

Strategies for Accessing Credit by Small and Medium Enterprises: A Case Study of Kakamega Town, Kenya

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Abstract

Small and medium enterprise business owners play an important role in the Kenyan economy as they account for approximately 78 percent of total employment and 57 percent of the new jobs created. Despite their significant contribution, SME business owners face enormous challenges as such as access to credit, which affects their businesses. This study adopted a qualitative research paradigm with a multiple case study design to explore the strategies Kenyan SME business owners used to access credit to improve the profitability and growth of their businesses. Semi-structured interviews were used to collect primary data from a sample of four SME owners of businesses located in Kakamega Town, Kenya, who have had access to credit. Company documents were used as supplementary data. All interpretations from the data were subjected to member checking to ensure the reliability of the findings. The research findings revealed that SME business owners face challenges in accessing credit to sustain their businesses because of the higher collateral requirements demanded by banks as a condition for lending. The study recommended that SME owners use their education and professional background, information access and group lending strategies to access credit to improve the profitability and growth of their businesses.

Keywords: Access to Credit, Collateral, Group Lending, Information Access

Abbreviations and Acronyms

CRB: Credit Reference Bureau

ILO: International Labor Organization

SCT: Social Capital Theory

SMEs: Small and Medium Enterprises

SWFT: Swaziland Women's Finance Trust

UNIDO: United Nations Development Organization

URR: University Researcher Reviewer

Introduction

In the globalization era, SMEs both in developed and developing countries play a significant role in economic development. The International Labor Organization (ILO) first epitomized the Kenya SME sector in 1972 (Nyamboga, Nyamweya, Abdi, Njeru, and Gongera, 2014). Since then, this sector has been an impetus for economic growth. SME business owners continue to make a significant contribution to the Kenyan economy. The SME sector contributed 78 percent of total employment and 57 percent of the new jobs created during 2005-2006 in Kenya (Kisaka and Mwewa, 2014). SME business owners have helped to generate employment, reduce poverty, and enhance the standards of living of majority Kenyans.

Despite their significant contribution, statistics indicate that SME business owners face significant challenges in gaining access to credit, which hinders the performance of their businesses. The majority of SME business owners are unable to access credit because of the huge collaterals demanded by banks as a condition for lending, which constrains the growth and development of the sector. Jagongo (2012) discovered that SME business owners' inability to access credit affected the profitability and growth of their businesses. The failure to access credit may lead to financial constraints, and thereby affect the performance of the business. Moyi (2013) found that lack of access to financial resources contributed to the slow growth and collapse of SMEs in Kenya. The purpose of this qualitative multiple case study therefore was to explore the strategies that some Kenya SME business owners used to access credit to improve company profitability and growth.

Statement of the Problem

The inability to access credit by SMEs is a major constraint on the business growth and development in Kenya (Mwangi and Ouma, 2012). Eighty-five percent of Kenya SME business owners are credit constrained and cannot afford the collateral demanded by banks that may be valued up to 200 percent of the desired loan (Moyi, 2013; Mwangi, Shisia, Mwai, and Okibo, 2014). The general business problem is that the inability of some Kenya SME business owners to access credit limits business profitability and growth (Njeru, 2014). The specific business problem is that some Kenya SME business owners lack strategies to access credit to improve company profitability and growth.

The Purpose of the Study

This qualitative multiple case study explores the strategies that some Kenya SME business owners use to access credit to improve company profitability and growth in Kakamega Town, Kenya.

The Objectives of the Study

- (i) To explore the strategies that some SME business owners use to access credit.
- (ii) To investigate the challenges facing SME business owners in accessing credit.
- (iii) To find out how availability of information helps SME business owners to access credit.
- (iv) To assess the effect of access to credit on the performance of SME businesses.

Literature Review

Literature reviews help researchers to (a) identify the literature that will contribute to the research study, (b) build an understanding of the topic, (c) formulate a conceptual framework for the study, and (d) understand how to collect and analyze data (Rowley, 2012).

The conceptual framework underpinning this study is the Social Capital Theory (SCT) developed by Hanifan in 1916. Hanifan described social capital as those intangible substances that count most in the daily lives of people, namely, goodwill, fellowship, mutual sympathy, and social interaction among members of a social unit. Hanifan explained how members of the rural school community used their social capital to help improve the school performance. Although the theory was not business related, later several theorists extended the works of Hanifan (Nahapiet and Ghoshal 1998; Woollock and Narayan, 2000; Mwangi and Ouma, 2012). Specifically, the authors used the theory to explain how people accumulate their social capital to achieve a common purpose.

The constructs underlying the SCT are (a) structural capital, (b) relational capital, and (c) cognitive capital. Nahapiet and Ghoshal (1998) developed the three constructs of the social capital theory to describe how firms facilitate the combination and exchange of resources to achieve a common goal. Nahapiet and Ghoshal defined the structural construct of the SCT as the pattern of connections between actors to achieve a common objective. The authors also described the relational construct of the SCT as the resources created and leveraged through personal relationships. Nahapiet and Ghoshal defined the cognitive construct of SCT as the resources providing shared representation, interpretation, and systems of meaning among the parties involved. Pearson, Carr, and Shaw (2008) used the three social capital constructs (a) structural, (b), relational, and (c) cognitive, to identify the unique behavioral resources and capabilities of family firms. Family firm owners can make use of the knowledge, skills, and social capabilities of their members to access information and resources to improve business performance. Kontinen and Ojala (2012) described how family firm owners use social capital to access resources to enhance their international operations. The authors further revealed that the lack of external social capital prevents family firms from adapting to environmental changes. For example, international firm owners can connect with those in the foreign country to help understand the local business environment. The following are the three social capital constructs:

Structural Capital Construct

The structural capital construct comprise network ties among members of a group. *Whom you reach, how you reach them, and when to reach determines the direction of the business.* Walker, Kogut, and Shan (1997), described how existing firms or start-ups establish networks to exploit new business opportunities. Today to find a job or buy property, one needs to have a strong social connection. Kontinen and Ojala (2012) stated that strong social relations among members of a network allow the manager to access information and financial resources to exploit new business opportunities. Entrepreneurial firm owners can use the trust and goodwill of its members to establish external networks to access resources for their businesses. Networks promote trust and cooperation among their members by providing sanctions against those who deviate from the norms of the group. Nahapiet and Ghoshal (1998) explained that firms within a network could use referrals to access information and facilitate the exchange of knowledge to improve business performance. Today one needs a referral to get a good job or buy a prime parcel of land, a sign that social capital is still applicable. Despite the benefits, social networks contain certain limits. For example, lack of

trust and cooperation among group members may result in internal conflicts, which affects the performance of the network.

Relational Capital Construct

The relational construct of social capital theory comprises the norms, values, and obligations of members within a network (Nahapiet and Ghoshal, 1998). This construct puts emphasis on the behavioral aspects of an individual including respect and friendship. People who trust and respect each other tend to work together to meet the obligations of others within the network. Pearson, Carr, and Shaw (2008) found that personal bonds facilitate cooperation and communication to achieve a common goal. Lu, Feng, Trienekens, and Omta (2013) used the relational construct of social capital to describe how strong guanxi (relationships) network and interpersonal trust significantly contribute to high performance in Chinese firms. Despite the significance, the relational construct of social capital theory has certain limitations. For example, lack of trust among members of a network may result in poor personal relationships, which affects cooperation and communication.

Cognitive Capital Construct

Jonsson and Lindbergh (2013) used the cognitive construct of social capital to describe how members of a network share language and systems of meaning to access information and resources, which they could not otherwise obtain. Individuals with a shared vision and language often trust each other, which facilitates the exchange of knowledge to access resources to sustain their businesses. Pearson, Carr, and Shaw (2008) used the cognitive dimension of social capital to describe how the family and the firm merge to create collective understanding and cooperation to achieve long-term goals. When people have a shared vision, nothing will stop them from working together to achieve a common purpose. However, the cognitive construct of capital has its limitations. Lack of new knowledge affects motivation, resulting in many members leaving the network. Therefore, SME business owners need to share knowledge, values, and systems to create a collective understanding and collaboration to facilitate access to information and financial resources to achieve long-term sustainable performance.

Prasad, Tata, and Guo (2012) found that small business owners in the USA use social capital to access credit during times of recession to sustain themselves. Small business owners need to collaborate to access financial resources to achieve long-term sustainable performance. Jonsson and Lindbergh (2013) explained how entrepreneurs use social capital to access external funding during the firm's development stage when the internal sources of finance are insufficient. Jonsson and Lindbergh used the three constructs of social capital to demonstrate how firms exchange resources to sustain their businesses. Firms that are at the initial stages and without collateral can use their social capital to establish external networks to access credit for their businesses. Stephens (2013) stated that entrepreneurs of new ventures use social capital to access information and other resources to improve their businesses. Similarly, Bridge (2013) found that firms often use social capital to establish social connections to obtain resources that would otherwise be costly to acquire. Individuals who interact and communicate with one another are more likely to develop strong personal relationship to facilitate exchange of resources than those who do not. Bhatt and Altinay (2013) described how social entrepreneurial ventures in India used social capital to overcome resource constraints. Firm owners can build trust and cooperation among their members to help establish personal relationships with external investors to access financial resources for

their businesses. Adama and Nadif (2013) found that firms use social capital to access information and financial resources to ensure the survival of the business. Managers can use their goodwill, trust, and cooperation among members to establish networks with similar firms and thereby gaining access to financial resources for their businesses.

Despite the support for the SCT, several authors have leveled criticism against Hanifan's theory (Adama and Nadif, 2013; Adler and Kwon, 2002; Carlos and Pinho, 2013; Kontinen and Ojala, 2012; Light and Dana, 2013; Schulman and Anderson, 1999; Woolock and Narayan, 2000) stating that social capital is uneven among groups, making it difficult for some firms to access resources to sustain their businesses. For example, Light and Dana (2013) found that powerful groups exploit resource monopolies to lock less powerful groups out of business. Dormant groups within a network may use their powers to influence accessibility to resources, causing the subordinate groups to quit the business because of lack of funds. Woolock and Narayan (2000) revealed that despite that 200,000 community groups in rural Kenya, social capital could not help them to access external resources or reduce poverty. Firm owners may form social networks to access resources for their businesses, but without proper use of these resources, social capital is meaningless.

In addition, Adler and Kwon (2002) discovered that building social capital requires considerable investment to establish and maintain relationships. For example, establishing external social networks takes more time, money, and effort than depending on those within the social cycle (e.g. close friends). Having limited social capital hinders firm owners from gaining access to credit, which affects long-term sustainable relationships (Kontinen and Ojala, 2012). The inability to gain access to financial resources affects the performance, which makes the SCT meaningless. Carlos and Pinho (2013) stated that lack of trust among members of a network increases vulnerability, which affects social relations. Trust and cooperation among members are critical to the success of a network to facilitate access to information and financial resources to support the business. Thus, when people do not trust each other, it becomes difficult to work to achieve a common goal.

The SCT applied to this research because the three constructs (a) structural capital, (b) relational capital, and (c) cognitive capital helped to explore the strategies some Kenya SME business owners use to access credit to improve company profitability and growth. People who have a shared vision, language, norms, values, and systems tend to trust each other by working together to meet the obligations imposed by others. In developing countries, poor borrowers who have no collateral assets use social capital to establish social networks to help access credit to sustain their businesses (Woolock and Narayan, 2000). Kenya is among the developing countries with majority rural and urban borrowers who have no collateral assets to gain access to credit to improve the profitability and growth of their businesses (Mwangi and Ouma, 2012).

A critical analysis and synthesis of the literature revealed several emergent themes, which relate to this qualitative multiple case study paradigm. These themes include *access to credit/collateral, educational and training, group lending, information availability, and effect of access to credit on SME performance*.

Access to Credit/Collateral

SME business owners play a significant role in the Kenyan economy. These business owners contribute to job creation, income generation, and poverty alleviation (Hassan, 2014; Njeru, Namusonge, and Kihoro 2012; Osoro and Muturi, 2014). For developing countries, the United Nations Development Organization (UNIDO) defined small and medium enterprises as those

employing between one and 99 workers (Narteh, 2012). The research study includes the constraints facing Kenya SME business owners and managers in accessing credit over the past decade. Despite their significance, Kenya SMEs face financial challenges that affect their profitability and growth. Several studies (Gaitho, 2013; Gichuki, Njeru, and Ondabu, 2014; Makena and Kubaison, and Njati, 2014; Moyi, 2012; Mwobobia, 2012; Onyango and Achieng, 2013), revealed that lack of collateral was a constraint to gaining access to credit. Although these researcher findings were similar, they had other variations. In addition to lack of collateral, Gichuki et al. (2014), found high processing fees and short repayment period constrained SME's access to credit. Makena et al. (2014) found cultural norms as a barrier to accessing credit as a unique finding. Like majority African cultures, the Kenyan culture does not allow women to own property, which hinders their access to credit. Additionally, Makena et al. (2014) revealed that poor access to information was a constraint to SME's access to credit. Gaitho (2013) found that lack of credit information caused banks to factor in a risk premium in the pricing of credit, which contributed to the high cost of borrowing. Additionally, the author revealed that having a credit reference bureau (CRB) allows banks to share credit information on prospective borrowers, which facilitates the assessment of credit requests. Sharing of credit information enables banks to mitigate the risks of bad debts to reduce the cost of credit and thereby enhancing access to credit. Moyi (2013) found that limited access to technology and permanent work sites were a constraint on SME's access to credit. Strategically located firms that have access to technology were more likely to access information than those that are not, thereby gaining access to credit. Other studies indicated this finding.

Extending the list of constraints to gaining access to credit, Onyango and Achieng (2013) discovered that poor business planning, poor management, and insufficient credit history of the borrower affects SME's access to credit. Similarly, Mwobobia (2012) found that lack of planning and poor management was the major constraints to gaining access to credit. Majority SMEs have no clear business plan on how to sustain their profitability, which limits access to credit. Similarly, studies in other countries indicate that SME business owners have difficulties in accessing credit to sustain their businesses. Atogenzoya, Nyeadi, and Atiga (2014) studied the use of land as a collateral requirement by financial institutions when lending to SMEs in Ghana. Atogenzoya et al. (2014) found that lack of collateral and high loan transaction costs were a major constraint to accessing credit. Kira (2013) found similar findings when they conducted a study to evaluate the financial constraints facing the five East African countries: *Burundi, Kenya, Rwanda, Tanzania, and Uganda*. Kira (2013) revealed that poor access to information and high loan transaction costs were a barrier to accessing credit in all the five countries, forcing some SMEs to use internal sources to finance their businesses. Based on these findings, SMEs in developing countries face significant challenges in accessing credit to sustain the profitability and growth of the business.

Education and Training

The education, training, and knowledge of the entrepreneur are essential to the financial success of any business. Jonsson and Lindbergh (2012) found that social capital allows individuals to share a language, vision, values, and learning processes to facilitate the exchange of information and knowledge creation. Entrepreneurs who have a higher formal education and training are more likely to share knowledge to facilitate information than those who do not have, and thereby gaining access to credit. Several studies (Hassan and Mugambi, 2013; Mbugua, Mbugua, Wangoi, Obada, and Kariuki, 2013; Ongachi and Bwisa, 2013;

Ong'injo, 2014; Waithaka, Marangu, and Ng'ondu, 2014) revealed that lack of formal education and training among SME business owners was a major obstacle to gaining access to credit. Waithaka et al. (2014) revealed that lack of information on where to obtain professional and financial services were a constraint to gaining access credit by SMEs. Entrepreneurs who have a higher formal education and managerial training were more likely to access information, thereby gaining access to credit and other resources to improve the performance of their businesses. Similarly, several studies in other countries (Agyei- Mensah, 2013; Bridge 2013; Omar, Nazri, and Wel, 2014; Sandhu, Hussain, and Matlay, 2012) revealed that lack of education and training among entrepreneurs was a major obstacle to gaining access to credit. In addition to the lack of education and training, Bridge (2013) found that social capital has not helped SMEs to access entrepreneurial education, which affects their access to credit. In summary, the studies indicate that entrepreneurs who have a higher formal education and training were more likely to gain access to credit than those who do not have.

Conversely, Nguyen and Luu (2013) found that SME business owners who have a higher formal education and training were more likely to know the lending requirements than those who do not have, and thereby refraining from applying for credit. The authors further revealed that entrepreneurs, who have a better education and training finance, can finance themselves through internal sources, which reduces the demand for credit. Despite the different schools of thought, majority studies indicate that lack of education and training of entrepreneurs was a major constraint to accessing credit because of lack of information.

Group Lending

SMEs that have no adequate collateral can use group-lending strategy to gain to credit for their businesses. Nahapiet and Ghoshal (1998) found that social capital allows members of a network to develop strong personal relationships that provide the basis for trust and cooperation to achieve a common goal. Social capital allows people who have no tangible assets as collateral to form organized groups to reduce uncertainty and thereby gain access to credit to improve their businesses. Several studies (Kiragu and Sakwa, 2013; Mwangi and Ouma, 2013; Naveen, 2012; Nawai and Shariff, 2013; Wanambisi and Bwisa, 2013) revealed that organized groups allow SMEs to gain access to credit because of joint liability. The joint liability allows group members to screen, monitor, and enforce each other's loan habits (Kiragu and Sakwa, 2013; Naveen, 2012; Nawai and Shariff, 2013). Group monitoring helps improve loan repayment, which facilitates further credit. Mwangi and Ouma (2012) established that majority SMEs were unable to access credit because of poor access to information, forcing financiers to ask for guarantors. Groups allow members to share information and guarantee one another, which facilitates access to credit and repayment of loans. In addition, Wanambisi and Bwisa (2013) revealed that SME business owners should join groups to gain access to credit. Conversely, Dube (2012) studied the experiences and perceptions of Swaziland Women's Finance Trust (SWFT) regarding group lending. Dube (2012) found that large sizes of groups, insufficient information, and poor design and implementation affected group lending. The author revealed that the high presence of family members within the group, and poor management affected repayment of loans, which constrains further credit. Despite the limitations, groups remain an effective strategy for SMEs that have inadequate collateral to access credit for their businesses. SMEs that have group strategies are more likely to access credit and management loan repayment because of joint liability than those that do not have.

Information Access

The availability of information is important for the choice of credit financing for a business. Several studies (Akomea-Bonsu and Sampong, 2012; Bunyasi et al. 2014, Devinaga and Tan, 2012; Njeru, Nyangaresi, and Waithaka, 2013; Standa, 2013; Yesseleva, 2013) revealed that majority SMEs have difficulties in accessing credit because of poor access to information.

Akomea-Bonsu and

Sampong

(2013) hypothesized that there was a relationship between the implementation of information communication technology (ICT) and the increase in productivity of SMEs in Ghana. The authors found that majority firms use Internet to locate customers and general business information rather than seeking financial resources. Devinaga and Tan (2012) revealed that the government provided related to financing, advisory services, and training to help SMEs gain access to credit. Njeru et al. (2012) noted that access to information allows SMEs to obtain credit to exploit business opportunities and achieve long-term sustainable growth. Standa (2013) found that lack of communication strategies among entrepreneurs was a constraint to accessing information, which hinders access to credit. Yesseleva (2013) revealed that entrepreneurs who receive professional advice from accountants and financial experts were more likely to access credit than those who do not. In summary, there is a need for SMEs to improve the quality of their information to facilitate access to credit and other resources.

Strategic Planning

Effective strategic planning is fundamental to the success of the business. A strategic plan provides a road-map that leads an organization from where it is now to where it would like to be in the future (Kariuki, 2015). A well-developed strategic plan allows the business to implement its policies and monitor the operations to achieve the desired performance. Ahmed and Muntaka (2012) discovered that CEOs with internal loci of control outcomes, implement the structures and processes of environmental monitoring to meet the contingencies of their chosen strategies. Several studies (Awino, 2013; Jaoua and Radouche, 2014; Kagwathi, Kamau, Njau, and Kamau, 2014; Kariuki, 2015, Mitchelmore and Rowley, 2013; Napoli, 2012; Njoroge and Wario, 2015; Sandada, Pooe, and Dhurup, 2014) revealed that lack of strategic planning was a constraint to SMEs' gaining access to credit to improve business performance. Awino (2013) found SMEs that use strategic planning were more likely to gain access to credit and other financial resources than those that do not, which results in sustainable business performance. Kagwathi et al. (2014) revealed that SMEs lack risk mitigation strategies, which affects their credit scores. The authors found that a credit score allows SMEs to access formal credit that matches the risk and performance of the business. Kariuki (2015) noted that SMEs have no clear vision of what they desire to accomplish and what limits their access to credit. Majority SMEs lack a clear business plan on what to do and how to do it to achieve profitability as a requirement for accessing credit. Napoli (2012) studied the effects of corporate processes of strategic change in the performance of family-owned SMEs. The author found that the strategic leadership of SMEs often lies in the hands of a single individual, which affects the decision-making on how to pursue financial resources to sustain the business. Njoroge and Wario (2015) agreed that individual values and lack of strategic planning were a constraint to accessing credit among SMEs. Mitchelmore and Rowley (2013) revealed that SMEs that neglect strategic planning are likely not to achieve their potential performance and growth than those that do not. In a nutshell, strategic

planning allows SMEs to make decisions on how to improve the profitability of their businesses to help access credit and other resources.

Research Methodology

This study adopted a qualitative research method. According to Nutov (2014) qualitative research methods help researchers to study social phenomena, situations, and processes that involves, illuminating them from a variety of perspectives. A qualitative research paradigm allows the researcher to explore the meaning and experiences of individuals or groups regarding a particular phenomenon within a natural setting. A qualitative inquiry means staying inductively open to the unknown while exploring and seeking information to enhance a deeper understanding of the social phenomena (Kaczynski, Salmona, and Smith, 2013). The qualitative research method provides the researcher with a framework for obtaining an in-depth understanding of the problem from the participant's perspective. The nature of the study aligned with the qualitative research paradigm more than the quantitative because of the exploratory nature of the topic. Anyan (2013) argued that quantitative research methods focus on numerical data expressions and volume of data collected. Therefore, qualitative research method was used because the purpose of this study was to obtain an in-depth understanding of the phenomenon, and not statistical information.

Research Design

Qualitative research methodologies include case study, narrative, ethnography, and phenomenology. This study used the multiple case study design method to explore the strategies some Kenyan SME business owners use to access credit for their businesses. The case study design allows the researcher to obtain a better understanding of a specific or complex social problem through interview, observation, and documentation techniques (Petty, Thompson, and Stew, 2012). A design is the logical sequence that connects the empirical data to a study's initial research questions and its conclusions (Yin, 2014). Additionally, an exploratory case study design allows the researcher to ask the *why* and *what* of the study to obtain in-depth information about the phenomenon.

Population and Sampling

In this study, the sample population consisted of four Kenyan SME owners of businesses located in Kakamega Town, Kenya, who have had access to credit to improve company profitability and growth within the past five years or more of operation. The sample size was selected through purposive sampling technique by selecting participants based on the selection criteria. The selection criteria required that each participant be a Kenyan SME business owner who has had access to credit within the past five years or more of operation. Researchers use purposive sampling to maximize and integrate additional methodological tools to provide a context-sensitive sampling framework (Poulis, Poulis, and Plakoyiannaki, 2013). Purposive sampling provides the researcher with the rationale for studying unknown populations of social phenomena (Marton, 2013). In this study, purposive sampling helped to obtain in-depth information about the strategies some Kenyan Kenya SME business owners use to access credit to improve company profitability and growth.

Data Collection Instruments

Qualitative researchers can obtain case study evidence from any of the six sources: *archival records, documentation, direct observation, interviews, participant-observation, and physical*

artifacts (Yin, 2014). In this study, face-to-face semi-structured interviews and company documentation in the form of cash flows and profit and loss statements were the data collection instruments. Online face-to-face semi-structured interviews with four Kenya SME business owners were conducted using Skype technique to obtain an in-depth understanding of the strategies they used to access credit to sustain their businesses. The use of Skype technique allows the researcher to record both the visual and audio interaction of the interviewees through simple software downloaded onto their workstation (Hanna, 2012). The company documents were supplementary data to the interviews. After the interviews, member checking was used to ensure the accuracy of the interview recordings. Member checking ensures that the researcher has captured the accurate meaning and word voice of the interview (Houghton, Casey, Shaw, and Murphy, 2013). In addition to member checking, each participant was emailed a transcript of the interview recordings and asked to look for any errors or missing information to ensure the accuracy of the interview data. Also, each participant was asked to email copies of company documents in the form of monthly cash flow and profit and loss statements as supplementary data for analysis. Yin (2014) found that case studies using multiple sources of evidence have high quality than those that rely on a single source of information.

Study Findings

The NVivo software tool was used to analyze and code the data. Also, a data cleansing technique was employed to remove all the relevant data that did not conform to the search criteria. The data cleansing process allows the researcher to detect the errors and inconsistencies in data to enhance the quality of information (Adu-Manu Sarpong and Arthur, 2013). In this study, the participants were four SME business owners including (a) a computer service provider, (b) a printing and stationery owner, (c) a motorbike service owner, and (d) a bar and restaurant owner. All the participants were located in Kakamega Town, Kenya, and had access to credit within the past of five years of operation. Each of the four participants was asked seven semi-structured, open-ended questions using the interview protocol. All the four participants responded to all the seven of the interview questions. In addition, each of the participants was asked to email their company cash flow and profit and loss statements as supplementary data for analysis. The data was transcribed and a copy emailed to each of the participants for review and verification of the interview responses. After achieving data saturation, the transcribed data was entered into NVivo 11 plus for coding and analysis. Qualitative researchers often make decisions related to the adequacy of their sample based on the notion of data saturation (O'Reilly and Parker, 2013). The following four main themes emerged from the data analysis: (a) group lending, (b) information access, (c) educational and professional background of the entrepreneur, and (d) effect of access to credit on the performance of SMEs.

Group Lending

All the four participants (100%) mentioned that they used group lending as a strategy to access credit to sustain their businesses (Table 1). In addition, Participant 1, Participant 2, and Participant 3 (75%) said that group lending mechanisms allow them to access credit from the government in the form of Youth Fund. Youth fund is an interest-free loan given to individuals between 18 and 35 years old and who belong to a registered group. The Youth Fund allows the youth to obtain funds directly either as individuals or organized entities (Okoth, Okelo, Aila, Awiti, Onyango, Ogutu, and Odera, 2013). SME business owners who join

groups can guarantee one another, thereby gaining access to credit to improve their businesses. Networking among groups allow businesses to gain access to resources that might otherwise not be available to them (Mwaura, Gathenya, and Kihoro, 2015). However, all the participants agreed that it was difficult to access bank credit because of the stringent collateral requirements and high interest rate that is currently 19-24 percent per annum. In a nutshell, the responses from all the participants indicated that SME business owners should join groups to help credit from other sources to improve the profitability and growth of their businesses.

Table 1
Frequency of Group Lending Strategy Mentioned

Source	Number of times mentioned	Percentage
Participant 1, Question 1	2	28.57
Participant 2, Question 1	1	14.28
Participant 3, Question 1	2	28.57
Participant 4, Question 1	2	28.57

Educational and Professional Background

The findings indicate that SME business owners with education and salaried jobs were more likely to access bank loans than those who only have an education. Being a salaried is considered collateral for accessing a bank loan. According to Hassan and Mugambi (2013) there is a direct positive relationship between financial resources and educational level of the entrepreneur. The first interview question revealed that one of the four participants had no college education, while the rest had completed their college education with a Bachelor's degree (Table 2). Two of the three participants with a college education have salaried jobs. All the participants were high school graduates (100%). Participant 3 and Participant 4 (50%) agreed that being a salaried employee enables one to access bank credit through a check-off system. However, Participant 3 and Participant 4 argued that they were unable to receive a sufficient loan because of their minimum salary. In summary, all the participants agreed that long processing time, high-interest rates, and unwilling guarantors were a constraint to gaining access to bank credit. Onyango and Achieng (2013) argued that stringent lending conditions such as collateral and application procedures limit access to bank credit.

Table 2
Educational and Professional Background of the Participants

Participant Response	Number	Percentage
High School Graduate	4	100
No College	1	25.0
Completed College	3	75.0

Information Access

All the four participants (100%) agreed that access to information helped seekers to identify where to obtain credit at affordable interest rates and with fewer collateral requirements (Table 3). In addition, Participant 1 and Participant 2 agreed that access to information has helped them to understand the importance of keeping proper business records to facilitate

access to credit. According to Njeru, Nyangaresi, and Waithaka (2013) access to information allows SME business owners to obtain credit to exploit business opportunities. In summary, all the participants seemed to agree that access to information helped them understand where to obtain credit and the collateral, interest rates, and repayment required.

Table 3
Frequency of Information Access Strategy Mentioned

Source	Number of times mentioned	Percentage
Participant 1, Question 5	3	37.5
Participant 2, Question 5	1	12.5
Participant 3, Question 5	2	25.0
Participant 4, Question 5	2	25.0

Effect of Access to Credit on Performance of SMEs

Responses from all the participants (100%) indicated that access to credit helps boost sales, purchase additional business assets, hire more employees and provide quicker and efficient customer service. In addition, all the participants agreed that their sales increased by between 30-50 percent after receiving the credit (Table 4). For example, Participant 1 and Participant 2 said that they had no employee before taking the loan, but after the loan, they had to hire one to assist in the business. Similarly, Participant 3 had two employees, but after taking the loan and acquiring three more motorbikes, he had to hire three more employees. Also, Participant 4 had one employee, but after the loan, he had to hire two more employees to attend to the increased number of customers in the bar and restaurant. Access to credit has a positive effect on the financial performance and growth of SMEs (Bunyasi, Bwisa, and Namusonge, 2014; Osoro and Muturi, 2014). In a nutshell, SME business owners who have access to credit are more likely to improve the profitability and growth of their businesses than those who have no access.

Table 4
Increase in Sales after the Loan

Source	Percentage
Participant 1	30
Participant 2	40
Participant 3	30
Participant 4	50

From the results, one strategy alone is not enough for accessing credit, which aligns the SCT with the study topic. SCT requires the combination of the three constructs (structural, (b) relational, and (c) cognitive to achieve a common goal (Nahapiet and Ghoshal, 1998). If SME business owners combined the strategies of group lending, educational and professional background of the entrepreneur, and information access, they may be able to access credit to company improve profitability and growth. The use of social capital constructs helped to identify and prioritize the strategies that SME business owners might use to access credit to sustain their businesses.

Conclusion

- Lack of collateral assets was a major constraint on the access to credit to improve company profitability and growth.
- Long processing time, high-interest rates and unwilling guarantors were the most contributing factors that limit access to credit to improve company profitability and growth.
- Lack of information on where to obtain credit and the collateral requirements, interest and repayment rates was another obstacle to accessing credit to improve company profitability and growth.
- Lack of good formal education and active professional background also hinders access to credit as a salaried employee is considered as collateral for a bank loan.

Recommendations

- SME business owners to intensify the use of group lending as a strategy to access credit to improve the profitability and growth of their businesses. Joining organized groups allows SME business owners to guarantee one another by combining their individual collateral assets as a requirement for accessing a bank loan.
- Banks to review their lending requirements such as processing time and high-interest rates to enable SME business owners to access credit to improve company profitability and growth.
- Banks, the government and other stakeholders to provide training programs to SME business owners on how to obtain information to access credit for sustaining their businesses.
- Banks and the government to organize and hold awareness programs to synthesize SME business owners on the need for a good education and active professional background as a strategy to accessing credit. A salaried employee is considered as collateral for a bank loan.

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