FINANCIAL DETERMINANTS, TRANSACTIONAL LEADERSHIP STYLE AND FINANCIAL GROWTH AMONG MICRO, SMALL AND MEDIUM ENTERPRISES IN SOUTH-RIFT REGION, KENYA

BY

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DECLARATION

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DEDICATION

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ABSTRACT

The micro small and medium enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development globally. Notwithstanding their important role, MSMEs' financial growth and development are hindered by difficulty in accessing financial resources. Extant studies have focused more on the direct effect relationship of determinants affecting MSMEs' financial growth, but little research has been conducted on the moderating effect of transactional leadership on financial determinants and financial growth of MSMEs. The general objective of the study was to establish moderating effect of transactional leadership on financial determinants and financial growth of MSMEs in South-Rift Region, Kenya. The specific objectives of the study were: to examine the effect of access to credit, determine the effect of financial literacy and analyze the effect of regulatory compliance costs on the financial growth of MSMEs in South Rift region, Kenya. Additionally, the study examined the moderating effect of transactional leadership on access to credit, financial literacy and regulatory compliance costs on financial growth. The study was grounded on Resource based view theory supported by Transactional Cost Theory and Credit Rationing Theory. The study adopted explanatory research design with a target population of 25,343. The study utilized multi-stage sampling techniques made up of Stratified, Proportionate and Simple random sampling techniques to obtain a sample size of 394 registered MSMEs owners/managers based on Yamane's formula of sample size determination. Primary data was collected using questionnaires. A pilot study was conducted in Kisii County using 10% of the sample size. The data collected was analyzed using both descriptive and inferential statistics. Descriptive statistics comprised of frequency, mean, standard deviation, and percentages. The inferential analysis was conducted using correlation and hierarchical moderating regression analysis. The findings revealed that access to credit ($\beta = 0.235$, $\rho<0.05$) and regulatory compliance costs ($\beta = 0.009$, $\rho<0.05$) had a significant effect on the financial growth of MSMEs, while financial literacy ($\beta = 0.019$, $\rho>0.05$) had an insignificant effect on financial growth of MSMEs. Further, the study found that transactional leadership had a buffering moderating effect on the relationship between access to credit ($\beta = -0.174$, $\rho<0.05$), financial literacy ($\beta = 0.185$, $\rho>0.05$) and regulatory compliance costs ($\beta = 0.102$, $\rho<0.05$) and MSMEs financial growth. The study concluded that access to credit, and regulatory compliance cost had significant effect on financial growth. It was also concluded that transactional leadership moderates the relationship between financial determinants and financial growth of MSMEs. The findings have several recommendations. First, the study contributes by demonstrating that access to credit and regulatory compliance costs jointly influence the financial growth of MSMEs, a combined effect not previously documented. The study further recommends that MSMEs owners and managers diversify their credit sources to mitigate risks and improve their chances of securing the necessary funding and that policymakers should prioritize improving access to credit and the regulatory framework which are recognized as key enablers for the financial growth of MSMEs.

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OPERATIONAL DEFINITION OF TERMS

Access to Credit refers to the ability of individuals, households, entrepreneurs and firms to access and utilize a range of financial services (Rojas-Suarez et al, 2010)

Enterprise: An undertaking or a business concern (formal or informal) engaged in the production of goods or provision of services (MSME Act, 2012).

Financial Literacy the combination of an entrepreneur's understanding of financial products and concepts (Miller et al, 2009; Atkinson et al, 2005)

Growth: Growth is a process of in-depth development and positive transformations Dziallas and Blind (2019) that is generally measured through quality (Byars, 1991) and/or profit (Wiklund, 1999) improvement.

Leadership It is the process whereby an individual influences a group of individuals to achieve a common goal (Northouse, 2013).

Leadership Style The way a leader provides direction to his or her organization, how plans and programs get implemented, and how staffs are motivated to do their work (Rowitz, 2009).

Medium-Sized Enterprise: Refers to any firm with an annual turnover of between Ksh.5 – 100 Million and engaging between 51-250 employees (Central Bank of Kenya, 2023).

Micro Enterprise: Refers to any firm with an annual turnover not exceeding Ksh. 500,000 and employing (or rather engaging) 1-9 people (Central Bank of Kenya, 2023).

Regulatory Compliance Costs: refers to all costs legal, tax and regulatory which are applicable in relation to business entities, including without limitation all such requirements of the government authorities (Kabata & Garaba, 2020).

Small Enterprise: Refers to any firm with an annual turnover of between Ksh. 500,000 and Ksh.5 million and engaging 10-49 employees (Central Bank of Kenya, 2023).

Transactional Leadership Style : is a type of leadership style that focuses on the exchange of skills, knowledge, resources, or effort between leaders and their subordinates (Susanto et al., 2023)

ABBREVIATIONS AND ACRONYMS

GDP	Gross Domestic Product
KRA	Kenya Revenue Authority
MSMEs	Medium and Small Micro Enterprises
NACOSTI	National Commission for Science, Technology and Innovation
OECD	Organization for Economic Co-operation and Development
PWDs	People Living with Disability
RBV	Resource-Based View
SACCOs	Savings and Credit Cooperative Societies
SME	Small and Medium Enterprises
MSMESA	Micro and Small Enterprises Authority
SPSS	Statistical Package for Social Sciences

CHAPTER ONE
INTRODUCTION

1.0. Overview

This chapter entails background of the study, statement of problem, research objectives and subsequent hypotheses, significance of the study and scope of the study.

1.1. Background of the Study

Micro, Small and Medium Enterprises (MSMEs) account for 90% of businesses, 60 to 70% of employment and 50% of GDP worldwide. As the backbone of societies everywhere they contribute to local and national economies and to sustaining livelihoods, in particular among the working poor, women, youth, and groups in vulnerable situations. MSMEs hold the potential to transform economies, foster job creation, and promote equitable economic growth if given adequate support (Tekola & Gidey, 2019).

Small and medium firms in Japan play a crucial role in the Japanese economy by utilizing cutting-edge technology in their operations (Sahoo & Swain, 2020). According to data from the Indonesian Central Bureau of Statistics (BPS) in 2018, approximately 98.68% of the total MSME units in Indonesia come from micro-enterprise. 89.04% of the total MSME jobs derive from micro-enterprises, and the output constitutes 37.77% of the total MSME output (Nursini, 2020). According to the U.S. Small Business Administration (SBA), MSMEs make up 99.9 percent of all U.S. businesses and employ approximately 60.6 million people, or 47.1 percent of the private workforce (Downing, 2021).

Regionally, Nigeria is home to over 36.9 million MSMEs, comprising 96.7% of all businesses in Nigeria. 67% of these businesses are youth-owned. MSMEs contribute over 45% to the country’s Gross Domestic Product (GDP), with 98.8% of them in the

micro cadre. They account for nearly 90% of the jobs in the country (Ufua et al., 2020). Ethiopia is also a developing country in Africa where MSMEs contribute significantly to most economies. MSMEs not only serve as important by creating job opportunities, but they also contribute to the country's economic growth, particularly as a catalyst for the shift to an industrialized society (Meressa, 2020).

Micro, Small and Medium businesses (MSMEs) in Kenya constitute a significant proportion of private sector enterprises in many areas of the economy. The sector contributes 24% to the Gross Domestic Product (GDP), encompasses more than 90% of privately owned businesses, and employs 93% of the economy's whole workforce (Goverment of Kenya, 2020). From the foregoing, there is solid empirical evidence confirming the importance of MSMEs. However, despite the immense importance of MSMEs to job creation and the alleviation of abject poverty, significant numbers of MSMEs cannot realize their full potential because of limited access to finance and other factors, mostly in developing countries.

The concept of firm growth is a prominent subject in the literature on entrepreneurship, strategic management, and industrial organization, among other areas. Financial growth of an individual entrepreneurial firm serves as proof of the entrepreneur's investment return and personal contentment. For young and small enterprises, growth is crucial for their survival, as they are less prone to failure compared to organizations that do not experience growth (Hossain, 2020). Financial growth is combined with a firm's ability to adapt and survive in an unpredictable business environment. Thus, growth does not happen in a vacuum, but is affected by dynamism, uncertainty, and unpredictable changes in markets. Both scholars and policymakers who are interested in expansion prioritize their attention on fast rising organizations, as well as micro, small, and medium-sized enterprises. The observation indicates that the remaining population

exhibits either a moderate growth rate or no expansion at all (Hossain et al., 2023). A healthy MSME sector is a vital ingredient for inclusive growth, creating jobs across regions and sectors, including for the low-skilled. By definition, MSMEs refer to micro-enterprises (with less than 10 employees and an annual turnover less than €2 million) small enterprises (with less than 50 employees and an annual turnover less than €10 million) and medium-sized enterprises (with less than 250 employees and an annual turnover of less than €50 million) (Harvie, 2019).

Since the acknowledgment of entrepreneurial factors as determinants of financial growth, there has been a general acceptance of empirical studies on their influence on firm growth. Consequently, multiple research studies have been carried out to examine the capabilities of entrepreneurs (EA) and the long-term viability of micro, small, and medium enterprises (MSMEs). Nevertheless, many research have shown inconclusive findings. For example, while Civelek et al. (2016) revealed a positive relationship, TF Aroyeun et al. (2019) found a negative relationship.

Although there have been multiple disclosures regarding the difficulties of MSMEs extant literature have not comprehensively captured financial factors affecting the financial growth of MSMEs, particularly, in Kenya (Benedict et al., 2021). Financial factors are the crucial variables established to be significant among other factors influencing MSMEs operation and growth in separate extant literature (Liu et al., 2021). Most importantly, these financial factors are recognized in literature to have a direct and immediate impact on the financial growth of businesses (García-Pérez-de-Lema et al., 2021).

The cost and availability of credit is a major issue facing MSMEs (Athaide & Pradhan, 2020). In Kenya, most MSMEs are discouraged from obtaining bank loans due to the

transactional costs charged by financial institutions which comprise administrative costs and default costs making the loans expensive. In addition, small enterprises do not own sufficient assets for collateral which in most cases is a requirement for borrowing (Chirchir, 2018). A study carried out by Zarrouk et al. (2020), revealed that most owners of small enterprises do not own enough capital assets or even maintain formal accounts that can act as security for bank loans. According to Eniola (2018), the accessibility of funds influences the ability of firms in different manner especially deciding the technology to be adopted, access to markets, and access to necessary resources which in turn incredibly influence the suitability and success of a business. When MSMEs are able to access financial assistance from financial institutions and when terms of payments are favorable, business performance becomes good. Adequate finances enable businesses to obtain the capital needed for expansion, cover daily expenses, purchase inventory, hire additional staff and allows businesses to conserve the cash on hand to cover cost of doing business.

Financial literacy is the familiarity of all the basics of finance and understanding of financial concepts which is used by an individual or company for decision-making (Aziz & Kassim, 2020). Lusardi (2019) further explains that financial literacy is the knowledge of financial concepts, abilities and skills in business management. As such businesses and in this case MSMEs with good financial literacy will be able to make the proper business decisions, create a good business development orientation and be able to stay alive in their business. By implication MSMEs will be able to improve their performance through the acquisition and application of financial knowledge by management and be able to survive business competition. Specifically, MSMEs will be able to devise strategies to minimize cost and achieve financial stability

which includes being able to invest and make proper financial decisions (Anshika & Singla, 2022).

Notwithstanding the scarce resources, lack of financial accessibility among other constraints. MSMEs have been in the spotlight of the government through strenuous licensing procedures, high tax rate, strict product safety requirements and fundamentally the need for adequate facilities and tools to provide safe working environment and proper human resources management strategies. The need to adhere to these government regulations have proved tedious and expensive to their operations, process and systems development with the result being poor performance, low profitability, lack of innovation and development low competitiveness and the collapse of majority of MSMEs due to stagnated growth. The legal and regulatory business environment constraints have been identified as the third main constraint experienced by micro (15%) and small (13%) enterprises in Kenya which emanate from regulatory environment given the multiple licensing requirement and multiple procedures associated with business registration (Goverment of Kenya, 2020). Licensing in Kenya is also a costly and time-consuming process that involves multiple regulatory institutions at the county and the national government levels, multiple levies and taxes which increase costs of doing business. Further, weak governance of MSEs associations erodes the envisaged gains of forming associations.

The significant initial expenses associated with establishing businesses, such as the need for licenses and registration, can place undue and avoidable hardships on MSMEs. In Kenya, there have been complaints over the arduous nature of the registration and certification process. Different organizations have specific criteria that must be met, necessitating both financial resources and time commitments. One potential course of action available to an entrepreneur is to circumvent the established procedure.

However, it should be noted that this alternative approach tends to incur more costs in the long run due to the imposition of penalties (Benedict *et al.,* 2021). MSMEs in Kenya continue to face significant hurdles in areas such as business name registration, license acquisition, compliance with legislative obligations, taxation, and contracting. Contracts encompass intricate legal procedures, including but not limited to leasing arrangements, the formulation of company contracts, the provision of legal counsel, and various other facets that tend to place MSMEs at a disadvantageous position. Many organizations often have challenges with extensive and time-consuming processes, which might impede their growth and expansion (Kurpayanidi, 2021). Some of the supplementary expenses incurred by MSMEs may encompass rental fees for the establishment, marketing expenditures, costs associated with employing cleaning personnel, and the procurement of office supplies, among others.

Leadership is the ability of a superior to influence the behavior of his subordinates and persuade them to follow a particular course of action (Mansaray, 2019). An organization requires a leader to shape the behavior of the employees and lead them to the desired direction. Good leadership style is imperative to improved organizational performance. Performance is the organization's ability to attain its goals by using resources in an efficient and effective manner (Taouab & Issor, 2019). However, Simba and Thai (2019) pointed out that there is still a lack of understanding of leadership in small businesses. Thus, studying leadership in the MSME environment may result in a better understanding of the organizational performance of MSMEs.

In transactional leadership approach, the leader is likely to engage in various forms of transactions and establish distinct connections with different subordinates. Furthermore, transactional leaders employ several strategies such as contingent rewards, corrective measures, and rule enforcement to inspire their subordinates

(Nungky Viana et al., 2020). Transactional leadership is a leadership style that focuses on meeting the needs of employees by providing acknowledgment and rewards for their contributions to the organization. The transactional leader facilitates the attainment of organizational goals by providing rewards to individuals based on their performance (Samson & Ilesanmi, 2019). The aforementioned correlation between the individual and the transactional leader substantiates the concept of reciprocity in the interaction between the leader and the individual. A transactional leader employs a reward system to motivate staff to carry out their responsibilities according to prescribed directions, while simultaneously addressing employee errors and grievances. The presence of effective leadership is crucial for achieving organizational success in small businesses (Asiimwe et al., 2016).

The 2016 MSMEs Survey and the 2019 Financial Access Survey shows MSMEs have limited access to a narrow range of affordable finance for seed capital, working capital and investments in productive assets. Ease of access, affordability and terms of financing remain key obstacles to MSMEs. Constraints on access to domestic and export markets relate to disadvantages of MSMEs regarding costs of production, quality of products, access to information on markets and unfair competition emanating from illicit trade in the domestic market (Government of Kenya, 2020).

There are 7.4 million MSMEs operating in Kenya. About 98% of the MSMEs are micro enterprises that employ less than 10 persons (Goverment of Kenya, 2020). The medium enterprises account for only 0.2% of MSMEs in the economy. The low share of medium enterprises, commonly referred to as the ‘missing middle’, suggests constraints that limit growth of MSMEs consequently denying the economy decent jobs and wealth creation. As such there is a need to address the constraints facing MSMEs that limit their growth and hence their graduation to medium enterprises. There are opportunities

for diversification of the sector in line with the Kenya Vision 2030, regional and global development policies that seek to promote development agenda through value addition. Three sectors including wholesale and retail trade, manufacturing, food and accommodation services jointly account for 76% of the MSMEs in Kenya. At individual sectoral level, the wholesale and retail trade sector accounts for 57% of MSMEs while manufacturing and food & accommodation services accounts for 11% and 9% of MSMEs, respectively (Goverment of Kenya, 2020).

MSMEs contribute to GDP, jobs, investments, and household necessities. Kenyan MSMEs contribute 24% of GDP. Micro enterprises make about 12% of GDP and small businesses 11%. Kenya's MSMEs contribute less than South Africa (55%), Hungary (54%), and Malaysia (37%), proposing policy reforms. Most Kenyans work for MSMEs. MSMEs employ 14.1 million people, 93% of the workforce. Youth, women, and disabled people have several job options in the field. The 2016 MSMEs Survey found that 36% and 47% of Kenyan MSMEs employees were youth and women (18–35 years). According to the 2009 Population and Housing Census, 45% and 28% of disabled women and men work in MSMEs, mostly in the informal sector and small-scale agriculture (Government of Kenya, 2020).

MSMEs in Kenya's many industries seem to be growing rapidly, yet some have failed due to inability to cope. Some studies show that most MSMEs fail due to a lack of leadership that can guide them through tough times (Kimathi, 2020). Kanini et al. (2022) emphasized that good leadership style is crucial to organizational success and MSMEs growth. Every company needs good leadership. Many companies are developing competent leaders as leadership is crucial to organizational progress, according to Sayyadi (2019).

1.2 Statement of the Problem

The ideal situation with respect to Micro, Small, and Medium Enterprises (MSMEs) financial growth is one where they are able to thrive and grow, contributing to the economic development of their communities and countries (Tong et al., 2022). They remain a vital vehicle for encouraging economic growth and development globally. The generally accepted significance of micro, small, and medium-sized firms in generating economic growth and employment is rarely fulfilled when those enterprises fail to become successful entrepreneurial ventures. Financial growth is indicative of a successful entrepreneurial enterprise (Kanayo et al., 2021). Financial growth is the essence of entrepreneurship (Sharma, 2021). It is the most appropriate performance metric for the survival and growth of micro, small, and medium-sized businesses (Kristanti et al., 2019); steady growth increases the likelihood of survival in the market. A growing business typically exhibits a number of indications, including more sales, higher profitability, the acquisition of business assets, increased market share, and more job opportunities.

Despite their important role in the economic development of countries, MSMEs' financial growth and development are hindered by difficulty in accessing financial resources. Previous studies (Ayalu et al., 2023; Njanike, 2019; Teka, 2022) have shown that a number of factors hamper the growth of small businesses, including lack of capital or financial resources. However, the degree to which limited financial resources alone are a major obstacle to business development is still controversial. Financial literacy has become more important in both emerging and developed economies because it has a substantial impact on financial decisions. Given the current situation of the financial world, financial literacy increasingly extends beyond the preparation and presentation of financial statements. More so, lack of sufficient financial literacy

among entrepreneurs often hinders them from making complex financial decisions (Hussain, Salia, & Karim, 2018). MSMEs are important players in a country's tax system because they remit taxes. However, they bear a disproportionate burden in complying with many forms of regulations, particularly tax rules and legislation. Complying with these regulations often results in increased costs and a significant reduction in profits (Ernest et al., 2022). An organization requires a leader to shape the behavior of the employees and lead them in the desired direction. However, Simba and Thai (2019) pointed out that there is still a lack of understanding of leadership in small businesses.

Despite several revelations on the challenges of MSMEs, extant literature has not comprehensively captured financial factors affecting the financial growth of MSMEs, particularly in Kenya (Benedict *et al.,* 2021). Financial factors are identified as the key variables that are significant among other elements that influence the operation and financial growth of MSMEs, as stated in existing research (Liu *et al.,* 2021). Significantly, the literature recognizes that these financial considerations exert a direct and immediate influence on the expansion of MSMEs (García-Pérez-de-Lema *et al.,* 2021). Extant studies have focused more on the direct effect relationship of determinants affecting MSMEs' financial growth (Kidali, 2020; Shibia & Barako, 2017). Further, studies have yielded mixed, contradictory, and inconclusive findings (Taiwo Aroyeun et al., 2019; Civelek et al., 2016). Few studies have been conducted on the moderating effect. Montoya (2019) argues that moderation yields robust results by incorporating interaction effects concurrently. In light of the aforementioned contradictory and inconclusive empirical findings, further investigations are warranted to provide additional evidence and clarify the relationship between the variables under consideration. Additionally, it is necessary to conduct additional tests to determine

potential interaction effects. The objective of this study is to address the above-mentioned research gap by examining the moderating effect of transactional leadership style on the relationship between financial determinants and the financial growth of MSMEs, with specific reference to MSMEs in the South rift region, Kenya.

1.3 Objectives

This study was guided by both the general and specific objectives

1.3.1 General Objectives

The general objective of the study was to establish the moderating effect of transactional leadership style on financial determinants of MSMES financial growth with specific reference to MSMEs in South Rift region, Kenya.

1.3.2 Specific Objectives

The following objectives guided this study:

1. To examine the effect of access to credit on the financial growth of micro, small and medium enterprises in South rift region, Kenya.
2. To determine the effect of financial literacy on the financial growth of micro, small and medium enterprises in South rift region, Kenya.
3. To analyze the effect of regulatory compliance costs on the financial growth of micro, small and medium enterprises in South rift region, Kenya.

4.a To establish the moderating effect of transactional leadership style on the relationship between access to credit and the financial growth of Micro, small and medium enterprises in South rift region, Kenya.

4.b To establish the moderating effect of transactional leadership style on the relationship between financial literacy and the financial growth of micro, small and medium enterprises in South rift region, Kenya.

4.c To establish the moderating effect of transactional leadership style on the relationship between Regulatory Compliance Costs and the financial growth of micro, small and medium enterprises in South rift region, Kenya.

1.4 Hypotheses of the Study

The following hypotheses were tested

H_{O1}: Access to credit has no statistically significant effect on the financial growth of micro, small and medium enterprises in the South rift region, Kenya.

H_{O2}: Financial literacy has no statistically significant effect on the financial growth of micro, small and medium enterprises in the South rift region, Kenya.

H_{O3}: Regulatory compliance costs have no statistically significant effect on the financial growth of micro, small and medium enterprises in the South rift region, Kenya.

H_{O4a}: There is no statistically significant moderating effect of transactional leadership style on the relationship between access to credit and the financial growth of micro, small and medium enterprises in the South rift region, Kenya.

H_{O4b}: There is no statistically significant moderating effect of transactional leadership style on the relationship between financial literacy and the financial growth of micro, small and medium enterprises in the South rift region, Kenya.

H_{O4c}: There is no statistically significant moderating effect of transactional leadership style on the relationship between regulatory compliance costs and the financial growth of micro, small and medium Enterprises in the South rift region, Kenya.

1.5 Significance of the Study

The significance of this study is premised on the fact that it has both theoretical and practical utility. The research findings of this study will be of benefit to the following. The National Government specifically the Ministry of Co-operatives and MSMEs development and in particular State Department for MSMEs development will benefit from the findings and recommendations from this study in planning and coming up with policies regarding how to protect and nurture MSMEs in Kenya.

The research will also help the County Governments especially the relevant departments dealing with MSMEs as it will boost their efforts of holistic policy formulation on planning which will ensure that all traders including micro small and medium entrepreneurs are catered for at the county level.

Other state actors and policy makers like the Kenya Institute for Public Policy Research and Analysis (KIPPRA) and Kenya National Bureau of Statistics (KNBS) might also use the findings from this research in the formulation and development of a framework on factors affecting the financial growth of micro, small and medium enterprises in Kenya.

The MSMEs managers and or owners will benefit from this study as it guides them on how to operate in a more globalized, interconnected and competitive world and turbulent MSME environment. Strategic management, social and corporate governance issues of small and medium enterprises can be improved through transactional

leadership. These can in turn improve overall management and improve quality needed to compete successfully.

Scholars and researchers who would like to debate or carry out more studies on MSMEs will find this study useful as a basis of carrying out more studies in Kenya. The findings of this study will develop a base from which researchers and scholars will formulate proposals and carry out more studies. It is hoped that the findings of the study will make valuable additions to the literature in the field of MSMEs.

1.6 Scope of the Study

The broad nature of this field of study demands that there is need to have a scope and limit to which the study will be undertaken. Thus, this study confined itself to investigating the moderating effect of transactional leadership style on financial determinants of MSMEs financial growth with specific reference to MSMEs in the South rift region, Kenya. Further, this study was confined to using explanatory research design. The target population for this study was 25,343 MSMEs in the South Rift region distributed as follows; Kericho County 7,813, Bomet County 6,799 and Narok County 8,231. Stratified sampling technique and Yamane's, (1967) sample size calculation formula was used to select and arrive at a sample size of 394 respondents. The sample size arrived at was considered to be representative of the entire population. Primary data was collected using a Likert scale structured questionnaire. Both descriptive and inferential data analysis techniques were used. The study was anchored upon Resource based view theory, Transactional cost theory and Credit rationing theory. The study was undertaken between the month of May and July, 2024.

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter presents literature review of study variables, theories that support the study, empirical review of literature on the relationships between variables of the study. The chapter also gives knowledge gaps summary from empirical studies reviewed as well as the conceptual framework depicting the objectives of the study.

2.1 Conceptual Review

2.1.1 Concept of Micro, Small and Medium Enterprises Financial Growth

Growth is an organizational outcome resulting from the combination of firm-specific resources, capabilities and routines (Silva et al., 2021). Growth is a process of in-depth development and positive transformations Dziallas and Blind (2019) that is generally measured through quality (Byars, 1991) and/or profit (Wiklund, 1999) improvement. The growth of a firm is to a certain extent a matter of decisions made by an individual entrepreneur. Previous studies indicate that an entrepreneur’s personality traits, growth motivation, individual competencies and personal background are the most important determinants that determine the growth of a firm. Firm growth is an increase in certain attributes, such as sales, employment, and/or profit of a firm between two points in time (Mahmutaj & Krasniqi, 2020). Firm growth can be determined by the degree of effectiveness and capability with which firm-specific resources such as labour, capital and knowledge are acquired, organized, and transformed into sellable products and services through organizational routines, practices, and structure.

The business growth, according to Diabate et al. (2019) refers to the simultaneous improvement in the enterprise's profitability and the enhancement of its quality and capabilities. Financial growth refers to the increase in profits. Financial indicators are

the most reliable markers of a business's growth (Achtenhagen et al., 2010; Delmar & Wiklund, 2008). According to Wiklund (1999), financial accomplishments should be the primary metric for assessing a business's expansion. Financial milestones such as sales growth, annual turnover, average return on net assets, gross profit, and market share are suitable measures for evaluating firm growth.

2.1.2 Determinants of Financial Growth

The growth of an organization is contingent upon the interplay of numerous factors, such as its financial assets, managerial capabilities, sector and geographical location, and investment in research and development and innovation (Urbano et al., 2019). Yoshino and Taghizadeh-Hesary (2018) have demonstrated that financial constraints are a significant impediment to financial growth for micro, small, and medium-sized enterprises that are faced with asymmetric information. Access to foreign markets is also crucial for firm development, as it is a learning process that enhances productivity (Motta, 2020) found a positive relationship between firm growth and the firm's external activity.

Specifically, a positive correlation was observed between the firm's external activity and its growth. A significant factor in the development of a firm is the intensity of innovation

Kiveu et al. (2019) discovered that product innovations contribute to employment development and the extent of the effect is roughly equivalent to the increase in innovative sales. Wadho and Chaudhry (2018) also discovered evidence of the beneficial effects of innovation on firm growth. The inputs necessary for firms to develop their activities are provided by the location of the firm. These inputs encompass factors such as experienced labor, R&D support, specialized suppliers, business climate or creative atmosphere, and knowledge spillovers (Rahman & Kabir, 2019). These

factors facilitate the seamless transfer of technological or organizational improvements between firms.

2.1.3 Concept of Micro, Small and Medium Enterprises

Micro, Small and Medium Enterprises (MSMEs) are defined differently around the world. The country a company operates in provides the specifics on the defined size of an MSME. The sizing or categorization of a company as an MSME, depending on the country, can be based on a number of characteristics (Amoah & Amoah, 2018). The most frequently employed criterion for defining something is the count of individuals employed, with the subsequent consideration being the amount of revenue generated and the value of assets (Gonzales et al., 2014; Putra, 2019). The majority of governments, particularly middle- and high-income economies, the OECD, and the IMF, categorize a SME as a business that employs a maximum of 249 individuals. The group is further subdivided into micro enterprises (1–9 employees), small enterprises (10–49 employees), and medium enterprises (50–249 people). In economies with lower wealth, it is more common to adopt a threshold of 50 or 100 employees to define a small and medium-sized enterprise (SME). An SME can also be defined by its annual turnover (OECD, 2017; Putra, 2019), with turnover threshold for MSMEs varies depending on the country's income level. In high-income economies, it is between US$ 50 million to 70 million, as stated by (Rahman et al., 2020). In lower income developing countries, the criterion is between US$ 1 million and 5 million.

Micro, small and medium-sized enterprises are of fundamental importance to many economies in Africa and the world at large (Ajide & Soyemi, 2022). They account for the majority of businesses worldwide and are important contributors to job creation and global economic development.

They represent about 90% of businesses and more than 50% of employment worldwide. Formal MSMEs contribute up to 40% of national income (GDP) in emerging economies.

2.2 Financial Determinants of Micro, Small and Medium Enterprises

2.2.1 Access to Credit

A significant obstacle to the sustainability and expansion of micro, small and medium-sized enterprises (MSMEs) is the insufficient availability of investment funds. Access to credit plays a crucial role in determining the success of these businesses. Credit enables firms to allocate funds towards productive assets, which in turn enhance productivity, amplify production, and facilitate the hiring of extra individuals as inputs for production. Multiple studies have examined the influence of access to financial interventions on the expansion of small enterprises (Kassa, 2021; Meressa, 2020). According to the research, implementing some measures such as improving credit information and changing collateral laws might enhance the performance of enterprises in terms of sales and employment (Olafsen & Cook, 2016). The primary financial constraints that influence the sustainability and growth of MSMEs are limited access to finance, inadequate bookkeeping and accounting systems, insufficient initial investment, scarcity of working capital, bad repayment practices, and improper utilization of loans (Teka, 2022).

2.2.2 Financial Literacy

The term financial refers to the information dimension, whereas the term literacy refers to the cognitive processes' individuals employ when utilizing this information. This suggests that, in an organizational context, both the information system (matter) and the human behavior system (mind) can only become more than the sum of their parts if they are linked by an interface that enhances the feed-forward (prediction) and feedback action between them (Saber, 2020). Financial education influences financial literacy, according to previous research (Xiao & Porto, 2017). Financial literacy is defined as the extent to which a person has the knowledge and confidence to manage his or her finances by making the right short-term decisions and long-term financial plans while keeping in mind life's uncertainties and the dynamic economy (Peters, 2022). Moreover, an entrepreneur's financial literacy can be defined as the sum of a business owner's understanding of basic financial concepts and products and his willingness to take financial risks and capitalize on financial opportunities, to make informed decisions, know where to find assistance, and take decisive steps to improve the business (Xiao & Porto, 2017).

2.2.3 Regulatory Compliance Costs

The legal and regulatory frameworks are a major hindrance to SME development. For instance, many licenses are required for one to operate a single business. The legal and regulatory frameworks encompass trade licensing and registration of business names (Caps 497 and 499, Laws of Kenya) as well as Local Authority Licensing by-laws (Cap 265, Laws of Kenya), among other rules such as public health legislation. The regulatory procedures outlined in these frameworks have impeded the growth of small and medium-sized enterprises (SMEs). The reason for this is that these costs are incurred regardless of whether an entrepreneur adheres to them or not (Staněk, 2019).

These expenses might impact the development, expansion, and competitiveness of micro, small, and medium enterprises (MSMEs). Excessive regulatory restraints hinder corporate competitiveness by imposing expenses and rigidities that impede firms, discourage investment, and limit prospects for job creation. In Kenya, Micro and Small and Medium Enterprises (MSEs) face significant obstacles due to burdensome laws and regulations, many of which are not aligned with the current development context (Coffey et al., 2020).

Micro, small and medium enterprises are mostly private enterprises and they face difficulties when dealing with the government in general and the tax administration in particular mostly in developing countries. Many of the difficulties with the tax authorities may be deemed as the consequences of poorly conceived tax policies and a lack of certainty regarding future policy changes. However, it would be rare indeed not to observe complaints about the complication and/or ambiguity of the tax laws as well as high tax rates (Coffey *et al.*, 2020).

2.3 Concept of Transactional Leadership

Transactional leadership is a management style that is based on a system of rewards and punishments to motivate followers. This leadership approach is often cited in contrast to transformational leadership, which seeks to inspire and elevate followers beyond their self-interests for the greater good (Berkovich & Eyal, 2021). Transactional leaders establish clear roles and expectations for their team members. This clarity helps employees understand what is required of them and how their performance will be assessed. The core principle of transactional leadership revolves around the idea that compliance is achieved through a reward and accountability system. Leaders provide rewards for good performance, such as bonuses, promotions, or other incentives, and punitive measures for failure to meet expectations (Dong, 2023).

Transactional leaders prioritize maintaining the status quo and ensuring that established procedures and processes are followed. They are more interested in managing existing circumstances rather than innovating or changing the status quo. This style is predominantly task-focused, emphasizing efficiency and productivity. Transactional leaders concentrate on specific goals and outcomes, often using a hands-on approach to oversee work processes. Leaders who subscribe to this style of leadership typically provide specific instructions and direct their followers on how tasks should be accomplished. They expect adherence to given guidelines and protocols without seeking input from team members (Purwanto et al., 2020).

Transactional leadership is founded on the premise that individuals are primarily driven by rewards and penalties, a concept closely aligned with the previously discussed autocratic leadership style. This approach posits that employees will perform optimally when there is a clearly defined chain of command, in which their rewards or punishments are directly linked to their performance. In this model, employees are expected to relinquish authority and responsibility to their leaders, contrasting with the notion of empowered employees. Transactional leaders prioritize maintaining existing conditions, with followers primarily tasked with following the leader's directives (Wahyuni et al., 2020).

2.4 Theoretical Review

A theoretical framework is a cohesive set of interconnected concepts derived from theories. A reasoned set of propositions is formulated based on data or evidence. This study was informed by three specific theories: the resource based view theory, the transaction cost theory, and the credit rationing theory.

2.4.1 Resource Based View Theory

Resource Based View (RBV) theory as advanced by Penrose (1959) holds that a firm's superior performance is realized through the resources that are controlled by the firm. The focus of the RBV is on attributes of resources and capability from the source they are gained to clarify a firm's heterogeneity, performance and sustainability (Kraaijenbrink et al., 2010). Resource based view theory (RBV) emanates from the perspective that the source of a firm's competitive advantage lies in their own strategic resources rather than their position in the external environment. RBV predicts that certain types of resources owned and controlled by firms have the potential and promise to generate competitive advantage and eventually superior firm performance (Ainuddin et al., 2007). The way these resources are exploited would enable the firm to perform and have a distinct competitive advantage. RBV takes firm specific perspective on firm's success or failure in the business environment by adding value in the customer value chain, developing new products and services and expanding into new markets.

This theory draws upon the resources and capabilities that reside within the organization in order to develop sustainable competitive advantages (Madhani, 2010). Although RBV recognizes that a firm's physical resources are important determinants of performance, it places primary emphasis on the intangible skills and organizational resources of the firm such as EO (Barney, 1991).

The Resource-Based View (RBV) theory provides a framework for comprehending the connections between financial growth, transactional leadership style, and financial determinants in Micro, Small, and Medium Enterprises (MSMEs). RBV posits that firms attain sustainable competitive advantage not solely through external positioning, but rather through the strategic acquisition, development, and deployment of internal resources that are valuable, uncommon, inimitable, and non-substitutable. This

theoretical orientation redirects the analytical focus to the endogenous capabilities of MSMEs, underscoring the influence of internal resource configurations on performance outcomes. Financial determinants, including capital structure, liquidity management, financial literacy, and access to credit, are indispensable tangible resources in the context of MSMEs. Operational resilience and growth capacity can be improved by the effective mobilization of these financial assets. RBV posits that the heterogeneity of these financial resources across firms is a contributing factor to the differential performance trajectories. MSMEs that have superior financial capabilities, whether through institutional support, strategic partnerships, or internal efficiencies, are more effectively positioned to capitalize on growth opportunities and navigate market uncertainties.

Within the RBV framework, transactional leadership style functions as an intangible managerial capability, characterized by structured goal-setting, performance monitoring, and contingent reward systems. Although transactional leadership is frequently perceived as mechanistic, it can be particularly effective in ensuring that organizational behavior is in accordance with financial objectives, particularly in resource-constrained environments that are representative of MSMEs. The effective utilization of financial resources is facilitated by leaders who consistently enforce financial discipline, accountability, and operational benchmarks. In RBV terms, these leadership practices become embedded capabilities that improve the organization's capacity to coordinate its resource base for productive purposes.

Financial growth, as an outcome variable, is indicative of the cumulative impact of capability enactment and resource deployment. RBV emphasizes that growth is not solely driven by the possession of resources; rather, it is the strategic integration and

application of those resources within the firm's operational and leadership architecture. Therefore, the interaction between financial determinants and transactional leadership style can be viewed as a dynamic capability that enables MSMEs to leverage, adapt, and reconfigure their internal assets in response to changing market conditions. The research emphasizes the significance of internal resource heterogeneity and capability development in elucidating financial performance among MSMEs by setting the study in RBV. This theoretical lens enables a nuanced examination of the manner in which financial and leadership variables combine to impact development, providing insights that are both empirically grounded and policy-relevant. Additionally, RBV establishes a foundation for the identification of strategic interventions that can enhance the competitiveness of MSME, including the development of leadership skills and the capacity-building of financial management, which are specifically designed to optimize resource utilization.

2.4.2 Credit Rationing Theory

According to Jin and Zhang (2019) the financial institutions are mostly private entities which are guided by profit maximization objective. Contrary to this objective not all individuals who apply for financing are granted access. Thus, the market for credit is not balanced through the price mechanism. Individuals may be denied credits even if they are willing to pay arbitrarily high interest rates. Beyhaghi et al. (2020) states that the credit market is not like the normal market where demand is equivalent to supply as the borrowers who are willing to pay higher interest rates may find it difficult when it comes to repayments.

Credit rationing is defined as a situation in which there is an excess demand for commercial loans at the prevailing commercial loan rate (Beyhaghi *et al.,* 2020). They further identify two types of credit rationing:

1. Pure credit rationing: Occurs when some individual's gets loan while at the same time identical individuals with the same characteristics do not get. The identical individuals are vying at the same credit and non- credit terms;
2. Redlining: a situation that occurs when an identifiable group of individuals cannot access a given supply of credit at whichever rate of interest unless the credit supply is increased.

The scenario arises due to the fact according to Mc Namara et al. (2020), the borrower would be unable to repay the loan due to the increased interest rates. That is the cost of borrowing would turn out to be higher than the return on investment. Due to the cost of the loan the lender may desist from lending to a borrower who demands for credit when the interest rates are higher. With time this view was abandoned when Weiss and Stiglitz developed a better explanation where they related credit rationing to the information asymmetry that exists within the actors in the financial markets.

According to Yu and Fu (2021) theory credit rationing arises when the financial institutions realize their expected returns are below their expectations. The non-monotonic relationship between the expected returns and interest rates arises due to the following factors or reasons:

i. The adverse selection effect; occurs when the interest rates is not able to screen the capable borrowers from the rest. That is the borrowers who are able to evaluate their projects and stay within safer projects parameters. The borrowers with safer projects are supposed to drop out of the market when the interest rates

rise beyond the expected returns. The financial institution considers the applicants going for higher interest rates riskier.

ii. The adverse incentive (moral hazard) effect; Stiglitz and Weiss argue that an increase in interest rate shifts the choice of the borrowers towards riskier projects which again puts the financial institutions expected returns at risk or higher probability of bad debts portfolio.

Credit rationing is sometimes done deliberately to cushion the financial institutions on foreseeable risks. In instances that the institutions cannot be able to mitigate risks that may arise due to the free market principles being followed, the institutions may decide to ration credit however much the borrowers who demand funds are willing to pay higher interest rates. It is an example of market imperfection, or market failure, as the price mechanism fails to bring about equilibrium in the market. The imperfection refers to the absence of equilibrium in spite of willing borrowers. In other words, at the prevailing market interest rate, demand exceeds supply, but lenders are not willing to either loan more funds, or raise the interest rate charged, as they are already maximizing profits. Thus creating a link to the information asymmetry, that tends to exist between the lender and the borrower. This theory tends to explain the financing gap that may exist within the finance market.

2.4.3 Transaction Cost Theory

The Transaction Cost hypothesis (TCT) has been widely employed as the primary hypothesis for explaining the growth of medium-sized firms. The Transaction Cost Theory (TCT) is widely regarded as the most effective decision-making tool for assisting micro, small, and medium enterprises (MSMEs) in managing transaction costs in their operations. The objective of each micro, small and medium-sized enterprise (MSME) is to minimize expenses and attain cost effectiveness (Rindfleisch, 2020).

William introduced the transaction cost theory (TCT) in 2019, as mentioned by Cuypers et al. (2021). Transaction costs encompass the exertion, duration, and expenses linked to the exploration, formation, bargaining, supervision, and enforcement of a service agreement between purchasers and suppliers' effectiveness (Dhar & Balakrishnan, 2006). According to Williamson, there are two categories of expenses associated with any service: production costs and coordination costs. Production cost refers to the expenses that are incurred in the process of manufacturing a product or delivering a service. Coordination expenses encompass the activities of monitoring, supervising, and managing internal activity.

DeMiguel et al. (2020) examines four factors: costs, asset specificity, opportunity danger, and uncertainty. Firstly, let's consider the cost: Williamson discusses two sorts of costs: production costs and transactional costs. Medium small scale and medium sized firms must exercise caution in order to attain enhancements in cost efficiency and quality. The TCT offers an analytical tool to assess the operations of medium-sized firms before they make a final choice on achieving a cost-benefit balance (McIvor, 2016). Furthermore, asset specialization is another important factor to consider. Customization degree refers to the extent to which a transaction can be personalized. There are three types of specificity: site-specificity, physical asset specificity, and human asset specificity. High asset specificity leads to increased transaction costs (DeMiguel *et al.,* 2020). Thirdly, there is a threat of opportunism when the task is outsourced to an external vendor. This is because the coordination costs may rise as there is a possibility that the vendor may act in an opportunistic manner. Therefore, the task of managing and monitoring the vendor becomes increasingly challenging. However, if the task is carried out internally, the expenses associated with coordination are minimal due to the workers' reduced tendency to take advantage of opportunities.

Vendors also exhibit opportunistic behavior in the presence of market competition and a smaller number of competitors (DeMiguel *et al.,* 2020). Furthermore, there is a sense of ambiguity and lack of predictability. Williamson asserts that uncertainty amplifies the expenses associated with transactions. Transaction costs increase, particularly for investments that are specific to a particular asset, in uncertain situations (Cuypers *et al.,* 2021).

Consistent with the study, the first factor 'cost' was identified as an external determinant influencing the growth of micro, small and medium scale and medium-sized firms. Financial restrictions are quantified based on the expenses incurred by medium-sized firms when carrying out their regular activities.

2.5 Empirical Review

This section reviewed prior literature on financial determinants of MSMEs financial growth in a variety of contexts. A summary of the empirical literature was presented which will serve as the foundation for research gap and the conceptual framework's diagrammatic presentation.

2.5.1 Access to credit and Financial Growth of Micro, Small and Medium Enterprises

The study conducted by Chowdhury and Alam (2017) focused on the obstacles faced by MSMEs in Bangladesh when seeking financial support from banking institutions. In order to achieve their objectives, they gathered data from a representative sample of 86 MSMEs in order to examine the issues and propose policy suggestions. The researchers obtained data through face-to-face interviews with the participants, using a self-administered questionnaire. In addition, they utilized secondary data for this objective. Research findings indicate that the primary obstacles faced by MSMEs in Bangladesh when seeking loans from financial institutions include factors such as the firm's size

and age, the education and skills of the owners, and unfavourable credit terms such as high interest rates, lack of collateral security, and corruption by bank officials. The constraint lies in the fact that the study only encompassed one city within its sample population. Conducting a nationwide study with a high concentration of MSMEs is likely to yield more favourable outcomes for the research. The suggestion was that small businesses, in contrast to larger ones, encounter funding barriers and experience discrimination from financial institutions when it comes to loan approvals. Based on existing literature and research on MSMEs, particularly regarding their financial accessibility, this study gathered information on the challenges faced by MSMEs in obtaining finance. It also proposed strategies to enhance the MSMEs' access to finance in order to facilitate their expansion and growth.

In their study, Khan et al. (2021) investigated how entrepreneurial orientation (EO) affects the financial and non-financial performance of micro, small, and medium-sized firms (MSMEs), taking into account the moderating influence of access to finance. MSMEs often struggle to succeed in their purpose because of variables such as limited resources and a lack of managerial skills. As a result, managers seek less risky and more convenient strategies to compete in the market. Several issues have been examined, but the significance of finance in this context has been given little consideration. Therefore, the study examined the role of finance as a mediator in the relationship between corporate resources and their performance. In order to evaluate the model, a well-organized questionnaire was employed to gather data from 326 MSMEs in Pakistan. The hypotheses were tested using structural equation modelling in AMOS. The discovery indicated that EO greatly improves the financial and non-financial performance of small and medium-sized enterprises (SMEs) in developing economies. However, the impact of access to money on the association between entrepreneurial

orientation (EO) and small and medium-sized enterprises' (SMEs) financial performance is significant, although it does not significantly influence the relationship between EO and non-financial performance. The research suggests that policymakers and practitioners should prioritize the acquisition of sufficient financial resources, while the Micro, Small, and Medium-sized Enterprises Development Authority encourages banks and financial institutions to support and enable MSMEs. Moreover, the potential ramifications have been deliberated.

In Kenya, Mumbua (2020) conducted a study to determine the impact of microfinance services on the financial performance of micro, small, and medium enterprises (MSMEs) in Kisumu County, Kenya. The primary goals were to assess the impact of credit access, savings accumulation, financial skills training, and role modeling on the performance of micro, small, and medium enterprises (MSMEs) in Kisumu County. The study was based on five theories: women empowerment theory, game theory of microfinance, uniting theory of microfinance, financial sustainability theory, and poverty alleviation theory. The empirical literature examined academic studies on the impact of access to credit, savings mobilization, financial skills training, and role modeling on the financial performance of micro, small, and medium enterprises (MSMEs). The study employed a descriptive research design. The research population consisted of functioning youth-owned firms in the 7 sub-counties of Kisumu County. The sample size comprised 448 respondents who were the owners of the businesses. A representative sample of 135 participants, constituting 30% of the total population, was selected. The main data was gathered through the utilization of a self-administered semi-structured questionnaire. The data analysis involved the utilization of descriptive statistics, including frequencies, percentages, mean scores, and standard deviation. This

analysis was facilitated by the use of SPSS software and the results were displayed through tables, charts, graphs, frequencies, and percentages.

2.5.2 Financial Literacy and Financial Growth of Micro, Small and Medium Enterprises

In their study, Buchdadi et al. (2020) aimed to investigate the key factor influencing the performance of MSMEs, specifically the financial literacy of the management. This study employs access to financial products and financial risk mentality as the mediating variables. This research employs a quantitative methodology, utilizing structural equation modeling (SEM) to examine the data. The study collected samples from 70 individuals who are managing MSMEs in the Brebes district of Central Java. This location is known for having a high number of top-performing MSMEs in Indonesia. This study discovered that financial literacy, access to credit, and financial risk mentality have a beneficial effect on the performance of micro, small and medium-sized enterprises (MSMEs). This study also discovered that access to capital and financial risk attitude play a mediating role in the association between financial literacy and the performance of MSMEs. Statistical analysis reveals that the manager of the SME lacks knowledge and expertise in banking and capital market products. The government should establish a program aimed at improving the financial literacy of MSME managers, particularly in areas such as bank products, risk management, and capital market products. These findings suggest the need for such an initiative.

In their study, Frimpong et al. (2022) investigated the correlation between financial literacy, digital finance accessibility, and the performance of small and medium-sized enterprises (SMEs). The study utilized the quantitative research methodology. A total of 400 responses were collected from MSMEs in Cape Coast, Mankessim, Assin Fosu, Agona Swedru, and Kasoa using the purposive sampling technique. Data was collected

throughout the study through the use of self-administered questionnaires. The software program SPSS was utilized to analyze and calculate descriptive statistics. The findings indicate that Micro, Small, and Medium Enterprises (MSMEs) in the surveyed regions predominantly utilize Mobile Money as their preferred digital platform, surpassing other alternatives. The study employed Partial Least Squares Structural Equation Modeling (PLS-SEM) to examine the correlation between financial literacy, digital finance, and small and medium enterprise (SME) performance. Research has revealed a strong correlation between financial literacy and the ability to utilize digital finance services. Furthermore, the availability of digital financing enhanced performance. The presence of digital finance serves as a mediator in the connection between financial literacy and the performance of small and medium-sized enterprises (SMEs). Having access to digital money is just as important as having financial awareness when it comes to improving financial performance.

In their study, Musau et al. (2022) aimed to determine the impact of financial literacy and financial consumer protection on the accessibility of digital financial services. The study aimed to determine the impact of financial literacy on digital financial access, as well as the influence of consumer financial protection on the digital access of finances for Micro, Small, and Medium Enterprises (MSMEs) in the Ruiru Sub County of the Kiambu County government in Kenya. The creation of the study's aims was guided by three theories: Financial Literacy Theory, Information Asymmetry Theory, and Social Learning Theory. A descriptive research design was employed, focusing on the population of interest which consisted of all owners of Micro, Small, and Medium Enterprises (MSMEs) in Ruiru Sub County, located in Kiambu County. The study's sample size was determined to be 384 respondents using the technique developed by Fisher in 1998. Primary data is obtained through the use of questionnaires. The data

was analyzed using descriptive statistics such as mean, frequency, percentages, and standard deviation. In addition, inferential analytic techniques such as correlation and multiple regression were employed. The study's findings revealed that financial literacy and financial consumer protection had a substantial and positive impact on the digital financial access of MSMEs. The study found that enhancing the understanding of financial products, cultivating a long-term financial mindset, improving debt management literacy among small and medium-sized enterprise (SME) owners, increasing knowledge about financial product options, and empowering individuals to make well-informed financial decisions all contribute to enhancing the digital financial accessibility of micro, small, and medium enterprises (MSMEs).

2.5.3 Regulatory Compliance Costs and Financial Growth of Micro, Small and Medium Enterprises

Maingi et al. (2019) examined how registration procedures affect the growth of small and medium-sized enterprises (SMEs) operated by young people in Ruiru Sub-County, Kiambu County, Kenya. This study utilized a descriptive survey approach. This study focused on the 571 small and medium-sized enterprises (SMEs) operated by young people in Ruiru town that have received support from the Youth Development Fund. A total of 235 respondents working in the Ruiru Sub-County market, located in Kiambu County, Kenya, were recruited for the study. The youngsters that were sampled were given questionnaires. The data collected was analyzed using a combination of a priori coding and descriptive statistics. The data analysis results were subsequently displayed using frequency tables that accurately depict the registration elements that impact the expansion of Small and Medium Enterprises (SMEs) in Kenya, specifically focusing on SMEs operating within the Ruiru Sub County market. The study findings indicate that in order to commence operations in Ruiru Sub-County, SMEs are required to

complete several critical processes. These include obtaining a business permit from the local authority, registering a business name, obtaining a PIN from the Kenya Revenue Authority, and completing stamp duty registration. The registration procedures in Ruiru Sub-County are prohibitively expensive and extremely intricate, while acquiring approvals for doing business is exceptionally tough.

Nyarku and Oduro (2018) aimed to investigate the impact of legal and regulatory frameworks on the growth of small and medium companies (SMEs) in Ghana. The study employed a quantitative approach and collected primary data from a sample of 382 owners who were conveniently selected for the study. The data was examined using a structural equation model-partial least square. The growth of SMEs in Ghana was hindered by factors like as bureaucracy, an uncertain policy climate, unfriendly customs and trade laws, stringent monetary and credit policies, corruption, and exorbitant tax regimes, as well as workforce and labor rules. In order for small and medium-sized enterprises (SMEs) to experience successful growth, it is imperative to have well-established legal and regulatory frameworks. The government should implement lenient credit policies that facilitate the growth of entrepreneurship by streamlining loan requirements, simplifying the registration procedures for small and medium-sized enterprises (SMEs), reducing and restructuring the tax systems, implementing an efficient price stabilization policy, and establishing flexible customs and port regulations. It is crucial to ensure transparency and accountability among the public officials responsible for regulating SMEs. This study contributes to the limited body of research undertaken in sub-Saharan Africa, particularly in Ghana.

Nuni and Feika (2023) examined the relationship between regulatory frameworks and the growth of small and medium-sized enterprises (SMEs), with a particular focus on

the influence of informality as a mediating factor. The primary aims were to analyze the factors contributing to the prevalence of informality among Small and Medium-sized Enterprises in Sierra Leone and to examine the impact of informality on small and medium-sized enterprises in Sierra Leone. The study utilized a descriptive research approach to gather primary data from a sample of 100 individuals through the use of questionnaires. The data was subjected to descriptive statistical analysis using SPSS v26 and Microsoft Excel. The study analyzed the factors contributing to informality in small and medium-sized enterprises (SMEs) and examined the impact of informality on these businesses by investigating the challenges faced by informal SMEs and the advantages of operating as a registered business. The findings demonstrated that the challenges encountered by informal small and medium enterprises (SMEs) have a cumulative impact on their expansion. The study determined that the legal framework establishes a connection between small and medium-sized enterprises (SMEs) and growth possibilities by enabling them to reap the advantages that come with operating a registered business. The report also included suggestions on how to encourage the formalization of small and medium-sized enterprises (SMEs).

2.6 Moderating Effect of Transactional Leadership Style

Previous empirical studies (Linge et al., 2016; Mwakajila & Nyello, 2021; Okeke, 2019) (Linge et al., 2016; Mwakajila & Nyello, 2021) revealed that leadership styles have an influence on business performance. For instance, Okeke (2019) revealed that transactional leadership style has significant positive influence on MSMEs performance. Mwakajila and Nyello (2021) likewise argue that transformational and transactional leadership styles have significant positive influence on the entrepreneurial orientation of MSMEs and ultimately MSMEs performance. Linge et al. (2016) attest that passive-avoidant leadership style has significant positive influence on business

performance. However, Jony et al. (2019) revealed that passive-avoidant leadership style has no influence on organizational outcomes.

Azegele et al. (2021) aimed to determine how leadership style influences the connection between corporate governance and the performance of insurance companies in Kenya. This study was based on the philosophical framework of positivism, which employed quantitative data. This study utilized a cross-sectional survey design. The study sample consisted of fifty-two (52) insurance businesses in Kenya that were regulated by the Insurance Regulatory Authority (IRA) as of December, 2017. The participants consisted of top managers and general staff. This study included primary data that was gathered through the use of questionnaires. The results showed that the leadership style has a crucial role in influencing the connection between corporate governance and the performance of insurance companies in Kenya. The study also found that the leadership style has a crucial role in influencing the relationship between corporate governance and performance of insurance companies in Kenya. The study found that the leadership style plays a beneficial and important role in influencing the relationship between corporate governance and the performance of insurance companies in Kenya. This study emphasizes the need of managers in businesses giving considerable consideration to leadership style.

The study conducted by Kabiru and Bula (2020) sought to examine the impact of transactional leadership styles on the performance of employees in certain commercial banks located in Nairobi City County, Kenya. The study employed a descriptive survey research design. The overall population consisted of 242 participants, including both managers and support staff from the chosen commercial banks. The study employed the proportionate stratified sampling approach to choose participants from Kenya Commercial Bank, Cooperative Bank, Equity Bank, and Family Bank. The participants

were chosen by a basic random selection technique. There were 151 respondents in the sample. Questionnaires were used to collect primary data. The quantitative data was evaluated using descriptive statistics, namely the mean and standard deviations. The findings were then presented through the use of tables, graphs, charts, and figures. Furthermore, the study employed a multiple regression analysis. The study found a significant favorable impact of transactional leadership style on staff performance. The study determined that transactional leadership style effectively motivates employees to enhance their productivity and efficiency as team members. The study suggests that bank managers should encourage staff participation in objective setting, allowing them to discuss the bank's desired outcomes and providing them with an opportunity to express their opinions.

In their study, Nungky Viana et al. (2020) examined the direct and indirect impact of transformational and transactional leadership on the performance of micro, small, and medium enterprises (MSMEs). The study was carried out in seven regencies/cities in the East Java Province, involving 165 micro, small, and medium enterprises (MSMEs) specializing in high-quality local food and beverages. The primary research data were acquired through the dissemination of questionnaires. Path analysis is employed to ascertain both the direct and indirect impact, utilizing the LISREL software. The findings indicated that transformational leadership has a favorable and substantial impact on the innovation and performance of MSMEs, both directly and indirectly. Transactional leadership style has a direct and positive impact on the innovation and performance of MSMEs, however the effect is not considerable. Nevertheless, it was discovered that transactional leadership style had an indirect but noteworthy impact on the performance of MSMEs.

Samson and Ilesanmi (2019) investigated the correlation between contingency reward, Management by exception, passive avoidance, and the performance of MSMEs. Their study provided additional evidence supporting the research conclusion that transformational leadership can predict follower performance, independent of the effects of transactional leadership. To establish these links, a questionnaire survey was utilized to gather data from owners/managers of MSMEs in Nigeria, after formulating certain hypotheses. The study findings indicate that there are strong positive correlations between charisma, inspirational motivation, intellectual stimulation, customized consideration, management by exception, and company performance. There is no notable correlation between contingency reward, passive avoidance, and business performance. The conclusion is derived and recommendations are formulated.

2.7 Control Variable

Other than access to credit, financial literacy, and regulatory compliance costs, there are other factors that may influence the financial growth of MSMEs, and thus the need to control for the variables. This study will control for firm age and firm size.

2.7.1 Firm Age

Sufficient literature exists examining different aspects of small to medium enterprises and their contribution to the national well-being. These studies show points of divergence, particularly on the correlation between firm age and its performance. Nonetheless, most researchers concur that there is a desirable or positive relationship between these two factors. For example, the Coad et al. (2013) analysis of Spanish manufacturing firms for 18 years shows that performance improved with age due to steady growth of productivity rates, larger size, higher profits, lower debt, and superior equity ratios. Previous studies have shown that, the three years of age have a crucial

importance for MSMEs as most MSMEs cannot survive after the first three years of their lifetime (Dharmayanti, 2023).

The aging of the business results in the owner acquiring expertise and accumulating knowledge in several areas of management, including financial management. As their firm grows, small and medium-sized enterprise (SME) owners become more skilled and knowledgeable in their capacity to negotiate with finance sources, as stated by Dewi (2019). The concept of SME age has been recently presented in a study conducted on 202 enterprises in Mexico. The study indicated a significant association between the age of SMEs and their competitiveness. In 2008, Wu conducted a study in China involving 60 MSMEs. The findings revealed that the growth of MSMEs is highly influenced by factors such as the firm's size, age, and other similar criteria. These factors also play a significant role in determining the capital structure, types and extent of funding, and the preference for financial resources.

Firm age refers to the duration of time that a firm has been in operation. More precisely, with reference to the exact date that it was officially established as a legal body. Zhou and Gumbo (2021) proposes a more accurate definition of firm age as the cumulative number of years since its listing, which is considered to determine the firm's existence. The empirical findings regarding the relationship between firm age and entrepreneurial performance have been subject to debate. According to the learning theory, it is reasonable to state that there is a direct correlation between the size of a company and its entrepreneurial performance. This is because when a firm matures, it gains more experience and becomes more efficient and effective compared to newly established businesses.

According to the aforementioned claim, the research conducted by Chundu et al. (2020) confirms that the age of a firm is linked to its business performance. This is because

entrepreneurs from older organizations tend to possess greater expertise and exhibit a high level of independence. In a similar vein, Hidayat et al. (2022) examined the correlation between the age of a company and its performance. The study found that the age of a corporation has a favorable and significant impact on its success. It has been shown that newly founded organizations in their early stages are more inclined to prioritize survival rather than development, as long as they manage to avoid failure within the initial years of operation. In contrast, mature firms tend to prioritize performance.

Literature on small business survival suggests that younger businesses in their formative years are more likely to be concerned with survival than growth if they do not fail within the first few years of starting up (Najihah & Permatasari, 2021). Therefore, growth should be observed in more matured businesses which have passed the 'survival mode' (Sinha et al., 2021). On the other hand, older firms may also suffer from 'liabilities of age', such as the owners' lower commitment and involvement compared to young firms (Agrawal et al., 2022), and a firm's performance is usually found to be diminishing as the firm ages.

2.7.2 Firm Size

The firm size in general is a manifestation of the number of assets owned by the company. Firm size cannot only be seen from the financial side, but it can also be seen from a growth rate perspective, i.e. in terms of employees, wealth, and sales. Innovation activities that produce superior products require large funds. Empirical studies yield inconclusive findings about the impact of a company's size on its rate of expansion. For instance, Sasidharan (2020) examined a group of Indian enterprises, Bessen et al. (2020) studied the hotel sector in the Netherlands, and Lin et al. (2019)focused on Japanese industrial organizations. These works collectively demonstrate that firm size

does not play a substantial influence in growth. In contrast, Albaz et al. (2020) refute the validity of Gibrat's law for small enterprises situated in Germany, while Ciekanowski and Wyrębek (2020) reach the same conclusion for a group of industrial firms in Japan. Similarly, additional research confirms a detrimental correlation between the size of a company and the volatility of its growth. This indicates that size plays a crucial role in facilitating growth.

The size of a firm is widely recognized as a significant factor in determining its financial performance (Vivel-Búa et al., 2019). The causal correlations between size and financial performance have been extensively examined, yielding inconclusive findings. Multiple studies indicate a direct correlation between the size of a company and its financial performance. Larger organizations are generally assumed to possess greater efficiency compared to smaller ones. Large firms may have an advantage in accessing investment possibilities that smaller enterprises do not have due to their market strength and access to financial markets (Ajuwon et al., 2021). Having a larger firm size enables the attainment of economies of scale. Given that larger organizations exhibit a greater inclination towards research and development (R&D) and innovation, as well as a tendency to implement superior management practices, recruit highly qualified employees, and possess the financial resources to invest in capital and new technology, it is unsurprising that they also demonstrate higher levels of efficiency.

2.8 Research Gap

Based on the previous analysis of empirical literature, it is clear that there is an increasing amount of research examining the connection between financial factors influencing the growth of MSMEs. Furthermore, the number of studies on this topic is continuing to expand. The majority of these research, however, have mostly concentrated on the developed regions of Asia, America, the United Kingdom, India, and a few selected countries in Africa. The previous research has shown inconsistent and inconclusive results due to the varied circumstances in which they were carried out, leading to gaps in both the conceptual and contextual understanding. The majority of these research have examined the direct relationship between the variables being studied. Drawing broad inferences based on these findings in developing nations, namely in East Africa and Kenya, may result in inaccurate assumptions. There is a lack of research in Kenya that has investigated how transactional leadership style influences the relationship between financial factors and the success of MSMEs. Therefore, it is necessary to carry out this study.

2.9 Conceptual Framework

A conceptual framework is a diagrammatic representation that illustrates the theoretical connections between the variables being studied. The conceptualization of variables in academic research is crucial as it serves as the foundation for hypothesis testing and the development of generalizations based on the study's findings.

Schindler (2022), posits that researchers propose potential connections between independent and dependent variables. According to Schindler (2022) a dependent variable is a variable that is measured, predicted, or monitored, and is expected to be influenced by the manipulation of an independent variable. In addition, they established the definition of an independent variable as a variable that is deliberately altered by the

researcher, resulting in an impact on the dependent variable. A moderator variable is a variable, either qualitative or quantitative, that influences the direction and/or intensity of the association between an independent variable and a dependent variable.

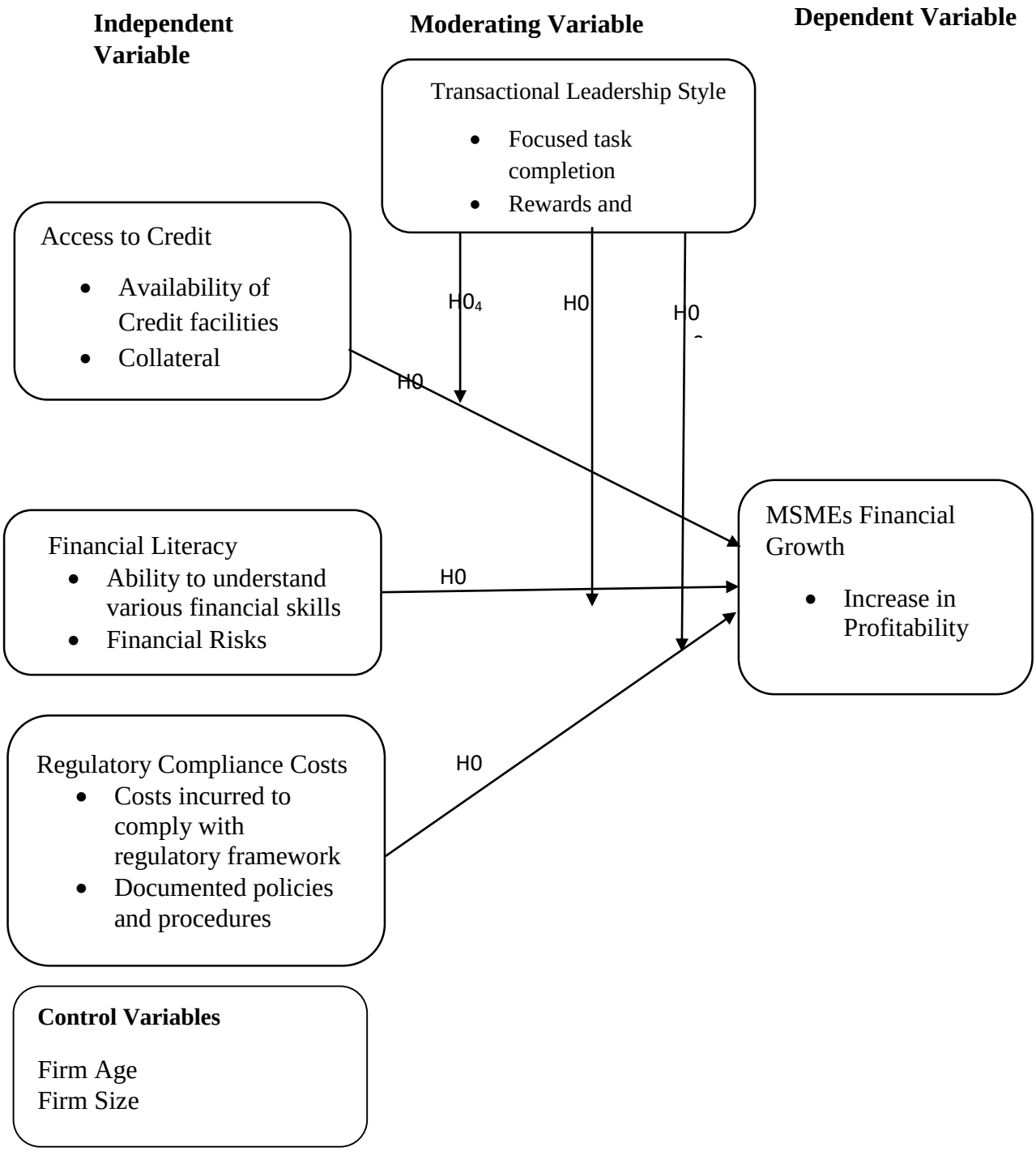

Figure 2.1: Conceptual Framework
Source: Researcher's own Conceptualization

Table 2. 1: Summary of Previous Studies and Knowledge Gaps

Study	Objective	Findings	Gaps in knowledge	Focus of the current study? / How the current study will fill the Gap
Chowdhury and Alam (2017)	To addressed the issues that impede MSMEs of Bangladesh in obtaining finance from the financial institutions	Findings revealed that the size and age of the firms, education and skills of the owners, and unfavorable credit terms such as high interest rates, lack of collateral security, corruption by bank officials etc. are some of the biggest hurdles that MSMEs in Bangladesh	The study did not examine the factors that determine growth of MSMEs neither did it investigate the moderating effect of leadership.	The main focus of the proposed study is on examining the moderating effect transactional leadership on the relationship between financial determinants of MSMEs growth
Khan et al. (2021)	examined the influence of entrepreneurial orientation (EO) on financial and non-financial performance of micro, small and medium-sized enterprises (MSMEs) with the moderating role of access to finance	The finding suggested that EO significantly enhances SME's financial and non-financial performance in emerging economies. On the other hand, access to finance significantly moderates the relationship between EO and SME's financial performance while it is not significantly moderating between EO and non-financial performance	Moderating effect of transactional leadership on the relationship between financial determinants and growth of MSMEs	The proposed study will *inter alia* explore how access to credit, financial literacy and regulatory compliance cost affects growth of MSMEs. It also examines the moderating effect of transactional leadership
(Mumbua (2020)	sought to establish the influence of	The study established that access to credit,	Did not explore all the financial	The proposed study though similar

	microfinance services on the financial performance of MSMEs in Kisumu County, Kenya	savings mobilization, financial skills training had significant effect on financial performance of MSMEs	determinants such as financial literacy and regulatory compliance costs	incorporates the moderating effect of transactional leadership
Buchdadi et al. (2020)	sought to examine the determinant variable of the MSMEs performance namely financial literacy of the manager. This study utilize access to financial product and financial risk attitude as the mediation variables.	The study investigated the mediating effect of financial risk attitude	The context of this study was in Indonesia which is a different context from Kenya	The proposed study will moderating effect of transactional leadership in the local context of Kenya
(Frimpong et al. (2022)	examined the relationship between financial literacy, access to digital finance, and SME performance.	It was found that financial literacy positively affects access to digital finance. Also, access to digital finance improved performance. Access to digital finance mediates the relationship between financial literacy and SME performance	Study was done in Cape Coast, Ghana, presenting a contextual gap. The study also presents methodological gap as it uses SEM while the present study will use hierarchical regression analysis	The proposed study will be done in Kenya
Nyarku and Oduro (2018)	sought to explore the effect of legal and regulatory frameworks on small and medium enterprises (SMEs)	Bureaucracy, unstable policy climate, unfriendly customs and trade regulations, tight monetary and credit policies, corruption, and excessive tax regimes, workforce	This study presented a contextual gap which is different from Kenya	The proposed study will be carried in all regions of Kenya

	growth in Ghana	and labour regulations were found to negatively affect SMEs growth in Ghana		
Nuni and Feika (2023)	assessed the nexus between regulatory frameworks and SMEs growth, by specifically investigating the mediating role of informality	The results showed that the problems faced by informal SMEs collectively affect their growth. The study concluded that the regulatory framework links SMEs to growth opportunities through the collective benefits derived from operating a registered business.	The study investigated the mediating role of informality	The proposed study investigates the moderating effect of transactional leadership
Maingi et al. (2019)	assessed the influence of registration procedures on growth of youth owned SMEs in Ruiru Sub-County, Kiambu County in Kenya	From the study findings, the cost of the registration procedures is very high and highly complex while the process of obtaining approvals for doing business is very challenging in Ruiru Sub-County	The influence of regulatory compliance was not investigated in this study	The proposed study will moderating effect of transactional leadership style on the financial determinants and MSMEs financial growth

CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This section provides an overview of the methods that will be employed in this investigation. The chapter outlines the research design, specifies the target demographic, determines the sample size, and describes the sampling technique. In addition, the chapter also introduces: The topics covered including pilot testing, which refers to the initial testing of a new method or tool, as well as the concepts of validity and reliability which pertain to the accuracy and consistency of data. Additionally, the chapter covers data collection tools, which are instruments used to gather information, as well as data analysis and presentation techniques.

3.2 Research Design

A research design is employed to organize the investigation in order to tackle the research inquiries. Bloomfield and Fisher (2019) defined research design as the systematic approach and implementation plan for a study. The document delineates the techniques and protocols for gathering, quantifying, and examining data. This study employed an explanatory research design. Scholars opt for this particular design due to its capacity to discern causal relationships between variables that have been conceptualized in order to tackle the research problem, all while preventing any manipulation of said variables (Sileyew, 2019a). Predicated on the examination of hypotheses concerning the interrelationships of variables, the explanatory design is generally quantitative in nature (Zohrabi, 2013). Gaurav and Kothari (2019) states that the purpose of explanatory research is to explain why things happen and to develop, expand, elaborate, or test a certain theory. Additionally, Dawson (2019) believe that an explanatory design is appropriate for establishing a causal relationship between

variables, which is why it was used in this study. Additionally, some scholars refer to this approach as causal research because it elucidates the degree and type of cause-and-effect interactions (Gupta & Gupta, 2022). The design was utilized to ascertain whether there is any causal relationship between the factors or variables relevant to the study issue. Quantitative analysis of data was performed using descriptive and inferential statistics. The data was analyzed to determine probable explanations for specific relationships between variables and the models that was generated by those correlations (Harris *et al.,* 2019).

3.3 Study Area

This study was conducted in the south rift region in Kenya. The South Rift region is a significant geographical area known for its diverse landscapes, rich cultural heritage, and economic activities. It is part of the larger Rift Valley province and includes three counties of Narok, Bomet, and Kericho. The region is characterized by its agricultural, tourism, and forestry activities, alongside a growing population contributing to the local economy. Bomet County covers an area of approximately 2,695 square kilometers while Kericho County covers an area of approximately 2,505 square kilometers while Narok County covers an area of approximately 18,956 square kilometers. The region has a combined population of 2.3 million people (KNBS, 2019). The region is predominantly agricultural, with tea and coffee being the major cash crops in Kericho and Bomet. Narok County is famous for attractions such as the Maasai Mara National Reserve, drawing both local and international tourists. The region is host numerous Micro-Small and Medium Enterprises in the local markets, retail, and service industries which play a vital role in the economies of these counties.

3.4 Target Population

According to Mauer and Venecek (2021), the concept of a target population refers to the comprehensive set of all units of analysis that a researcher employs in their intended study. According to Rahman et al. (2022), the concept of a target population refers to the entirety of individuals belonging to a specific group that is relevant to the research inquiry. The target population thus formed the entire group of individuals, events or objects having a common observable characteristic. This study targeted MSMES in three counties namely Kericho, Bomet and Narok which form the South Rift block. County Governments are mandated by the constitution to promote MSMEs activities through trade development and regulation, including market and trade licences and fair-trading practices.

According to Kenya Institute for Public Policy Research and Analysis (KIPPRA) special paper no.27 of 2019 a County Business Environment for MSMEs (CBEM) framework was developed to facilitate in identifying key issues that require policy interventions in creating an enabling environment for the MSMEs sector (Musamali et al., 2019). The framework covered five areas critical for smooth operations of MSMEs, including: worksites and adequacy of their infrastructure; market environment; financial and technical capacity; and governance and regulatory framework (Musamali *et al.,* 2019). From the ranking it is notable that Counties in the South Rift region of Kenya comprising of Kericho, Bomet and Narok ranked lowly as compared to other counties sharing similar demographics and with almost same contribution to National Gross value. The target population for this study will be 25,343 MSMES in South Rift region distributed as follows; Kericho County 7,813, Bomet County 6,799 and Narok County 8,231

Table 3.1: *Target Population*

County	Sub County	Business Category (POPULATION)			
		Micro	**Small**	**Medium**	**Total**
KERICHO COUNTY	Bureti	767	216	28	1,011
	Belgut	1,015	71	30	1,116
	Ainamoi	2,665	208	130	3,003
	Soin/Sigowet	980	67	18	1,065
	Kipkelion West	598	46	5	649
	Kipkelion East	857	105	7	969
	SUB-TOTAL	**6,882**	**713**	**218**	**7,813**
BOMET COUNTY	Bomet Central	1,515	290	36	1,841
	Bomet East	1,272	193	15	1,480
	Chepalungu	1,499	231	17	1,747
	Sotik	1,491	201	39	1,731
	SUB-TOTAL	**5,777**	**915**	**107**	**6,799**
NAROK COUNTY	Narok North	2,525	642	12	3,179
	Narok South	957	368	16	1,341
	Narok East	868	256	15	1,139
	Narok West	1,922	367	28	2,317
	Emurua Dikirr	990	247	14	1,251
	Kilgoris	1,325	162	17	1,504
	SUB-TOTAL	**8,587**	**2,042**	**102**	**10,731**
	GRAND TOTAL	**21,246**	**3,670**	**427**	**25,343**

Source: County Integrated Development Plan (CIDP) – 2018-2022

3.5 Sample Size and Sampling Procedures

3.5.1 Sampling Frame

According to Schindler (2022) a sampling frame is a list of elements from which the sample is actually drawn and closely resembles to the population. The sampling frame defines a set of elements from which a researcher can select a sample of the target population. The basic idea of sampling is that by selecting some of the elements in a population, we may draw conclusion about the entire population. The study targeted registered MSMEs as unit analysis of the study and the unit of observation were

owners/managers and permanent employees of each MSME in the 16 sub-counties in the South Rift region. The sampling frame was adopted from a list of 25,343 MSMEs in the South Rift Region (Table 3.1).

3.5.2 Sample Size and Sampling Procedure

Sampling is a procedure of selecting a part of population on which research can be conducted, which ensures that conclusions from the study can be generalized to the entire population (Schindler, 2022). The sample size was determined from all registered MSMEs in the South-Rift Region. A sample size of 394 MSMEs was chosen from a target population of 25,343. This is considered adequate for the explanatory nature of the study, as noted by (Asenahabi, 2019). This design involves identifying a good sample frame, determining an adequate sample size, selecting the most appropriate sampling method, and ensuring that the sample accurately represents the population (Sileyew, 2019a). Further the study employed multi-stage sampling technique which involved clustering the population into sub counties. Additionally the study utilized proportionate stratified sampling technique to select MSMEs from three main categories of Micro, Small and Medium enterprises to be included in the study. Proportional stratified sampling is one in which the number of sampling units from each stratum is in proportion to the population size of that stratum (Huntington-Klein, 2021). This technique is used when cases in a population fall into distinctly different categories of a known proportion of that population (Sileyew, 2019a). A randomized sample is picked for each stratum separately, sized according to a known proportion of each stratum, and then combined to form the complete sample from the population.

The population was partitioned into sixteen homogeneous clusters, with each cluster representing a sub-county in the South-Rift region, as indicated in Table 3.2 below. The

MSMEs was assigned to one of three stratified categories: micro, small, or medium. The proportional stratified sampling technique categorized the respondents in each sub-county based on the identified sectors of MSME. In order to guarantee a representative sample of the population as a whole, proportionate stratified sampling divides subgroups into distinct heterogeneous subsets with similar characteristics, as stated by Siedlecki (2020). Respondents from each stratum who will participate in the study and whose responses was used to assess the questionnaire's validity and reliability was selected using a simple random sampling technique. The owners or managers of the sampled units served as the respondents to this research, with the MSMEs serving as the unit of observation.

Yamane (1967) cited in Sileyew (2019b) was used to define and calculate the sample size. This formula is preferred since it is straightforward to draw from in its matrix tables that can be used for scientific research in cases of large populations. Based on Yamane (1967) formula which was used to determine the sample size from population within each stratum. In the sampling of the respondents, a standard error of 95% was considered in the sampling calculation. Many studies still cite Yamane formula and is also applicable in the choice of the sample size for this study.

$$\boldsymbol{n = \frac{N}{1 + N(e)^2}}$$

$$n = \frac{25{,}343}{1 + 25{,}343(0.05)^2}$$

$$\textbf{= 394}$$

Where:
n = Sample size
N = Population size
e = the error of Sampling

Table 3.2 :*Sample Size*

County	Sub County	Business Category (POPULATION)				Business Category (SAMPLE)			
		Micro	**Small**	**Medium**	**Total**	**Micro**	**Small**	**Medium**	**Total**
KERICHO COUNTY	Bureti	767	216	28	1,011	11	6	1	18
	Belgut	1,015	71	30	1,116	18	1	1	20
	Ainamoi	2,665	208	130	3,003	47	2	5	54
	Soin/Sigowet	980	67	18	1,065	18	1	0	19
	Kipkelion West	598	46	5	649	11	0	0	11
	Kipkelion East	857	105	7	969	15	1	0	16
	SUB-TOTAL	**6,882**	**713**	**218**	**7,813**	**120**	**11**	**7**	**138**
BOMET COUNTY	Bomet Central	1,515	290	36	1,841	24	6	1	31
	Bomet East	1,272	193	15	1,480	21	3	0	24
	Chepalungu	1,499	231	17	1,747	25	4	0	29
	Sotik	1,491	201	39	1,731	25	3	1	29
	SUB-TOTAL	**5,777**	**915**	**107**	**6,799**	**95**	**16**	**2**	**113**
NAROK COUNTY	Narok North	2,525	642	12	3,179	42	17	0	59
	Narok South	957	368	16	1,341	14	3	0	17
	Narok East	868	256	15	1,139	8	1	0	9
	Narok West	1,922	367	28	2,317	16	1	1	18
	Emurua Dikirr	990	247	14	1,251	14	1	0	15
	Kilgoris	1,325	162	17	1,504	23	2	0	25
	SUB-TOTAL	**8,587**	**2,042**	**102**	**10,731**	**117**	**25**	**1**	**143**
	GRAND TOTAL	**21,246**	**3,670**	**427**	**25,343**	**332**	**52**	**10**	**394**

Source: Researcher own computation

Thus, sample size was 394 respondents

3.6 Data Types and Sources

Primary data was utilized in this study because it has been found to be a good source of empirical data and tends to reduce measurement errors (Sekaran & Bougie, 2019). This is the type of data collected from the respondents**.** Primary data is the collection of original data or first-hand information for a specific purpose by a researcher (Marvasti, 2018). According to Ghauri et al. (2020), "the ultimate objective of conducting primary research is to learn about something new that can be confirmed by others and to eliminate own biases in the process.

3.7 Data Collection Instruments

Primary data was collected using a 5 semantic differential scale structured questionnaire in this study. According to Creswell and Clark (2017), questionnaires are particularly suitable tool for collecting data and enable the researcher to organize the questions and receive replies without actually having to talk to every respondent. The questionnaire has some advantages over other instruments. It is less expensive, particularly in terms of the time spent collecting the data. Questionnaire can be given to a large number of people simultaneously; they can also be sent by mail. Therefore, it is possible to cover a wide geographic area and to question large numbers of people relatively inexpensively. The questionnaire will constitute background information of the respondents and the parts that will seek to answer the research objectives. For nominal data for example, representing demographics of the respondents and other characteristics such as, Male = 1 and Female = 2. In categorical data where Likert scale was used representing, 1- 5 where, 1 imply least, 5- imply most was used.

3.8 Pilot Test

Piloting is the process of pretesting the data collection instruments before the actual data collection to check whether the data collection tools are clear, well structured, specific and aligned to the study objectives (Moule et al., 2017). The reason for piloting is to help identify ambiguities, inadequacy and misunderstanding in the items. Piloting also ensures that the instruments are validated before they are administered in the final study. The information obtained from the pilot study was used to revise the instruments. A pilot research sample of 10%, according to Schindler (2022), should be considered appropriate for a study. Accordingly, piloting of the instruments was done with 39 randomly chosen MSMEs owners'/managers/ and employees in Kisii County which has similar characteristics with the study area, to modify the questionnaire if need be so that respondents have no difficulty answering the questions and to confirm that it meets validity and reliability requirements.

3.9 Validity and Reliability of Instruments

3.9.1Validity

This study investigated the validity of content, face, and construct. A content validity assessment was performed to determine whether the study instruments' material is suitable and pertinent to the study's objective. Face validity assesses the suitability of a questionnaire for the specific objectives and subject matter of the study. The questionnaire's appearance is assessed based on its feasibility, readability, uniformity of style and formatting, and the clarity of the language employed. To evaluate the face validity of the draft data collection instruments, we discussed the items with supervisors. We considered factors such as readability, translations, contextual appropriateness of questions, length of questionnaire, formatting, and flow of the tools. We incorporated their evaluations, comments, and suggestions for improvements into

the instruments (Gaurav & Kothari, 2019). Construct validity refers to the degree to which a test or experiment accurately assesses what it claims to measure. It is a deduction of the extent to which a specific tool accurately assesses an abstract concept. This ensures that abstract notions are assessed in a logical manner, and that the relationship between variables is determined using a method that is grounded in theory and has clear operational meanings. In this study, the variables were operationalized to provide a shared understanding between the researcher and readers. The questionnaire was subsequently developed using the studied literature and the pertinent factors to be assessed, with the aim of ascertaining its effectiveness in gathering the necessary information.

3.9.2 Reliability

Reliability refers to the degree of consistency exhibited by an instrument or test. Assessment tool reliability refers to the extent to which it consistently and reliably generates steady outcomes. In this study, the reliability of the data collection equipment was assessed using Cronbach's co-efficient alpha. This strategy is suitable for circumstances where a tool was administered only once (Kothari, 2017). A better internal consistency dependability is indicated by a reliability coefficient closer to 1. The research instrument would be considered dependable if it is above the predetermined threshold of 0.7, which is the established standard in research. Cronbach (1951) Equation is as follows;

$$\alpha = \frac{k}{k-1}\left[1 - \frac{\sum S^2 y}{S^2 x}\right]$$

Where
α =is the Cronbach Alpha
k = is the number of test items
$\sum S^2 y$ = is the sum of the items variance
$S^2 x$ = is the variance of the total score

3.10 Data Collection Procedures

Research procedures are essential for researchers to organize and follow a specific sequence of steps in order to successfully complete their research and achieve the study objectives (Bloomfield & Fisher, 2019). In order to assure adherence to correct protocols and processes for this investigation, the researcher implemented preliminary measures. The researcher obtained authorization from the National Council of Science and Technology (NACOSTI) to conduct the study. This was done using their website portal, and the necessary price was paid. Prior to starting data collection, the researcher also met the ethical requirements set by Moi University. After receiving authorization to conduct the study, the researcher conducted pilot testing to pre-test the questionnaire for attributes such as comprehensiveness, redundancy, inclusiveness, respondent-friendliness or sensitivity, and relevance. The researcher conducted the data collection process with the assistance of research assistants who have research experience. A research assistant orientation session was held to acquaint them with the study's aims. The researcher provided a comprehensive training session that included the study's summary, subject recruitment methods, utilization of the structured questionnaire, ethical guidelines to be followed throughout the study, and techniques for ensuring high-quality data collecting.

3.11 Data Analysis

Data analysis is a practice in which raw data is ordered and organized to allow for useful analysis, which is the process of computation of certain indices or measures along with searching for patterns of relationship that exist among the data group (Harris *et al.,* 2019). For this to be achieved, data must be cleaned, coded and analyzed so that the researcher is able to make sense out of it. Quantitative data from closed ended questions were coded, entered and analyzed using a Statistical Package for Social Science (SPSS).

Descriptive statistics such as percentages, mean, frequency distribution and standard deviation were computed to describe the characteristics of the variables of interest whilst inferential statistics, such as Correlation analysis was used to establish the nature of the relationships between the independent variables and dependent variable.

In this study, both descriptive and inferential data analysis techniques were used. According to Marvasti (2018), the first step in data analysis is to describe or summarize the data using descriptive statistics. Data was edited, coded, classified and summarized into categories. In order to make the data collected amenable to statistical analysis using the Statistical Package for Social Sciences (SPSS) version 25, the data was coded as follows: Descriptive data analysis started during data collection. Descriptive data was analyzed by use of frequencies and central tendencies and were presented in form of tables, pie charts, and bar graphs.

According to Pajo (2022)inferential statistics are applied whenever a researcher wishes to infer things about the population from the information sourced from a small sample derived from the population. A sample is studied in order to make a conclusion about the large population from which the sample was extracted. Thus, inferential statistics is about generalization about bigger situations or total population, that has not been studied (Pandey & Pandey, 2021).

Hence, inferential data analysis played a crucial role in this work to make generalizations about the larger population (Bloomfield & Fisher, 2019). Utilizing the statistical software SPSS version 25. Correlation analysis was employed to examine the causal link between the dependent variable and the independent variables. The researchers used linear regression analysis to examine the impact of a single independent variable on the dependent variable. They also conducted hierarchical

regression analysis to determine the magnitude, direction, and significance of the relationship between the financial growth of MSMEs and multiple independent variables (Gupta & Gupta, 2007). To evaluate all three hypotheses, the researcher will utilize Analysis of Variance (ANOVA) to assess the overall strength of the regression model. The P-values corresponding to each variable were utilized to ascertain the statistical significance of each independent variable on the dependent variable. The general guideline was to reject Hoi if the p-values were less than or equal to 0.05; otherwise, fail to reject Hoi if the p-value is not less than or equal to 0.05. (With a confidence level of 95% and a level of significance of α=0.05) (Walliman, 2021).

3.12 Operationalization and Measurement of Variables

Operationalization refers to the procedure of giving numerical values, such as numerals, numbers, or other symbols, to the variables being studied. Operationalization, as defined by Sileyew (2019b), refers to the clear and precise characterization of a variable in a manner that allows for its measurement. The study will utilize and modify established measures that have been employed and confirmed in prior research. Relevant literature was reviewed to generate appropriate scales for the constructs. We utilized appropriate measurement items that were borrowed from previous research. The constructs were assessed using ordinal data on a Likert scale, with the exception of the control variables - firm size and age.

3.12.1 Dependent Variable

The dependent variable in this study is micro, small and medium enterprises financial growth. Growth is a measure of the outcome resulting from the combination of firm-specific resources, capabilities and routines that leads to improvement or increase. Empirical studies provide different proxies for financial growth of micro, small and medium enterprise. Among these, total asset, sales, employment size, profit, and capital

are mostly known (Teka, 2022). These measures depend upon the ease of availability of the data and good judgment of the researcher. For this study, financial growth was measured as indicated by increase in profitability. Past studies (Kiprotich, 2014; Uddenberg, 2015; Yeboah, 2021) have measured financial growth using sales revenue, market share, turnover or the number of employees and profitability.

3.12.2 The Independent variable

3.12.2.1 Access to Credit

There is undoubted agreement, as a result of numerous global, regional and country-specific studies, that micro, small and medium sized enterprises (MSMEs) play a major role in economic and social development, especially in developing countries (Dela Cruz et al., 2023; Jauhari et al., 2023). As important as MSMEs are in contributing to both employment and gross domestic product (GDP), access to finance remains a key constraint to their development. Access to credit which is the first variable was measured using proxy statements on a Likert Scale with items on availability/access and affordability of range of financial products and services including credit, savings insurance, investment and working capital by the MSMEs.

3.12.2.2 Financial Literacy

Financial literacy is the second variable in this study. Financial literacy could be conceptualized as having two dimensions—understanding (personal finance knowledge) and use (personal finance application). Empirical studies have shown that levels of financial literacy are low amongst entrepreneurs. Eniola and Entebang (2017) identified a lack of financial literacy as a common problem in MSMEs; lack of financial literacy has an impact on business organizations in the starting up phase and subsequently. Financial literacy was measured using proxy statement on the ability to understand and effectively use various financial skills using a five-point Likert scale.

Past studies (Peters, 2022; Saber, 2020) have measured financial literacy using statements on a five-point Likert scale.

3.12.2.3 Regulatory Compliance Costs

Every business must adhere to the rules and regulations that are established for its particular industry in order to run smoothly and avoid any disruptions or interference from government or local authorities in the business's location. The legal and regulatory environment in which MSMEs operate is important in influencing the growth capabilities or collapse of the businesses in the sector (Karanja, 2022). Regulatory Compliance Costs was measured using proxy statement on expenses incurred by MSMEs to comply with all legal and regulatory requirements.

3.12.3 Moderating Variable

Transactional leadership consists of two sub-scales: active management by exception and passive management by exception, as identified by Bass and Avolio in 2000. Active management by exception involves the leader actively seeking out and addressing faults, irregularities, exceptions, departures from standards, complaints, rule infractions, and failures. Corrective action is taken either before or when these issues arise (Bass, 1985). In this realm, leaders engage in transactions with their followers through contractual means, providing explicit instructions on how to obtain rewards, penalizing undesirable behavior, and offering further feedback and promotions for exemplary performance. These types of transactions are known as contingent rewards (CR). Conversely, passive management by exception entails a leader who is responsive and only takes action after being notified of errors and deviations. In this strategy, leaders engage in transactions with followers by interfering just when followers depart from the expected behavior.

This variable was measured by use of Likert scale adopted from previous reviews of literature (Asare, 2019; Lim, 2003). Specifically, the Multifactor Leadership Questionnaire (MLQ-5X) developed by Bass and Avolio (2007) was adopted and used for this study. It measures a broad range of leadership types from passive leaders, to leaders who give contingent rewards to followers, to leaders who transform their followers into becoming leaders themselves. The MLQ identifies the characteristics of a transactional leader and helps individuals discover how they measure up in their own eyes and in the eyes of those with whom they work. Transactional leadership was proxied using three constructs- contingent rewards, Active Management by Exception (AMBE), and passive management by exception (PMBE).

3.12.4 Control Variable

This study will control for firm size and firm age. Following prior studies, firm size is defined as the natural log of the total firm's assets (Lee et al., 2014; Rashidah & Ali, 2006). The study measured firm size as natural logarithm of Total assets.

The age of a firm is ascertained by calculating the duration of time that has elapsed from the firm's inception. The study will use the same measurements as that of previous studies (Coad, 2018; Coad et al., 2018), where age was defined as being the year of observation minus the establishment date of the company plus one, in order to determine how many years it had been incorporated before

Table 3.3 :*Operationalization of Study Variables*

Category	Variable	Operationalization	Measurement
Dependent variable	**Financial Growth**	Increase in profitability	Likert Scale of Strongly Agree to Strongly Disagree.
	Access to Credit	The ability of individuals or enterprises to obtain financial services	Likert Scale of Strongly Agree to Strongly Disagree
	Financial Literacy	The ability to understand and effectively use various financial skills	Likert Scale of Strongly Agree to Strongly Disagree
	Regulatory Compliance Costs	The expenses that arise from engaging in business relationships and collaborations	Likert Scale of Strongly Agree to Strongly Disagree
Moderating Variable	**Transactional Leadership Style**	leadership style where leaders rely on rewards and punishments to achieve optimal job performance	Likert Scale of Strongly Agree to Strongly Disagree
Control Variable	**Firm Age**	duration of time that has elapsed from the firm's inception	Interval Scale
	Firm Size	the natural log of the total firm's assets	Interval Scale

3.13 Conditions for Testing for Moderation

Moderation refers to the phenomenon in which the introduction of a moderating variable alters the direction or strength of the relationship between two variables. A moderation effect can manifest in three ways: enhancing, buffering, or antagonistic. In the case of enhancing, increasing the moderator would amplify the effect of the predictor variables on the outcome variable. Buffering, on the other hand, occurs when

increasing the moderator weakens the effect of the predictor on the outcome. Lastly, antagonistic moderation occurs when increasing the moderator actually reverses the effect of the predictor on the outcome.

3.14 Model Specification

Linear regression analysis aims to assess the predictive power of a set of factors on a certain dependent variable, with the goal of improving the accuracy of the estimation (Kumar, 2019). The linear regression model used in this investigation is displayed below:

Model 1. Testing the effect of control variables on MSMEs financial growth.

$$Y = \beta_{0it} + \beta_1 FA_{it} + \beta_2 FS_{it} + \varepsilon_{it}$$

Model 2. Testing the effect of independent variables on MSMEs financial growth.

$$Y = \beta_{0it} + C + \beta_1 AC_{it} + \beta_2 FL_{it} + \beta_3 RCC_{it} + \varepsilon_{it}$$

Model 3. Testing the moderating effect of transactional leadership style on MSMEs financial growth

$$Y = \beta_{0it} + C + \beta_1 AC_{it} + \beta_2 FL_{it} + \beta_3 RCC_{it} + \beta_4 TL_{it} + \varepsilon_{it}$$

Model 4. Introducing the first interaction term between access to credit and transactional leadership style.

$$Y = \beta_{0it} + C + \beta_1 AC_{it} + \beta_2 FL_{it} + \beta_3 RCC_{it} + \beta_4 TL_{it} + \beta_5 AC_{it} * TL_{it} + \varepsilon_{it}$$

Model 5. Introducing the second interaction term between financial literacy and transactional leadership style.

$$Y = \beta_{0it} + C + \beta_1 AC_{it} + \beta_2 FL_{it} + \beta_3 RCC_{it} + \beta_4 TL_{it} + \beta_5 AC_{it} * TL_{it} + \beta_6 FL_{it} * TL_{it} + \varepsilon_{it}$$

Model 6. Introducing the third interaction term between regulatory compliance costs and transactional leadership style.

$$Y = \beta_{0it} + C + \beta_1 ACit + \beta_2 FLit + \beta_3 RCCit + \beta_4 TLit + \beta_5 ACit * TLit + \beta_6 FLit * TLit + \beta_7 RCC * TL_{it} + \varepsilon_{it}$$

Y = Financial Growth of MSMEs

AC = Access to Credit

FL = Financial Literacy

RCC = Regulatory Compliance Costs

TL = Transactional Leadership Style (Moderating Variable)

C = Control Variable (Firm Size and Firm Age)

B_o = Constant

β1… β6 = Coefficients of the equations

ε = error term

3.15 Diagnostic Tests

Diagnostic tests for regression are procedures for examining the issues inherent in regression analysis and deciding whether certain assumptions are plausible (Fox, 2019). Before data analysis can begin, numerous assumptions about regression models must be satisfied. Linearity, normality, multicollinearity, and homoscedasticity are some of these assumptions (Hayes, 2018).

3.15.1 Normality

A normality test is used to decide whether sample data has been drawn from a normally distributed population. There are several methods of assessing whether data are normally distributed or not. They fall into two broad categories: graphical and statistical. Normality plays a vital role in predicting the scores of the dependent variable and also in knowing the shape of the distribution (Arkes, 2023). This study adopted Shapiro Wilk test to test for normality. It tells how well a theoretical distribution models the empirical data. The null hypothesis for this test is that the data are normally distributed. That is when $P > 0.05$, null hypothesis is accepted and data is said to be normally distributed. Gogtay and Thatte (2017) assert that the quantile-quantile plot is a graphical tool used to compare the ordered values of a variable with the quantiles of a given theoretical distribution, such as the normal distribution. If two distributions are identical, the points on the plot will create a straight line that passes through the origin

and has a slope of one. Skewness and kurtosis tests were utilized to assess the normalcy of the data.

3.15.2 Multicollinearity

Multicollinearity is the phenomenon in a multiple regression model where one independent variable may be accurately predicted from the analysis of the other variables with a certain degree of accuracy(Hair Jr et al., 2020). The data was analyzed for multicollinearity by evaluating the Variance Inflation Factor (VIF) and calculating the tolerance (1 / VIF). Collinearity is present among independent variables when the Variance Inflation Factor (VIF) exceeds a value of 3. The presence of multicollinearity was assessed in this study.

3.15.3 Homoscedasticity

In a linear regression model, it is assumed that the error term follows a normal distribution with a mean of zero and a constant variance, which is referred to as homoscedasticity. If the error term does not exhibit constant variance, it is referred to as heteroscedastic. Homoscedasticity refers to the property of a regression model where the error terms have constant variance across the whole range of the dependent variable. When the assumption of homoscedasticity is satisfied, the residuals exhibit a pattern resembling a less scattered cloud of dots (Kumar, 2018).

3.15.4. Linearity

Linear relationships can be represented graphically as a straight line connecting the variable and the constant, or mathematically as the independent variable multiplied by the slope coefficient, added to a constant, which determines the dependent variable (Kumari & Yadav, 2018). Linearity, in this context, pertains to the situation where a dependent variable has a linear correlation with one or more independent variables. This implies that the anticipated value of the dependent variable can be expressed as a

linear function of each independent variable, while keeping the other variables unchanged. In order to assess linearity, an ANOVA output table was generated using SPSS version 25.0 to analyze both the linear and nonlinear components of each given pair of variables. If the magnitude of the divergence from linearity exceeds 0.05, it indicates that the independent variables are linearly dependent. If the relationship between the independent variables and the dependent variable is not linear, then it is not the case.

Table 3.4:*Summary of Data Analysis Techniques*

Analysis	**Reason**	**Technique**	**Value**	**Source**
Reliability	Measures are free from error	Cronbach Alpha	> 0.7	Cronbach, 1951
Validity	Scale supported by data	Factor Analysis	Kaiser-Mayer-Olkin (KMO) > 0.5 Bartlett's test of Sphericity > 0.3 Communality > 0.3 Variance > 0.3	Kaiser, 1974 Bartlett, 1954 Hair *et al*, 2010
Outliers	Identify cases of extreme values in the variables	Mahalanobis D^2	P< 0.001	Hayes, 2013
Normality & Linearity	Ensure data is linear and normally distributed	Shapiro –Wilk test Skewness & Kurtosis Pearson Correlation Bell-Shaped Curve		Tabachnick and Fidell (2007) Pallant (2007) Osborne & Waters, 2002
Homoscedasticity	Determine whether DV displays an equal variance across number of IVs	Scatter Plots	P> 0.05	Hair *et al* 2010 Pallant, 2007
Multicollinearity	IV should be weakly related	VIF and Tolerance	VIF < 10 Tolerance > 4	Cooper & Schindler 2001
Demographics	Background information	Mean, SD, Frequency	N/A	
Model measurement	Test for Control, Direct and Moderating Variables	Hierarchical regression	P < 0.05	Cooper & Schindler 2001 Jose (2013) Hayes (2013)

3.16 Hypothesis Testing

A hypothesis is a formal query posed by a researcher to address an unknown population parameter in a research study. Hypothesis testing is the evaluation of a random sample to see if it provides supporting evidence for a hypothesis or not. A hierarchical multiple regression analysis was conducted. Regression analysis was employed to assess the relationship between each independent variable and the dependent variable, as well as the moderating variable.

3.17 Ethical Consideration

In conducting this research, there is neither intent nor interest in violating the rights and welfare of the research participants. The sole objective of this study was to contribute to the development of systematic and verifiable knowledge. In this regard, the information obtained from the research participants were kept private, anonymous and confidential. Before initiating the data collection process, it was imperative to obtain the requisite authorization from Moi University. Furthermore, it was imperative to obtain a research permission from the National Commission for Science, Technology, and Innovation (NACOSTI). The researcher aimed to address all ethical issues during the entire research process. During the development of the proposal, data collection, analysis and final thesis write up, plagiarism was avoided as much as possible by citing relevant sources and authorities of the information. The researcher sought consent from the participants before they were issued with questionnaires to fill. The respondents were informed of their right to voluntary consent or decline to participate and to withdraw participation at any time without penalty. Anonymity and confidentiality were upheld throughout the study by not disclosing the respondents name on the questionnaires.

CHAPTER FOUR
DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.0 Overview

Chapter four presents the research findings obtained using the methods mentioned in chapter three. The chapter centers on the examination, understanding, and discourse of the study's discoveries. The task encompasses the manipulation of data, analysis of response rate, handling of missing data, examination of demographic features of the respondents, and the presentation of descriptive and inferential statistical findings.

4.1 Response Rate

The response rate is a crucial factor in any research study as it directly impacts the validity, dependability, and reliability of the obtained results (Sataloff & Vontela, 2021). We thoroughly reviewed all the field questionnaires to verify the integrity and coherence of the data, excluding those that contained errors or erroneous information from the analysis. The response rate was determined by dividing the aggregate number of valid or useable questionnaires returned by research assistants by the total number of surveys administered. The study's objective was to obtain data from 394 participants, however, it managed to receive data from 325 participants. The overall response rate for the full sample was 82.49 percent, with 69 respondents being excluded owing to either not responding or filling out the survey incorrectly.

Hiebl and Richter (2018) state that a response rate exceeding 60% is deemed satisfactory for a social study, since it allows for the formulation of reliable research results. Hence, the researcher deemed the response rate of 82.69% to be satisfactory since it exceeded the threshold of 60% and would yield ample data for analysis and drawing inferences from the study.

Table 4.1 :*Response Rate*

	Count	Percentage
Distributed	394	100.00
Returned	325	82.49

Source: Field Data, 2024

4.2 Data Preparation, Screening and Cleaning

Data preparation refers to the systematic procedure of gathering, purifying, and merging data into a single file or data table, primarily intended for analysis purposes (Karen, 2019). The data was prepared for analysis by verifying that it satisfied the minimum criteria for qualitative and quantitative analysis. After receiving the questionnaires from the field, the researcher carefully scrutinized them to ensure that all the questions had been responded to. In addition, the researcher made a distinction between the questions that were not finished and those that were completely answered. This enabled the researcher to evaluate the accessibility, sufficiency, and suitability of the collected data in order to proceed with the data analysis process. This strategy also aided in evaluating the suitability of the proposed analysis methods in accordance with the feedback gathered. The process of cleaning and screening the data entailed verifying for discrepancies, absent responses, and other inaccuracies to guarantee precision and comprehensiveness. All of these processes were accomplished in preparation for data coding and entry.

4.3. Data Processing

The coding of responses was completed after the clear and complete questionnaire were selected. Coding is a process that entails the conversion of raw data into a format that is suitable for a computerized data file. This is achieved by assigning specific numbers or letters to each observation of a variable. Each item in the questionnaire was assigned

a code that upon completion was entered into a statistical analysis software package IBM SPSS version 26.

4.4 Missing Value Analysis

In order to assure the accuracy and reliability of this research, the researcher took proactive steps from the beginning to prevent any instances of missing data in the collected data. The biggest concern revealed by data analysis is the presence of missing data (Christopher et al., 2019). Chen (2022) emphasize that although the quantity of missing data is not a problem, we must not overlook its arrangement or structure. Little and Rubin (2019) suggest that missing data occurs when the necessary data for certain variables needed for data analysis is not available.

Roderick (2021) suggests that the most effective approach to prevent missing data problems is to implement a well-designed study that minimizes the likelihood of missing data. Utilizing solely complete and observed records in the analysis, particularly in a questionnaire, is the most straightforward approach for managing missing data (Roderick, 2021). The absence of data has a significant impact on the deduction and anticipation of the results (Lang & Little, 2018). Consequently, the researcher and his assistants made efforts to minimize the occurrence of missing values during the collection of questionnaires in the field. Upon receipt of the completed questionnaire, the researcher and research assistant expeditiously verified the precision of all questions. We directed the respondents' focus towards any items that may have been missed and politely asked them to complete the questionnaire with precision, adhering to the instructions given by Pigott (2019).The missing value analysis conducted revealed that there was no missing values detected (Appendix I).

4.5 Analysis of Outliers

An outlier refers to a data point that greatly deviates from the anticipated values or lies beyond the typical range. Outliers can function as markers of anomalies or data points that are not correlated with the rest of the dataset (Osborne & Overbay, 2019). It is crucial to screen the data for outliers because their presence would render the data non-normal, which goes against one of the assumptions of the study. In line with the recommendation proposed by Tabachnick and Fidell (2013), this study utilized Mahalanobis' D2 measure to identify and handle multivariate outliers. Therefore, we utilized linear regression techniques in SPSS to calculate Mahalanobis' D2, and then determined the Chi-square value. Consequently, a case was classified as a multivariate outlier if its D2 had a probability less than 0.001. Consequently, a total of sixteen (16) cases were recognized as significant anomalies. The researcher eliminated them from subsequent analysis and continued with the analysis utilizing 309 cases. The study revealed that the outliers were data points that exhibited a significant deviation from the normal distribution.

Table 4.2 :*Outlier Analysis Test*

	Minimum	Maximum	Mean	Std. Deviation	N
Mahal. Distance	.035	68.089	3.987	7.571	309

a. Dependent Variable: Financial growth

Source: Field Data, 2024

4.6 Respondents' Demographic Information

This section presents a detailed examination of the demographic characteristics of the participants in the research area. This information is essential because it forms the foundation for doing detailed analysis of the specific study objectives and their results using descriptive statistics, frequency tables, and percentages. Conducting a demographic survey is essential since it has a direct influence on the socioeconomic

behavior of the population. The justification for these lies in understanding the responders and their potential future prospects. This information provides vital insights about the characteristics and excellence of the participants, allowing for a well-informed interpretation. The study of the questionnaire data obtained from 309 participants centers on variables such as gender, education level, age of respondents, age of the firm, number of employees, business sector, and yearly revenue turnover.

4.6.1 Gender Distribution

Table 4.3 indicates the gender distribution of the respondents. Majority of the respondents were female, and they accounted for 53.4 percent (n = 165) while 46.6 percent of were male (n = 144). This shows that there is gender parity in the MSMEs sector indicating that with the implementation of the constitutional two thirds gender rule in Kenya, the society is slowly but surely embracing gender parity in this sector as more female are taking up work in the MSMEs sector.

4.6.2 Education Distribution

With respect to the level of education, the highest number of respondents representing 37.9% (n = 117) had undergraduate degrees while the lowest number of respondents representing 4.5% (n = 14) had Kenya Certificate of Primary Education qualification. The second highest number of respondents representing 19.1% (n = 59) had Kenya Certificate of Secondary Education qualification while those with Diploma qualification accounted for 17.5% (n = 54). Respondents with certificate qualification accounted for 15.9% (n = 49). Those with no formal education accounted for 5.2% (n =16) of the respondents. This suggests that the majority of the participants were educated and had no difficulty comprehending the questionnaire. Moreover, it is apparent that the respondents who were interviewed possessed the necessary skills to successfully manage their organizations.

4.6.3 Respondents Age Distribution

The study's findings reveal that the majority of the respondents, accounting for 35.9% (n=111), fell between the age range of 31-40. This was closely followed by respondents below the age of 30, representing 29.8% (n=92) of the total respondents. The third group of respondents consisted of individuals aged 41-50 years, with a total of 71 participants, accounting for 23% of the total respondents. The fourth group of respondents consisted of individuals aged between 51-59 years (n =27), accounting for 8.7% of the total respondents. The smallest number of respondents were those aged above 60 years (n =8), representing 2.6% of the total respondents. Therefore, the study has successfully caught the perspectives of many age groups within the community, which is crucial in the context of this research. Moreover, the findings revealed that a significant proportion of the participants (35.9%) were between the age range of 31-40 years, suggesting that individuals in this age group exhibit higher levels of productivity.

4.6.4 Firm Age Distribution

Firm age is the duration of time that has passed since the company establishment was founded. The data displayed in table 4.3 indicates that most respondents stated that the majority of the MSMEs (n = 84) had been operating for a duration of 1-3 years, accounting for 27.2% of the respondents. Subsequently, a group of respondents (n = 83), accounting for 26.9% of the total respondents, stated that their enterprises had been functioning for a duration of 4-6 years. Out of the total respondents in the study, 77 business establishments, which accounted for 24.9%, had been operating for a period of 7 to 10 years. Subsequently, there were 43 commercial establishments that had been operating for a duration of 11 to 14 years, accounting for 13.9% of the total number of interviewees. Out of the total number of firms interviewed, 22 of them, which accounted for 7.1%, had been operating for more than 15 years. The maturation of the

business results in the owner acquiring expertise and a wealth of information in financial management and other managerial domains.

4.6.5 Firm Size Distribution

Firm size is conceptualized as the number of employees in an MSME establishment. Results indicate that a majority of the MSMEs in the study area had employed between 1 and 10 employees (n = 189) representing 61.1%. This was followed by those MSMEs that had employed between 11 and 20 employees (n = 62) representing 20.1%. Those that had employed between 21 and 30 employees were (n = 19) representing 6.1% and those that had employed between 31 and 40 employees and 41-50 employees respectively were (n =15) representing 4.9%. MSMEs that had employed over 50 employees were (n =9) representing 2.9%. It is inferred from the finding that the study reached the entirety of MSMEs, with a majority being Micro, followed by Small, then Medium enterprises. The full scope of MSMEs in the study area can thus be deemed represented in this study. This can be attributed to ease of entry. It is generally easier and less costly to start a Micro or Small enterprise compared to Medium or Large enterprise. This means that more individuals are able to start their own businesses, resulting a higher number of mall enterprises. Micro and small enterprises are more flexible and able to adapt quickly to changing market conditions, making them appealing for entrepreneurs who want the freedom to innovate and pivot their business needed. Unlike medium and large enterprises, micro and small enterprises do not often face greater regulatory hurdles, capital requirements, and more complex operational needs.

4.6.6 Sector Distribution

On the distribution of the respondents based on the sectors categories, it was observed that majority of the MSMEs were operating in the Service sector (n = 67) representing 21.7% of the MSMEs establishment this was followed by those that were in the Retail and wholesale sector (n = 65) respectively representing 21%. Those that were operating in the Agri-business sector were (n = 54) representing 17.5% followed by those that were operating in the Manufacturing sector (n = 32) representing 10.4% of the MSMEs. Those that were operating in the ICT sector were (n =26) representing 8.4% of the MSMEs.

4.6.7 Turnover Distribution

With respect to the MSMEs turnover, the findings presented in table 4.3 show that a majority of the respondents said that their MSMEs establishment (n = 163) had turn over less than 500,000 Kes representing 52.7%. This was followed by those that had a turnover of between 500,000 and 1,900,000 Kes (n = 67) representing 21.7%. This was followed by those that had a turnover of between Kes 2,000,000 and 3,500,000 (n = 49) representing 15.9%. Further, the study findings revealed that those that had a turnover of between Kes 3,600,000 and 5,000,000 were (n = 20) representing 6.5%. Those that had turnover of over Kes 5,000,000 were (n =10) representing 3.2%. The turnover of Micro, Small, and Medium Enterprises (MSMEs) can vary greatly depending on the industry, location, and size of the business. Generally, MSMEs have lower turnovers compared to large-scale enterprises. On average, enterprises with significantly larger annual turnover tend to access credit with fewer collateral requirements.

Table 4.3 *:Respondents' Profile*

		Frequency	Percent
Gender	Male	144	46.6
	Female	165	53.4
	Total	**309**	**100.0**
Education	KCPE	14	4.5
	KCSE	59	19.1
	Certificate	49	15.9
	Diploma	54	17.5
	Undergraduate	117	37.9
	No Formal Education	16	5.2
	Total	**309**	**100.0**
Respondents Age	Below 30 Years	92	29.8
	31-40 Years	111	35.9
	41-50 Years	71	23.0
	51-59 Years	27	8.7
	Over 60 Years	8	2.6
	Total	**309**	**100.0**
Firm Age	1-3 Years	84	27.2
	4-6 Years	83	26.9
	7-10 Years	77	24.9
	11-14 Years	43	13.9
	Over 15 Years	22	7.1
	Total	**309**	**100.0**
Firm Size	1-10 Employees	189	61.1
	11-20 Employees	62	20.1
	21-30 Employees	19	6.1
	31-40 Employees	15	4.9
	41-50 Employees	15	4.9
	Over 50 Employees	9	2.9
	Total	**309**	**100.0**
Sector	Retail	65	21.0
	Wholesale	65	21.0
	Manufacturing	32	10.4
	Service	67	21.7
	Agri-Business	54	17.5
	ICT	26	8.4
	Total	**309**	**100.0**
Turnover	Below 500,000 Kes	163	52.7
	500,000-1,900,000 Kes	67	21.7
	2,000,000-3,500,00 Kes	49	15.9
	3,600,000-5,000,00 Kes	20	6.5
	Above 5,000,000 Kes	10	3.2
	Total	**309**	**100.0**

Source: Field Data, 2024

4.7. Reliability and Validity of Instruments

4.7.1. Reliability Analysis

Reliability pertains to the extent to which a measurement is devoid of errors and biases, guaranteeing its stability and consistency. Reliability, as described by Papadopoulos et al. (2018), pertains to the degree to which a measurement is unaffected by bias or errors, ensuring the measurement's stability and consistency. This study assessed the internal consistency of the data collection instrument by computing Cronbach's alpha coefficient, as suggested by Cronbach (1951) cited in (Cronbach, 1951; George & Mallery, 2018). Park (2021) define a questionnaire as highly trustworthy if it yields a Cronbach Alpha coefficient ranging from 0.82 to 1.00. It is considered to have sufficient reliability if the coefficient falls between 0.64 and 0.82, while a coefficient between 0.46 and 0.64 indicates low reliability. A questionnaire is deemed not reliable if the coefficient is between 0.10 and 0.46. The researcher utilized Likert-scale question items to assess the variables. The reliability coefficient results, as shown in Table 4.4, indicate that all the study variables exceeded the recommended threshold of 0.70. Specifically, access to credit had a reliability coefficient of 0.768, financial literacy had a reliability coefficient of 0.760, regulatory compliance costs had a reliability coefficient of 0.739, transactional leadership style had a reliability coefficient of 0.813, and financial growth had a reliability coefficient of 0.809.

Table 4.4 :*Reliability Analysis*

Variable	Cronbach's Alpha	No of Items	Comment
Access to Credit	.768	5	Reliable
Financial Literacy	.760	6	Reliable
Regulatory Compliance Costs	.739	7	Reliable
Transactional Leadership Style	.813	14	Reliable
Financial Growth	.809	6	Reliable

Source: Field Data, 2024

4.7.2. Validity

The study utilized factor analysis to examine the suggested constructs within each variable and remove any redundant components in the questionnaire to evaluate its validity. The instrument's validity was evaluated by Bartlett's Test of Sphericity, as described by Muhammad (2009). We conducted principal component analysis with varimax rotation on all variables to discover elements within each construct. Black and Babin (2019) eliminated any items that had a loading value lower than 0.40. Kherif and Latypova (2020) assert that the main goal of Principal Component Analysis (PCA) is to extract relevant information from data and visually depict the similarities between observations and variables. The factor analysis yielded several statistical results, including the KMO measure of sample adequacy, Bartlett's test of sphericity, the rotated component matrix, the total variance explained, and the scree plot.

Table 4.3 shows that the investigation found a KMO test statistic of 0.789. Kaiser (1974) said that KMO values exceeding 0.5 are statistically adequate. The score of 0.789 in this study suggests that the sampling was adequate. In addition to the KMO test, the Bartlett's test of sphericity yielded a very significant result with a statistic value of 6222.926 at 703 degrees of freedom and a p-value of less than 0.05. The Bartlett's Test of Sphericity yielded a p-value of 0.000, suggesting a substantial correlation across the components in the dataset. Kothari (2014) stated that the KMO test and Bartlett's test should have a significance level of less than 0.05 in order to be considered acceptable. These findings warrant more statistical analysis to be performed.

Table 4.5 ***:****KMO and Bartlett's Test*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.789
Bartlett's Test of Sphericity	Approx. Chi-Square	6222.926
	Df	703
	Sig.	.000

Source: Field Data, 2024

Table 4.6 shows that the factor analysis resulted in ten components with Eigen values greater than 1.0. Table 4.6 displays the factor loading of each item for all variables, arranged in order of magnitude. The eigen values for each factor exceed 1.0 (9.30, 3.68, 2.48, 2.27, 1.82, 1.58, 1.55, 1.33, 1.21, and 1.02), indicating that each factor can account for more variance than a single variable. The total proportion of variance accounted for by the nine components is 68.44 percent. Put simply, these ten factors can account for or explain more than 68.44 percent of the common variation shared by the 38 items. The results confirm its validity.

Table 4.6 ***:****Total Variance Explained*

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	9.030	23.764	23.764	9.030	23.764	23.764	3.133	8.246	8.246
2	3.689	9.708	33.472	3.689	9.708	33.472	3.075	8.092	16.337
3	2.483	6.533	40.005	2.483	6.533	40.005	3.029	7.972	24.309
4	2.273	5.982	45.986	2.273	5.982	45.986	2.838	7.469	31.779
5	1.821	4.793	50.779	1.821	4.793	50.779	2.816	7.411	39.189
6	1.580	4.158	54.938	1.580	4.158	54.938	2.694	7.089	46.278
7	1.559	4.103	59.040	1.559	4.103	59.040	2.460	6.473	52.751
8	1.330	3.499	62.540	1.330	3.499	62.540	2.349	6.182	58.933
9	1.219	3.208	65.748	1.219	3.208	65.748	2.287	6.020	64.953
10	1.023	2.693	68.441	1.023	2.693	68.441	1.325	3.488	68.441

Extraction Method: Principal Component Analysis.

Source: Field Data, 2024

Table 4.7 displays the communalities following rotation, which depict the interconnections among the questions in the questionnaire. It quantifies the amount of variance in each variable that is explained. All the variables were kept for further examination. All the communalities for the retained factor are over 0.4, as recommended by Greenacre et al. (2022). The minimum level of communality is 0.549, indicating that the cost of acquiring our business licenses and permits is reasonably

priced. On the other hand, the maximum level of communality is 0.835, suggesting that I only take action when things start to go wrong.

Table 4.7 *:Communalities*

	Initial	Extraction
AC1	1.000	.775
AC2	1.000	.735
AC3	1.000	.670
AC4	1.000	.599
AC5	1.000	.638
FL1	1.000	.628
FL2	1.000	.748
FL3	1.000	.592
FL4	1.000	.602
FL5	1.000	.749
FL6	1.000	.637
LRC1	1.000	.712
LRC2	1.000	.557
LRC3	1.000	.786
LRC4	1.000	.549
LRC5	1.000	.754
LRC6	1.000	.592
LRC7	1.000	.650
TL1	1.000	.705
TL2	1.000	.741
TL3	1.000	.668
TL4	1.000	.625
TL5	1.000	.577
TL6	1.000	.677
TL7	1.000	.775
TL8	1.000	.695
TL9	1.000	.697
TL10	1.000	.694
TL11	1.000	.744
TL12	1.000	.835
TL13	1.000	.767
TL14	1.000	.747
FG1	1.000	.633
FG2	1.000	.749
FG3	1.000	.726
FG4	1.000	.670
FG5	1.000	.656
FG6	1.000	.653

Extraction Method: Principal Component Analysis.

Source: Field Data, 2024

Shrestha (2021) discovered that the Kaiser criterion has a propensity to exaggerate the number of components. Mooi et al. (2018) proposed the utilization of a scree plot to

ascertain the optimal number of statements to retain in order to circumvent this constraint. On a scatter plot, we plot the eigenvalues against the number of components, and the curve demonstrates a point of inflection. Consequently, we utilize this data to determine the most effective number of components to extract. The optimal number of factors to retain is indicated by the components of a scree plot prior to the point of inflection. Therefore, the components suggest that they should not be retained, as they indicate that each subsequent factor accounts for decreasing and smaller quantities beyond the point of inflection.

Egbert and Staples (2019) noted that the plot frequently demonstrates a distinct discontinuity between the prominent components on the vertical slope and the other components at the base, which exhibit a consistent fall. Ten (10) components precede the point of inflection on the scree diagram in Figure 4.1 of Appendix IV, according to the current data. As a consequence, we only considered ten (10) descriptors that were suitable for the merged data set. The scree plot confirms that nine components should be retained, as evidenced by the total variance explained by eigenvalues greater than 1.

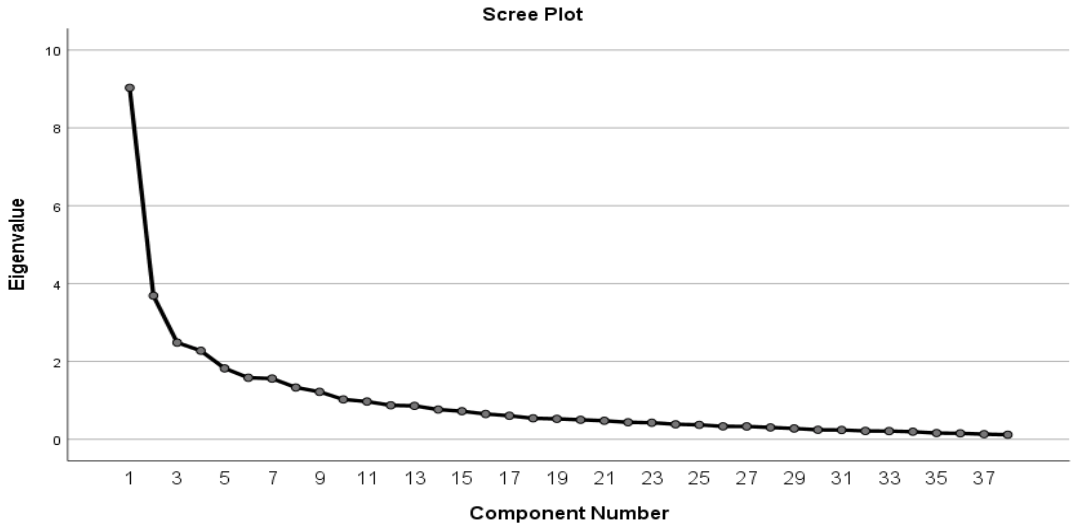

Figure 4.1 *Scree Plot*
Source: Field Data, 2024

Table 4.8 presents the outcomes of the rotated component matrix, which was obtained by Varimax with Kaiser normalization rotation. The components were extracted using the principal component analysis extraction method. The study eliminated any loadings below 0.30 based on the Field (2009) suggestion, as presented in Table 4.8, which displays the loadings of each variable on each factor. The concept of a rotated component matrix is to decrease the number of components that exhibit a strong loading on the variables being studied.

Table 4.8 *:Rotated Component Matrix*

	Component									
	1	2	3	4	5	6	7	8	9	10
TL13	.821									
TL14	.797									
TL10	.555									
TL4	.474									
FG2		.815								
FG3		.789								
FG1		.662								
FG4		.627								
FG5		.546								
TL2			.776							
TL3			.739							
TL1			.578							
TL5			.491							
AC5			.473							
AC2				.807						
AC1				.791						
AC3				.702						
AC4				.652						
LRC5					.742					
LRC7					.684					
LRC6					.618					
FL5					.567	.441				
FL2						.812				
FL3						.667				
FL4						.640				
FL1						.512				
FL6						.469				
LRC1							.816			
LRC2							.652			
LRC3							.564			
TL7								.785		
TL8								.733		
TL9								.623		
TL6								.608		
TL12									.846	
TL11									.801	
LRC4									.529	.471

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 9 iterations.

Source: Field Data, 2024

4.8 Descriptive Statistics of Study Variables

This section highlights the descriptive results of the variables under study. Consequently, access to credit, financial literacy, regulatory compliance costs, transactional leadership style and financial growth of MSMEs were the main variables of this study that were discussed.

4.8.1 Descriptive Statistics Results for Financial Growth of MSMEs

The financial growth of MSMEs was the dependent variable of the study. The respondents had an obligation to indicate the degree of agreement with statements regarding the financial expansion of MSMEs in the study area. They were requested to evaluate their responses on a scale of 1-5, with 1 representing "Strongly disagree," 2 representing "Disagree," 3 representing "Undecided," 4 representing "Agree," and 5 representing "Strongly agree," in relation to the growth of MSMEs. The responses obtained for the item on the growth of MSMEs are depicted in Table 4.11.

Table 4.9 illustrates the findings. As indicated by the results, the majority of respondents were uncertain whether the incomes they generated frequently exceeded the expenses they incurred during the last three consecutive years of operation (M=3.78, SD=1.017). Additionally, the results indicate that the respondents were uncertain about the extent to which their gross profit margin had remained relatively high over the past three years of operation (M=3.46, SD=0.951). The majority of respondents were uncertain about the assertion that their business had consistently maintained a high net profit margin over the past three years (M=3.31, SD= 1.099). The results also indicated that the respondents were uncertain about the extent to which the business had experienced a progressive increase in return on assets during its most recent years of operation (M=3.60, SD= 0.970). The results also indicate that the respondents were uncertain about the assertion that the return on investment had increased in recent years

of operation (M=3.52, SD=1.052). Lastly, the respondents were uncertain about the extent to which they frequently reinvested profits generated in recent years to enhance their business operations (M=3.82, SD= 1.130).

The respondents were uncertain about the financial growth of the MSMEs, as evidenced by the aggregate mean of (M=3.58, SD=1.04). Additionally, the skewness (asymmetry) and kurtosis (peakedness) values in Table 4.9 were within the acceptable range of (SK = -0.57, KS = -0.22), which is not greater than 2 for skewness and not greater than 7 for kurtosis in this study. (Watkins, 2018; Kim, 2013). Consequently, the responses to the items used to assess the perception of the financial growth of MSMEs in Kenya indicate that the normality assumption has not been violated.

Table 4. 9 :*Descriptive Statistics Results for Financial Growth of MSMEs*

	Mean	Std. Deviation	Skewness	Kurtosis
Our incomes often exceed the expenses we incur over the last three consecutive years while we have been in operation.	3.78	1.017	-.543	-.407
Our gross profit margin has remained relatively high over the last three years of our operation.	3.46	.951	-.318	-.399
We have consistently recorded high net profits margin over last three recent years.	3.31	1.099	-.241	-.840
Our business has recorded gradual increase on return on assets over recent years we have been on operation.	3.60	.970	-.612	-.121
Our return on investment has been on the rise over the recent years of our operation.	3.52	1.052	-.569	-.188
We often plough back profits made over the recent years to boost our business operations	3.82	1.130	-1.113	.631
Growth of MSMEs	**3.58**	**1.04**	**-0.57**	**-0.22**

Source: Field Data, 2024

4.8.2 Descriptive Statistics Results for Access to Credit

The first independent variable in this study was the accessibility of credit, which was assessed using five items. The participants were instructed to assess their level of agreement with the statements regarding access to credit using a 5-point scale ranging from 1 (Strongly disagree) to 5 (Strongly agree). The results of the assertions about access to credit are displayed in Table 4.10 using a five-point Likert scale. The results suggest that the participants were uncertain about the belief that there is simplicity in obtaining loans for Micro, Small, and Medium enterprises (mean=3.76, standard deviation=1.115). Furthermore, the survey found that the respondents were indecisive regarding the statement that financial institutions have made the process of evaluating credit for micro, small, and medium enterprises more adaptable. The mean score for this statement was 3.68, with a standard deviation of 1.035. The findings additionally suggest that the majority of participants were indecisive on the availability of asset funding for micro, small, and medium enterprises seeking to expand their business (M=3.63, SD=1.209). The majority of respondents expressed uncertainty with the notion that micro, small, and medium enterprises had enhanced their net profit as a result of gaining access to credit facilities (M=3.73, SD=1.074). The data additionally indicated that the respondents were indecisive on the viewpoint (M=3.92, SD=1.312). The respondents' aggregate mean of 3.74 with a standard deviation of 1.15 indicates that they were uncertain about their access to credit. In Table 4.10, the skewness (asymmetry) and kurtosis (peakedness) values were found to be within the acceptable range. Specifically, the skewness value (SK) was -0.79 and the kurtosis value (KS) was -0.18. Both of these values were less than 2 for skewness and less than 7 for kurtosis, which are considered acceptable. (Kim, 2013; Watkins, 2018). Thus, the responses to

the items used to gauge perception of loan accessed by MSMEs in Kenya indicate that the assumption of normality does not seem to have been violated.

Table 4. 10 :*Descriptive Statistics Results for Access to Credit*

	Mean	Std. Deviation	Skewness	Kurtosis
There is ease in credit access for Micro, small and medium Enterprises	3.76	1.115	-.910	.104
Business evaluation for credit done by financial Institution has been made flexible for Micro, small and medium Enterprises	3.68	1.035	-.630	-.130
There is asset funding for Micro, small and medium Enterprises that wants to grow their business	3.63	1.209	-.660	-.497
Micro, small and medium Enterprises has improved the net profit due access to credit facilities	3.73	1.074	-.739	-.076
Large enterprises are likely to access credit easily compared to medium and small enterprises	3.92	1.312	-.993	-.294
Access to Credit	**3.74**	**1.15**	**-0.79**	**-0.18**

Source: Field Data, 2024

4.8.3. Descriptive Statistics Results for Financial Literacy

The study included financial literacy as the second independent variable, which was assessed using five items. The participants were instructed to assess their level of agreement with the statements on financial literacy using a 5-point scale ranging from 1 (Strongly disagree) to 5 (Strongly agree). The results of the assertions about access to credit are displayed in Table 4.11 using a five-point Likert scale. The results suggest that the participants were uncertain about the idea that there was a connection between the financial knowledge of small and medium-sized enterprise (SME) owners and the growth of SMEs. The mean score was 3.99 with a standard deviation of 0.919. The majority of participants expressed uncertainty on the belief that financial literacy had facilitated the ability of SME management to create the financial statements (mean = 3.85, standard deviation = 0.875). The results also suggest that the majority of respondents were uncertain about whether their financial literacy enabled them to file tax returns without seeking assistance from a consultant (M=3.69, SD=1.126). In addition, the respondents expressed uncertainty over the belief that financial literacy

has provided MSMEs management with the essential understanding of accounting for transactions in their organization (M=3.98, SD= 0.967). Furthermore, the survey found that the respondents unanimously agreed that financial literacy significantly contributed to the development of MSMEs, with a mean score of 4.00 and a standard deviation of 1.032. The survey results showed that the respondents were uncertain about whether financial literacy has provided them with the essential abilities to manage a firm (mean=3.83, standard deviation=1.182).

The respondents' aggregate mean of 3.89, with a standard deviation of 1.02, indicates that they were uncertain about their access to credit. In Table 4.11, the skewness (asymmetry) and kurtosis (peakedness) values were found to be within the permissible range. The skewness value (SK) was -0.97, which is less than 2, and the kurtosis value (KS) was 0.60, which is also less than 7. (Kim, 2013; Watkins, 2018). Hence, the responses obtained from the items used to assess the impression of financial literacy among MSMEs in Kenya indicate that the premise of normalcy does not seem to have been violated.

Table 4.11:*Descriptive Statistics Results for Financial Literacy*

	Mean	Std. Deviation	Skewness	Kurtosis
There is a relationship between SME owners' financial literacy and SME Growth	3.99	.919	-.948	.716
Financial literacy has enabled SME management to prepare the financial statements	3.85	.875	-.899	.979
Through Financial literacy, we are to file the tax returns without engaging consultant	3.69	1.126	-.823	.108
Financial literacy has equipped SME management the necessary knowledge on accounting for the transaction in my business	3.98	.967	-.981	.663
Financial literacy plays a major role for the growth of our SME	4.00	1.032	-1.071	.660
Financial literacy has equipped me with the necessary skills on how to run a business	3.83	1.182	-1.093	.485
Financial Literacy	**3.89**	**1.02**	**-0.97**	**0.60**

Source: Field Data, 2024

4.8.4. Descriptive Statistics Results for Regulatory Compliance Costs

The study included regulatory compliance costs as the third independent variable, which was assessed using five items. The participants were instructed to assess their level of agreement with the statements regarding regulatory compliance costs using a 5-point scale ranging from 1 (Strongly disagree) to 5 (Strongly agree). The results of the statements regarding regulatory compliance cost are shown in Table 4.12, using a five-point Likert scale. The results suggest that the participants were uncertain about whether the registration requirements were expensive and therefore a barrier for many MSMEs (mean = 3.94, standard deviation = 1.078). Similarly, the results indicated that the participants were uncertain about the impact of needing multiple licenses and trade permissions on the expenses associated with initiating and operating MSMEs (M=3.80, SD= 1.044). The majority of the participants were indecisive about the claim that the intricacy of the licensing procedures compelled the entrepreneur to bypass certain steps, resulting in significant expenses due to the imposed penalties (mean=3.78, standard deviation=1.163). In addition, the survey found that most of the participants were uncertain about the assertion that the expense of acquiring our business licenses and permissions is reasonably priced (M=3.18, SD= 1.209). In addition, the respondents expressed uncertainty over the perception that the government's taxes and levies on their firm were high, with a mean score of 3.92 and a standard deviation of 1.081. The results suggest that the participants were uncertain about the belief that the expense of documenting tax returns was relatively high for MSMEs (M=3.54, SD=1.129). Furthermore, the study found that the administrative expenses associated with advertising and publicity for MSMEs were substantial (mean = 3.62, standard deviation = 1.152).

The respondents' aggregate mean of 3.68, with a standard deviation of 1.12, indicates that they were uncertain about their access to credit. In Table 4.12, the skewness (asymmetry) and kurtosis (peakedness) values were found to be within the permissible range. Specifically, the skewness value (SK = -0.77) is not greater than 2, and the kurtosis value (KS = -0.06) is not greater than 7. (Kim, 2013; Watkins, 2018). Hence, the responses on the items used to assess the perception of regulatory compliance costs by MSMEs in Kenya indicate that the premise of normalcy does not seem to have been violated.

Table 4.12

Descriptive Statistics Results for Regulatory Compliance Costs

	Mean	Std. Deviation	Skewness	Kurtosis
The cost of the registration requirements is high and hence an hindrance to many MSMEs	3.94	1.078	-.958	.229
The requirement to possess a wide variety of licenses and trade permits for legitimacy affects the cost of starting and running MSMEs	3.80	1.044	-.866	.319
The complexity of the licensing procedures forces the entrepreneur to evade some of the procedures, which in the long run ends up being costly due to the penalties imposed	3.78	1.163	-.879	.023
The cost of obtaining our business licenses and permits is affordable	3.18	1.209	-.241	-.854
The taxes and levies imposed by the government on our business are high	3.92	1.081	-.992	.316
The cost of documenting tax return is quite high for MSMEs	3.54	1.129	-.624	-.329
Changes in legislation both in County and National level increase the amount of regulatory cost hence making it unaffordable?	3.62	1.152	-.795	-.141
Regulatory compliance costs	**3.68**	**1.12**	**-0.77**	**-0.06**

Source: Field Data, 2024

4.8.5. Descriptive Statistics Results for Transactional Leadership Style

The fourth independent variable of this study was transactional leadership style which was measured using five items. The respondents were required to rate the extent to which they agree on the statements on transactional leadership style using a scale of 1-5 with (1 Strongly disagree, 2- Disagree, 3- undecided, 4- Agree and 5- Strongly agree). Table 4.13 presents the findings of the statements posed concerning the transactional leadership style on a five-point Likert scale. The findings indicate that the respondents were in agreement with the view that they were in satisfaction when others meet expectations (M=4.33, SD= 0.671); that they made it clear what one can expect to receive when performance goals were achieved (M=4.15, SD= 0.840); that they provided employees with assistance in exchange for their efforts (M=4.02, SD= 0.877) and that they were satisfied when employees meet agreed upon standards (M=4.14, SD= 0.971) respectively. The findings indicate that the respondents were undecided on the view that they provided recognition or rewards when employees reached their goals (M=3.99, SD= 1.072); that they directed attention toward those who failed to meet firm's standards (M=3.79, SD= 1.112); that they kept track of all mistakes M=3.38, SD= 1.188); that they focused attention on mistakes done by employees (M=3.48, SD= 1.172);that they concentrated full attention on dealing with employee's failures (M=3.42, SD= 1.281) and that they provided the employees with new ways of solving organization problems (M=3.92, SD= 1.125) respectively.

Further the study established that the respondents disagreed regarding the statements that they did not interfere until problems became serious (M=2.85, SD= 1.472) and that they waited for things to go wrong before taking action (M=2.48, SD= 1.362) respectively. The study indicated that the respondents were undecided regarding the statements that they addressed problems and concerns that arose at the workplace

(M=3.80, SD= 1.181) and that they avoided making prompt decisions (M=3.80, SD= 1.181) respectively.

The overall mean of (M=3.67, SD=1.11) shows the respondents were unsure on access to credit. Further, the values of the skewness (asymmetry) and kurtosis (peakedness) as displayed in Table 4.13 were within the acceptable values of (SK = -0.71, KS = -0.14) are not larger than 2 for skewness and not larger than 7 for kurtosis. (Kim, 2013; Watkins, 2018). Therefore, the responses on the items used to measure perception on transactional leadership style by MSMEs in Kenya, suggests that the normality assumption appears not to have been violated.

Table 4. 13 :*Descriptive Statistics Results for Transactional Leadership Style*

	Mean	**Std. Deviation**	**Skewness**	**Kurtosis**
I am satisfaction when others meet expectations	4.33	.671	-1.029	1.863
I make it clear what one can expect to receive when performance goals are achieved	4.15	.840	-1.281	2.546
I provide employees with assistance in exchange for their efforts	4.02	.877	-.916	.674
I am satisfied when employees meet agreed upon standards	4.14	.971	-1.197	1.003
I provide recognition or rewards when employees reach their goals.	3.99	1.072	-1.053	.509
I direct attention toward those who fail to meet firm's standards	3.79	1.112	-.739	-.217
I keep track of all mistakes	3.38	1.188	-.634	-.456
I focus attention on mistakes done by employees	3.48	1.172	-.556	-.559
I concentrate full attention on dealing with employee's failures	3.42	1.281	-.536	-.838
I provide the employees with new ways of solving organization problems	3.92	1.125	-1.112	.559
I prefer to wait until issues reach a critical point before getting involved.	2.85	1.472	.210	-1.413
I prefer to be proactive and take action before any issues arise.	2.48	1.362	.475	-1.073
I tackle any issues or concerns that come up in the workplace.	3.80	1.181	-.879	-.180
I try to avoid making decisions in a hurry.	3.59	1.220	-.691	-.423
Transactional Leadership	**3.67**	**1.11**	**-0.71**	**0.14**

Source: Field Data, 2024

4.9. Assumptions of Regression Model

Williams et al. (2019), along with many other scholars, highlights the significance of confirming if the data is consistent with the assumptions of the statistical processes that was used in the study. Tests of assumptions are important for the examiner to verify the characteristics of the data and determine the appropriate model for the study, which guarantees unbiased, consistent, and efficient estimations. Greenacre et al. (2022) noted that there has been a significant amount of misconception about the use of statistical tests, confidence intervals, and statistical power. Therefore, they advise exercising caution when drawing conclusions in the field of social research.

The study conducted tests on the regression assumptions to assess the degree of conformity between the data and the assumptions. Deviation from assumptions can lead to distorted estimates of relationships (distorted standard errors), unreliable confidence intervals, and significance tests (Osborne & Waters, 2019). The four assumptions of multiple regressions are linearity, homoscedasticity, normality, and collinearity (Schmidt & Finan, 2018).

4.9.1. Normality Test

The assumption of normality is crucial in multivariate analysis (Khatun, 2021). We make the assumption that the errors in predicting the value of the dependent variable follow a normal distribution. The term "normality" refers to the symmetrical distribution of scores of a continuous variable around the average value. The residuals or error terms resulting from the discrepancy between the observed value of the dependent variable and the independent variable should conform to a normal distribution.

Schmidt and Finan (2018) argue that research should not solely depend on graphical techniques to analyze data distribution. Instead, they suggest including statistical tools

and examining the shape factors, such as skewness and kurtosis, in the coefficients. This study applied statistical and graphical tests to each variable under examination to see if they followed a normal distribution. The study employed skewness, kurtosis, and the Shapiro-Wilks test to assess the normality of the data.

Table 4.14 ***:****Test for Normality*

	Shapiro-Wilks statistics	Sig. Shapiro W	N	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
			Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
CA	.967	.000	309	5.00	3.7968	.73528	-.407	.139	-.486	.276
FL	.956	.000	309	5.00	3.8894	.68948	-.621	.139	.203	.276
LRC	.974	.000	309	5.00	3.6838	.70098	-.426	.139	-.214	.276
TL	.965	.000	309	5.00	3.6676	.60920	-.605	.139	1.205	.276
FG	.966	.000	309	5.00	3.5820	.74252	-.494	.139	.084	.276
Valid N (listwise)			309							

Source: Field Data, 2024

Hernandez (2021) state that data is considered normal if its distribution follows a normal distribution in each individual item and in all linear combinations of items. The normal distribution is characterized by a symmetrical bell-shaped curve, with a mean (μ) of 0 and a variance (σ) of 1. A histogram, depicted in Figure 4.2, is a visual depiction of the normal distribution of a quantity. This demonstrates the perceived simplicity of use while assuming a normal distribution, as illustrated by the bell-shaped curve.

The distribution's symmetry, depicted in Figure 4.2 above, is referred to as skewness. A distribution that is positively skewed is characterized by scores that are concentrated towards the left side and a tail that extends towards the right. On the other hand, a distribution that is negatively skewed is characterized by scores that are concentrated

towards the right side and a tail that extends towards the left. All variables in table 4.14 of this investigation exhibited skewness values that fell within the usual range of +3 or -3 standard deviations, as defined by Hair et al. (2006). Skewness statistics that deviate from this range should be examined. The data exhibited a range of values from -0.407 to -0.621. According to Tsagris and Pandis (2021), the presence of negative or positive skewness is not problematic as long as it falls within the normal range.

Kurtosis is a statistical measure that quantifies the degree of peakedness in a distribution. Positive kurtosis values indicate a distribution with a pronounced peak, whereas negative kurtosis values indicate a distribution that is relatively flat. The field data indicates that the kurtosis spans from -0.214 to 1.205. This suggests that the variables fall within the range specified in table 4.11. According to Tsagris and Pandis (2021), the presence of negative or positive skewness is not a concern unless it falls outside the usual range.

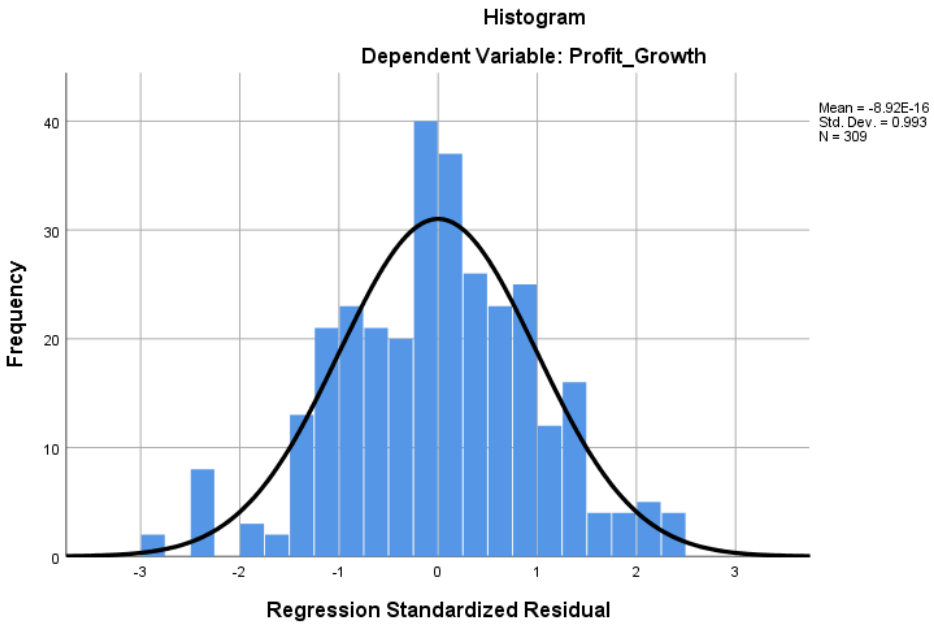

Figure 4.2 *Normality Curve*
Source: Field Data, 2024

4.9.2 Linearity Test

Generally, the linearity assumption posits that the response variable can be represented as a function of the predictor variables. Hence, multiple regression can be employed to evaluate the linear correlation between the dependent and independent variables. It is crucial to test for linearity since other aspects of the general linear model, such as correlation and regression, depend on the assumption of linearity (Osborne & Waters, 2019).

ANOVA and other statistical tests available in SPSS can be utilized to examine the presence of linearity in data (Kafle, 2019). When performing an analysis of variance (ANOVA) to assess linearity, a widely accepted criterion is that if the ρ-value is below 0.05, the association between the independent and dependent variables is deemed linear. On the other hand, if the ρ-value exceeds 0.05, it suggests the presence of nonlinearity (Roni & Djajadikerta, 2021).

The table below shows the results of tests for linearity, indicating a linear correlation between access to credit and financial growth ($F = 61.767$, $p = .000$). Furthermore, there exists a direct correlation between financial literacy and financial growth, as evidenced by the statistical analysis ($F = 36.899$, $p = .000$). Moreover, the findings suggest that there is a direct correlation between the expenses incurred for regulatory compliance cost and the rate of financial growth ($F = 101.260$, $p = .000$). Furthermore, it has been determined that there exists a direct correlation between transactional leadership style and financial growth, as evidenced by the statistical analysis ($F = 225.388$, $p = .000$).

It is noted that the beta values for the association between financial growth and each of the predictor factors, as described in Table 4.10, are nearly identical to the correlation coefficient (Pearson's r). This suggests a linear link between the variables (Hahs-Vaughn & Lomax, 2020). Overall, the results demonstrated a substantial linear

correlation between all the predictor factors and the predicted variable (Financial growth). This indicated that the linearity assumption was not violated. This implies that the presence of a linear relationship between the predictor factors and the response variable allowed the researcher to do additional regression analysis to make inferences about the causal relationship between the variables in the study.

Table 4. 15 :*Linearity Test*

		ANOVA		Measures of Association	
		F	Sig.	R	Eta
Access to Credit* Financial growth	Linearity	61.767	.000	0.396	0.507
	Deviation from Linearity	2.841	.001		
Financial Literacy* Financial growth	Linearity	36.899	.000	0.324	0.413
	Deviation from Linearity	1.439	.122		
Legal Regulatory compliance costs * Financial growth	Linearity	101.260	.000	0.456	0.641
	Deviation from Linearity	4.949	.000		
Transactional Leadership Style * Financial growth	Linearity	225.388	.000	0.618	0.732
	Deviation from Linearity	2.778	.000		

Source: Field Data, 2024

In this study, the linearity assumption was assessed by visually examining the P-P plot of the scores, which were expected to follow a straight line. Additionally, the coefficient of determination (R2) was calculated to further evaluate linearity, as depicted in Figure 4.3. Linear models provide predictions by fitting a straight line that has a constant slope, representing the change in the dependent variable for a constant change in the independent variable.

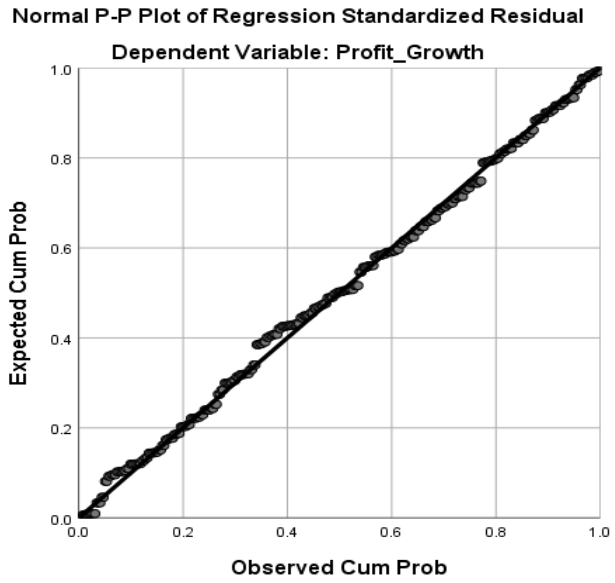

Figure 4.3 :*P-P Plots for Linearity Test*

4.9.3. Homoscedasticity Test

Homoscedasticity assumes that the mistakes have identical variance across all levels of the independent variables (Osborne & Waters, 2019). Researchers make the assumption that errors are evenly distributed throughout the variables (Keith, 2006). This is apparent when the dispersion around the regression line is consistent across all values of the predictor variable. Homoscedasticity was assessed by visually examining a plot of the standardized residuals against the regression standardized predicted value, as described by Osborne and Waters (2002). The Levene's statistic was employed to test the assumption of homoscedasticity, which refers to the equality of variances.

A statistically significant Levene's Test for Equality of Variances at $\alpha = .05$ ($p < 0.05$) suggests that the group variances are uneven or heteroscedastic, violating the crucial assumption of homoscedasticity in linear regression models. The results presented in Table 4.16 indicate that, according to Levene's statistic, there is no issue of homoscedasticity. This is supported by the fact that all the variables have p-values greater than 0.05.

Table 4.16:*Homoscedasticity Test*

	Levene Statistic	df1	df2	Sig.
Access to Credit	.165	1	307	.685
Financial Literacy	.089	1	307	.766
Regulatory Compliance Costs	.066	1	307	.798
Transactional Leadership Style	15.851	1	307	.791
Financial Growth	.126	1	307	.723

Source: Field Data, 2024

4.9.4. Multicollinearity Test

Multicollinearity refers to the absence of association between independent variables (Williams *et al.,* 2019). Multicollinearity occurs when there are high correlations between numerous independent variables, or when one independent variable is almost a linear combination of other independent variables (Williams *et al.,* 2019). We utilized the idea of tolerance and its counterpart, the variance inflation factor (VIF), to detect the existence of multicollinearity. In order to determine multi-collinearity, a tolerance value greater than 0.2 and a VIF value lower than 10 are used as thresholds (Schmidt & Finan, 2018). The diagnosis was conducted using tolerance and VIF statistics. The multicollinearity test findings in Table 4.20 indicate that the tolerances of the four structures varied between 0.631 and 0.677. The VIF scores varied between 1.477 and 1.584. The results fell within the usual range, suggesting that there was no presence of multicollinearity among the explanatory factors.

Table 4.17 :*Multicollinearity Test*

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Access to Credit	.677	1.477
	Financial Literacy	.653	1.530
	Regulatory Compliance Cost	.675	1.481
	Transactional Leadership Style	.631	1.584

Source: Field Data, 2024

4.10 Correlation Analysis

A correlation analysis was performed to ascertain the presence of a relationship between variables and to identify any instances of multicollinearity among the variables. The study utilized the Pearson product moment correlation coefficient (r) to determine the correlation between the variables of interest in our analysis. The correlation coefficient measures the magnitude and direction of the relationship between the variables being studied. The correlation coefficient (ρ) ranges from -1 to +1. A score of +1 indicates a flawless positive correlation, whereas a value of -1 indicates a flawless negative correlation. Numbers in close proximity to zero are regarded as having a weak correlation, whereas numbers that are significantly different from zero indicate a strong correlation.

The findings presented in Table 4.17 demonstrate that all parameters, except for business size, exhibited a significant correlation with financial growth. Notably, transactional leadership style displayed the strongest link, with a correlation coefficient of 0.566 and a significance level of $p<0.01$. Subsequently, access to credit ($r = 0.482$, $p< 0.01$), regulatory compliance costs ($r = 0.456$, $p< 0.01$), financial literacy ($r = 0.358$, $p< 0.01$), and firm age ($r = 0.253$, $p< 0.01$) were observed. The interaction effects of

X1 (r= -0.150, p< 0.01), X2 (r= -0.295, p< 0.01), and X3 (r= -0.317, p< 0.01) were all statistically significant and negatively correlated.

Table 4.18 :*Correlation Analysis*

	FG	FA	FS	AC	FL	CRC	TLS	X1	X2	X3
Financial Growth	1									
Firm Age	.253**	1								
Firm Size	.109	.467**	1							
Access to Credit	.482**	.201**	.076	1						
Financial Literacy	.358**	.144*	-.052	.518**	1					
Compliance Regulatory Cost	.374**	.075	-.005	.357**	.406**	1				
Transactional Leadership Style	.566**	.108	.005	.428**	.438**	.531**	1			
X1	-.150**	.066	.119*	-.231**	-.157**	-.223**	-.296**	1		
X2	-.295**	.016	.177**	-.188**	-.153**	-.337**	-.396**	.715**	1	
X3	-.317**	.011	.160**	-.194**	-.213**	-.305**	-.368**	.599**	.893**	1

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
Source: Field Data, 2024

4.11 Regression Results

4.11.1 Results of the Control Variables of the Study

The researcher conducted the study to ascertain whether the factors that functioned as controls had substantial impacts on the dependent variable. The findings in model 1 indicate that the age of the firm (measured by the duration since its inception) and the size of the firm (measured by the number of employees) explained 4.8% of the variability in financial growth. This is corroborated by the R2 coefficient of determination of 0.048, the F statistic of 7.763, and the p-value of 0.001. Consequently, the model was calibrated to forecast the financial growth of MSMEs based on the variables of company age and company size. Additionally, the results indicate that the age of the firm has a positive but statistically negligible impact on the financial growth

of MSMEs, with a β coefficient of 0.074 and a p-value of 0.151. This indicates that there is a potential rise of up to 0.074 units in financial growth for every unit increase in company age. Furthermore, the impact of the firm's age surpasses the influence attributable to the error, as evidenced by the t-test value of 1.441. The study also found that the size of a firm has a detrimental and statistically significant impact on the financial growth of MSMEs, as indicated by a β coefficient of -0.138 and a p-value of 0.000. This indicates that there is a negative correlation between firm size and financial growth, with a loss of up to -0.138 units in financial growth for each unit increase in firm size. Furthermore, the impact of company size surpasses the impact attributed to the error, as evidenced by the t-test value of -3.916.

Table 4. 19 :*Coefficient Results for Control Variables*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.137	.127		1.072	.284
	Firm Age	.074	.051	.091	1.441	.151
	Firm Size	-.138	.035	-.247	-3.916	**.000**
Model Summary						
R			.220			
R^2 Change			.048			
Std. Error of the Estimate			.08322			
Model Fit						
F change			7.763			
Sig.			.001			

Source: Field Data, 2024

4.11.2 Results of the Direct Effects

A multiple linear regression analysis was conducted to determine the impact of both the control and predictor factors on the financial growth of MSMEs. Model 2 presents the findings of the direct effect hypothesis while keeping the control variables constant. The collective forecast of all the variables explained almost 29.8% of the overall variability in the financial growth of MSMEs. The model's effectiveness in predicting financial growth of MSMEs using the independent variables is indicated by the R2 change value of .298, the F value of 25.717, and the p value of .000.

The results of the control variables in this model show that the age of the firm has a positive but not statistically significant impact on the financial growth of MSMEs, with a β coefficient of 0.004 and a p-value of less than 0.05. On the other hand, the size of the firm has a negative and statistically significant effect on the financial growth of MSMEs, with a β coefficient of -0.008 and a p-value of 0.004. The ANOVA model demonstrated that the combined prediction of all the independent variables, as presented in Table 4.21 below, was statistically significant ($F = 25.717$, $\rho<0.05$).

4.12 Results of the Moderating Effect of Transactional Leadership Style

The moderating effect was evaluated by analyzing a series of hierarchical blocks. Model 1 analyzed the control factors, whereas Model 2 analyzed all three variables: access to credit, financial literacy, and regulatory compliance costs. In model 3, the independent variables were transformed into z scores to reduce the effects of multicollinearity and make interpretations easier. Subsequently, the z scores of the moderator were utilized to compute the cross product by multiplying them with each independent variable. Table 4.22 displays the results of H04a, H04b, and H04c, which were obtained from Model 3 to Model 6, in relation to the moderating impact of

transactional leadership style. The formulated hypotheses were tested and subsequently detailed below.

4.12.1 Moderating Effect of Transactional Leadership Style on Access to Credit and Financial Growth of Micro-Small and Medium Enterprises

The findings on the moderating impact of transactional leadership style on the correlation between access to credit and financial growth of MSMEs are displayed in model 4 and emphasized in table 4.22. The results indicate that the moderation effect of transactional leadership style on the connection between access to credit and financial growth of MSMEs accounted for 0.9% of the variance (R=0.669, R2 = 0.447, R2 change = 0.009). The R2 change of 0.009 indicates a 0.9% increase in the variability of access to credit when transactional leadership style is included to the link between access to credit and financial growth of MSMEs. The model demonstrates a substantial F value of ($F=34.802$, $\rho <0.05$), indicating that the model accurately predicts the impact of the interaction on the financial growth of MSMEs. The analysis of the control variables in this model reveals that the effect of firm age ($\beta = 0.012$, $\rho >0.05$) is positive but not statistically significant, but the effect of firm size ($\beta = -0.078$, $\rho= 0.05$) is negative and statistically significant.

4.12.2. Moderating Effect of Transactional Leadership on Financial Literacy and Financial Growth of Micro-Small and Medium Enterprises

Model 5 displays the outcomes of how transactional leadership style influences the connection between financial literacy and financial growth of MSMEs. These findings are provided in table 4.22.

The results indicate that 6.9% of the variance in the financial growth of MSMEs may be attributed to the moderation effect of transactional leadership style on the link between financial literacy and financial growth. The correlation coefficient (R) is 0.718, indicating a moderate positive relationship. The coefficient of determination (R2) is 0.516, indicating that 51.6% of the variance in financial growth can be explained by the independent variables. The change in R2 (R2 change) is 0.069, suggesting that the inclusion of transactional leadership style as a moderator explains an additional 6.9% of the variance in financial growth. The R2 change of 0.069 indicates a 6.9% increase in the variability of access to credit when transactional leadership style is included to the link between access to credit and financial growth of MSMEs. The model demonstrates a substantial F value of ($F=39.981$, $\rho = 0.000$), indicating that the model accurately predicts the impact of the interaction on the financial growth of MSMEs. The findings from the control variables in this model indicate that firm age ($\beta = -0.026$, $\rho > 0.05$) had a negative effect and was not statistically significant, whereas firm size ($\beta = -0.061$, $\rho < 0.05$) had a negative effect and was statistically significant.

4.12.3 Moderating Effect of Transactional Leadership Style on Regulatory compliance costs and Financial Growth of Micro-Small and Medium Enterprises

Table 4.22 presents the results of Model 6, which examines the impact of transactional leadership style on the relationship between regulatory compliance costs and financial growth of MSMEs. The results indicate that the moderation effect of transactional leadership style on the connection between regulatory compliance costs and financial growth of MSMEs accounts for 1.6% of the variance (R=0.729, R2 = 0. 532, R2 change = 0.016). The R2 change of 0.016 indicates a 1.6% increase in the variability of regulatory compliance costs when transactional leadership style is added to the link between regulatory compliance costs and financial growth of MSMEs. The model

demonstrates a substantial F value of ($F=37.765$, $\rho = 0.000$), indicating that the model accurately predicts the impact of the interaction on the financial growth of MSMEs. The findings of the control variables in this model indicate that firm age ($\beta = -0.024$, $\rho>0.05$) had a negative and statistically insignificant effect, whereas firm size ($\beta = -0.063$, $\rho<0.05$) had a negative and statistically significant effect.

4.13. Hypothesis Testing

Regression studies were performed to evaluate the suitability of the model and ascertain the predictive capability of the study models. According to Field (2009), statistical software such as SPSS provides access to many regression approaches. The strategies encompass forced entrance, hierarchical, and progressive approaches. This study utilized the Enter (forced entry) method to investigate the direct influence of predictor variables on the predicted variable (financial growth). The Enter technique is recommended for theoretical testing and minimizes the influence of the experimenter's decisions on the inclusion of predictor variables, as it does not entail any selection on the order in which variables are entered.

Four hypotheses were formulated to investigate the direct and moderated impacts of access to credit, financial literacy, regulatory compliance costs, and transactional leadership style on the connection between variables. The multiple regression model was utilized to examine and establish the direct relationship between the variables for hypotheses HO_1 - HO_4, which pertain to direct effects. On the other hand, the hierarchical regression moderation model was employed to examine and establish the moderating relationship between the variables for hypotheses HO_{4a} - HO_{4c}, which pertain to moderating relationships. The subsequent sections present the results for the main effects and the combined effects of the research variables.

The first hypothesis of the study, HO_1, posited that access to credit has no statistically significant effect on the financial growth of Micro, Small and Medium Enterprises in South Rift region in Kenya. The findings displayed in Table 4.21 indicate a strong and statistically significant correlation between credit accessibility and financial growth ($\beta = 0.235$, $\rho<0.05$). Thus, the hypothesis was refuted, leading to the conclusion that access to credit exerted a substantial impact on the financial growth of the MSMEs. This outcome aligns with the conclusions of a study conducted by Kidali (2020), which determined that the availability of credit had a beneficial impact on the expansion of Micro, Small, and Medium Enterprises (MSMEs) in Kenya. Furthermore, it corroborates the conclusions of Mwangi (2020) that showed a substantial and favorable impact of loan accessibility on the expansion of micro, small, and medium enterprises (MSMEs) in Kenya. The outcomes of this study suggest that the government should prioritize meeting the credit and beginning capital requirements of MSMEs in order to facilitate their rapid expansion. Enhancing the financial system to enable the financial sector to fulfill the demands of MSME finance is of utmost significance. Enhanced access to external financing will empower MSMEs to invest in technological advancements and expand their operations, hence enhancing their performance. Enhancing the ability of the MSME sector to obtain formal finance during economic crises could bolster its resilience, considering its susceptibility to such shocks.

The second hypothesis of the study postulated that **H_{O2}:** financial literacy has no statistically significant effect on the growth of Micro, Small and medium Enterprises in the South Rift region of Kenya. The findings in Table 4.21 indicate that there is no statistically significant effect of financial literacy on the financial growth of MSMEs ($\beta = 0.019$, $\rho>0.05$). Consequently, it can be inferred that financial literacy does not have any effect on the financial growth of MSMEs. This outcome supports the conclusions

of Winarno and Wijijayanti (2018) who did a study on MSMEs in the Batu region and determined that financial literacy does not have any impact on the overall performance of MSMEs. Furthermore, it corroborates the conclusions made by

Nurlianti and Qhodriyah (2022) that financial literacy does not have any impact on the performance of MSMEs. In contrast, it deviates from the results of a study conducted by

Hererra et al. (2023) , which determined that financial literacy had a favorable impact on the performance of micro, small, and medium enterprises (MSMEs). Similarly, it contradicts the findings of a study conducted by Yakob et al. (2021) , which determined that financial literacy has a favorable and substantial influence on the performance of Micro Small and medium-sized enterprises (MSMEs) Hiebl and Richter (2018). In their study, Haryadi et al. (2023) observed that financial literacy has a substantial impact on the performance of micro, small, and medium enterprises (MSMEs).

The third hypothesis hypothesized that $\mathbf{H_{O3}}$ regulatory compliance costs have no statistically significant effect on the financial growth of micro, small and medium enterprises in South Rift region in Kenya. The findings in Table 4.21 indicate that the impact of regulatory compliance expenses on the financial growth of MSMEs was not significant ($\beta = 0.009$, $\rho<0.05$). Thus, it may be inferred that the expenses associated with adhering to regulations have an impact on the financial progress of micro, small, and medium enterprises (MSMEs). The findings of a study conducted by Akinboade and Kinfack (2012) support the notion that strict adherence to customs and municipal laws has a detrimental impact on business performance in Cameroon's manufacturing and retail sectors. Furthermore, it aligns with the results of a study conducted by Nyarku and Oduro (2018) which indicated that the expenses associated with regulatory compliance had a detrimental and noteworthy impact on the expansion of micro, small,

and medium enterprises (MSMEs) in Ghana. In order for small and medium-sized enterprises (SMEs) to experience successful growth, it is imperative to have robust legal and regulatory frameworks in place. In contrast, it contradicts the findings of a study conducted by Ed Caboverde (2022) , which determined that there is no statistically significant correlation between the regulatory burden imposed by environmental regulations and the rate of profit growth among small and medium-sized enterprises (SMEs) in the Philippines. The government should implement lenient credit policies to facilitate the growth of entrepreneurship. This can be achieved by simplifying loan requirements, streamlining the registration procedures for small and medium-sized enterprises (SMEs), reducing and restructuring the tax systems, implementing an effective price stabilization policy, and establishing flexible customs and port regulations. It is crucial to ensure transparency and accountability among the public officials responsible for regulating SMEs. Imposing extra financial expenses on regulatory compliance reduced the likelihood of growth among MSMEs, but not among older ones. Therefore, it is necessary for policies aiming at enhancing the business environment to specifically prioritize Micro, Small, and Medium Enterprises (MSMEs) in order to mitigate the adverse impacts of regulations. It is crucial to comprehend the impact of regulation on these companies, particularly in light of common assertions that small and medium-sized enterprises (SMEs) are disproportionately burdened by the expenses of regulatory compliance, which can impede economic expansion.

The results indicate that the relationship between transactional leadership style, access to credit, and financial growth of MSMEs was negatively influenced by an interaction effect. The effect was found to be statistically significant ($\beta = -0.056$, $\rho<0.05$). Given that the p-value of the interaction is below 0.05, we can reject the hypothesis H04a, which claimed that there is no statistically significant moderating effect of transactional

leadership style on the relationship between access to credit and the financial growth of Micro, Small, and Medium Enterprises (MSMEs) in the South Rift region of Kenya. Therefore, we can conclude that transactional leadership style does moderate the relationship between access to credit and the financial growth of MSMEs.

The results indicate that the relationship between transactional leadership style, financial literacy, and financial growth in MSMEs was positively and significantly influenced by the interaction effect of transactional leadership style ($\beta = 0.425$, $\rho<0.05$). Given that the p-value of the interaction is below 0.05, we can reject the hypothesis H04b, which claimed that there is no significant moderating effect of transactional leadership style on the relationship between financial literacy and the financial growth of Micro, Small, and Medium Enterprises (MSMEs) in the South Rift region of Kenya. Therefore, we can conclude that transactional leadership style does moderate the relationship between financial literacy and the financial growth of MSMEs.

The results indicate that the influence of transactional leadership style on regulatory compliance costs and financial growth has a favorable and significant impact on the financial growth of MSMEs. The moderating effect is statistically significant ($\beta = 0.102$, $\rho<0.05$). Given that the p-value of the interaction is below 0.05, we can reject the hypothesis H04c, which claimed that regulatory compliance costs do not have a statistically significant impact on the financial growth of Micro, Small, and Medium enterprises (MSMEs) in the South Rift region of Kenya. Instead, we can conclude that transactional leadership style plays a moderating role in the relationship between regulatory compliance costs and the financial growth of MSMEs.

4.14 Mod Graphs

The results of the interaction are explained through the use of mod graphs. A moderation impact can occur in three different ways: by amplifying, buffering, or becoming antagonistic (Smarandache et al., 2016). When it comes to enhancing, augmenting the moderator variable intensifies the impact of the predictor variable on the result variable. Buffering refers to a situation where the impact of the predictor variable on the outcome variable is reduced when the moderator variable is increased. Antagonistic moderation occurs when the manipulation of the moderator variable leads to a reversal of the influence of the predictor variable on the outcome variable. Moderation is said to be present when the following three conditions are met. Firstly, it is anticipated that the degree to which the interaction contributes to the explained variance would be significantly higher than the degree to which the variance is explained without the interaction. Furthermore, it is crucial that the coefficient for the interaction term displays a substantial deviation from zero. The calculation of the simple slope for the interaction is essential for examining the characteristics of the interaction by assessing the simple slopes. It is crucial to emphasize that both the models, with and without the interaction, should have statistical significance (Igartua & Hayes, 2021). Prior studies have highlighted that the most efficient method for comprehending the influence of the moderator's interaction is to visually depict them using graphical plots (Tepe, 2019). The study utilized mod graph, as suggested by Jose (2008), to assess if transactional leadership style had buffering, enhancing, or antagonistic impacts on the correlation between access to credit and financial growth.

4.14.1 Moderating Effect of Transactional Leadership Style on Access to Credit and Financial Growth

The findings in figure 4.1 show that at low levels of access to credit, financial growth is high for firms with high transactional leadership style and low for firms with low transactional leadership style. As access to credit increases, financial growth decreases at a higher rate for firms with low transactional leadership style as compared to firms with high transactional leadership style. Therefore, the hypothesis which stated that there is no statistically significant moderating effect of transactional leadership style on the relationship between access to credit and the financial growth of Micro, Small and Medium Enterprises in the South Rift region of Kenya is rejected and conclusion made that transactional leadership style is a buffering moderator.

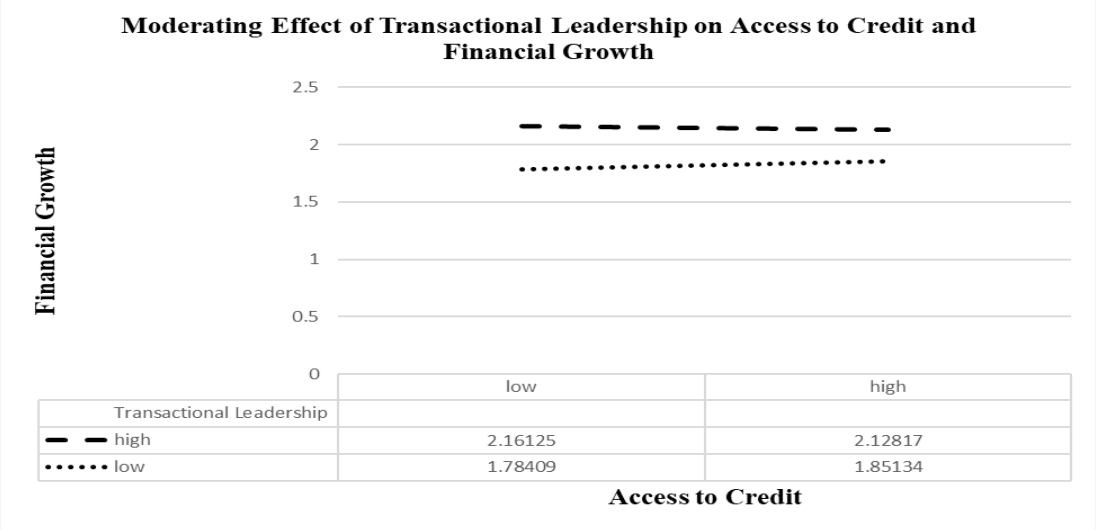

Figure 4.4: *Moderating Effect of Transactional Leadership Style on Access to Credit and Financial Growth*

The above relationship indicates a buffering moderation since the results from model 2 which shows the direct effect of the independent variable, access to credit, on the dependent variable, financial growth, has decreased in model 4 when the moderator,

transactional leadership style, is introduced. The buffering moderation is from β = 0.217, ρ= 0.000 in model 2 to β = 0.152, ρ= 0.008 in model 4 which are both significant.

4.14.2 Moderating Effect of Transactional Leadership Style on Financial Literacy and Financial Growth

This finding is illustrated by use of mod graph as shown in figure 4.2 which shows that at low level of financial literacy, financial growth is high in firms with high transactional leadership style compared to firms with low transactional leadership style. As financial literacy increases, financial growth increases at a higher rate for firms with high transactional leadership style as compared to firms with low transactional leadership style. Therefore, the hypothesis which states that financial literacy has no statistically significant effect on the growth of Micro, small and medium Enterprises in South Rift region in Kenya is rejected and conclusion made that transactional leadership style exerts a buffering moderating effect.

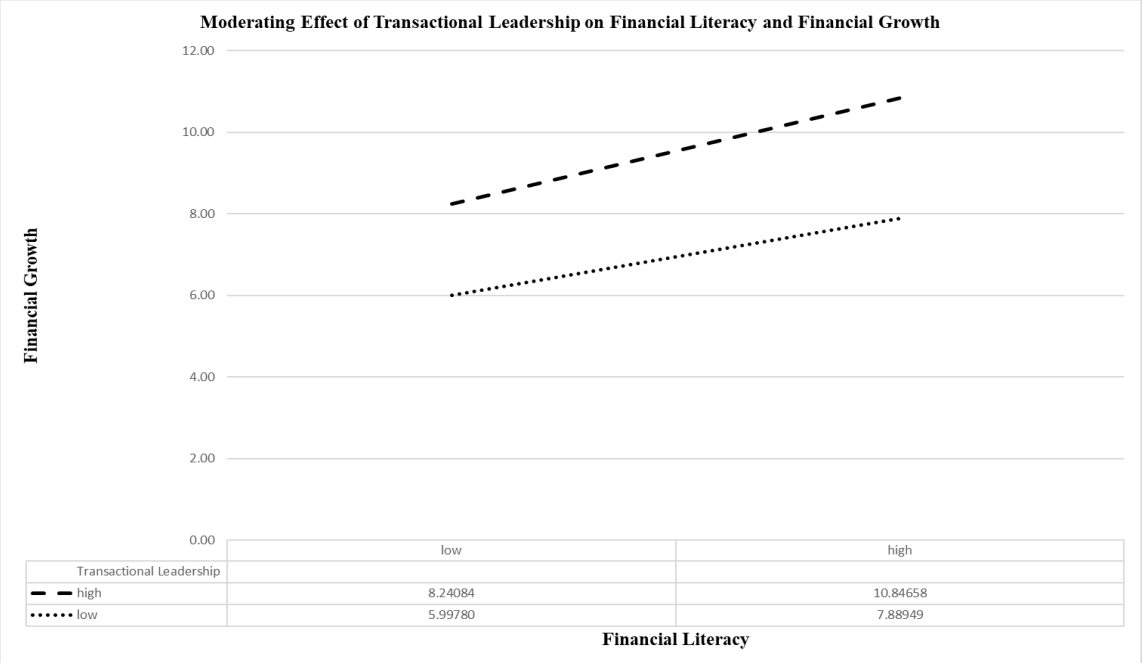

Figure 4. 5 *Moderating Effect of Transactional Leadership Style on Financial Literacy and Financial Growth*

The relationship described above suggests that the introduction of a moderator has led to a buffering moderation effect. This is evident from the decrease in the direct effect of the independent variable, financial literacy, on the dependent variable, financial growth, observed in model 5. The buffering moderation effect decreases from $\beta = 0.072$, $p > 0.05$ in model 2 to $\beta = 0.047$, $p > 0.05$ in model 5, and both of these effects are statistically insignificant.

4.14.3 Moderating Effect of Transactional Leadership Style on Regulatory Compliance Costs and Financial Growth

This finding is illustrated by use of mod graph as shown in figure 4.3 which shows that at low level of regulatory compliance costs, financial growth is high in firms with high transactional leadership style compared to firms with low transactional leadership style. As regulatory compliance costs increase, financial growth increases at a higher rate for firms with high transactional leadership style compared to firms with low transactional leadership style. Therefore, the hypothesis which stated that regulatory compliance costs have no statistically significant effect on the financial growth of Micro, small and medium Enterprises in South Rift region in Kenya is rejected and conclusion made that transactional leadership style exerts a buffering moderating effect.

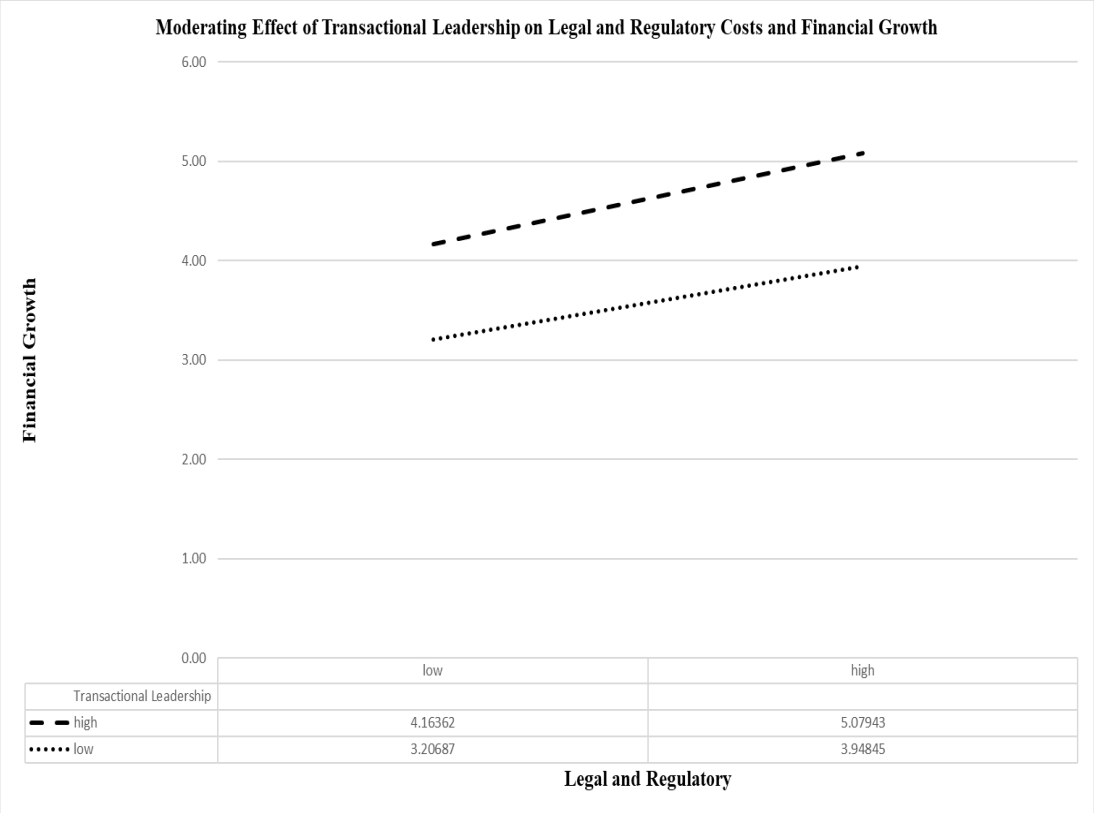

Figure 4.6 *Moderating Effect of Transactional Leadership Style on Regulatory Compliance Cost and Financial Growth*

The relationship described above suggests that the introduction of a moderator has resulted in a buffering moderation effect. This is evident from the decrease in the direct influence of the independent variable, regulatory compliance costs, on the dependent variable, financial growth, observed in model 5. The buffering moderation effect decreases from $\beta = 0.072$, $p > 0.05$ in model 2 to $\beta = 0.047$, $p > 0.05$ in model 5, and both values are statistically insignificant.

Table 4. 20 *Hierarchical Multiple Regression Model for Moderating Effect of Transactional Leadership Style on Financial Determinants of MSMES Financial Growth*

4.15. Discussion of the Findings

	Model 1 β (p)	Model 2 β (p)	Model 3 β (p)	Model 4 β (p)	Model 5 β (p)	Model 6 β (p)
(Constant)	0.137 (0.284)	0.093 (0.402)	0.179 (0.072)	0.173 (0.081)	0.137 (0.142)	0.158 (0.086)
Control Variable						
Firm Age	0.074 (0.151)	0.046 (0.301)	0.005 (0.894)	0.012 (0.767)	-0.026 (0.499)	-0.024 (0.517)
Firm Size	-0.138 (0.000) **	-0.090 (0.004) **	-0.083 (0.003) **	-0.078 (0.005) **	-0.061 (0.020) **	-0.063 (0.014) **
Main Effect						
Access to Credit		0.217 (.059)	0.110 (0.044) **	0.152 (0.008) **	0.220 (0.000) **	0.235 (0.000) **
Financial Literacy		0.072 (.058)	0.043 (0.414)	0.021 (0.690)	0.047 (0.346)	0.019 (0.699)
Regulatory compliance costs		0.345 (.052)	0.118 (0.028) **	0.127 (0.018) **	0.023 (0.657)	0.009 (0.000) **
Moderator						
Transactional Leadership			0.481 (0.000) **	0.521 (0.000) **	0.382 (0.000) **	0.372 (0.000) **
Interaction term						
X1				-0.056 (0.032) **	-0.184 (0.000) **	-0.174 (0.000) **
X2					0.425 (0.000) **	0.185 (0.063)
X3						0.102 (0.002) **
Model Summary						
R	.220	.546	.662	.669	.718	.729
R Square	0.048	0.298	0.439	0.447	0.516	0.532
Adjusted R Square	0.042	0.286	0.428	0.434	0.503	0.518
St.Error of the Estimate	0.9787409	0.8447796	0.756563	0.7520237	0.7049091	0.694325
Change Statistics						
R Square Change	0.048	0.25	0.141	0.009	0.069	0.016
F Change	7.763	35.914	75.78	4.657	42.581	10.216
df1	2	3	1	1	1	1
df2	306	303	302	301	300	299
S. F Change	0.001	0.000	0.000	0.032	0.000	0.002

This study sought to establish the moderating effect of transactional leadership style on financial determinants of MSMES financial growth. The findings indicate a positive

and statistically significant relationship between access to credit and the financial growth of MSMEs suggesting that access to credit directly contributes to the financial growth of MSMEs. This finding aligns with Chowdhury and Alam (2017), who identified access to credit as a persistent challenge for MSMEs in Bangladesh. Their study highlighted structural barriers such as firm size, age, owner education, and institutional inefficiencies including high interest rates, lack of collateral, and corruption as key impediments to credit access. While their context was geographically limited to a single city, the thematic parallels suggest that credit constraints are a cross-contextual challenge for MSMEs in developing economies, including Kenya. The study extends this discourse by empirically confirming that when credit is accessible, it significantly enhances financial growth thus reinforcing the need for policy interventions that reduce structural barriers to credit.

Further, the study's focus on transactional leadership as a moderating variable introduces a novel dimension to the MSME performance literature. While Khan et al. (2021) explored how entrepreneurial orientation (EO) influences both financial and non-financial outcomes, the findings suggest that leadership style particularly transactional leadership can amplify or dampen the effectiveness of financial inputs like credit. This implies that even with adequate financial resources, the leadership approach adopted by MSME managers plays a pivotal role in translating those resources into measurable growth. Transactional leadership, with its emphasis on goal-setting, performance monitoring, and reward systems, may provide the operational discipline needed to optimize credit utilization. Additionally, the findings resonate with Mumbua (2020), who demonstrated that microfinance services positively impact MSME financial performance. The findings of the current study complements this by showing that not only is access to credit vital, but its impact is contingent upon internal

leadership dynamics. This layered understanding suggests that financial interventions (e.g., microfinance, credit schemes) should be coupled with capacity-building in leadership and management practices to maximize their developmental impact.

The study also sought to determine the effect of financial literacy on the financial growth of micro, small and medium enterprises. Findings that indicate that there was no statistically significant effect of financial literacy on the financial growth of MSMEs. This corroborate the study findings by Mwaniki (2019) whose study established that budgeting skills and banking knowledge components of financial literacy had a positive but statistically insignificant effect on SME growth. It also echoes the findings of Njoki (2024) whose findings revealed that financial education's role in MSE growth failed to establish a clear or significant impact. It however contradicts the results of Buchdadi et al. (2020) whose study asserted that financial literacy, alongside access to credit and financial risk mentality, positively affects MSME performance. Their emphasis on managerial literacy implies that internal financial acumen is a strategic asset for enterprise success.

The third objective sought to analyze the effect of regulatory compliance costs on the financial growth of micro, small and medium enterprises. The findings revealed that indicate that the impact of regulatory compliance expenses on the financial growth of MSMEs was not significant. It may be inferred that the expenses associated with adhering to regulations have an impact on the financial progress of micro, small, and medium enterprises (MSMEs). The findings of a study conducted by Akinboade and Kinfack (2012) support the notion that strict adherence to customs and municipal laws has a detrimental impact on business performance in Cameroon's manufacturing and retail sectors. Furthermore, it aligns with the results of a study conducted by Nyarku

and Oduro (2018) which indicated that the expenses associated with regulatory compliance had a detrimental and noteworthy impact on the expansion of micro, small, and medium enterprises (MSMEs) in Ghana. In contrast, it contradicts the findings of a study conducted by Ed Caboverde (2022) , which determined that there is no statistically significant correlation between the regulatory burden imposed by environmental regulations and the rate of profit growth among small and medium-sized enterprises (SMEs) in the Philippines.

The results indicate that the relationship between transactional leadership style, access to credit, and financial growth of MSMEs was negatively influenced by an interaction effect. The effect was found to be statistically significant. The study therefore concludes that transactional leadership style does moderate the relationship between access to credit and the financial growth of MSMEs.

The results further indicate that the relationship between transactional leadership style, financial literacy, and financial growth in MSMEs was positively and significantly influenced by the interaction effect of transactional leadership style, thus, the study concludes that transactional leadership style does moderate the relationship between financial literacy and the financial growth of MSMEs.

The results indicate that the influence of transactional leadership style on regulatory compliance costs and financial growth has a favorable and significant impact on the financial growth of MSMEs. The moderating effect is statistically significant. The study concludes that transactional leadership style plays a moderating role in the relationship between regulatory compliance costs and the financial growth of MSMEs.

4.16 Summary of Hypotheses Testing Results

The data displayed in Table 4.21 below provides a concise overview of the numerous and hierarchical regression models. The table displays the values of R2 and Δ in R2 for both the main and interaction effects, together with the choice about the proposed hypothesis, as presented in Table 4.21.

Table 4.21 :*Hypotheses Testing Results*

Hypothesis formulated	**Beta**	**p-values**	**Decision**
Main Effect			
$H_{O1:}$ Access to credit has no statistically significant effect on the growth of micro, small and medium enterprises in South Rift region in Kenya	0.235	0.000	Reject
$H_{O2:}$ Financial Literacy has no statistically significant effect on the growth of micro, small and medium enterprises in South Rift region in Kenya	0.019	0.699	Fail to Reject
$H_{O3:}$ Regulatory Compliance Costs have no statistically significant effect on the growth of micro, small and medium enterprises in South Rift region in Kenya	0.009	0.000	Reject
Moderation-Transactional Leadership			
H_{o4a} There is no statistically significant moderating effect of transactional leadership style on the relationship between access to credit and the growth of Micro, small and medium Enterprises in the South Rift region of Kenya	-0.174	0.000	Reject
H_{o4b} There is no statistically significant moderating effect of transactional leadership style on the relationship between financial literacy and the financial growth of Micro, small and medium Enterprises in the South Rift region of Kenya.	0.185	0.063	Fail to Reject
H_{o4c} There is no statistically significant moderating effect of transactional leadership style on the relationship between regulatory compliance costs and the growth of Micro, small and medium Enterprises in the South Rift region of Kenya.	0.102	0.002	Reject .

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a concise overview of the research findings, which were directed by the specific objectives and hypotheses of the study. The text presents the study's findings, conclusion, recommendations, and future research direction regarding the moderating effect of transactional leadership style on the financial determinants of financial growth in MSMEs. The study specifically focuses on MSMEs in the South Rift region of Kenya.

5.2 Summary of Findings

The study aimed to examine how the transactional leadership style influences the financial factors that contribute to the financial growth of MSMEs, specifically focusing on MSMEs in the South Rift region of Kenya. The study created a theoretical framework for this argument and conducted an empirical investigation directed by particular aims. The study aimed to investigate the effects of access to credit, examine the effects of financial literacy, and analyze the effect of regulatory compliance costs on the financial growth of Micro, Small, and Medium Enterprises (MSMEs) in the South Rift region of Kenya. The study further aimed to investigate the influence of transactional leadership style on the relationship between access to credit, financial literacy, and regulatory compliance costs, on the financial growth of Micro, Small, and Medium Enterprises in the South Rift region of Kenya.

The study utilized an explanatory research methodology to investigate the cause-effect link between the moderating influence of transactional leadership style and the determinants of financial growth in MSMES and Micro, Small and Medium Enterprises in the South Rift region of Kenya. Questionnaires were used to collect primary data.

The acquired data was further examined using descriptive statistics, such as mean, standard deviation, frequency, and percentage, as well as inferential statistics, including correlation analysis and regression analysis. The initial analysis was to determine the attributes of the participants and provide a description of their responses about the study variables. Tests were conducted to assess the assumptions of normality, linearity, homoscedasticity and multicollinearity on the study variables. Subsequently, hypothesis testing was done to specifically address the declared objectives of the study. The study was supported by the use of resource based view theory, credit rationing theory, and transaction cost theory. The analysis accounted for the influence of both the age and size of the firm. The findings indicated that the age of the firm ($\beta = 0.074$, $p>0.05$) had a positive but not statistically significant impact on the financial growth of MSMEs. On the other hand, the size of the firm ($\beta = -0.138$, $p<0.05$) had a negative and statistically significant influence on the financial growth of MSMEs. The study findings are further summarized based on the unique aims of the study.

5.2.1 Examine the Effect of Access to Credit on the Financial Growth of Micro, Small and Medium Enterprises

The primary aim of the study was to determine the effect of access to credit on the financial growth of micro, small, and medium firms. Reliability and confirmatory factor analysis were performed to determine the suitability of the research equipment. Additionally, the descriptive data indicate that the average response is approximately 3.74, suggesting that respondents are typically uncertain about the impact of access to credit on the financial growth of MSMEs. Additionally, it is evident that the general standard deviation for access to credit is minimal, indicating that the replies are limited to a narrow range around the average response. The hypothesis posited that the availability of credit does not have a statistically significant impact on the financial

growth of micro, small, and medium firms in the South Rift region of Kenya. The findings indicate a positive and statistically significant relationship between access to credit and the financial growth of MSMEs (β 0.235, p <0.05), suggesting that access to credit directly contributes to the financial growth of MSMEs. This outcome provides validation for the conclusions of a study conducted by Kidali (2020) , which found that the availability of finance had a favorable impact on the expansion of micro, small, and medium enterprises (MSMEs) in Kenya. Furthermore, it reinforces the findings of Mwangi (2020) that showed a favorable and significant impact of loan accessibility on the growth of micro, small, and medium enterprises (MSMEs) in Kenya. As a result, the premise and conclusion stating that access to finance has a substantial impact on the growth of MSMEs in Kenya were invalidated.

5.2.2 Determine the Effect of Financial Literacy on The Growth of Micro, Small and Medium Enterprises

The study's second purpose is to ascertain the impact of financial literacy on the expansion of micro, small, and medium firms. An investigation of reliability and confirmatory factor analysis was performed on this variable. The descriptive data indicate that the average response to the items on this variable is approximately 3.89, suggesting that respondents were generally unsure about the impact of financial literacy on the growth of MSMEs. The hypothesis posited that there is no statistically significant impact of financial literacy on the growth of micro, small, and medium firms in the South Rift region of Kenya. The findings indicated that there was statistically insignificant (β = 0.019, p >0.05) impact on the growth of MSMEs.

This outcome supports the conclusions of Winarno and Wijijayanti (2018) , who did a study on MSMEs in the Batu region. They discovered that financial literacy does not

have any impact on the overall performance of MSMEs. Furthermore, it corroborates the conclusions drawn by

Nurlianti and Qhodriyah (2022) that financial literacy does not exert any influence on the performance of MSMEs. On the contrary, it differs from findings of a study by Hererra et al. (2023) , which indicated that there is a positive correlation between financial literacy and MSME success. Similarly, it contradicts the findings of a study conducted by Yakob et al. (2021), which determined that financial literacy has a beneficial and substantial influence on the performance of small and medium-sized enterprises (SMEs). In a study conducted by Haryadi et al. (2023) , it was shown that financial literacy has a substantial impact on the performance of micro, small, and medium enterprises (MSMEs). Therefore, the null hypothesis is confirmed, and it can be concluded that financial literacy does not have a substantial impact on the expansion of MSMEs.

5.2.3 Analyze The Effect of Regulatory Compliance Costs on the Financial Growth of Micro, Small and Medium Enterprises

The study's third purpose was to examine the effect of regulatory compliance costs on the growth of micro, small, and medium firms. An investigation of reliability and confirmatory factor analysis was performed on this variable. The descriptive data indicate that the average response for the questions related to the influence of regulatory compliance costs on the growth of micro, small, and medium firms is approximately 3.68. This suggests that respondents were usually indecisive on these topics. The hypothesis posited that the expenses associated with regulatory compliance do not have a statistically significant impact on the growth of micro, small, and medium firms in the South Rift region of Kenya. The findings indicate that there is a small but

statistically significant relationship between regulatory compliance costs and the financial growth of MSMEs in Kenya. Specifically, the beta coefficient (β) is 0.009, and the p-value is more than 0.05. This suggests that regulatory compliance costs have a negligible impact on the financial growth of MSMEs in Kenya. Consequently, the null hypothesis is rejected, and it is concluded that regulatory compliance costs have a substantial impact on the growth of MSMEs.

5.2.4 Moderating Effect of Transactional Leadership Style on Access to Credit and Financial Growth

The fourth objective of the study was to determine the moderating influence of transactional leadership style on access to credit and financial growth. The hypothesis suggests that the transactional leadership style does not have a statistically significant moderating influence on the association between access to credit and the financial growth of Micro, Small and medium Enterprises in the South Rift region of Kenya. The results indicate that the moderation effect of transactional leadership style on the connection between access to credit and financial growth of MSMEs explains 0.9% of the variance (R=0.669, R2 = 0.447, R2 change = 0.009). The R2 change of 0.009 indicates a 0.9% increase in the variability of access to credit when transactional leadership style is included to the link between access to credit and financial growth of MSMEs. The model demonstrated a substantial F value of (F=34.802, ρ <0.05), indicating that the model was suitable for predicting the impact of the interaction on the financial growth of MSMEs.

The findings from the control variables in this model indicate that firm age (β = 0.012, ρ>0.05) had a positive effect but was not statistically significant, whereas firm size (β = -0.078, ρ<0.05) had a negative effect and was statistically significant. Furthermore, the study revealed that access to credit (β = 0.152, ρ<0.05), regulatory compliance costs

(β = 0.127, ρ<0.05), and transactional leadership style (β = 0.521, ρ<0.05) all had a positive and statistically significant impact. However, financial literacy (β = 0.021, ρ>0.05) did not show a statistically significant effect. Based on the results, the relationship between transactional leadership style and access to credit and financial growth had a negative and significant moderating influence on the financial growth of MSMEs. The beta coefficient (β) was -0.174, indicating a statistically significant relationship (ρ<0.05). Given that the p-value of the interaction is below 0.05, we can reject the hypothesis H04a, which claimed that there is no statistically significant moderating effect of transactional leadership style on the relationship between access to credit and the financial growth of Micro, Small, and Medium Enterprises (MSMEs) in the South Rift region of Kenya. Therefore, we can conclude that transactional leadership style does moderate the relationship between access to credit and the financial growth of MSMEs.

5.2.5 Moderating Effect of Transactional Leadership Style on Financial Literacy and Financial Growth of Micro-Small and Medium Enterprises

The fifth objective of the study was to establish the moderating effect of transactional leadership style on the relationship between financial literacy and financial growth. Therefore, it was postulated that there is no statistically significant correlation between financial literacy and the financial growth of Micro, Small and medium Enterprises in the South Rift region of Kenya. The results indicate that 6.9% of the variance in the link between financial literacy and financial growth of MSMEs can be attributed to the moderation impact of transactional leadership style. This effect is supported by a moderate positive correlation (R=0.718) and a substantial proportion of the variance explained (R2 = 0.516, R2 change = 0.069). The R2 change of 0.069 indicates a 6.9% increase in the variability of access to credit when transactional leadership style is

included to the link between access to credit and financial growth of MSMEs. The statistical model demonstrated a substantial F value of ($F=39.981$, $\rho <0.05$), indicating that the model was suitable for predicting the impact of the interaction on the financial growth of MSMEs. The analysis of the control variables in this model revealed that firm age ($\beta = -0.026$, $\rho>0.05$) had a negative effect that was not statistically significant, whereas firm size ($\beta = -0.061$, $\rho<0.05$) had a negative effect that was statistically significant. Furthermore, the study indicated that access to credit ($\beta = 0.220$, $\rho<0.05$) had a positive and significant impact. However, financial literacy ($\beta = 0.047$, $\rho >0.05$) and regulatory compliance costs ($\beta = 0.023$, $\rho>0.05$) were shown to have a beneficial impact but were not statistically significant. On the other hand, transactional leadership style ($\beta = 0.382$, $\rho<0.05$) had a positive impact and was statistically significant.

The results indicate that the relationship between transactional leadership style and access to credit and financial growth has a favorable and significant impact on the financial growth of MSMEs. The moderating effect of transactional leadership style is statistically significant ($\beta = 0.185$, $\rho>0.05$). Given that the p-value of the interaction is greater than 0.05, we can reject the hypothesis $H0_{4b}$, which posited that there is no statistically significant moderating effect of transactional leadership style on the relationship between financial literacy and the financial growth of Micro, Small, and Medium Enterprises (MSMEs) in the South Rift region of Kenya. Therefore, we can conclude that transactional leadership style does not moderate the relationship between financial literacy and the financial growth of MSMEs.

5.2.6 Moderating Effect of Transactional Leadership on Regulatory compliance costs and Financial Growth of Micro-Small and Medium Enterprises

The sixth objective was to determine the moderating effect of a transactional leadership style on the relationship between regulatory compliance costs and the financial growth of Micro, small, and medium Enterprises in the South Rift region of Kenya. The study proposed that the transactional leadership style does not have a statistically significant moderating influence on the relationship between regulatory compliance costs and the financial growth of Micro, small and medium Enterprises in the South Rift region of Kenya.

The results indicate that the moderation effect of transactional leadership style on the connection between regulatory compliance costs and financial growth of MSMEs accounted for 1.6% of the variance (R=0.729, R2 = 0.532, R2 change = 0.016). The R2 change of 0.016 indicates a 1.6% increase in the variability of regulatory compliance costs when transactional leadership style is added to the link between regulatory compliance costs and financial growth of MSMEs. The model demonstrated a substantial F value of ($F=37.765$, $\rho < 0.05$), indicating that the model was suitable for predicting the impact of the interaction on the financial growth of MSMEs.

The analysis of the control variables in this model revealed that firm age ($\beta = -0.024$, $\rho > 0.05$) had a negative effect that was not statistically significant, whereas firm size ($\beta = -0.063$, $\rho < 0.05$) had a negative effect that was statistically significant. Furthermore, the study indicated that access to credit ($\beta = 0.235$, $\rho < 0.05$) had a positive and significant impact, while financial literacy ($\beta = 0.019$, $\rho > 0.05$) and regulatory compliance costs ($\beta = 0.009$, $\rho > 0.05$) had positive but negligible effects. On the other hand, transactional leadership style ($\beta = 0.372$, $\rho < 0.05$) was positively and statistically significantly associated with the outcome.

The results indicate that the impact of transactional leadership style on regulatory compliance costs and financial growth is positively and significantly influenced by the financial growth of MSMEs. The beta coefficient (β) is 0.102 and the p-value (ρ) is 0.002. Given that the p-value of the interaction is below 0.05, we can reject the hypothesis H04c, which claimed that regulatory compliance costs do not have a statistically significant impact on the financial growth of micro, small, and medium enterprises (MSMEs) in the South Rift region of Kenya. Instead, we can conclude that transactional leadership style plays a moderating role in the relationship between regulatory compliance costs and the financial growth of MSMEs.

5.3 Conclusion of the Study

The study sought to establish the moderating effect of transactional leadership style on financial determinants of MSMES and financial growth with specific reference to MSMEs in South Rift region of Kenya. The issues of financial determinants, transactional leadership style and financial growth of MSMEs have garnered attention from the general public, researchers, and other stakeholders. This is because MSMEs are seen as crucial to societies and play a significant role in local and national economies. They also help support the livelihoods of marginalized groups such as the working poor, women, youth, and vulnerable populations. Micro, small, and medium companies (MSMEs) play a crucial role in creating jobs and reducing extreme poverty. However, a considerable proportion of MSMEs in developing countries are unable to reach their maximum potential due to restricted access to financial resources and other issues.

The study drew numerous conclusions based on its findings. First, the study determined that the ability to obtain credit had a substantial impact on the financial expansion of the micro, small, and medium enterprises (MSMEs). Therefore, the study confirms the

claims of the resource dependence theory, which posits that organizations require resources to maintain their survival and expansion over an extended period of time. The outcomes of this study suggest that the government should prioritize meeting the credit and beginning capital requirements of MSMEs in order to facilitate their rapid expansion. Enhancing the financial system to enable the financial sector to fulfill the needs of MSMEs finance is of utmost significance. Enhanced access to external financing will empower micro, small, and medium enterprises (MSMEs) to invest in technological upgrades and expand their operations, thereby enhancing their overall performance. Enhancing the ability of the MSME sector to obtain formal finance during economic crises could bolster their resilience, considering their susceptibility to such shocks.

Furthermore, the study determined that there is no correlation between financial literacy and the financial growth of MSMEs. Financial literacy refers to the understanding and awareness of financial products and services. Financial literacy refers to the set of skills and knowledge necessary for achieving financial well-being, particularly for Micro, Small, and Medium Enterprises(MSMEs).

The study determined that the costs associated with regulatory compliance cost had an impact on the financial growth of micro, small, and medium enterprises (MSMEs). Therefore, in order for micro, small and medium-sized enterprises (MSMEs) to flourish, it is essential to have robust legal and regulatory frameworks in place. The government should implement lenient credit policies to facilitate the growth of entrepreneurship. This can be achieved by streamlining loan requirements, simplifying the registration procedures for micro, small and medium-sized enterprises (MSMEs), reducing and restructuring the tax systems, implementing an efficient price stabilization

policy, and establishing flexible regulations. It is crucial to ensure transparency and accountability among the public officials responsible for regulating MSMEs. Imposing extra financial expenses on regulatory compliance reduced the likelihood of growth among MSMEs, but not among older ones. This suggests that policies designed to enhance the business environment should prioritize Micro, Small, and Medium Enterprises (MSMEs) in order to mitigate the negative impact of regulations. It is crucial to comprehend the impact of regulation on these companies, particularly in light of common assertions that micro, small and medium-sized enterprises (MSMEs) are disproportionately burdened by the costs associated with legal and regulatory compliance, which can impede their commercial expansion.

The study found that transactional leadership style influences the relationship between financial determinants affecting MSMES and their financial growth. The fiercely competitive and swiftly evolving environment amplifies the significance of leadership in attaining a competitive edge over rivals to enhance organizational performance. The success or failure of an organization is heavily influenced by effective leadership.

Transactional leadership style can have a substantial impact on the development of Micro, Small, and Medium Enterprises (MSMEs) by offering a well-organized and objective-driven method for overseeing staff and operations. This leadership style emphasizes the establishment of explicit expectations, the provision of incentives for achieving goals, and the prompt resolution of performance problems when they occur. Transactional leadership style in MSMEs establishes a framework by setting specific objectives aligned with key performance indicators (KPIs) and providing timely feedback from managers on progress towards these KPIs. This fosters enhanced

motivation among staff members, ultimately contributing to the overall growth of the organization in terms of sales, turnover, and profitability.

5.4 Recommendations of the Study

The findings from this study contribute significantly to the research on MSMEs financial growth. This section highlights how this study contributes to knowledge, theory, policy, practice, and future research directions.

5.4.1 Theoretical Contribution

The findings add to the current body of knowledge on MSMEs financial growth. This study contributes by demonstrating that access to credit and regulatory compliance costs jointly influence the financial growth of MSMEs, a combined effect not previously documented. Thus, the results of this study will serve as a benchmark for the theoretical and empirical foundation of future studies in these areas. Furthermore, the findings support the assertions of Resource based view theory, highlighting the vital role of access to credit in MSME growth. Additionally, the study integrates Credit Rationing Theory and Transactional Cost Theory, demonstrating the moderating role of transactional leadership on the relationship between financial determinants and MSMEs financial growth, providing a basis for further research by other scholars.

5.4.2 Managerial Contribution

This study offers important contributions and implications for entrepreneurs, executives, and managers. The research results can be used as a reference for human resource management practices and operations. MSME owners and managers are particularly advised to diversify their sources of credit access to mitigate risks and improve their chances of securing the necessary funding for sustainable growth. Improving credit infrastructure, including credit reporting systems, secured

transactions, collateral registries, and insolvency regimes, can enhance MSMEs access to finance. MSMEs thrive in an open, transparent, and predictable legal and regulatory environment that offers certainty and confidence to investors. Implementing good regulatory practices promotes better regulations, prevents unnecessary legal and regulatory burdens, and supports compliance with international trade obligations.

5.4.3 Policy Recommendations

The study examined the determinants of financial growth among micro, small, and medium enterprises (MSMEs), with a particular focus on access to credit, financial literacy, regulatory compliance costs, and the moderating role of transactional leadership style. The findings revealed a statistically significant and positive relationship between access to credit and the financial growth of MSMEs. This suggests that credit availability is a critical enabler of enterprise expansion, facilitating investment in productive assets, inventory, and operational scaling. Consequently, policy frameworks should prioritize the expansion of MSME-friendly credit channels, including the simplification of loan procedures, reduction of collateral requirements, and the establishment of credit guarantee schemes to mitigate lender risk and enhance financial inclusion.

In contrast, the study found no statistically significant effect of financial literacy on the financial growth of MSMEs. While financial literacy is often presumed to enhance financial decision-making and resource allocation, the lack of significance in this context may reflect limitations in the design, delivery, or contextual relevance of existing literacy programs. It is therefore imperative that financial literacy interventions be re-evaluated to ensure they are tailored to the operational realities of MSMEs, particularly in informal and rural settings. Integrating financial literacy into broader

capacity-building initiatives and embedding practical financial tools within enterprise support programs may yield more meaningful outcomes.

Similarly, the analysis of regulatory compliance costs indicated no significant direct effect on MSME financial growth. This finding suggests that while compliance costs may impose administrative burdens, they do not independently constrain financial performance. However, this does not negate the need for regulatory reform. Streamlining compliance procedures, digitizing reporting systems, and introducing tiered regulatory frameworks based on enterprise size and risk profile could reduce transaction costs and improve regulatory engagement among MSMEs.

The study further explored the moderating role of transactional leadership style in the relationship between the identified determinants and financial growth. Notably, the interaction between transactional leadership and access to credit was found to negatively influence financial growth, indicating that rigid, performance-based leadership may hinder the effective utilization of credit resources. This underscores the need for leadership development programs that promote adaptive and strategic management practices capable of aligning financial inputs with growth-oriented outcomes.

Conversely, the interaction between transactional leadership and financial literacy exhibited a positive and statistically significant effect on financial growth. This suggests that when financial literacy is complemented by structured leadership, MSMEs may be better positioned to apply financial knowledge in decision-making and operational planning. Therefore, leadership training should be integrated into financial literacy programs to enhance their practical utility.

Finally, the moderating effect of transactional leadership on the relationship between regulatory compliance costs and financial growth was both favorable and statistically significant. This implies that structured leadership can mitigate the adverse effects of compliance burdens by fostering procedural discipline and strategic resource allocation. The study concludes that transactional leadership plays a critical moderating role in shaping the impact of regulatory and financial variables on MSME growth. Accordingly, policy interventions should incorporate leadership diagnostics and capacity-building components to strengthen managerial competencies across MSME sectors.

5.5 Contribution of the Study

The results of this study provide a helpful addition to the existing knowledge on the financial factors, transactional leadership style, and the financial growth of MSMEs. This study makes a valuable contribution by investigating how transactional leadership style influences the connection between financial determinants and the financial growth of micro, small, and medium enterprises (MSMEs). This specific research need has not been adequately addressed in the existing literature. Hence, the conclusions drawn from this study can serve as a crucial foundation for future investigations in this particular domain. The findings validate the claims made by the resource based view theory, which states that Micro, Small and Medium enterprises rely on the external environment for all necessary resources. Therefore, the interdependencies with other organizations in this environment are a crucial concern for these enterprises. The absence of these resources can significantly impede and impact the growth of Micro, Small, and Medium enterprises.

This work integrates credit rationing theory and transaction cost theory. Deliberate credit rationing is employed as a precautionary measure by financial organizations to mitigate potential risks. If institutions are unable to effectively manage risks resulting from the implementation of free-market principles, they may choose to limit the availability of credit, regardless of the willingness of borrowers to pay higher interest rates. Medium small scale and medium sized firms must exercise caution in order to obtain enhancements in cost efficiency and quality. The transactional cost theory offers an analytical framework to assess the activities of medium-sized firms before they make a final choice in order to achieve a cost-benefit equilibrium.

5.6 Limitations of the Study

The study is subject to several limitations however, provide a fruitful basis for future research. The main limitation faced in the study was generalization of findings to all MSMEs in the country. This limitation arises from the fact that MSMEs located outside the three study areas may possess distinct characteristics specific to their various sub-sectors, which were not examined in this study. In order to mitigate this constraint, the study extended the applicability of the suggestions just to the MSMEs located within Kericho, Bomet and Narok Counties. The study also proposes the need for additional research to be undertaken in other counties in order to ascertain any potential similarities, patterns, and trends.

Additionally, the completion and return of questionnaires were contingent upon the participants' willingness and availability of time, thereby introducing the possibility of non-response in the study. The "drop and pick" technique was implemented as a means of addressing this issue. In this approach, participants were provided with sufficient time to complete the questionnaire at their own convenience. Once the questionnaire was duly filled out, the researcher was informed to collect them. Notwithstanding the

aforementioned constraints, the integrity of the study remained uncompromised. The researcher asserts that the limitations identified did not have any impact on the outcomes of the thesis development, research design, and research findings.

The study had difficulties with respondents who either left certain questions unanswered on the questionnaire or expressed reluctance to complete the questionnaires due to perceived time wastage and discomfort caused by the research, leading them to provide excuses to avoid answering the questions. The researcher resolved this issue by thoroughly reviewing the questionnaires before data collection to verify that respondents had provided responses to all the questions.

5.7 Suggestions for Future Study

Based on the implications and limits of the study, suggestions for additional research are provided. This study effectively analyzed the theoretical framework of financial determinants influencing the financial growth of micro, small, and medium enterprises (MSMEs), including transactional leadership style. Furthermore, it has provided ample opportunities for future research in other domains. The study solely focused on the MSMEs sector in terms of sector. Conducting a comparable study across diverse industries would be beneficial. Subsequent investigations may explore alternative factors as moderating variables. Additional factors influencing the financial growth of MSMEs should be taken into account, as this study just examined three specific financial variables. It is advisable for other studies to incorporate other control factors that may have an impact on the financial growth of MSMEs. The study suggests conducting a replication of this study in different sectors to further validate its findings. This study used explanatory research design to explore the relationship between the study variables. A longitudinal study design is therefore recommended for future researchers as it may provide a more rigorous test of relationships.

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APPENDICES

APPENDIX 1: RESPONDENTS' QUESTIONNAIRE

This study seeks to establish the Moderating effect of Transactional Leadership Style on Financial Determinants and Financial Growth of Micro, Small and Medium Enterprises (MSMEs) in South Rift Region, Kenya. You have been chosen to assist in providing information that would help in answering the research questions, as your views are considered important to the study. You are not required to fill in your names. All information given will be treated with utmost confidentiality and will only be used for this study.

Instructions:

Please respond to the questions as accurately, completely and as honest as possible and tick (√) one response as appropriate or fill the space provided.

SECTION A: BACKGROUND INFORMATION

1. Name of the MSME
(Optional)…….....
2. What is your gender? Male [ ] Female [ ]

3. What is your highest level of education?

KCPE	[ ]
KCSE	[ ]
Certificate	[ ]
Diploma	[ ]
University Degree	[ ]
No Formal Education	[ ]

Others
(specify…….)

4. Please tick your age bracket?

Below 30s	[ ]
Between 31-40	[ ]
Between 41-50	[ ]
Between 51-59	[ ]
Over 60 years	[ ]

5. For how long has your firm been in operation

1-3 Years	[ ]
4-6 Years	[ ]
7-10 Years	[ ]
11-14 Years	[ ]
Over 15 Years	[ ]

6. Number of employees in your firm

1-10 Employees	[ ]
11-20 Employees	[ ]
21-30 Employees	[ ]
31-40 Employees	[ ]
41-50 Employees	[ ]
Over 50 Employees	[ ]

7. In what sector is your business?

Retail [ ]
Wholesale [ ]
Manufacturing [ ]
Service [ ]
Agri-business [ ]
ICT [ ]
Any other ……...

8. What is your current annual revenue turnover?

Below 500,000 Kes [ ]
500,000 – 1,900,000 Kes [ ]
2, 000,000 – 3,500,000 Kes [ ]
3,600,000 – 5,000,000 Kes [ ]
Above Kes 5,000,000 [ ]

Section A: Access to credit on the Financial Growth of Micro, Small and Medium Enterprises

9. The statements below deal with access to credit on the financial growth of Micro, Small and Medium enterprises. Please show the extent to which these statements reflect your perception of access to credit by MSMEs.

Key: SA- Strongly Agree A- Agree N – Neutral D- Disagree SD – Strongly Disagree

CODE	Access to credit by MSMES	SA	A	U	D	SD
AAF1	There is ease in credit access for Micro, Small and Medium Enterprises					
AAF2	Business evaluation for credit done by financial Institution has been made flexible for Micro, small and medium Enterprises					
AAF3	There is asset funding for Micro, small and medium Enterprises that wants to grow their business					
AAF4	Micro, small and medium Enterprises has improved the net profit due access to credit facilities					
AAF5	Large enterprises are likely to access credit easily compared to medium and small enterprises					

Section B: Financial Literacy and Growth of Micro, Small and Medium Enterprises

10. The statements below deal with financial literacy and the financial growth of micro, small and medium enterprises. Please show the extent to which these statements reflect your perception of financial literacy and MSMEs Financial Growth. Key **SA- Strongly Agree, A- Agree, N- Neutral, D- Disagrees, SD – Strongly Disagree**

CODE	Financial Literacy and Financial Growth of MSMEs	SA	A	N	D	SD
FL1	There is a relationship between MSMEs owners' financial literacy and MSME Financial Growth					
FL2	Financial literacy has enabled MSMEs management to prepare the financial statements					
FL3	Through Financial literacy, we are to file the tax returns without engaging consultant					
FL4	Financial literacy has equipped MSMEs management the necessary knowledge on accounting for the transaction in my business					
FL5	Financial literacy plays a major role in the Financial growth of our MSME					
FL6	Financial literacy has equipped me with the necessary skills on how to run a business					

Section C: Regulatory Compliance Costs and Financial Growth of Micro, Small and Medium Enterprises

11. The statements below deal with Regulatory compliance costs and the Financial Growth of Micro, Small and Medium enterprises. Please show the extent to which these statements reflect your perception of Regulatory compliance costs and MSMEs Financial Growth.

    Key SA- Strongly Agree, A- Agree, N- Neutral, D- Disagrees, SD – Strongly Disagree

CODE	Regulatory Compliance Costs and Financial Growth of MSMES	SA	A	N	D	SD
RCC1	The cost of the registration requirements is high and hence an hindrance to many MSMEs					
RCC2	The requirement to possess a wide variety of licenses and trade permits for legitimacy affects the cost of starting and running MSMEs					
RCC3	The complexity of the licensing procedures forces the entrepreneur to evade some of the procedures, which in the long run ends up being costly due to the penalties imposed					
RCC4	The cost of obtaining our business licenses and permits is affordable					
RCC5	The taxes and levies imposed by the government on our business are high					
RCC6	The cost of documenting tax return is quite high for MSMEs					
RCC7	Changes in legislation both in County and National level increase the amount of regulatory cost hence making it unaffordable?					

Section D: Transactional Leadership Style and Financial Growth of Micro, Small and Medium Enterprises

12. The statements below deal with transactional leadership style and the Financial Growth of Micro, Small and Medium enterprises. Please show the extent to which these statements reflect your perception of transactional leadership style and MSMEs Financial Growth.
    Key SA- Strongly Agree, A- Agree, N- Neutral, D- Disagrees, SD – Strongly Disagree

CODE	Transactional Leadership and Financial Growth of MSMES	SA	A	N	D	SD
	Contingent Reward (CR)					
TL1	I am satisfied when others meet expectations					
TL2	I make it clear what one can expect to receive when performance goals are achieved					
TL3	I provide employees with assistance in exchange for their efforts					
TL4	I am satisfied when employees meet agreed upon standards					
TL5	I provide recognition or rewards when employees reach their goals.					
	Management-by-Exception: Active (MBEA)					
TL6	I direct attention toward those who fail to meet firm's standards					
TL7	I keep track of all mistakes					
TL8	I focus attention on mistakes done by employees					
TL9	I concentrate full attention on dealing with employee's failures					
TL10	I provide the employees with new ways of solving organization problems					
TL11	**Management-by-Exception: Passive (MBEP)**					
TL12	I prefer to wait until issues reach a critical point before getting involved.					
TL13	I prefer to be proactive and take action before any issues arise.					
TL14	I tackle any issues or concerns that come up in the workplace.					
TL15	I try to avoid making decisions in a hurry.					

Section E: Financial Growth of Micro, Small and Medium Enterprises.

13. The statements below deal with the financial growth of Micro, Small and Medium enterprises. Please show the extent to which these statements reflect your perception of SME growth. K**ey SA- Strongly Agree, A- Agree, N- Neutral, D- Disagrees, SD – Strongly Disagree**

	FINANCIAL GROWTH	**SA**	**A**	**N**	**D**	**SD**
FG1	Our incomes often exceed the expenses we incur over the last three consecutive years while we have been in operation.					
FG2	Our gross profit margin has remained relatively high over the last three years of our operation.					
FG3	We have consistently recorded high net profits margin over last three recent years.					
FG4	Our business has recorded gradual increase on return on assets over recent years we have been on operation.					
FG5	Our return on investment has been on the rise over the recent years of our operation.					
FG6	We often plough back profits made over the recent years to boost our business operations.					

APPENDIX II: SPSS OUTPUT RESULTS

Missing Value Analysis

			Std.	Missing	
	N	Mean	Deviation	Count	Percent
BI1	325	1.54	.535	0	.0
BI2	325	3.82	1.365	0	.0
BI3	325	2.18	1.038	0	.0
BI4	325	2.42	1.228	0	.0
BI5	325	2.25	1.761	0	.0
BI6	325	3.14	1.655	0	.0
BI7	325	1.98	1.224	0	.0
AC1	325	3.71	1.170	0	.0
AC2	325	3.62	1.072	0	.0
AC3	325	3.58	1.241	0	.0
AC4	325	3.68	1.120	0	.0
AC5	325	3.94	1.313	0	.0
FL1	325	3.93	.991	0	.0
FL2	325	3.79	.951	0	.0
FL3	325	3.62	1.198	0	.0
FL4	325	3.90	1.084	0	.0
FL5	325	3.91	1.138	0	.0
FL6	325	3.78	1.245	0	.0
RRC1	325	3.97	1.098	0	.0
RRC2	325	3.83	1.070	0	.0
RRC3	325	3.82	1.182	0	.0
RRC4	325	3.08	1.262	0	.0
RRC5	325	3.95	1.102	0	.0
RRC6	325	3.51	1.167	0	.0
RRC7	325	3.63	1.186	0	.0
TL1	325	4.35	.675	0	.0
TL2	325	4.14	.832	0	.0
TL3	325	4.00	.873	0	.0
TL4	325	4.15	.956	0	.0
TL5	325	3.97	1.085	0	.0
TL6	325	3.77	1.137	0	.0
TL7	325	3.38	1.215	0	.0
TL8	325	3.46	1.195	0	.0
TL9	325	3.37	1.317	0	.0
TL10	325	3.93	1.134	0	.0
TL11	325	2.88	1.484	0	.0
TL12	325	2.53	1.400	0	.0
TL13	325	3.83	1.182	0	.0
TL14	325	3.63	1.222	0	.0
FG1	325	3.74	1.032	0	.0
FG2	325	3.42	.958	0	.0
FG3	325	3.26	1.118	0	.0
FG4	325	3.58	.973	0	.0
FG5	325	3.48	1.090	0	.0
FG6	325	3.78	1.182	0	.0

Analysis of Outliers

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.2112	.5890	.2953	.05499	309
Std. Predicted Value	-1.530	5.341	.000	1.000	309
Standard Error of Predicted Value	.004	.031	.007	.004	309
Adjusted Predicted Value	.2113	.5755	.2952	.05478	309
Residual	-.19366	.35286	.00000	.06486	309
Std. Residual	-2.966	5.405	.000	.993	309
Stud. Residual	-3.180	5.440	.000	1.009	309
Deleted Residual	-.22251	.35752	.00005	.06697	309
Stud. Deleted Residual	-3.228	5.717	.003	1.025	309
Mahal. Distance	**.035**	**68.089**	**3.987**	**7.571**	**309**
Cook's Distance	.000	.301	.007	.032	309
Centered Leverage Value	.000	.221	.013	.025	309

a. Dependent Variable: INVFG

Correlation Analysis

Correlations

		FG	CA	VFL	VLR	VTL
FG	Pearson Correlation	1	.396**	.324**	.456**	.618**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	309	309	309	309	309
AC	Pearson Correlation	.396**	1	.541**	.341**	.414**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	309	309	309	309	309
FL	Pearson Correlation	.324**	.541**	1	.323**	.338**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	309	309	309	309	309
RRC	Pearson Correlation	.456**	.341**	.323**	1	.571**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	309	309	309	309	309
TL	Pearson Correlation	.618**	.414**	.338**	.571**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	309	309	309	309	309

**. Correlation is significant at the 0.01 level (2-tailed).

Regression Analysis Control Variables

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	.220[a]	.048	.042	.08322	.048	7.763	2	306	.001

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.108	2	.054	7.763	.001[b]
	Residual	2.119	306	.007		
	Total	2.227	308			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.307	.011		28.346	.000
	Firm Age	.006	.004	.091	1.441	.151
	Firm Size	-.012	.003	-.247	-3.916	**.000**

Regression Analysis for Direct Effect

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	.546[a]	.298	.286	.07183	.298	25.717	5	303	.000

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.663	5	.133	25.717	.000[b]
	Residual	1.564	303	.005		
	Total	2.227	308			

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

1	(Constant)	.076	.025		3.074	.002
	Firm Age	.004	.004	.057	1.035	.301
	Firm Size	-.008	.003	-.160	-2.889	**.004**
	Access to credit	.284	.077	.217	3.693	**.000**
	Financial Literacy	.096	.078	.072	1.231	.219
	Legal & Regulatory compliance costs	.434	.066	.345	6.623	**.000**

Regression for Moderating Effect

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	.220[a]	.048	.042	.97874088	.048	7.763	2	306	.001
2	.546[b]	.298	.286	.84477963	.250	35.914	3	303	.000
3	.662[c]	.439	.428	.75656298	.141	75.780	1	302	.000
4	.669[d]	.447	.434	.75202368	.009	4.657	1	301	.032
5	.718[e]	.516	.503	.70490906	.069	42.581	1	300	.000
6	.729[f]	.532	.518	.69432502	.016	10.216	1	299	.002

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.872	2	7.436	7.763	.001[b]
	Residual	293.128	306	.958		
	Total	308.000	308			
2	Regression	91.763	5	18.353	25.717	.000[c]
	Residual	216.237	303	.714		
	Total	308.000	308			
3	Regression	135.139	6	22.523	39.349	.000[d]
	Residual	172.861	302	.572		
	Total	308.000	308			
4	Regression	137.773	7	19.682	34.802	.000[e]
	Residual	170.227	301	.566		
	Total	308.000	308			
5	Regression	158.931	8	19.866	39.981	.000[f]
	Residual	149.069	300	.497		
	Total	308.000	308			
6	Regression	163.856	9	18.206	37.765	.000[g]
	Residual	144.144	299	.482		
	Total	308.000	308			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.137	.127		1.072	.284
	Firm Age	.074	.051	.091	1.441	.151
	Firm Size	-.138	.035	-.247	-3.916	**.000**
2	(Constant)	.093	.110		.840	.402
	Firm Age	.046	.045	.057	1.035	.301
	Firm Size	-.090	.031	-.160	-2.889	**.004**
	Zscore(AC)	.217	.059	.217	3.693	**.000**
	Zscore(FL)	.072	.058	.072	1.231	.219
	Zscore(RRC)	.345	.052	.345	6.623	**.000**
3	(Constant)	.179	.099		1.805	.072
	Firm Age	.005	.040	.007	.133	.894
	Firm Size	-.083	.028	-.149	-3.001	**.003**
	Zscore(AC)	.110	.054	.110	2.027	**.044**
	Zscore(FL)	.043	.052	.043	.817	.414
	Zscore(RRC)	.118	.053	.118	2.210	**.028**
	Zscore(TL)	.481	.055	.481	8.705	**.000**
4	(Constant)	.173	.099		1.753	.081
	Firm Age	.012	.040	.015	.297	.767
	Firm Size	-.078	.028	-.139	-2.800	**.005**
	Zscore(AC)	.152	.057	.152	2.653	**.008**
	Zscore(FL)	.021	.053	.021	.400	.690
	Zscore(RRC)	.127	.053	.127	2.377	**.018**
	Zscore(TL)	.521	.058	.521	8.991	**.000**
	T1	-.056	.026	-.113	-2.158	**.032**
5	(Constant)	.137	.093		1.474	.142
	Firm Age	-.026	.038	-.032	-.677	.499
	Firm Size	-.061	.026	-.109	-2.330	**.020**
	Zscore(AC)	.220	.055	.220	4.022	**.000**
	Zscore(FL)	.047	.050	.047	.944	.346
	Zscore(RRC)	.023	.052	.023	.444	.657
	Zscore(TL)	.382	.058	.382	6.556	**.000**
	T1	-.184	.031	-.370	-5.872	**.000**
	T2	.425	.065	.461	6.525	**.000**
6	(Constant)	.158	.092		1.721	.086
	Firm Age	-.024	.038	-.030	-.649	.517
	Firm Size	-.063	.026	-.113	-2.462	**.014**
	Zscore(AC)	.235	.054	.235	4.339	**.000**
	Zscore(FL)	.019	.050	.019	.387	.699
	Zscore(RRC)	.009	.052	.009	.167	**.000**
	Zscore(TL)	.372	.058	.372	6.460	**.000**
	T1	-.174	.031	-.351	-5.617	**.000**
	T2	.185	.099	.200	1.869	.063
	T3	.102	.032	.292	3.196	**.002**

APPENDIX III: LIST OF MSMES USED FOR PILOTING IN KISII COUNTY

S.NO	MSMES	ADDRESS
1.	JABEBO SUPPLIERS	805-40200 KISII
2.	CANDLE LIGHT ENTERPRISES	10046 KISII
3.	FLORENYA AGENCIES LTD	P.O BOX 905 KISII
4.	TERRIES INVESTMENTS COMPANY	262 KISII
5.	KELYN ENTERPRISES	663-KISII
6.	BEUEM SYSTEMS AND GENERAL MERCHANTS LTD	3690-40200 KISII
7.	KAYATECH CONSTRUCTORS	3527 KISII
8.	EVENA GENERAL AGENCY LTD	905-40200
9.	DIGITAL MANPOWER AND TOUR CONSULTANCY LTD	P.O BOX 4318-00506 KISII
10.	JEMO INTERNATIONAL YOUTH CONTRACTORS LTD	P.O BOX 130 KISII
11.	FAMINCOS AGENCIES (K) LTD	P.O BOX 3423-40200 KISII
12.	AGREM TECH SOLUTIONS	26176
13.	SAUMO ENTERPRISES LTD	3047
14.	MONY ENTERPRISES LTD	14946
15.	MULCOMM LIMITED	23288-00604
16.	SANMIC GENERAL CONSTRUCTION AND SUPPLIES	P.O BOX 1496-40200 KISII
17.	ACIB BUILDERS AND CONTRACTORS	127-40200
18.	EDITTY GEN. SUPPLIES	6982-00300
19.	DONMARK INVESTMENTS LTD	P.O BOX 4182-40200 KISII
20.	LAUNCH HOUR SERVICESLTD	164-40200
21.	DONSE ENTERPRISES	56-40200
22.	LAMOYA VENTURES LIMITED	24401
23.	ELMONS ENTERPRISES	1952-40200
24.	EMPRESA RICO	65188
25.	BAMORE ENTERRPRISES	80723
26.	HISONY GENERAL CONTRACTORS	4534 KISII
27.	SHADE SHIDE AGENCIES	77311-00811
28.	PABLO LOGISTICS LTD	2506
29.	ROCHAM ENTERPRISES LTD	49624
30.	ARTOFFICE FURNITURE	39922-00100

31.	BOGIAKUMU AUTO SPARES	1661 KISII
32.	BOGIAKUMU AUTO SPARES	1661 KISII
33.	LAUNCH HOUR SERVICES LTD	P.O BOX 164 KISII
34.	AIDEMASTER HOLDINGS LIMITED	P.O BOX 164 KISII
35.	BROOKOALE AUTO SERVICES LTD	P.O BOX 1163 -40200 KISII
36.	OMARI MOTORS GARAGE LTD	P.O BOX 3816 KISII
37.	GEKOMU GENERAL SUPPLIERS	2348 KISII
38.	TRISAM INTERNATIONAL LTD	75560-00200 NAIROBI
39.	M/S BASELINK GROUP LTD	3166 -00200

APPENDIX IV: PLAGIARISM TEST

SR595

ISO 9001:2019 Certified Institution

THESIS WRITING COURSE

PLAGIARISM AWARENESS CERTIFICATE

This certificate is awarded to

SIGEI WILBON KIPTOO

SBE/PGM/007/14

In recognition for passing the University's plagiarism

Awareness test for Thesis **entitled: FINANCIAL DETERMINANTS, TRANSACTIONAL LEADERSHIP STYLE ON FINANCIAL GROWTH OF MICRO, SMALL AND MEDIUM ENTERPRISES IN SOUTH-RIFT REGION, KENYA with** similarity index of 11% and striving to maintain academic integrity.

Word count: 43589

Awarded by

Prof. Anne Syomwene Kisilu
CERM-ESA Project Leader Date: 19/07/2024

APPENDIX V: AUTHORIZATION LETTER FROM SCHOOL

MOI UNIVERSITY
POSTGRADUATE OFFICE
SCHOOL OF BUSINESS AND ECONOMICS

Tel: 0790940508
0771336914
0736138770
Fax No: (053) 43047
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P.O. Box 3900
Eldoret.
Kenya

RE: MU/SBE/PGR/ACD/21B **DATE:** 19th March, 2024

TO WHOM IT MAY CONCERN:

RE: SIGEI WILBON KIPTOO – SBE/PGM/007/14

The above named is a bonafide student of Moi University, School of Business & Economics. She is undertaking **Masters in Business Management** Degree, specializing in **Finance.**

Mr. Sigei successfully completed coursework and has defended his proposal. He is proceeding to the field to collect data for his research titled: "***Financial Determinants Transactional Leadership Styles, On Financial Growth of MSMES In South Rift Region.***

Any assistance accorded to him will be highly appreciated.

Yours faithfully,

SCHOOL OF BUSINESS & ECONOMICS
MOI UNIVERSITY
P. O. Box 3900 ELDORET 30100

PROF. RONALD BONUKE
ASSOCIATE DEAN AND CHAIR-POSTGRADUATE STUDIES

/pn

APPENDIX VI: NACOSTI RESEARCH PERMIT LICENSE

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NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

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Date of Issue: **23/May/2024**

RESEARCH LICENSE

This is to Certify that Mr.. Wilbon Kiptoo Sigei of Moi University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Bomet, Kericho on the topic: FINANCIAL DETERMINANTS, TRANSACTIONAL LEADERSHIP STYLE ON FINANCIAL GROWTH OF MICRO, SMALL AND MEDIUM ENTERPRISES IN SOUTH-RIFT REGION, KENYA for the period ending : 23/May/2025.

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