo, 2015). With the use of trade credit, borrowers might encounter capital market imperfections in the form of asymmetric information and transaction cost (Quaye & Sarbah, 2014).

Suppliers give credit to business enterprises hoping that the business will make profit and will have high ability to pay back (Njeru, 2013). Trade credit is a very vital external source of working capital financing and mostly it is a short term credit extended by the suppliers of goods and services in the usual course of the business to a debtor in order to increase sales. According to Mwangangi (2013) trade credit may have features like there are no formal legal instruments or acknowledgement of a debt, it is normally an internal arrangement of the buyer and the seller, it is a spontaneous source of financing and it is very expensive source of finance if the payment is not made within the agreed discount period. Trade credit is said to have merits like reducing the capital requirement, it is easy and automatic source of short term finance, it helps the business to focus on its core activities and it is also said not to require any negotiation or formal agreement between the creditor and the debtor (Waithaka & Njeru , 2015).

Trade credit is important mostly to the businesses with low probability in getting external funding through credit institutions such as banks (Kapkiyai & Mugo, 2015). According to Waithaka and Njeru (2015) trade credit is a very important alternative financing to bank loans for any business unit in any economy. Trade credit can be applied by firms to increase sales volumes and thus profitability but can cause liquidity problems if not efficiently managed (Mwangangi, 2013). The main reason why firms sell on credit is to expand their sales and maintain the market share (Omondi, 2014). If the firm sells on credit it incurs incremental production and selling costs, administration costs such as credit investigation and supervision costs and collection costs such as bad debts increases (Kapkiyai &Mugo, 2015).

When the buyer buys the goods on credit one has the advantage of not paying for the goods immediately and then the available cash can always be retained for other short term business needs (Njagi *et al*., 2017). Suppliers usually have more information on customers and they tend to give them credit more as compared to banks (Waithaka & Njeru, 2015). Credit to the buyer by the supplier informs the buyer that the seller really value their trustworthy and has high confidence that the buyer will always pay their bills when due and this makes the buyer to continue purchasing (Kapkiyai & Mugo, 2015). When sellers give goods on credit they don't receive cash immediately and this may reduce their cash flow for some time (Njagi *et al*., 2017).

More so when sellers give goods on credit they may need to obtain some reports on the credit worthiness of the customer (Waithaka & Njeru, 2015). A seller who sells goods on credit has an advantage over the competitors who do not offer credit because the seller may make more sales hence increasing the profit margin of the business and also have high probability of retaining many customers (Njagi *et al*., 2017).Trade credit is mostly given without interest charges so long as the buyer pays their balance on time. Mostly businesses that operate on credit terms may extend to their customers different types of discounts to encourage them pay for the goods promptly this not the case with the banks (Waithaka & Njeru, 2015). Trade credit is a very important source of financing for firms.

According to Abdulaziz and Andrew (2013) firms increase the level of trade credit used when their alternative sources of finance are limited. The supplier by using the trade credit has an advantage over traditional and more formal systems of financing (Njagi *et al*.,2017). The supplier can be able to investigate the credit worthiness of their clients and has better ability to monitor and enforce repayment of credit. The supplier has a cost advantage over financial institutions in offering credit to a buyer (Waithaka & Njeru , 2015). The delayed payment can allow the buyer to verify the quality of the products (Njagi *et al*., 2017). The suppliers are said to have advantage of information acquisition and this may be true since the supplier may visit the buyers premise more often than any other financial institutions would and to the supplier this information is of low cost and quickly accessible (Waithaka & Njeru,2015). When trade credit is compared with formal loans then the creditor is said to have advantage of controlling the buyer since the financial institution have limited powers over the buyers, unlike the supplier who may threaten to cut future supplies in the event the borrower action indicates reduced chances of repayment (Kapkiyai & Mugo, 2015).

The supplier is also said to have advantage in salvaging value from existing assets since incase the buyer defaults in repaying for the goods supplied the supplier takes the supplied stock and resale thus saving the assets of the buyer. This will be at a lower cost than a financing institution since they will require to sale the collateral assets to pay off the firm's loan. The supplier also has the advantage of an established network for resale of the good recovered. The liquidation advantage derives from the ability of the supplier to extract greater liquidation value from the inputs collateralized in case of default (Mwangangi, 2013). Trade credit may involve the open accounts or simple credit where if the supplier is satisfied with the credit worthiness of the buyer the goods are dispatched as requested by the buyer (Waithaka and Njeru, 2015). Trade credit amount may be determined by the type of products. If the products are fast moving or which have high turn over may need a shorter credit term. Since the products which have slow turn over take long to generate cash flows may then need longer credit terms. The financial capability of the seller also influences the amount of credit the debtor should receive. Buyers credit worthiness is also a very important factor in determining the credit amount and period of payment (Kapkiyai & Mugo, 2015).

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III. RESEARCH METHODOLOGY

Research Design

Kombo and Tromp (2006) explain research design as the glue that puts all the components in a research project together. The study made use of descriptive research design. Descriptive design is a method of collecting information by distributing a structured questionnaire to a sample of individuals or interviewing the individuals. This research design is appropriate for answering questions on the current state of affairs (Stangor, 2011). A descriptive research design attempts to describe things like attitudes ,values, possible behaviours and characteristics and it also allows for collection of large data which enables the researcher to generalize the findings to the large population (Mugenda & Mugenda , 2003) .

A research design is the glue that holds all of the elements in a research project together. A design is used to structure the research, to show how all of the major parts of the research project work together to try to address the central research questions (Kombo & Tromp 2006). Orodho (2003) defines research design as the scheme outline or a plan that is used to generate answers to research problems. A research design can be regarded as an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance with the research purpose. It is the conceptual structure within which research is conducted. It constitutes the blue print for the collection, measurement and analysis of data (Kothari, 2003). A research design is a plan showing how the problem under investigation will be solved. The function of a research design is to ensure that the evidence obtained enables the study to answer the research question as unambiguously as possible.

The study design adopted for this study is descriptive survey design. The descriptive design is a method of collecting information by inter-viewing or administering a questionnaire to a sample of individuals (Orodho, 2003). It can be used when collecting information about people's attitudes, opinions, habits or social issues (Orodho & Kombo, 2002). Descriptive design is appropriate since it answers questions on the current state of affairs as it provides a "snapshot" of thoughts, feelings, or behaviors at a given place and time (Stangor, 2011). The design was used because it was appropriate in the collection of original data about selected units in the problem areas and offers making descriptive assertions about a large population relying on pre-existing information. Since the design uses one or more variables to collect data and then attempts to explain the status of the variables, it was used to describe the relationship between sources of finance and financial performance of business enterprises in Kenya.

Research philosophy

Research philosophy is a belief about how data about a phenomenon should be gathered, analyzed and used (Jackson, 2013). The fundamental question in any field of study concerns what constitutes acceptable knowledge in that field. Ihuah and Eaton (2013) noted research philosophies to include: positivism, epistemology and Constructivist among others. The main philosophy that guides social scientist researchers is positivism. Epistemology poses questions on what is the relationship between the knower and what is known (Jackson, 2013). Constructivist philosophy sees the world as constructed, interpreted and experienced by people in their interactions with each other and with wider social systems. It beliefs that the truth and meaning do not exist in some external world but are created by the subjects interactions with the world meaning that it is constructed but not discovered. The purpose of inquiry is to understand a particular phenomenon not to generalize to a population (Antwi & Hamza, 2015).

Positivism is a philosophy of science that seeks facts of social phenomena with little regard for the subjective status of an individual (Ihuah & Eaton, 2013). Positivism says that reality exist external to the researcher and must be investigated through the rigorous process of scientific inquiry. It beliefs that the world is independent of our knowledge of it, "it exist out there". The study adopted the positivist philosophy which advocates for an objective interpretation of reality using hard data from surveys that are structured, formal, and have a specific and detailed plan (Antwi & Hamza, 2015). The data collection focuses on gathering hard data in the form that enable evidence to be presented in quantitative form. Researchers who work from this perspective explains in quantitative terms how variables interact, shape events and cause outcomes (Ihuah & Eaton, 2013). In positivism philosophy the research and researcher are independent of one another and this research can be measured using a questionnaire (Ihuah & Eaton, 2013).

Study population

Population refers to the whole group of individuals, events or objects taken from general population having similar observable features (Kombo & Tromp, 2006). Target population refers to the entire group of individuals or objects from which the study seeks to generalize its findings (Mugenda & Mugenda, 2003). The population of the study included all the 1.56 Million licensed small and medium business enterprises in Kenya (KNBS Economic survey, 2017). The target population was drawn from all the 560,000 licensed business enterprises in Nairobi County, Mombasa County, Machakos County, Makueni County, Kajiado County and Kitui County (KNBS County statistical abstract, 2017). However the major focus was on the accessible population of 310,000 licensed businesses in the wholesale and retail trade in the six counties. The accessible population is that proportion of the target population that the researcher can access easily and conveniently. The business enterprises in the six counties were selected because these counties were convenient for the researcher to get the information that was required.

Sampling Frame

A sampling frame is the list of all the items where a representative sample is drawn for the purpose of research (Mugenda and Mugenda, 2003).The sampling frame constituted all the 310,000 licensed wholesale and retail businesses in Nairobi County, Mombasa County, Machakos County, Makueni County, Kajiado County and Kitui County (KNBS County statistical abstract , 2017). See attached Appendix V. The businesses in wholesale and retail trade sector were selected because the sector had high failure according to KNBS economic report 2016. The sector was made up of 57.1% of licensed businesses in Kenya (KNBS Economic survey, 2017). Hence the researcher could get enough required information from the sector.

Sample and Sampling Technique

This section outlined the sample and the sampling technique used to get the sample. The section was divided into two parts: part one the sample size and part two comprised of the sampling technique. A population is a group of individuals, objects or items from which samples are taken for measurement. Population refers to an entire group of persons or elements that have at least one thing in common. Population refers to a large group from which a sample is taken (Kombo & Tromp, 2006).

Business enterprises are scattered across the length and breadth of the country with most of them located in the urban centers. The target population will be drawn from all licensed small and medium business enterprises in Kenya. The wholesale and retail trade activities are enmeshed in a wide range including but not limited to agricultural sector, business enterprises, fabrication, manufacturing, micro financing, cyber cafés among others conducting their businesses locally and internationally. The firms operate in varying markets, in the urban, rural, local, national, regional and international settings. They exemplify different levels of skills, capital, sophistication and growth orientation, and operate in the formal or the informal economy.

The target population will be representative to registered business enterprises in the country by operational wholesale and retail trade. Data was collected through a structured questionnaire and the questionnaire was administered using drop and later pick method. The study used a sample of 384 wholesale and retail businesses from the selected counties. Using a simple random sampling technique the study selected six counties which was used to provide the sample frame for this study. Using excel random sample the following six counties were selected for this survey. The proposed six counties include Nairobi county, Mombasa county, Machakos county, Makueni county, Kajiado county and Kitui County.

Table 3.1: Sampling Distribution

Sector	Accessible Population	Sample size
Wholesale trade	103,719	128
Retail trade	206,181	256
Total	310,000	384

Source: KNBS County statistical abstract 2017

Data Collection Instruments

Instruments involve designing, developing, pilot testing, validation and compilation of final instrument. The researcher made use of questionnaires for the collection of data from owners or managers of wholesale and retail businesses under study. Anonymity of the respondents was ensured and this increased the chances of getting honest replies. The questionnaires allow the researcher to collect variety of information cheaply (Mugenda & Mugenda, 2003). The researcher also used secondary data methods to collect information on wholesale and retail businesses.

The secondary data was obtained from written information which includes review of journals and literature relevant to the subject matter of this research. The sources also included newspapers, magazines and official policy documents of the Kenyan government that are relevant to the study. Other sources will be electronic search which will include internet websites. According to Hamilton, (2010), secondary data relies on experts conclusions about a particular focused on the accounts of the past that were created by other people.

Data Collection Procedure

Data collection refers to gathering of information to prove some facts (Kombo & Tromp, 2006). Before the start of data collection, an introduction letter authorizing data collection was obtained from the university and then used to process a research permit from NACOSTI. The drop and later pick method was used in administration of the questionnaire as it gave respondents enough time to think about their responses carefully without interference. Drop and later pick method also helps to collect data from a large representative sample (Chimaleni *et al* ., 2015). Prior to data collection, an introduction letter authorizing data collection was obtained from the department and then processing of a research permit from NACOSTI using the online process was done.

The study used two categories of data which included primary and secondary data. The processing of data means editing, coding, classification and tabulation so that they are agreeable. Primary data was collected using researcher administered questionnaires to sampled business enterprises. The drop and later pick method was used and this allowed the respondents to give their responses in a free environment. The researcher trained three research assistants on all issues pertaining to the data collection procedures and techniques before they could carry the data collection process during the process of the study. The research assistants helped in assisting the researcher in gathering the necessary information which was used in responding to the research question. Secondary data on financial performance was retrieved from the financial statements of the business enterprises.

IV. FINDINGS AND DISCUSSION

Response Rate

Response rate refers to number of the questionnaires completely filled by the respondents against the total questionnaires administered (Njagi *et al* .,2017). The researcher issued a total of three hundred and eighty four questionnaires (384) where a total of three hundred and fourteen (314) responses were received, translating into 81.8% response rate. However, fourteen questionnaires were poorly done and so they had to be discarded from being used for analysis, hence the correct filled questionnaires used were three hundred (300) that led to a vivid and subjective analysis that translated to a higher outcome of

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78.1%. This high rate of response was attributed to the use of self-administered questionnaires and respondents were also assured high level of confidentiality. Mugenda and Mugenda (2003) puts it that a response rate of 50 percent is adequate, 60 percent is good and 70 percent is excellent. Njeru (2013) considered that 50% to 75% is sufficient for data analysis. Based on this assumption, the response rate of 81.8% in this study was therefore very good and was considered useful to make conclusions for the study.

Table 4.1: Response Rate

Responses	Frequency	Percentage
Responded	314	81.8
Did not Respond	70	18.2
Total	**384**	**100**

Table 4.1 shows high response rate. This was associated with the procedures of data collection, where the researcher pre-notified the potential participants of the intended survey, utilized a self-administered questionnaire where the respondents completed and immediately after, they were picked. Follow up calls were also made to clarify queries in the questionnaires. These findings were in line with Njeru (2013) where the study observed that use of self-administered questionnaires give respondents enough time to provide well thought responses and there is always high response rate. Njagi *et al.*,(2017) studied on equity financing and financial performance of small and medium enterprises in Embu town, Kenya and the study administered 60 questionnaires out of which 41 questionnaires were collected fully filled and returned. The response rate was 68.3% and this high response rate was attributed to the use of self-administered questionnaires to collect the data.

Background Statistics

This section summarized the characteristics of the general data statistics. The results of the tests on the differences in means of all predictor variables were considered on dependent variable and the moderating effect of size of business on the effect of sources of finance on performance of wholesale and retail businesses in Kenya. Their respective mean, range, standard deviation, kurtosis, minimum and maximum values were considered. Descriptive statistics were also used to describe the basic features of the data in the study and the key trends of the variables over the period. They provided simple summaries of the measures. Descriptive statistics such as graphs, key categorizations and percentages were used to analyze the data.

Location of Respondent

The researcher sought to determine the number of respondents and their location for an easier survey and a more knowledgeable approach on the credit environment and the scale management of the research. From the Table 4.5 below, it was evident that most Respondents occurred in the main cities and town. The study showed that high numbers of the wholesale and retail businesses were found in Kitui, Nairobi and Mombasa. The results were as presented in Table 4.8 below.

Table 4.8: Respondent's location

County	Frequency	Percentage
Nairobi County	53	17.7
Mombasa County	51	17.0
Machakos County	48	16.0
Makueni County	47	15.7
Kajiado County	43	14.3
Kitui County	58	19.3
	300	100

A total of three hundred respondents answered the research questionnaires well. Nairobi county represented 17.7 percent, Mombasa county had 17.0 percent, Machakos county had 16.0 percent, Makueni county had 15.7 percent, Kajiado county had 19.3 percent and lastly Kitui county that had 19.3 percent. This response rate was too high and it agreed with Njeru (2013) that many businesses are located in town centers.

Registration Status

The researcher sought to establish the registration status of the business enterprises. It was established that (95%) of the businesses were registered hence were in a position to obtain financial assistance from any financial institution. The information was obtained from the data presented in Table 4.9.

Table 4.9: Registration status of the business

Status	Frequency	Percentage
Registered	285	95
Not Registered	15	5
Total	**300**	**100**

Out of the considered three hundred businesses the registered enterprises were two hundred and eighty five, this was sufficient enough for giving meaningful data analysis. These findings show that many of the businesses were registered and this was associated with the fact that it is a requirement by law for registration of business enterprises. These findings agreed with Njeru (2013) that many businesses are registered due to the requirement of the law. The implication in terms of sources of financing is that majority of the business enterprises depend on private sources of capital, either in form of debt from commercial banks or internal equity from savings, family or friends, Thus, these businesses do not access public sources of financing that are associated with listing in the stock exchange.

Form of ownership

The researcher sought to establish the different forms of ownership. This ownership included sole proprietorship,

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partnership and company among others. The data presented in Table 4.7.

Table 4.10: Form of ownership of the business

Form	Frequency	Percentage
Sole proprietorship	285	95.0
Partnerships	15	5.0
Total	**300**	**100**

It was established that sole proprietorship was 95% and partnership was 5%. However there was no company or any other form of businesses among the wholesale and retail businesses. These findings agreed with Njagi *et al* ., (2017) where it was revealed that 90% of the businesses were formed through sole proprietorship while 7% represent partnership kind of business and limited companies represented 3% of the businesses. The most preferred form of businesses in both studies was seen to be sole proprietorship. This could be highly attributed to the ease in legal requirement during formation, small amount of capital requirement and exercising full control of the business while least preferred form of business was limited companies which was associated with the long and expensive procedures when forming companies..

The study also agreed with Njeru (2013) where most of the business enterprises are seen to be sole proprietorships as they require few legal formalities to form and the capital requirement is also low when compared to other forms of business units. Hence many small and medium business enterprises are usually started as sole proprietorships; the study also found that many businesses were said to be owned by individuals not group. The findings of this study also agreed with the findings of the KNBS economic survey (2017) that most of the licensed business enterprises are operated by the owner where their survey found a high percentage of 92.2% sole proprietorship. According to this survey most of the businesses were operated and owned by individuals who were in retail businesses of buying and selling of goods independently.

The results also agreed with Kimunyi (2015) who studied factors influencing performance of small and medium tea firms in Mombasa county, Kenya. From their findings, the study found that majority of the respondents 52% showed self owned and self run businesses, those who indicated self owned and family run were 25% ,19% of the respondents were said to be self owned and employees run while least indicated third party owned and employees run were only 4%. This means that most of the business enterprises are sole proprietorships.

Length of operation

Establishment of the period of operation for the business was also sought by the study. The data was presented in Table 4.11.

Table 4.11: Length of operation for the business

Length of operation	Frequency	Percentage
Less than 5	45	15.0
5 – 10 years	216	72.0
Above 10 Years	39	13.0
Total	**300**	**100**

It was noticed that (72%) of the businesses had been in operation for 5-10 years. This number had operated long enough to give reliable information on performance of wholesale and retail businesses. These results agreed with Musamali and Kipkirong (2013) that older firms do not fail at high rate than the younger firms since the older firms have high access to finance due to the high assurance that they give to the lenders on their financial sustainability. More so the older firms are considered to have established good relationship with lenders and are observed to have high probability of accessing funds from the lenders. The study also agreed with Njagi *et al* ., (2017) where it was revealed that majority (46%) of the businesses have been in existence for a period of 2-5 years, while 44% of the businesses have been in operation for a period of 6-10 years.

Businesses that had been in operation for a period of less than a year were 7% and those above 10 years of operation are 3%. This indicates that 46% of the businesses are in the early stages of growth while 44% of the business units have exceeded the infancy stage of growth. According to Kangala (2016) it is clear 39% of the respondents indicated they had worked for 6-8 years, 34% had worked between 8-10 years, 15% indicated between 3 to 5 years and 12% had over 10 years. Results implies that majority of the respondents had worked long enough in their designated positions in the firm hence were in the best position to give accurate information need in the study.

Business location

The researcher sought to establish the location of the businesses to ascertain whether they were within the central business district (CBD) or not. The nearness to CBD would imply proximity to information about financial services (Njeru, 2013). Those near the CBD had high chance of being aware of the presence of loans leading to acquiring the same as opposed to those far from the CBD. The responses were presented in Table 4.12.

Table 4.12: Proximity of the business from CBD

Length of operation	Frequency	Percentage
Near CBD	168	56.0
Far from CBD	132	44.0
Total	**300**	**100**

It was however established that most (56%) of the businesses were located within the CBD. This implies that high numbers of the businesses were within the CBD hence able to access loans and thus give more reliable information concerning the effect of loans on performance. The findings agreed with Njeru (2013) where the study stated that businesses near towns or within towns have high chances to get financial information.

Number of employees

The researcher sought to establish the number of employees for the business and it was found that 95% of the business enterprises under the study had 1- 9 employees. The results were presented in Table 4.1

Table 4.13: Number of employees

Number	Frequency	Percentage
1-9	285	95.0
10-49	15	5.0
50-100	0	0.0
Over 100	0	0.0
Total	**300**	**100**

It was found that 95% of the businesses under the study had 1- 9 employees. This means that most businesses were small or medium and thus requiring more financial support. These results agreed with Caroline and Muturi (2015) that many businesses are established as family businesses and may not seek growth plans. Njeru (2013) found that most of the small and medium business enterprises had between 1-5 members of staff and those which were found to have more than five members were roughly 25%. The results also agreed with the findings of KNBS economic survey (2017) which found out that most of the business enterprises employ 1-9 employees and this was supported by a high percentage of 92.2%.

Effect of trade credit from suppliers on performance of wholesale and retail businesses

The researcher sought to establish the usage of trade credit by the wholesale and retail businesses. The results were presented as follows in Table 4.26.

Table 4.26: Credit from suppliers

Response	Frequency	Percentage
Yes	189	63.0
No	121	37.0
Total	**300**	**100**

From Table 4.26 It was reported that a total of 63% of the respondents had used trade credit to finance their businesses while 37% had never used trade credit to finance their business. This explains why some businesses did not seem to be interested on formal loans since they could get goods on credit from their suppliers and then pay later.

Table 4.27: Coefficients for trade credit

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	1.334	.222		.132	.000
	Trade credit	0.384	1.060	.254	13.496	.000

a Independent Variable: Trade credit

From table 4.27, the linear regression model for performance of wholesale and retail businesses was as follows

$Y = \beta 0 + \beta_2 x_2 + \mathcal{E}$

Where;

Y = Performance of wholesale and retail businesses in Kenya

β_0 = Constant (Y- Intercept)

$\mathcal{E}$= Standard Error term

$X_{2=}$ Trade credit

Performance of wholesale and retail businesses in Kenya Y= 1.334 + 0.384 trade credit. From regression results, 0.384 unit increase in trade credit resulted into one unit increase in performance. The findings showed that there is statistical positive association between trade credit and performance of the business unit. These results are in line with Kapkiyai and Mugo (2015), Chimaleni *et al.*,(2015) who found that trade credit positively affected liquidity, profit margin and returns on assets. However the study disagrees with Martin and Filip (2016) who observed an inverse correlation.

The researcher further sought to establish the proportion of the trade credit to the grand total finances. The results were as per Table 4.28 below

Table 4.28: Proportion of trade credit obtained by the wholesale and retail businesses

Type of trade credit	Amount borrowed (Ksh)	Proportion of trade credit	Percentage
Hire purchase	950,000	0.044	4.4%
Simple credit	1,120,000	0.052	5.2%
Total	**2,070,000**	**0.096**	**9.6%**

From Table 4.28 it was reported that simple credit made 5.2% of the financial support on wholesale and retail traders while the hire purchase contributed 4.4%.

The researcher further considered establishing the linear regression model on the trade credit and performance of the business. The results were as per Table 4.29 below

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Table 4.29: Model Summary for trade credit

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.584a	.531	.504	.5411

a Predictor : (Constants) trade credit X_2
b Dependent Variable: Performance of wholesale and retail businesses

The linear regression analysis models on the dependent variable which was performance of wholesale and retail businesses in Kenya and independent variable which was trade credit, showed the coefficient of determination (R^2) and correlation coefficient (R). The results showed that there was some degree of association between the trade credit and the performance of wholesale and retail businesses in Kenya. The results of the linear regression indicated that R^2=0.531 and R= 0.584. Where the R= 0.584 showed an indication that there was a linear relationship between trade credit and the performance of the wholesale and retail businesses. With the R^2=0.531 it means that the independent variable could only explain 53.1% of variability of dependent variable. The adjusted R^2=0.504 shows the independent variables improves the model by 50.4%.

These results agreed with Waithaka and Njeru, (2015) who argued that mostly businesses that operate on credit terms may extend to their customers different types of discounts to encourage them pay for the goods promptly this not the case with the banks thus increasing their performance. Chimaleni *et al*., (2015) found that trade credit positively affect the financial performance of businesses and the study recommended the use of trade credit so as to realize high levels of profits hence high financial performance and their findings were in agreement with those of this study. The study also was in agreement with Kapkiyai and Mugo (2015) where their study found that trade credit and financial performance of small scale business enterprises was positively related and trade credit was seen to positively affect liquidity, profit margin and returns on assets.

Muganda *et al.*, (2016) also established that trade credit financing affect the financial performance of businesses and the study recommended the use of trade credit so as to realize high levels of financial performance hence it was in agreement with the findings of this study. Martin and Filip (2016) found an inverse relationship between small and medium business financial performance and usage of trade credit and their study revealed that this relationship may be due to the costs associated with trade credit, hence their study was in disagreements with the findings of this study.

Table 4.30: ANOVA (F-Test) Analysis for trade credit

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	56.322	1	66.476	39.221	.000(a)
	Residual	11.441	299	.341		
	Total	66.765	300			

a Predictors: trade credit
b Dependent Variable: Performance of wholesale and retail businesses

Table 4.30 shows the results of ANOVA test for trade credit which reveals that the variable trade credit positively predicted the performance of wholesale and retail businesses in Kenya, *F* (1, 299) = 39.221, $p < .05$, $R^2 = .531$. Since the P value of .000 is less than the critical P value of .05 then the study concluded that trade credit had a significant effect on performance of wholesale and retail businesses in Kenya.

Table 4.31: Coefficients for trade credit

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	1.334	.222		.132	.000
	Hire purchase	0.384	1.060	.254	13.496	.000
	Simple credit	0.852	1.84	.566	12.223	.000

a Independent Variable: Trade credit
b Dependent Variable: Performance of wholesale and retail businesses

From table 4.31, the linear regression model for performance of wholesale and retail businesses was as follows

$Y = \beta 0 + \beta_1 x_1 + \beta_2 x_2 + \varepsilon$

Where;

Y = Performance of wholesale and retail businesses in Kenya

β_0 = Is the Y intercept (constant) whose influence on the model is insignificant.

β_1- β_2 The slope which represents the degree with which the performance of the business changes as the independent variable (trade credit) changes by one unit variable.

ε= Standard Error term

X_1= Hire purchase

X_2= Simple credit

Performance of wholesale and retail businesses in Kenya $Y= 1.334 + 0.384X_1 + 0.852X_2 + \varepsilon$. From the regression results, simple credit had the highest contribution on the performance of wholesale and retail businesses ($\beta_2 = 0.852$). This means that a unit increase in simple credit resulted into one unit increase in the performance of the business. With ($\beta_1 = 0.384$) it means that unit increase in hire purchase resulted into one unit increase in performance. The findings showed that there is statistical positive association between trade credit and performance wholesale and retail businesses. These results were in line with Kapkiyai and Mugo (2015) who showed that there was positive relationship

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between trade credit and the financial performance of small and medium businesses in Kenya. The results also agreed with Chimaleni *et al*.,(2015) who found that trade credit positively affected liquidity, profit margin and returns on assets. However the study disagrees with Martin and Filip (2016) who observed an inverse correlation between trade credit and the performance of small and medium businesses.

Summary of the findings

Purposely this study was to determine the effect of sources of finance on financial performance of small and medium sized enterprises in Kenya. The specific objective was to identify the effect of trade credit on financial performance of wholesale and retail businesses in Kenya. The findings of the study suggested that the Trade credit had a statistical significant relationship with the performance of the business.

Trade credit and financial performance of wholesale and retail businesses

Trade credit significantly predicted the performance of wholesale and retail businesses in Kenya. The correlation results indicated that there was a positive correlation between trade credit and performance of wholesale and retail businesses in Kenya. There was also a positive correlation between trade credit and size of the business. The study also found that traders preferred using simple credit over hire purchase due to high interest rate that was charged for the use of hire purchase.

Conclusions

Wholesale and retail businesses have become the important force of sustained, rapid and healthy development of Kenyan economy. Access to finance has been singled out as one of the major challenge impeding the survival and growth of start-up of many businesses. There are many different types of financing sources that can be used for financing business enterprises. The ability of a business enterprise to develop, grow and be sustainable relies heavily on their capacity to access and manage finance. However, accessing the right type of finance at an affordable cost to start and grow the business is the fundamental financing difficulty for most of the business enterprises.

It is important for businesses to keenly choose the correct and appropriate financing sources to solve the financial difficulties. The multiple regression results indicated that the finance sources; trade credit positively predicted the performance of wholesale and retail businesses in Kenya. The results of the linear regression resolved that there was a strong linear relationship between finance source and the performance of wholesale and retail businesses in Kenya. The study made conclusions that the trade credit had the highest effect on the Performance of wholesale and retail businesses in Kenya. When the hypotheses were tested in the regression model, the independent variables were found to have a significant association with the performance of wholesale and retail businesses in Kenya.

All wholesale and retail businesses in Kenya should apply the four variables and sub variables used in the study so that faster growth for each business could be realized. More so government finance schemes such as Uwezo funds and other micro-credit schemes, where collateral security is not a major demand should be established by the government and business individuals to be familiarized with them. Such schemes usually charge interest rates lower than that charged by banks and other financial institutions. Individuals choose the informal financial institutions as the source of their capital providers because it has a simple administrative procedure, fast loan disbursement where the loan is given on time as required. The study findings would contribute knowledge to assist in the business growth. Not much had been done on the four variables on sources of finance and performance of wholesale and retail businesses in Kenya . Most of the studies on had been focusing more on working capital and growth of SMEs. Thus the findings of this study would contribute a lot in filling knowledge gaps by focusing on the effect of sources of finance and performance of wholesale and retail businesses.

Trade credit had a positive relationship with the performance of the businesses. Mostly businesses preferred simple credit over hire purchase due to the high interest rate charged. The size of the business moderated the relationship between sources of finance and performance wholesale and retail businesses. The study concluded that there was no one source of finance that fully contribute to the performance of the wholesale and retail businesses in Kenya. The study recommended further research to be conducted to determine the other factors that influence performance of wholesale and retail businesses other than the sources of finance.

V. Recommendations

The following recommendations were made based within the study

Trade credit and financial performance of wholesale and retail businesses in Kenya

The study showed that most wholesale and retail businesses were not interested on loan since they were in a position to get goods on credit from their suppliers and then pay later. This was an easy way of acquiring goods at a low interest. However the repayment period was less than a month and there was a limit to the amount of goods which could be given by the suppliers. This study recommends that; suppliers should increase the amount and variety of goods given on credit to the wholesale and retail traders so that they can increase their profit margin. The suppliers should also increase the repayment period. The study also recommended that additional research be conducted in order to determine the major factors that influence performance of wholesale and retail businesses since is not only the sources of finance that affect the performance of a business. This would enable these firms control these factors in order to ensure that profitability is high realized and maximized.

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