

**THE EFFECTS OF INFLATION ON SMALL AND MEDIUM ENTERPRISES
PERFORMANCE A CASE STUDY IN THIKA SUB-COUNTY, KIAMBU COUNTY,
KENYA**

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DEGREE OF BACHELOR OF COMMERCE IN FINANCE OPTION OF GREYSA
UNIVERSITY.**

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DECLARATION

DECLARATION

This proposal is my original work and has not been presented for the award of a Degree for any similar purpose in any other institution.

Signature.....

Date.....7/12/22.....

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Supervisor: This project has been presented for examination with my approval as his university supervisor.

Signature.....

Date.....7/12/2022.....

Madam Florence

School of Business

Gretsa University

DEDICATION

This project is dedicated to my family and friends who have been there for me all along when I pursued this course.

ACKNOWLEDGEMENT

I am grateful to Madam Florence for her endless support and advice as my supervisor. Her efforts have really inspired me to conduct a better research proposal through her unwavering and constructive feedback. Finally, I thank Gretsia University staff and non-staff through their support in this degree program and in my academic journey at the university.

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ABBREVIATIONS AND ACRONYMS

SMEs-Small and medium enterprises

ABSTRACT.

The SMEs sector contributes so much to economic growth and this has immersed a lot of expectations by the economy of developing countries on the SMEs sector. The purpose of the study is to investigate the negative impact of high inflation on small and medium enterprises in Thika, Kiambu County Kenya. To achieve this, the study was guided by one general objective which was determining the effect of inflation on small and medium enterprises. The study general objective was to investigate the influence of inflation on SMEs performance. The study specifically narrowed down to; determine the influence of purchasing power, cost of borrowing and direct investment on SMEs performance. The study was based on Keynesian theory on a classical economy, Quantity theory and Mark-up theory. The theories related well with the study variables. The study adopted a descriptive research design, where the target population comprised of 50 individuals in top management, departmental staff and supervisors. The sample of 40 individuals was selected representing 80% of the population. Statistical Software for Social Sciences was used in the data analysis. Qualitative data was analyzed through content analysis. Quantitative data was analyzed through the use of descriptive analysis which includes: frequencies, percentage, means, standard deviation as well as multiple linear regression models. Study findings indicated that inflation has a significant relationship to SMEs performance as indicated by the three variables; purchasing power, cost of borrowing and direct investment. The study recommends that the top management of a business can use the study to know on how best to run the business operations. Direct investment was recommended by the study since it favored efficiency in the business operations.

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND OF THE STUDY.

Inflation has greatly affected small and medium enterprises which are driving and improving the World's economy in a big way. Small and medium business enterprises play a major role in most economies particularly in the developing countries. They represent about 90% of businesses and more than 50% of employment worldwide. In Kenya SMEs have contributed a lot in the decline of poverty level from 46.8% to 36.1% in the year 2019. This translates to 4,5 million people escaping poverty in the year. A strong small and medium enterprises sector contributes highly to the country's economy contributing to the gross domestic product (GDP) by reducing the level of poverty, unemployment level and promotes entrepreneurship. The role of SMEs in the development of the country is very significant (Taghavi, 2007). However, there are various factors affecting SMEs in an economy such as Tax laws, crime and corruption, lack of collateral and inflation. This study however concentrated on the effects of inflation on SMEs. High inflation was observed in countries in which corruption was seen extensively and thus high corruption causes high inflation in any country, as a result the SMEs sector operations become impossible to achieve because of the increased costs in running the business since with an increase in inflation the automatic result was increased cost of operations since 100 shillings in low levels of inflation will be buy same product as to 200 shillings when the inflation rate doubles. Moreover, more exports than imports contribute to more money circulating the economy thus resulting to high inflation which causes the SMEs operations to be expensive as earlier explained. The study will also investigate how price inflation results to an increase in prices of goods and services which ultimately causes a deduction in the consumer purchasing power, financial crisis and subsequent widespread of economic downturn have had a huge impact on the availability of finance for SMEs, many developing countries have been restricted accessing the capital that they need and the existence of inflation makes SMEs more hungry financial thus the study will seek to investigate how SMEs are affected in the immensely in the hike of inflation.

1.2 PROBLEM STATEMENT

Small and medium businesses increasingly face competition and probable extinction not only from their peers but also from large corporations participating in niche markets. Reliance on domestic markets is proving to be unreliable for many SMEs. The government of Kenya has placed a lot of emphasis on development of SMEs as a means of encouraging self-employment, poverty reduction and accelerating economic growth. Studies also show that it is hard for the SMEs to access finances from financial institutions since they lack proper financial records as a requirement.

Small and medium firms are heavily reliant on internal funds to support growth conditions when inflation rates are favorable. How as their access to external bank facilities improves, the impact of internal finance on growth is weakened and external finance becomes the main source thus with the increased inflation in the economy, the business is exposed to a huge risk due to lack of a stable financial muscle (Rahman, 2011)

As a result of high inflation importation of good quality raw materials from overseas comes at a very expensive price thus are forced to settle for the ones in the country which are not of as good quality.

1.3 PURPOSE OF THE STUDY

The study sought to investigate the impact of inflation has affected on the start and growth of SMEs.

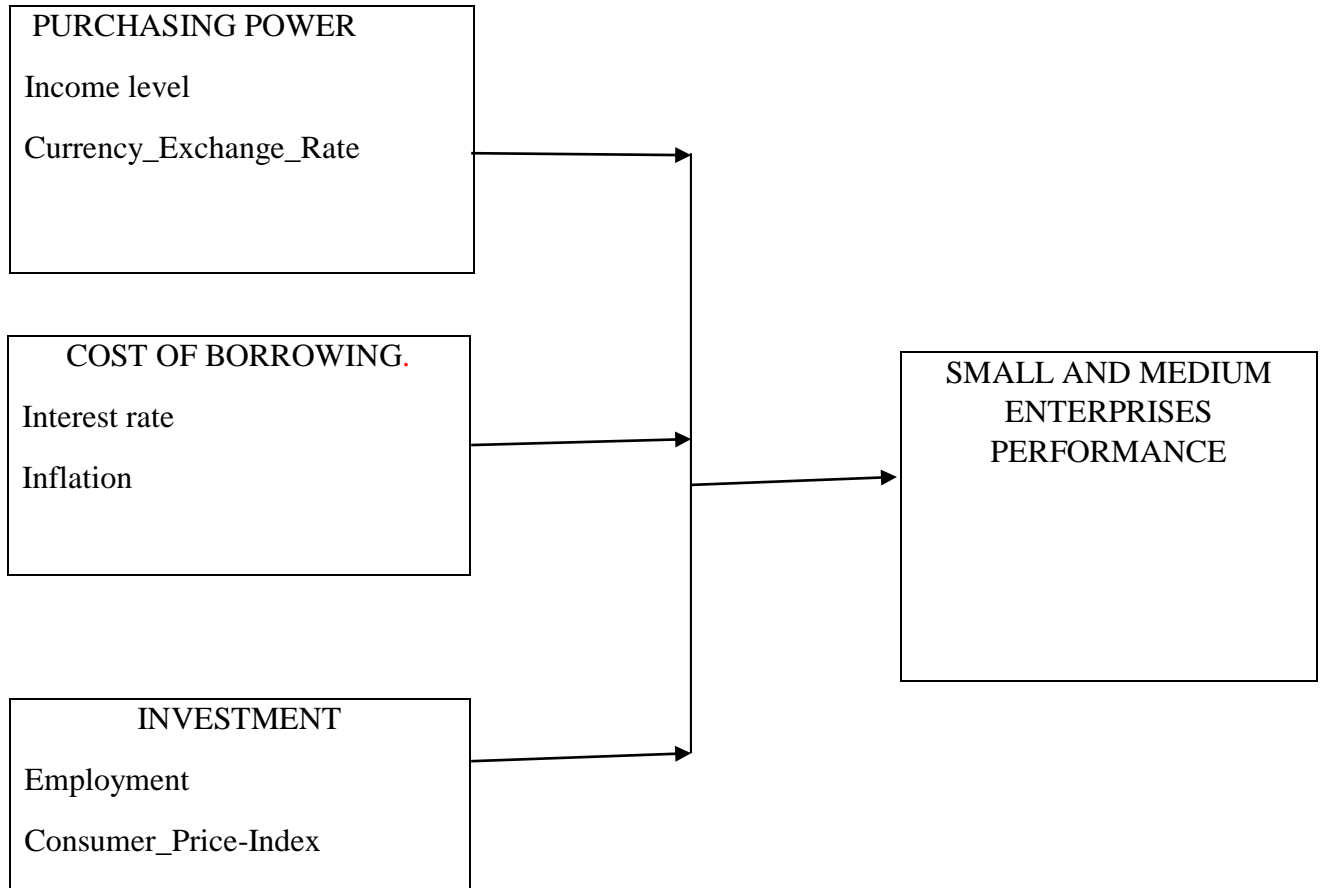
1.4 CONCEPTUAL FRAMEWORK.

The conceptual framework was based on the effect of inflation on small business enterprises.

The independent variables were the factors that causes inflation which ultimately affects the small and medium enterprises in a negative way,

INDEPENDENT VARIABLES

DEPENDENT VARIABLE



1.5 OBJECTIVES OF THE STUDY

1.5.1 General Objectives

To determine the effects of inflation on SMEs performance.

1.5.2 Specific Objectives.

- i) To determine how purchasing power influences SMEs performance.
- ii) To determine how cost of borrowing influences SMEs performance.
- iii) To determine how direct investment influences SMEs performance.

1.6 HYPOTHESIS OF THE STUDY

The study adopted a null hypothesis:

Ho-purchasing power of the consumer has no effect on inflation

Ho-cost of borrowing has no effect on inflation

Ho-Investments have no effect on inflation

1.7 SIGNIFICANCE OF THE STUDY

This study will impact an investing mindset to our youth who mostly use money to indulge in drug addiction.

The study will encourage job creation in the small and medium enterprises.

The study will encourage the government to invest in its youth and as a result the government will get revenue from the businesses started.

The study will educate on the importance of SMEs on any growing economy.

The study findings will help other researchers in this field to get ready information which they can refer to for their research.

1.8 DELIMITATIONS OF THE STUDY.

- i) The study is going to limit me to discuss only on the negative effects of inflation on small and medium business enterprises and doesn't consider the positive effects,
- ii) The study is geographically limited in that it is limited to Thika location in the whole country,

1, 9 LIMITATIONS OF THE STUDY

- i) The study was limited to questionnaire and interview methods only of data collection
- ii) The study was limited to the study of small and medium enterprises and not large corporations which also contribute a lot in tax payment and job creation.
- iii) The study was limited to how inflation affects small and medium enterprises and secludes other factors such as lack of raw materials which also affect the SMEs.

1.10 ASSUMPTIONS OF THE STUDY

The study assumed that all respondents can read and write in English and will give an honest account of events. The study further assumed that direct answers will be given during interviews. The study also assumed that the questionnaire will be returned in time and duly completed.

1.12 ORGANISATION OF THE STUDY.

Chapter one captured the background of the study, the statement of the problem, purpose of the study, objectives and significance of the study. It also covered the research questions, assumptions made in the study, limitations and delimitations. Chapter two captured literature review, theories related to how inflation affects SMEs and an overview of SMEs. Chapter three will cover research methodology used to conduct the study, Chapter 4 will cover findings and discussion while chapter five will capture summary, conclusions and recommendations.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction.

This chapter presents the literature review and theories related to the effects of inflation on small and medium enterprises.

2.0.1 An Overview of SMEs.

SMEs have a lots of benefits specially to developing economies through many ways such as through creation of employment and creation of revenue and promotes decrease in the dependency levels generally. The small and medium enterprises Act 2012 has combined employment with other measures of size and defined a small enterprise as a business that has sales of between 200,000 to 500,000 per year. It also recognized that they employ between 10 to 50 people. According to Kenya National Bureau of Standards 2016 SMEs in Kenya have contributed to over 38.5percent of the total economy. However, it also noted that SMEs lifespan is short many of them having a maximum of 5yrs due to the effects inflation among other contingent factors.

2.1 SMEs IN RELATION TO PUBLIC AND PRIVATE SECTOR IN KENYA.

Small and medium sized enterprises are the heart of the Kenyan Economy and they represent about 95percent of all businesses and more than 80 percent of Kenya working population who rely on them for income. SMEs have contributed an estimated 34percent of the counties domestic product in the year 2016.By the virtue of the jobs they create and their impact on the society, SMEs play a central role in economic development. Small and medium enterprises have large numbers of women and youths and are active in rural and vulnerable populations. As a result, they encourage economic inclusion and empowerment while reducing unemployment. They also innovate in new sectors and value chains, spurring economic diversification, transformation and growth by adopting green business practices, and by providing essential products and services SMEs help meet the sustainable development goals in both the private and public sector and when they go global they help take the advantage of international trade to enhance local livelihoods.SMEs support all sectors of the Kenyan economy and contribute significantly to income generation and industrilization.Kenya Vision 2030 the development blueprint aimed at transforming Kenya into an industrialized, middle income country that provides a high quality life to all its citizens by 2030,recognizes the key role of SMEs.Smes have enabled the private sector to develop and contribute to the ultimate goal of growth of the economy and thereby to the reduction of poverty

and it contributes to the patterns of growth whereby men and women have better access to opportunities to participate in the mainstream of the economy White 2008.

2.2 SMEs IN RELATION TO INFLATION.

The inflation rate in Kenya in percentage was 4.69 percent in 2018 a drop from 6.58percent in 2015. The current inflation rate has resulted to low inflation in the country thus favoring the startup of many SMEs. This has led to a net increase of close to 1,000,000 SMEs between the period. Unfortunately, in 2019 the percentage came to 5.2percent recording a 0.61percent increment in inflation in the country. Various factors led to this increment such as government spending, increase in corruption cases, low interest rates charged on borrowed loans and finally more exports than imports were recorded in the year due to increase in diplomatic relationships between Kenya and other countries, this led to the availability of more money in circulation which has resulted to an increase in the inflation rate during the year. During the high inflation rates more people loosed jobs due to increased operational costs since the Kenyan shilling loosed value against the one dollar. This also resulted to decrease in startup SMEs due to the the high capital required for starting the business.

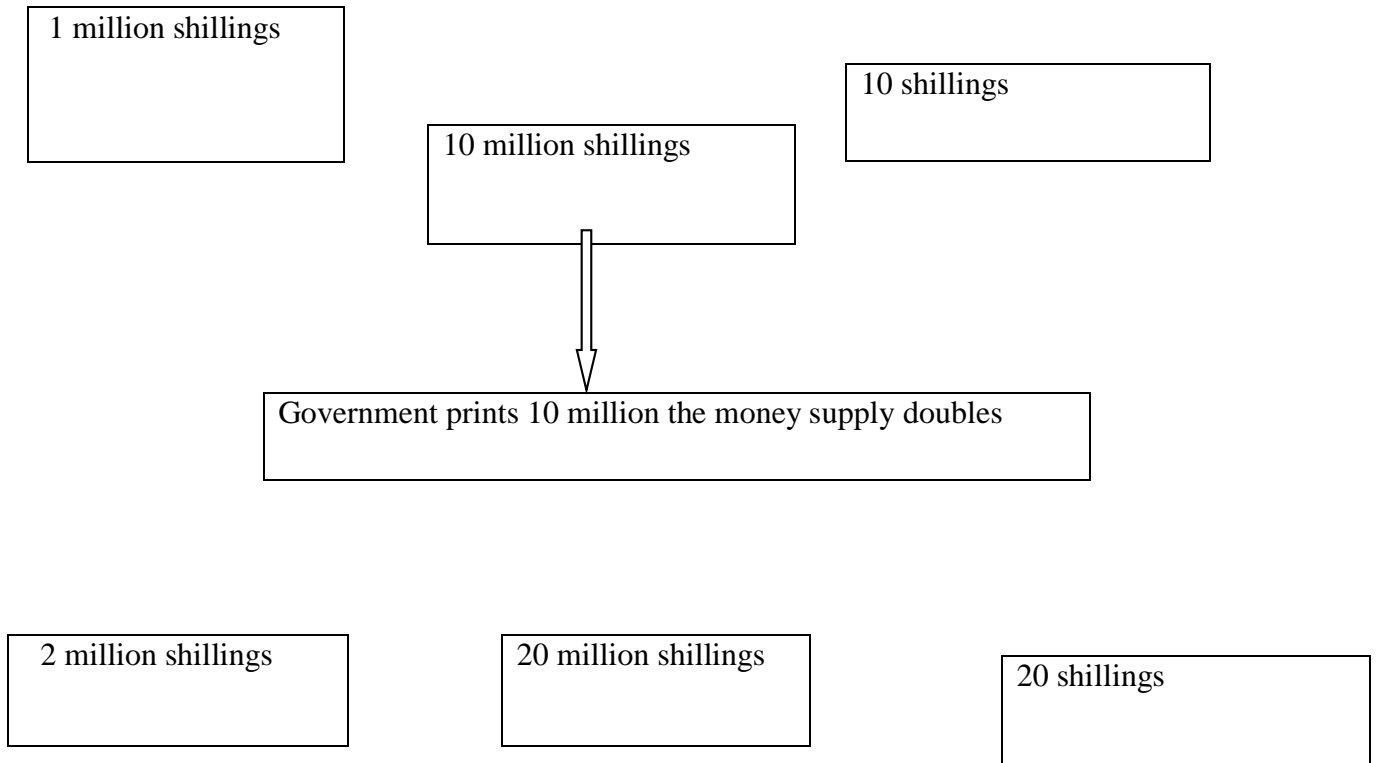
2.3 GOVERNMENT SPENDING IN RELATION TO INFLATION.

Government spending is the total spending by government on all goods and services in a given period of time. Inflation is the sustained increase in the general price level over a given period of time. Higher government spending will lead to a demand pull inflation. Assuming all other factors remain constant government spending will increase in the economy. According to Olayundo, 2013 high government spending in form of intervention going by neoclassical economists could results to high inflation outcomes given the full employment assumption. In general, fiscal policy in many countries is faced with many problems which includes tax collection difficulties, institutional inadequacy problems related to access to foreign capital, money issuing to finance public expenditures which in turn causes inflation. Therefore, government expenditure in addition to the impact of production can have an impact on inflation (Tsamis, 2010).

2.5 DEMAND AND SUPPLY OF MONEY IN RELATION TO INFLATION.

Below is a good diagrammatic example of how money supply causes inflation

Table 2.5.1



Now there is more money but same goods so prices increase=100% inflation. In 2008 Zimbabwe found itself in such a bad situation as a result of a hyperinflation of 98 percent in that the country printed more money in a view to offset their debts but the results caused a 98 percent daily inflation in the year. According to (Shostak, 2007). He stated that for a general rise in prices is the increase in wages once the economy is close to the potential output if the amount of money remains unchanged then it is not possible to raise all prices of goods and wages again. The trigger for a general rise in prices has to be monetary expansion and in the long-run the relationship between inflation and money growth depends on the demand for money and money supply. Central banks affect the money supply through their policy actions such as buying and selling government securities, changing reserve requirements, changing the interest rates at which the central bank provides reserves for financial intermediaries. When the prices of commodities increase it will be impossible for the SMEs to acquire these raw materials since more money is equal to no business at all to them and thus these results to their short lifespan.

2.6 THEORIES RELATED TO THE STUDY.

Different economists have presented different views on the effects of high inflation. The economists are broadly categorized as monetarists and structuralists. Monetarists associated inflation to monetary causes and suggested monetary measures to control it. On the other hand, structuralists believed that the inflation occurs because of the unbalanced economic system and they used both monetary and fiscal measures for sorting out economic problems. The study is based on the following 3 main theories which have been explained below;

2.6.1 MARK-UP Theory.

This theory was proposed by Prof. Gardner Ackley, according to him inflation cannot occur alone by demand and cost factors, but it is the cumulative effect of demand-pull and cost-push activities. Demand-pull inflation refers to inflation that occurs due to inflation that occurs due excess of aggregate demand, which further results in the increase in price level. The increase in price levels stimulates production but increases demand for factors of production, consequently the cost and price both increase. The produced goods are then sold to the individual small and medium enterprises and as a result of increase in cost of production, the price of the products increase and this decreases the consumer-purchasing power.

2.6.2 Quantity Theory

This theory proposes that the exchange value of money is determined by supply and demand of money. This is expressed through the Fisher's equation.

$$(M)(V) = (P)(T)$$

Where,

M=money supply

V=velocity of circulation (The number of times money changes hands)

P=Average price level

T=Volume of transactions of goods and services.

Increase in supply of money causes inflation as proposed by Fisher while the decrease causes decrease in money supply.

2.6.3 KEYNESIAN THEORY ON A CLASSICAL ECONOMY

According to Keynes if the aggregate demand in the economy fell, the resulting weakness in production and jobs would precipitate a decline in prices and wages. A lower level of inflation and wages would induce employers to make capital investments and employ more people, stimulating employment and restoring economic growth. The multiplier effect is one of the chief components of Keynesian counter cyclical fiscal policy. According to Keynes's theory of fiscal stimulus, an injection of government spending eventually leads to an added business activity and even more spending which creates more money in the economy causing inflation.

CHAPTER THREE: RESEARCH METHODOLOGY.

3.0 INTRODUCTION

This chapter represents the research methodology that was adopted in conducting this research in order to achieve the research is objective which is to determine the effect of high inflation on small and medium enterprises. This chapter is thus structured into research design, target population and sample and data collection and data analysis.

3.1 RESEARCH DESIGN.

This is the structural assembling of techniques and strategies concerning collection of data and instruments which are to be used to gather the data. The study adopted a descriptive nature which is a systematic, empirical inquiring into which the researcher does not have a direct control of independent as he has little to do with the effects caused by them since they are out of his control.

3.2 TARGET POPULATION AND SAMPLE.

This is the set of people that were investigated during the research were 50 and were from 20 small and medium enterprises businesses, Thika. The population of 50 is used since their involvement in the research generated valuable information that would be of help in understanding the sector more since they are from different sectors of the economy.

Table 3.2.1

Category	Population	Sample size	Sample per sector.
Business owners and top management from different sectors in the economy	More than 100 firms	50 people from a sample size of 20 firms	2 people from each firm in a sample size of 20 firms.
Total	100	50	40

3.3 DATA COLLECTION AND INSTRUMENTS

The study used questionnaires as a research tool.. Questionnaires were used since they are highly reliable since they are open in many cases and portray actual feelings and thoughts of the one feeling out the form.

3.4 MEASUREMENT OF VARIABLES.

Table 3.4.1

Variables	Indicators	Measurement Scale.
Purchasing power	Level of income and currency-exchange-rate	Ordinal Scale
Cost of borrowing	Interest rate and inflation.	Ordinal Scale.
Direct investments	Employment and consumer-price-index	Ordinal Scale.

3.5 RELIABILITY OF MEASURES.

The reliability of the feedback was ascertained through test-retest method. Through the testing-retesting the respondents were given accurate information of the subject in question on the questionnaires.

3.6 VALIDITY OF THE INSTRUMENTS.

Validity gives feedback whether the instrument performed the task that it was required to perform. Validity is highly valuable if it covers the study. Validity takes three forms; construct validity which refers to data collection, internal validity is a link between theory and empirical research and external validity refers to the domain to which the findings can be generated. In this study construct validity was addressed to the maximum, through administering the questionnaire to the specific SMEs which aid in collection of the information in relation to the study topic.

3.7 DATA ANALYSIS

After data collection, the researcher inspects the completeness of the questionnaires by checking appropriate marking of responses. Data will be analyzed through using a descriptive statistic such as frequency distribution tables, bar graphs, pie charts, central measurement of tendencies and percentages. Linear regression will be used to determine the relationship between dependent and independent variables. Table 3.7.1

Category	Population	Sample
Small and medium business owners	50	40

3.8 LOGISTICS AND ETHICAL CONSIDERATION

The researcher will secure respondents, ask for permission before issuing out questionnaires, the researcher will introduce and familiarize himself to the respondents and inform them of the type of information the researcher needs from them. The respondents will be informed of the key role they play in the study and their rights will be reserved. The respondents will also be encouraged to disclose truthful and accurate information.

CHAPTER FOUR: FINDINGS AND DISCUSSION

4:1 Introduction

This chapter presents the results of findings and discussions. The research project employed and used secondary data to determine the extent to which factors such as purchasing power, cost of borrowing, investment and exchange rate affects SMEs performance. The chapter contains overview of the findings, actual presentation of observations and statistics in graphs and tables and presentation of sufficient details for future references.

4.2 Respondents Return Rate

The study administered 50 questionnaires to the targeted respondents of whom 40 were duly filled and returned. This represented a return rate of 80% which according to Mugenda and Mugenda was very good. According to Mugenda and Mugenda (1999) a 50% response rate is adequate, 60% good and 70% is rated very well. This implies that basing on this assertion; the response rate 80% in this case is very good. Table 4.1 gives summary of the return rate.

Table 4.1: Respondents Return Rate

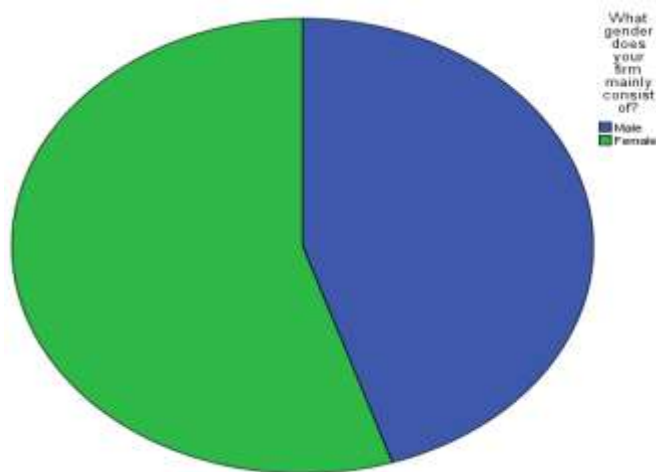
Response	Frequency	Percentage
Respondents	50	80%
Non Respondents	10	20%

The results from the study as shown in the table above, indicated that out of the 50 targeted respondents, the research managed to obtain(40) 80% the remaining (10) 20% could not be reached due to either their busy schedules.

4.3 Respondents' demographic data

4.3.1 Gender of the Respondents.

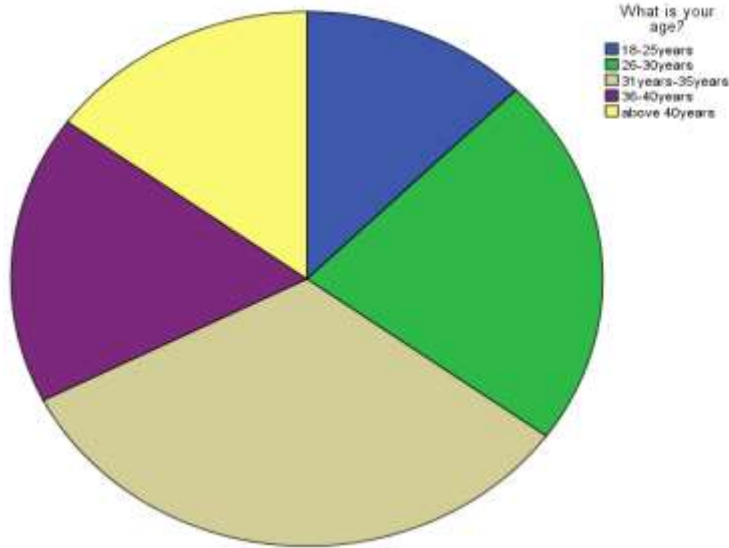
The respondents indicated their gender as highlighted in the figure 4.1 below



The results of the study indicated that 55% of the respondents from different firms were female, while male respondents were represented by 45% despite the fact that both genders were given an equal chance. This result has indicated that although both genders are given equal chances in employment, there is discrimination being applied in the firms during employment.

4.3.2 Age of the respondents.

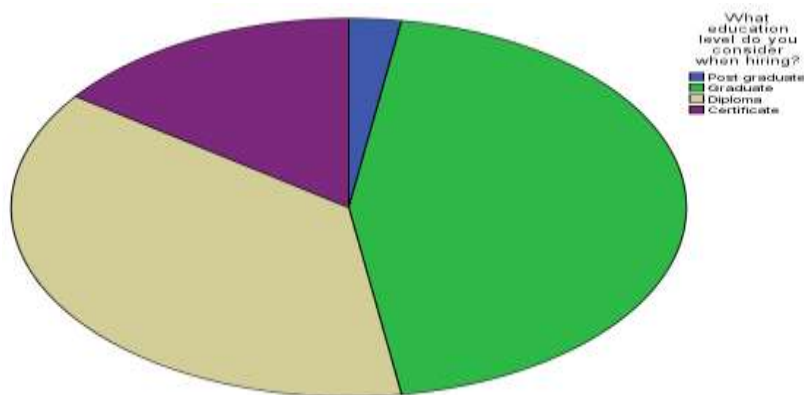
The respondents indicated their ages and their responses are indicated in figure 4.2 that follows below;



From the findings, 32.5% who formed the majority of the respondents were in the age category of 31-35 years. This was followed by those aged between 26-30 years at 22.5%, those between 36-40 years at 17.5%, those above 40 years at 15% and finally those between 18-25 years at 12.5%. This indication was that majority of those employed in SMEs were young people who had good knowledge of the business market and thus this formed a backbone for the study.

4.3.3 Education Level

The respondents gave their respective education levels in the respective questionnaires and the results are given in figure 4.3 below:



The results of the study indicated that a majority of the respondents were university graduates, followed by diploma holders, then the certificate holders and finally the ones who were post-graduate holders. The high level of university graduates was an indication that those were the most

preferable people to work in the SMEs because of their fresh knowledge to run and transact business operations.

4.4 Descriptive Statistics

Data collected was analyzed in accordance with the study variable that is; purchasing power, cost of borrowing and investment. Descriptive statistics are of a great help in analyzing the main features of the variables.

4.4.1 Purchasing Power

The respondents were given questions through they were to give a rating to which purchasing power has had an impact on the business. A likert scale was provided of 1-5 where 1 represented strongly disagree,2 represented disagree,3 represented neutral,4 represented agree and 5 finally represented strongly agree. The findings of the study are included in the table 4.2 below;

Descriptive Statistics

	N	Mean	Std. Deviation
Does a high purchasing power attribute to more success of the business?	40	3.50	.961
Does the currency exchange rate affect the purchasing power of the business?	40	3.52	1.037
Do the income levels of the business have an impact on the business?	40	3.73	1.086
Aggregate		3.58	1.028

Mean scores of 3.5-5.0 on the likert scale represented “Moderate extent” and “Great extent”. Scores of 2.5-3.4 represented “Neutral extent” while scores of 1.0-2.4 represented “Very low extent” and “low extent “A mean score each entry was computed.

The respondents indicated that high purchasing power of a firm attributes to more success of the business in a moderate extent (mean score=3.50).The respondents indicated that the currency exchange rate affected the purchasing power of the business in a moderate extent(mean score=3.52).The respondents indicated that the income levels of the business have an impact on

the business in a moderate extent(mean score 3.73).The aggregate mean indicated that a high purchasing power attribute to more success of the business to a moderate extent(aggregate mean=3.58).The aggregate standard deviation was 1.028.The findings of this study were consistent with(Matthew,2013) and (Samuel,2017)who studied factors affecting SMEs performance. They found out that purchasing power of a firm is vital in propelling it to success.

4.4.2 Cost of borrowing

The respondents were given questions through which they were to rate the cost of borrowing and its indicators. A likert scale was provided of 1-5 where 1 represented strongly disagree,2 represented disagree,3 represented neutral,4 represented agree and 5 finally represented strongly agree. Table 4.3 below shows the respondents' response;

Descriptive Statistics

	N	Mean	Std. Deviation
Does Cost of borrowing has led to lack of funds for much expansion by the business?	40	3.57	1.035
Does the bank interest rate have an impact on the borrowing of a business?	40	3.85	.975
Does the inflation rate have a high effect on the running of the business ?	40	3.90	1.008
Aggregate	40	3.77	1.006

Mean scores of 3.5-5.0 on the likert scale represented “Moderate extent” and “Great extent”. Scores of 2.5-3.4 represented “Neutral extent” while scores of 1.0-2.4 represented “Very low extent” and “low extent “A mean score for each entry was computed.

The findings indicated that the cost of borrowing in the business has led to lack of funds for the business in a moderate extent (Mean score=3.57).The findings also indicated that the bank interest rate has had an impact on the business to a moderate extent (Mean score=3.85).The inflation rate has a high effect on the running of the business to a moderate extent. The aggregate mean(Mean=3.77) indicated that the cost of borrowing has led to lack of enough funds in the SMEs to inhibit expansion of the business. The aggregate standard deviation was 1.006.The results of the study are in line with the findings of (Njiiru, 2012) and (Henry Chalu, 2015) who studied the

relationship between cost of credit and SMEs performance, they found out that the cost of credit affects the SMEs to a great extent, since more money in the business will be used to repay debt.

4.4.3 Direct Investment.

The respondents were given questions through which they were to rate investment and its indicators from their experience in the business environment. A likert scale was provided of 1-5 where 1 represented Very low, 2 represented low, 3 represented neutral, 4 represented High and 5 finally represented Very high. Table 4.4 below shows the respondents’ response;

Descriptive Statistics

	N	Mean	Std. Deviation
How is the current business employment rate?	40	2.48	.905
Does investment have a direct effect on the business?	40	3.70	1.181
Does the consumer_price_index have an impact on the cost of doing business?	40	3.72	1.037
Aggregate			

Mean scores of 3.5-5.0 on the likert scale represented “Moderate extent” and “Great extent”. Scores of 2.5-3.4 represented “Neutral extent” while scores of 1.0-2.4 represented “Very low extent” and “low extent “A mean score for each entry was computed.

The findings indicated that the current business employment rate was to a low extent (Mean score=2.48). The findings also indicated that investment had an effect to the business to a moderate extent (Mean score=3.70). The findings also indicated that the consumer-price-index has an impact on the cost of doing business. The aggregate mean (Mean score=3.3) indicated that investment has a moderate effect on the running of the SMEs firms. The aggregate standard deviation was 1.041. The study is in line with (Crispus, 2012) who studied the relationship between investment decisions and SMEs performance and found out that the investment decisions played a key role in the good performance of the business.

4.4.4 SMEs performance.

The respondents were given questions through which they were to rate SMEs performance. A likert scale was provided of 1-5 where 1 represented Very low, 2 represented low, 3 represented neutral, 4 represented High and 5 finally represented Very high. Table 4.4 below shows the respondents' response;

Descriptive Statistics

	N	Mean	Std. Deviation
How is the firm performance compared to the previous years?	40	3.80	.823

The findings indicated that the firm performance of the current was better as compared to the previous years to a moderate extent (Mean score=3.80). This indicated that for a better firm performance there had to be several factors contributing to its success.

4.5 Regression Analysis.

To establish the relationship between dependent and independent variables regression analysis was used. Linear regression was used to determine the relationship between SMEs performance and the three variables that is; purchasing power, cost of borrowing and investment.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.735 ^a	.540	.402	.636	.540	3.912	9	30	.002

The coefficient of determination R², was 0.540 explaining the variation in the influence of independent variables on SMEs performance. This indicates that the independent variable contribute 54% to the SMEs performance.

Other factors that were not included in the study contributed to 46% to SMEs performance.

Further research should therefore be conducted to determine the other factors that contribute to SMEs performance.

Table 4.8 ANOVA Results

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.397	3	3.799	9.116	.000 ^b
	Residual	15.003	36	.417		
	Total	26.400	39			

a. Dependent Variable: How is the firm performance compared to the previous years?

b. Predictors: (Constant), V3, V2, V1

The ANOVA results indicated that the regression had a level of significance of 0.000, which helped to conclude that the model was significant value at 5% level of significance was 9.116. Thus there is significant relationship between the dependent variable and independent variables.

Table 4.9 Coefficient Results

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-.588	1.057		-.557	.581	-2.732	1.555
	V1	.827	.210	.575	3.931	.000	.400	1.254
	V2	.253	.249	.141	1.016	.026	-.252	.757
	V3	.109	.179	.096	.609	.039	-.254	.472

a. Dependent Variable: How is the firm performance compared to the previous years?

The results of the study indicated that the cost of borrowing, purchasing power and investment at a 95% level of confidence had a positive relationship with the SMEs performance. The independent coefficients were 0.109, 0.253 and 0.827 respectively.

4.5.1 Purchasing power and SMEs performance.

The first objective aimed at establishing a close relationship between purchasing power and SMEs performance. The Beta value of (B=0.827) and p value of (Sig=0.000). Thus the p value being 0.00 was less than 0.05 ($0.00 < 0.05$) therefore at the 5% significance level enough evidence exists of purchasing power having an influence on the SMEs performance.

4.5.2 Cost of borrowing and SMEs performance.

The second objective investigated the relationship between cost of credit and SMEs performance. The SPSS Model indicated that the cost of borrowing is significantly related to SMEs performance with a beta value of 0.253 and a p-value of 0.26. The p value of 0.26 is much less than 0.05 thus this indicated a positive relationship between cost of borrowing and SMEs performance.

4.5.3 Investment and SMEs performance.

The third objective investigated the relationship between investment and SMEs performance. The model indicated that investment is significantly related to SMEs performance with a beta value of 0.96 and a p-value 0.36. The p-value of 0.36 is much less than 0.05 thus a positive relationship exist between investment and SMEs performance.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS.

5.1 Introduction

This chapter provides a summary to the major findings of the study, the conclusion reached, as well as recommendations based on the objectives of the study, the limitations and recommended research areas of the study.

The general objective of the study was to investigate the effect of inflation on SMEs performance. In more details the study intended to; determine the influence of purchasing power on SMEs performance, determine the influence of cost of borrowing on SMEs performance, establish the influence of direct investment on SMEs performance in Thika, Kiambu county Kenya. Out of 50 respondents that were targeted by the study, forty respondents responded by correctly answering the questions in the questionnaires and also returned the questionnaires for analysis. This represents 80% response rate.

5.2 Summary of the findings.

5.2.1 Purchasing power on SMEs performance

The study findings on the influence of purchasing power on SMEs performance was to a moderate extent as indicated by the factor that a high purchasing power promoted good SMEs performance. The results therefore guide the conclusion that purchasing power and SMEs performance have a significant relationship. This is supported by a beta value of ($B=0.109, p\text{-Value}=0.000$). The fact that the p-value of 0.000 at a significance level of 5% is low proves that purchasing power and SMEs performance are significantly related.

5.2.2 Cost of borrowing on SMEs performance.

The study sought to determine the influence of cost of borrowing on SMEs performance. The results indicated that cost of borrowing had a moderate influence on SMEs performance, thus a positive relationship was resulted to. This was guided by a beta value of ($B=0.253, p\text{-value}=0.26$). The result was a positive result revealing of a relationship between cost of borrowing and SMEs performance.

5.2.3 Direct investment on SMEs performance.

The study evaluated the influence of direct investment on SMEs performance. The results indicated that direct investment had a moderate influence on SMEs performance, thus a positive result was as a result. This was guided by a beta value of ($B=0.827, p\text{-value}=0.039$). The result was lower than 5% thus this was statistically significant this revealed a positive relationship between direct investment and SMEs performance.

5.3 Conclusion

The conclusions of the study were that Purchasing power positively relates with SMEs performance. This was indicated by both descriptive and regression analysis, whereby purchasing power impacts SMEs performance to a moderate extent. Purchasing power demonstrated a positive relationship with SMEs performance.

Also the study revealed that cost of borrowing demonstrated a significant relationship with SMEs performance. Cost of borrowing had a moderate impact on SMEs performance, as showcased by descriptive statistics. In regression analysis cost of borrowing significantly related to SMEs performance.

It was also consummated that direct investment relates to SMEs performance. This was showcased by the fact that direct investment was highly pointed out by descriptive statistics. The regression also agreed of the existence of a relationship between direct investment and SMEs performance.

5.4 Contribution to the study

The study investigated influence of inflation on SMEs performance in Thika, Kiambu County. There was minimal focus on the effect of inflation on major businesses since the study revolved around SMEs. It is therefore important for research to be done to investigate the influence of inflation on other sectors of the economy. This study therefore adds to the literature that other researchers will use for their research.

5.5 Recommendations for the study.

Based on the variables of the study; purchasing power, cost of borrowing and direct investment the findings of this study are of use to stakeholders if put to good. The study recommends that the top management of a business can use the study to know on how best to run the business operations. The firms should cut on costs in order to expand quickly. Direct investment was recommended since it favored efficiency in the business operations. The study also recommended that the firm had the responsibility to ensure it had a higher purchasing power since to a moderate extent it contributed to the success of the business.

5.6 Recommendations for further studies.

The study only considered the questionnaire as the main tool for data analysis other methods such as interviews can be employed so as to countercheck the findings. The study only concentrated on Kiambu county for the research, the research should therefore extend to other counties as well. Future research work should focus on other factors that affect SMEs performance apart from the three factors investigated in the research. The study also recommends research on the effect of inflation on major organizations.

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APPENDICES

Appendix 1; Work Plan

A work plan is the set of goals and processes to be accomplished in a specific time frame,

DUTY	MONTH
Seek permission and book an appointment with the business owners	September
Data collection through submission of questionnaires	October
Data analysis of data collected	October
Report Writing of the collected findings and recommendations.	November.

APPENDIX IV: BUDGET

TASK	COST (KSH)
Pilot testing of questionnaire	2,000
Questionnaire printing and photocopying	3,500
Travelling expenses for data collection	3,000
Printing and binding of final report	4,500
Contingency budget	1,300
TOTAL	14,300

SAMPLE QUESTIONNAIRE

SECTION A: GENERAL INFORMATION

A)What is your age?

18-25years ()

26-30years ()

31-35years ()

36-40years ()

Above 40 years ()

b).Which education level do you consider while hiring?

Post graduate () Graduate () Diploma () Certificate ()

None ()

c).What gender is your firm mainly consists of?

Male ()

Female ()

SECTION B: SMEs Cost of borrowing

Kindly indicate to your level of acceptance to the following statements in regards to your firms cost of borrowing capacity. The Likert scale will be used such that;

1-Strongly disagree

2-Disagree

3-Neutral

4-Agree

5-Strongly disagree

Statement	1	2	3	4	5
Does the bank interest rate have an impact on the borrowing of a business?					
Does the inflation rate have a high effect on the running of the business?					
Cost of borrowing has led to lack of funds for much expansion by the business					

Cost of borrowing has decreased the level of borrowing by the business.					
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SECTION C: SMEs PURCHASING POWER

Kindly indicate to your level of acceptance to the following statements in regards to your firms purchasing power. The Likert scale will be used such that;

- 1-Strongly disagree
- 2-Disagree
- 3-Neutral
- 4-Agree
- 5-Strongly Agree

Statement	1	2	3	4	5
Do the income levels of the business have an impact on the business?					
The firm’s purchasing power is the only indicator to show that the business is performing well.					
Does the currency exchange rate affect the purchasing power of the business?					
A high purchasing power attributes to more success of the business					

There is transparency in the procurement process of the business?

Yes () No ()

SECTION D: SMEs INVESTMENT.

Kindly indicate to your level of acceptance to the following statements in regards to your firms’ investment cycle. The Likert scale will be used such that;

- 1-Strongly disagree
- 2-Disagree
- 3-Neutral
- 4-Agree
- 5-Strongly disagree

Statement	1	2	3	4	5
Does investment have a direct effect on the business?					
How is the current business employment rate?					

Are the investors always satisfied with the returns?					
Does the consumer_price_index have an impact on the cost of doing business?					

Proper investments help in propelling the business to success?

Yes ()

No ()

Section D: Direct investment.

H Kindly indicates to your level of acceptance to the following statements in regards to your firms' investment cycle. The likert scale will be used such that;

1-Very Poor

2-Poor

3-Neutral

4-Good

5-Better

Statement	1	2	3	4	5
How is the firm performance compared to the previous years?					

Thank you for your time and responses.