Long-Term Debt Financing and Financial Performance of Small and Medium Scale Enterprises in Bungoma County Kenya

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Abstract

The study sought to investigate the effect of long-term debt financing on financial performance of SMEs in Bungoma County Kenya. This was due to the high failure rate of SMEs in the county and country at large despite the significant contributions they make towards economic growth and job creation. SMEs were targeted as no study had been done on the topic focusing on small enterprises. The study was anchored on trade-off theory. Descriptive research design was then used. The study area was Bungoma County located in western Kenya with an approximate size of 2207KM2. A sample of 368 licensed SMEs retail shops were selected using simple random sampling method from the target population of 4721 licensed SMEs retail shops operating in the county. Structured Likert scale questionnaires were used to gather data from SMEs managers and owners. The pilot study was carried out to evaluate the validity and reliability of the data collection tools. Descriptive statistics including the mean and standard deviation and Inferential statistics including correlation and regression were used. Descriptive statistics revealed that most SMEs employ long-term debt financing in the county. Similarly, most SMEs had an increase in financial performance as shown by return on equity, return on assets, and return on capital employed. From inferential statistics, the correlation results demonstrated a positive relationship between long-term debt financing and financial performance (r=0.651). The overall regression model was also statistically significant (p=0.00<0.05). Similarly, long-term debt financing had a statistically positive and significant effect on the financial performance of SMEs (β1=0.265 p=0.000). The study then recommended the government to develop policies that will direct SMEs to boost their usage of long-term debt financing. The SMEs' managers and owners were also recommended to adopt strategies that increase the usage of long-term debt financing in their businesses.

Keywords: Long term debt, Financial Performance.

Full paper to be shared soon…