

Determinants of Access to Bank Credit by Micro and Small Enterprises in Kenya

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The existing knowledge on the factors that can enhance the likelihood of Micro and Small Enterprises (MSEs) to access credit from banks is inconclusive. This limits the theoretical and practical robustness of the existing literature on small business finance. To address this concern, this study adopted and extended the resource based theory. In this framework, accessing bank credit was considered as a new source of finance for MSEs. Consequently, it was assumed that entrepreneurial orientation is an important determinant of obtaining credit from banks. Moreover, prior knowledge was considered to be an antecedent of entrepreneurial orientation. To test these propositions, a survey of 218 small manufacturing enterprises in Nairobi was conducted. Eight percent of the surveyed enterprises had accessed credit from banks in the last twelve months. Two different categories of enterprises were identified using cluster analysis. The first group was made up of firms with high entrepreneurial orientation while the second was made up of enterprises with low entrepreneurial orientation. Both groups differed significantly in all but one measure of entrepreneurial orientation. Further, entrepreneurial orientation was found to be significantly associated with obtaining credit from banks. Discriminant analysis was used to explore which resources discriminated between high and low entrepreneurial orientation firm-clusters. This procedure produced a validated discriminant function that comprised four significant independent variables, including age of the entrepreneurs, start-up experience, training and having parents in business. The foregoing evidence offers support to the resource-based view that the source of success in obtaining credit from banks is found essentially within the firm. This evidence also underlies the primacy of entrepreneurial capacity factors in enhancing access to bank credit by MSEs. It is therefore concluded that the existing policy initiatives that aim at enhancing access to bank credit by MSEs should focus on furnishing MSEs with competency enhancing support. Policy efforts can also be directed towards improving the employment potential of MSEs.

Introduction

Micro and Small Enterprises (MSEs) which are defined broadly as income generating activities that employ between 1-50 persons, play a significant role in the development process of Kenya (Government of Kenya 2005). This arises from the observation that during the early stages of economic development, these enterprises manifest unique opportunities for wealth and employment creation. In 1999 it was estimated that there are about 1.3 million MSEs in Kenya (International Centre for Economic Growth *et al.* 1999). Four years later, MSEs were estimated to employ 5.1

million people (Government of Kenya 2003). Moreover, MSEs are thought to be central in promoting an entrepreneurial culture and technological adaptation (Government of Kenya 1986). The development of the sector is therefore crucial in reducing poverty in Kenya.

MSEs are generally undercapitalized, suggesting major operational difficulties in accessing credit and pursuing corporate goals. Kimuyu and Omiti (2000) observe that 18.4% of the MSEs in Kenya cite access to credit as their second most severe constraint after market access. Further the 1999 National Baseline survey (International Centre for Economic Growth *et al.* 1999) indicates that 70% of the MSEs in Kenya require loans that do not exceed Kshs. 20 000 (US\$ 285) while 96.3% do not require loans exceeding Kshs.100 000 (US\$ 1428). Ondiege (1996) demonstrated that access to credit is associated with improved performance of MSEs in Kenya. Moreover, Lundvall *et al.* (1998) show that manufacturing enterprises in Kenya that have limited access to credit also tend to be less productive and can not always move to points of best practice. This indicates that since the MSE sector does not have adequate access to credit, its potential role in transforming the country is unlikely to be realized.

Bank credit is among the most useful sources of finance for business in Kenya (Government of Kenya 2005). Bank credit refers to loans and overdrafts extended to enterprises by formal banking institutions. Only 1.5 percent of MSEs receive loans from commercial banks in Kenya (International Centre for Economic Growth 1999). It is unclear, how the rest, who form the majority, meet their working and investment needs (Kimuyu and Omiti 2000). Perhaps this is not surprising in light of the magnitude of barriers that they face in accessing credit. Lack of tangible security by MSEs, the limited capacity, outreach and linkages by financial intermediaries and a hostile legal and regulatory framework for financial services are the main constraints (Government of Kenya 2005). Yet there is little information as to how the few MSEs that access formal credit manage to do so in light of this very difficult environment

There have been a number of attempts to explain the limited access to credit by MSEs in Kenya. These attempts have broadly taken two arguably complimentary, perspectives. The first highlights the prevalence of factors external to MSEs including the limited capacity, outreach and linkages by financial intermediaries as the main constraints to MSEs access to credit (Atieno 2001). A hostile legal and regulatory framework for financial services underlies such constraints (Government of Kenya 2005). The second perspective also acknowledges the problem of macro level constraints, but emphasizes the greater explanatory powers of the relatively weak MSEs capacities including lack of tangible security and limited human capital (Kimuyu and Omiti 2000). Arguably, both perspectives have enhanced our understanding of the factors that affect the likelihood

of MSEs to access bank credit. However, focusing on either perspective has led to different conclusions on the probable determinants of access to bank credit by MSEs. This situation has not been useful in offering practical guidance and/or developing appropriate policies. Consequently, it is imperative to search for a way of integrating both perspectives.

The resource-based theory is considered as a useful framework to research and understand the dynamics of small enterprises. Resource-based theories hold that enterprises with valuable, rare and inimitable resources have the potential of achieving superior outcomes (Wiklund and Shepherd 2003). Birney (1991) describes resources as inputs in a firm's production process. Resources are usually categorised as either property-based or knowledge-based resources (Wiklund and Shepherd 2003). Property-based resources refer typically to tangible input resources while knowledge-based resources are the ways in which firms combine and transform tangible input resources. Knowledge-based resources are important in providing sustainable competitive advantage. Resource-based theories have largely focused on categorising resources and examining the relationships between resource configurations and firm performance. Little attention has been devoted to examining the relationships between different resource configurations. Consequently, understanding on how, for instance, knowledge-based resources influence access to bank credit is limited.

Barney (1991) argues that valuable, rare, and inimitable resources are necessary but not sufficient to facilitate better outcomes. Firms must also have an appropriate organization in place to take advantage of these resources. Entrepreneurial orientation is an important measure of the way firms are organised (Wiklund and Shepherd 2003). Entrepreneurial orientation refers to a firm's strategic orientation, capturing specific entrepreneurial aspects of decision-making styles, methods and practices (Lumpkin and Dess 1996). Previous studies (such as Kimuyu and Omiti, 2000; Zeller 1994) have largely focused on the direct link between individual strands or configurations of personal resources and access to bank credit while less attention has been devoted to how small enterprises can utilize these resources more effectively. Consequently, the objectives of this study are to examine the relationship, if any, between entrepreneurial orientation and access to bank credit, as well as to identify the key knowledge-based antecedents of entrepreneurial orientation using a sample of MSEs in Kenya.

The article proceeds as follows. First, the article discusses the resource-based theory and its impact on obtaining bank credit by MSEs. Hypotheses regarding resources and the probability of obtaining credit from banks are then presented. Next, a description of the research design is offered. This is followed by a presentation of the results of this study. Finally, a discussion of the findings of this study is offered.

The Resource Based Theory

The resource-based theory is predominantly used to analyze strategic resources that are available to firms. Resources include all assets, capabilities, organizational processes, firm attributes, information and knowledge that are controlled by firms and which enable them to conceive of, and implement strategies that improve efficiency and effectiveness (Barney 1991). Resources are either property-based or knowledge-based (Wiklund and Shepherd 2003). In this respect, property-based resources are tradable and non-specific to the firm while knowledge-based resources are the ways in which firms combine and transform tangible input resources. Therefore, knowledge-based resources may be important in providing sustainable competitive advantage (Barney, 1991). Age and education are two common sources of knowledge-based resources, which influence access to bank credit (Kimuyu and Omiti 2000; Zeller 1993; 1994). Other, sources of knowledge-based resources that have the potential to influence access to bank credit include family business history, entrepreneurial experience, industry specific know-how, training and social capital (Lore 2007).

The above-mentioned characteristics are individually necessary, but not sufficient conditions for attaining superior outcomes. The organization of these resources is very important (Birney 1991). The organizing activities in MSEs include cognitive aspects such as planning, decision making or failure considerations and actions such as resource acquisition. Entrepreneurial orientation is a construct that has been used previously to measure the extent of organization in small enterprises (Wiklund and Shepherd 2003). Entrepreneurial orientation refers to a firm's decision-making styles, methods and practices that lead to new entry (Lumpkin and Dess 1996). It reflects three organisational level behaviours namely: risk-taking, innovativeness and proactiveness (Covin and Slevin 1986). When accessing bank credit is considered as new entry, entrepreneurial orientation should be expected to be its direct determinant. Studies that examine this proposition are not readily available.

The fundamental principle of the resource-based theory is that the basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal. This requires resources to be heterogeneous in nature and not perfectly mobile (Barney, 1991). It also means that valuable resources should neither be perfectly imitable nor substitutable without great effort. If these conditions hold, the firm's bundle of resources can assist the firm to have unique dispositions that lead to superior outcomes.

The important lesson of the resource-based theory in small business finance is that it allows the identification of the resources associated with successful and unsuccessful access to bank credit. Further, it provides adequate logic or explanations underlying key propositions. It also helps to

identify the type of relationships between its key concepts. Thus, it allows for a comprehensive and integrated framework that can be used to identify effective interventions.

Derivation of Hypotheses

Entrepreneurial orientation refers to a firm's degree of entrepreneurship which can be seen as the extent to which it innovates, takes risk and acts proactively (Miller 1983). Innovativeness is the predisposition to engage in creativity and experimentation through introduction of new products/services as well as technological leadership via research and development. Risk-taking involves taking bold action by venturing into the unknown, and/or committing significance resources to venture in unknown environments. Proactiveness is an opportunity-seeking, forward-looking perspective characterized by introduction of new products and services ahead of the competition and acting in anticipation of future demand. Barney (1991) argues that organization of resources leads to superior outcomes. Lumpkin and Dess (1996) argue that entrepreneurial orientation reflects a firm's decision-making styles, methods and practices that lead to new entry. Thus, firms that have an entrepreneurial orientation are more prone to focus attention and effort toward emerging opportunities (Wiklund and Shepherd 2003). Bank credit can be seen as an emerging opportunity for small enterprise, since a majority of them do not utilize it. In this respect, entrepreneurial orientation should be expected to influence access to bank credit directly.

Hypothesis 1: There is a direct relationship between entrepreneurial orientation and access to bank credit.

Knowledge-based resources are considered to be antecedents of entrepreneurial orientation in the resource-based theory (Wiklund and Shepherd 2003). Knowledge is an important bundle of intangible resources that can be the source of a sustainable competitive advantage. It derives this potential from its nature of being immobile and also because it has general applicability. Procedural knowledge is an important dimension of knowledge that is relevant in entrepreneurship. Procedural knowledge refers to knowing the procedures on how to do things (Lesgold 1988). It arises mainly from experience with similar situations. It is difficult to formalize, articulate, and transfer between organizational contexts, therefore meeting resource-based theory's requirements of being rare and inimitable. Industry and market experience are examples of procedural knowledge. Specifically, age, education, family business history, entrepreneurial experience, industry specific know-how, training and social capital have been shown to influence access to bank credit (Kimuyu and Omiti 2000; Zeller 1993; 1994; Lore 2007). However, existing literature tends to treat these variables as direct

determinants of access to bank credit. This study argues that such variables influence access to bank credit through enhancing entrepreneurial orientation.

Kimuyu and Omiti (2000) demonstrate that age is associated with access to credit. That is, older entrepreneurs are more likely to seek out for credit. Lore (2007) also reveals that younger entrepreneurs are less likely to access loans from banks in Kenya. Age is an indicator of useful experience in self selecting in the credit market. This self selection is an important aspect of decision making styles. Older entrepreneurs also tend to have higher levels of work experience, education, wealth and social contacts. These resources are important in developing key competencies. Therefore, superior age leads to higher levels of entrepreneurial orientation.

Hypothesis 2a: Age is related to entrepreneurial orientation

There are two opinions about the role of education in accessing credit. The first holds that education is not a useful predictor of accessing credit (Kimuyu and Omiti 2000). This is because it impedes attainment of entrepreneurial outcomes by reducing curiosity, vision and the willingness to take risks. Formal education is thought to foster conformity and low tolerance for ambiguity and thus is an impediment to entrepreneurship. The second opinion argues that education helps to distinguish entrepreneurs who access credit and those who do not (Lore, 2007). In this respect, education increases a person's stock of information and skills. Due to lack of other sources of information in developing countries such as Kenya, education remains the only useful source of new knowledge. Therefore, education may enhance entrepreneurial orientation.

Hypothesis 2b: Education is positively associated with entrepreneurial orientation.

Bird (1989) discusses the importance of the entrepreneur's family background in instilling the need for achievement, the need for independence and control of an unstructured environment, and patterning later modes of behaviour. One important dimension of family background, which seems to affect entrepreneurial outcomes is business history. Entrepreneurs born into business families are more likely to have positive attitudes toward risks, be prepared in part by the family's accumulated business experience and have links with the family's age-old ties and business networks. A family's business background is also a source of previous work experience, another influential personal life experience. This characteristic is probably more critical in developing countries like Kenya, given the relative strength and cohesiveness of the family unit in such countries. Therefore, family business history is expected to be related to higher levels of entrepreneurial orientation.

Hypothesis 2c: Family business history is related to entrepreneurial orientation.

The entrepreneur's industry experience is considered important in accessing bank credit (Lore 2007). Specialized knowledge of the industry, particularly on technology and market is considered critical for venture performance (Shane 2000). Knowledge gained from industry experience provides the entrepreneur with certain key competencies and inside information needed to recognize and exploit opportunities. Through work experience, people develop information and skills that facilitate the formulation of entrepreneurial strategy, the acquisition of resources, and the process of organizing. Industry experience is also important in reducing risks and uncertainty. Thus, industry experience is expected to be associated with entrepreneurial orientation.

Hypothesis 2d: Industry experience is related to entrepreneurial orientation.

Previous experience with entrepreneurship is an important predictor of outcomes (Shane 2000). This experience can be gained hands-on from having started previous ventures. Previous start-up experience helps provide entrepreneurs with considerable motivation for venturing again, opens new opportunities, links them to important resource providers and develop key competencies. Previous start-up experience enhances perception of risks. Therefore entrepreneurs with previous start-up experience are expected to have higher levels of entrepreneurial orientation.

Hypothesis 2e: Entrepreneurial experience is positively associated with entrepreneurial orientation.

There is some expectation that information gained from training is important in enhancing entrepreneurial outcomes (Bird 1989). Thus, attending seminars, trainings, workshops, symposiums and conferences is expected to lead to favourable entrepreneurial outcomes. Training helps to develop key competencies, motivations and the ability to acquire important knowledge-based resources. Therefore, training is expected to lead into higher levels of entrepreneurial orientation.

Hypothesis 2f: Training is positively associated with entrepreneurial orientation.

Social capital consists of the goodwill flowing from friends, colleagues, and other general contacts. Adler and Kwon (2002) define social capital as the goodwill available to individuals or groups which includes feelings of gratitude, reciprocity, respect, and friendship. It is a resource that resides in an individual's relationships. Social capital assists in the explanation of individuals' success as they can utilize their contacts and connections and the resources that they bring for personal gain. Contemporary literature discusses two types of social capital. The first type, bonding social capital explores the impact of an individual's internal ties and the substance of the network relationships within that. It examines the resources (such as information, ideas, support) that individuals are able to procure by virtue of their relationships with other people. These resources are social in that they are only accessible in, and through relationships.

The second type of social capital includes the nature and extent of one's involvement in various informal networks and formal civic organizations. Its focus is on an individual's external social ties and how the social capital, as a resource within this network, is used for the individual's private benefit. A distinction is made between bridging social capital and linking social capital. Bridging social capital essentially connects people with more or less equal social standing. In contrast, linking social capital refers to one's ties to people in positions of authority, such as representatives of public (such as political parties) and private (such as banks) institutions. Bridging social capital has been shown to be useful in enhancing the outcomes of small businesses. Specifically, entrepreneurs who are members of business associations are expected to have enhanced knowledge and competencies. Therefore, membership into business associations is expected to be associated with higher levels of entrepreneurial orientation.

Hypothesis 2g: Social capital is associated with higher levels of entrepreneurial orientation.

Research Design

This study is a survey that seeks to examine the effects of entrepreneurial orientation on access to bank credit by MSEs in Kenya. This design is appropriate in testing the relationship between the different components and variables of entrepreneurial phenomena (Saunders *et al.* 2003).

The target population for this study includes all the small scale manufacturing enterprises in Kenya. It is estimated that there are 165, 295 such enterprises in the country (International Centre for Economic Growth *et al.* 1999). This translates to 13% of all the MSEs in Kenya. To ensure that only entrepreneurial firms are assessed, the target population for this study included small scale manufacturing enterprises in Kasarani Division, Nairobi that have introduced a new product in the last twelve months. A sampling list of all these enterprises was constructed from lists of members of trade associations in the study area. A complete enumeration of all the small scale manufacturing enterprises in the study site was also done. From this exercise, a total of 402 small scale manufacturing enterprises were identified in the study site.

From the sampling frame, simple random sampling procedures were used to select the study sample. Following Saunders *et al.* (2003) the minimum sample size for this study was taken to be 217 enterprises. The inclusion criteria for this study was any small scale manufacturing enterprise that employs less than fifty people, operates in Kasarani Division of Nairobi, has introduced a new product in the last twelve months and voluntarily agrees to participate in the study. Consequently,

any small scale manufacturing enterprise that did not fulfill these criteria was excluded from this study.

Measurement of Variables

The dependent variable for this study was access to bank credit. This variable was operationalised as successfully accessing credit from a bank in the last twelve months. Successful access to bank credit was labelled one, otherwise zero.

Two sets of independent variables were assessed in this study. The first category of independent variable was entrepreneurial orientation. The Covin and Slevin (1986) scale was used to measure entrepreneurial orientation. This is a five point (1 = strongly disagree to 5 = strongly agree) and fourteen item scale. It measures innovativeness, proactiveness and risk-taking propensity. Its psychometric properties have been established (Kreisser *et al.* 2002).

Indicators of knowledge-based resources were the second set of independent variables. Age, family business history, highest level of education attained, social capital and industry experience were assessed as indicators of knowledge-based resources. Age was measured as the number of years since birth. Family business history was assessed by asking the respondents to state whether their parents were in business or not. Education was measured in two ways. In the first, the highest level of formal education attained was sought while in the second, the number of trainings (workshops, seminars, conferences) attended by the small scale manufacturers in last three years were solicited. Social capital was measured using a dichotomous variable with membership into a business association labeled one, otherwise zero. Industry experience was measured as the total number of years in the industry.

Data Collection

A structured questionnaire was used to collect data. This search tool was tested for reliability and validity in two ways. First the variables selected for this study were obtained from previous studies and tested for relevance. Secondly, experts in entrepreneurship were used in the selection of the study variables.

The questionnaire was also double translated, first into Kiswahili and then back into English to cater for the members of the sample that were not conversant with English. The questionnaire was pre-tested on 20 small scale manufacturing enterprises in the study site. Data collected in this exercise is not reported but was used to rephrase and reorganize the format of the questionnaire.

Data was collected using interviews with the owners of the sampled small manufacturing enterprises in their business sites. The pre-tested questionnaire was administered by the researcher with the help of three experienced research assistants. These research assistants were trained on the handling of the research tools and the topic under study before being allowed to collect data. The research assistants were closely supervised by the researcher during data collection. The questionnaire took approximately twenty minutes to administer. Data collection took 30 working days.

Data Analysis

Data was summarized and presented using percentages, means and standard deviation (SD). The Covin and Slevin (1986) entrepreneurial orientation scale was initially tested for reliability and then subjected to factor analysis. In the factor analysis, the principal component analysis procedure was used. Cluster analysis was then employed to identify categories of firms that reflected different levels of entrepreneurial orientation. Choice of the cluster analysis procedure was dictated by the need to identify how responding enterprises relate to or differ from one another, based on a simultaneous analysis of several interdependent variables.

Subsequent analysis involved assessing the relationship between entrepreneurial orientation and access to bank credit (Hypothesis 1). Chi square was appropriate for this exercise. Discriminant analysis was then used to isolate knowledge-based resources that discriminated between high and low entrepreneurial orientation clusters (Hypothesis 2a-g). The stepwise computational procedure was chosen over the simultaneous method in order to take advantage of its potential to rank-order the large number of independent variables (Hair *et al.*1992). This method starts with all the variables excluded from the model and selects the variable that maximizes the Mahalanobis distance between the groups. This combination of the Stepwise and Mahalanobis procedure ensured maximum use of information on predictor variability which is particularly critical given the large number of independent variables. All the quantitative analyses in the study were conducted using the Statistical Package for the Social Sciences (SPSS) version 13.0.

Results

A total of 218 small scale manufacturing enterprises were sampled in this study. The sampled enterprises had been in business for an average of 6.72 years (SD = 5.17). These businesses had an average of 4.57 employees, with a range of 1 to 30 employees.

Only 7.8 percent of the sampled enterprises had accessed bank credit in the last twelve months. The mean amount of money borrowed was Kshs. 62 500. The highest amount of money borrowed was Kshs. 250 000 while the lowest amount borrowed was Kshs. 10 000. However, most of the sampled retailers borrowed Kshs. 20 000. In total, the sampled enterprises had borrowed Kshs. 1 000 000 in the last twelve months.

The sampled enterprises had a mean entrepreneurial orientation score of 2.96 (SD = 0.73). The factor analysis procedure isolated three components of entrepreneurial orientation which explained 74.54 percent of the variance. The validity of the entrepreneurial orientation construct was shown by a high coefficient alpha (0.71) and statistically significant item-to-total correlations for all the individual items. Removal of the item: “My business favours a strong emphasis on the marketing of tried and true products” improved the reliability coefficient to 0.76. Moreover, all but one of the entrepreneurial orientation items were significantly correlated to each other. This evidence offers support to the treatment of entrepreneurial orientation as a unidimensional construct.

Cluster analysis produced two fairly stable clusters that were amenable to reasonable interpretation. Table 1 contains the mean scores of the two clusters on each of the eight operational items of entrepreneurial orientation.

Table 1: Mean scores of the indicator variables for the two clusters

	Cluster 1 (n = 102)	Cluster 2 (n =104)
Emphasize tried and true products	4.25	3.61
New lines of product	3.02	2.80
Minor changes in products	3.00	3.58
Respond to competitor action	2.47	3.04
Introduce new processes	1.44	3.85
Avoid competitive clashes	1.37	3.59
Prefer low risk projects	1.17	3.35
Explore environment gradually	2.40	3.56

The univariate F-ratios and the significance levels for the differences between the cluster means are shown in Table 2. The latter table shows that the two clusters are significantly different on all but one of the eight indicator variables. Cluster 2 enterprises exhibit consistently higher mean scores than cluster 1 enterprises in seven out of the eight operational measures of entrepreneurial orientation. This indicates that cluster 2 enterprises have a higher entrepreneurial orientation level.

Table 2: Significance testing of differences between cluster centres

	Cluster		Error		F	Sig.
	Mean Square	df	Mean Square	df		
Emphasize tried and true products	14.00	1	1.48	214	9.45	.002*
New line of product	2.45	1	1.11	214	2.22	.138
Minor changes in products	18.96	1	.87	214	21.72	.000*
Respond to competitor action	21.41	1	1.27	214	16.90	.000*
Introduce new processes	303.41	1	.75	214	403.80	.000*
Avoid competitive clashes	337.50	1	.69	214	491.57	.000*
Prefer low risk project	277.89	1	.56	214	499.47	.000*
Explore environment gradually	84.38	1	1.16	214	72.64	.000*

* Significant at alpha 0.05 or greater

Twelve percent of the cluster 2 enterprises and 4 percent of cluster 1 enterprises indicated that they had accessed bank credit in the last twelve months. The differences between accessing bank credit and levels of entrepreneurial orientation were statistically significant ($\chi^2 = 4.15$, $df = 1$, $\rho = 0.042$). This result indicates that higher levels of entrepreneurial orientation are associated with higher incidences of access to bank credit. Thus, hypothesis 1 is supported.

Hypotheses 2a-g relate to the knowledge-based resources that may characterise entrepreneurs. The methodology section, mentioned that a stepwise discriminant analysis procedure is appropriate for profiling high and low entrepreneurial orientation enterprises. This procedure produced a validated discriminant function that comprised five significant independent variables, including previous entrepreneurial experience, training, having parents in business, age and the employment size of the enterprise (Table 3).

Table 3: Summary of interpretative measures for two-group discriminant analysis

Variable	Standardised weight Value	Wilks' Lambda Value	Univariate F ratio Value
Previous start-ups	0.73	0.78	51.07*
Parents in Business	0.28	0.97	5.37*
Trainings attended	0.34	0.96	7.45*
Age	0.12	0.97	4.81*

* Significant at alpha 0.05 or greater

Table 4 presents descriptive statistics of the variables used in the discriminant model. The means for enterprises in cluster 2 are higher for all the independent variables included in the model. These suggest, therefore, that relative to their low entrepreneurial counterparts, enterprises with a high entrepreneurial orientation exhibit greater likelihood of having older entrepreneurs with previous start-up experience, parents in business and have attended a higher number of trainings. Consequently, hypotheses 2a, 2c, 2e and 2f are supported.

Table 4: Group descriptive statistics for the two-group discriminant analysis sample

Variable	Cluster 1 (Means) n = 100	Cluster 2 (Means) n = 78	Total (Means) n = 178
Previous start-ups	0.43	1.82	1.04
Parents in Business	1.58	1.76	1.66
Trainings attended	0.07	0.55	0.28
Age	32.29	35.60	33.74

Discussion

This study has established that 7.8 percent of the sampled small scale manufacturing enterprises had accessed loans from banks in the last twelve months. This figure is considerably higher than the 1.5 percent estimate given by Kimuyu and Omiti (2000). Thus, it can be argued that access to bank credit by small enterprises has been improving over the years. This is probably due to the improvements in the Kenyan economy. It is also a reflection of the emerging interest among banks in Kenya on lending to the MSEs sector. This interest is largely a result of the reduction of borrowing by the government of Kenya from local banks. With reduced borrowing from the government, local banks have to enter into new market segments. It is also possible that the higher figure obtained in this study is an overestimate. This study focused on one sector, small scale manufacturing enterprises that are located in an urban environment. Generally, manufacturing requires heavy initial resource outlay, both human and physical. Location in an urban setting also suggests of availability of banking facilities for entrepreneurs.

An important finding of this study is that entrepreneurial orientation is related to access to bank credit in small scale manufacturing enterprises. This results supports that theoretical arguments that organisation of resources is very important in attaining superior outcomes (Birney 1991; Wilklund and Shepherd 2003). The unique contribution of this study is its attempts to extend this observation in a new context, that is, small business finance. This finding is particularly important to both banks and entrepreneurs. Banks can use the evidence furnished in this study to develop profiles of entrepreneurs who can access their services. To entrepreneurs, the evidence provided in this study

suggests that if they wish to obtain loans from banks, they need to adopt an entrepreneurial orientation. In other words, such entrepreneurs need to adopt innovative, risk-taking and proactive strategies.

This study also established that knowledge-based resources obtained through having parents in business, start-up experience, training and maturation (age) are important levers of entrepreneurial orientation. This finding collaborates findings in small business finance that show that age, training and demographic variables are important in accessing bank credit (Kimuyu and Omiti 2000, Zeller 1994). However, the results of this study indicate that such variables influence access to bank credit indirectly. That is, age, family business history and training help to shape the entrepreneurial orientation which influences access to bank credit. In addition, this study documents the importance of start-up experience in moulding entrepreneurial orientation. This is important as it shows that skills, knowledge and attitudes gained from previous business start-ups fuels subsequent entrepreneurial activities. Further, this result offers support to the observation that knowledge-based resources are antecedents of entrepreneurial orientation (Wiklund and Shepherd 2003).

Overall, evidence provided in this study supports the resource-based view that the source of success in obtaining credit from banks is found essentially within the organisation (Barney, 1991). Thus, the study underscores the primacy of entrepreneurial factors, over operating environment, in facilitating MSEs access to bank credit.

Conclusion

Identifying critical factors that influence access to bank credit by MSEs is an important research question in entrepreneurship. This study responded to this question through a survey of a sample of MSEs in Kenya. Results presented in this study indicate that entrepreneurial orientation is a direct determinant of access to credit by MSEs. Further, knowledge-based resources gained from maturation (age), training, previous start-up experience and vicariously through entrepreneurial parents were found to be associated with greater levels of entrepreneurial orientation. Overall, these findings support the literature that underscores the primacy of entrepreneurial factors, over operating environment in facilitating small enterprises' access to bank credit.

The findings of this study have an important policy implication. Need exists to effectively target entrepreneurs with appropriate kinds of competence-enhancing support. In this respect, short courses and seminars can be provided to business owners. However, care must be taken to ensure that the training modules and trainers manifest an entrepreneurial orientation. Another idea worth

considering is to introduce external change agents, with requisite profiles, into MSEs, either on part-time or regular basis.

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