# RELATIONSHIP BETWEEN INFORMATION ASYMMETRY AND ACCESS TO FINANCE BY SMALL AND MEDIUM ENTERPRISES IN KENYA

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**Abstract:** *The study sought to find out the relationship between Information Asymmetry and access to finance by Small and Medium Enterprises in Kenya. The study was descriptive and inferential in nature. The specific objective of the study was to examine the relationship between information asymmetry and access to finance by SMEs in Kenya. The study used a mixed design that is correlational and descriptive survey design. Questionnaires were used collect data from the respondents. Purposive, Stratified and simple random sampling were used to draw a sample size of 384 SMEs owners. The study used both qualitative and quantitative data. The results indicated that the respondents were in agreement that information asymmetry determined access to finance by SMEs in Kenya. The study indicated that the SMEs faced challenges in accessing finance due to information asymmetry between them and banks. Coefficient of correlation for information asymmetry was -0.621. The regression model showed that information asymmetry explained 38.6% of access to finance by SMEs in Kenya. The study concluded that availability of information required by banks can improve access to finance by SMEs in Kenya.*

***Key words***: *Information Asymmetry, Small and Medium Enterprise, Access, Finance*

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## 1.0 INTRODUCTION

Information asymmetry is a core reason commercial banks are generally reluctant to provide loans to SMEs. In most instances, SMEs are unable to provide information on their creditworthiness. Deakins et al. (2008) argued that information asymmetry is more acute in new SMEs especially the new one. They argued that at an early stage, information is limited and not always transparent and assets are often knowledge based exclusively associated with the founding entrepreneur. Especially with manufacturing or technology based firms, entrepreneurs may be reluctant to provide full information about the opportunity because of concerns that disclosure may make it easier for others to exploit. SMEs also present significant information gaps caused by the lack of reliable and accurate financial information, business and operational plans as well as critical business and financial skills. This limits the ability of banks to assess the credit-worthiness of individual SME borrowers (Mthimkhulu and Aziakpono, 2012).

A study by Calice et al. (2012) investigated obstacle to the development of SME lending in Kenya. A large majority of banks in the country (88 percent) considered lack of adequate information the most important deterrent to their involvement with the SME segment. Amongst Kenyan banks, the lack of quality information was the biggest SME-specific hindrance and obstacle to SME lending, cited by 100 percent of the banks. Such is the perceived extent of the problem that some of the banks mentioned that they have allocated internal budgetary resources to assist SMEs through the extension of training services.

Further, Beck et al (2008) studied hindrance of lending to SMEs by banks in Tanzania. The banks cited the lack of information as the biggest hindrance to SME lending. This, according to most Tanzanian banks, affected the quality of information provided by SMEs, amongst other things, with 75 percent of Tanzanian banks mentioning this aspect as a significant obstacle to their dealings with SMEs. One Tanzanian bank mentioned that they had allocated significant resources to training their SME clients in order to improve both their business skills and quality of information submitted.

Finally, Stephanou and Rodriguez (2008) analysed both trend and structure of the SME financing market in Colombia. They found that banks in the country regard the SME segment as an attractive business opportunity though their level of sophistication in terms financial reporting and business model were modest. The authors conclude that the market is also characterized by institutional and policy constraints, which inhibits further growth of SME lending

## 2.0 METHODOLOGY

### 2.1 Research Design

The study used a mixed design that is, correlational and descriptive survey design. Kotler and Armstrong (2000) observed that this method is best suited for gathering descriptive information where the researcher wants to describe the state of affairs as they exist. The Correlation design on the other hand comprises of collecting data to determine whether, and to what extent, a relationship exists between two or more variables (Cohen and Manion, 1989). This design is therefore appropriate since the study intended to establish the relationship between information asymmetry and on access to finance by SMEs. A mixed research method on the other hand involves mix of both qualitative and quantitative research approaches within a stage of the study or across two of the stages of the research process. The researcher conducted a survey and use a questionnaire that is composed of multiple closed-ended or quantitative type items as well as several open-ended or qualitative type items.

### 2.2 Instrumentation and Data Collection

The study used primary data. Rudolph et al (2009) defined primary data as the original data which is originated for the purpose of the research at hand. Kothari (2004) describe primary data as those which are collected afresh and for the first time, and thus happen to be original in character. Louis, Lawrence and Morrison (2007) describes primary data as those items that are original to the problem under study while Ember and Ember (2009) describe primary data as data collected by the investigator in various field sites explicitly for a comparative study. The primary data collection procedure started with identifying the respondents and their accessibility. The availability of the questionnaires and competent research assistants was ascertained. The data were collected through a questionnaire which were administered by the researcher and his assistants. The questionnaires were administered preferably within the premises of the responding institutions to allow references where necessarily. Prior appointment was necessarily to allow the respondents to familiarize with the questions and make the necessarily reference.

### 2.3 Analysis of Data

The study used descriptive analysis, correlation analysis and regression analysis to analyse the data. The study used both qualitative and quantitative data as advocated for by Neuman (2000) and Babbie (2007). Qualitative data from open ended questions was analysed using content analysis while Statistical Package for Social Sciences (SPSS) software version 21 was used in running the statistical tests. SPSS was chosen because as indicated by Castillo (2009) it is user friendly and gives all the possible analysis. The categories of responses were identified, coded and entered into SPSS variable data sheet for both descriptive and quantitative analysis. Descriptive analysis generated measures of central tendency, that is, frequencies, percentages, means and standard deviation which were interpreted appropriately.

## 3.0 EMPIRICAL RESULTS

The study sought to examine the relationship between information asymmetry and access to finance by SMEs in Kenya and the descriptive statistics are presented in Tables 1, 2,3 and 4. The results in Table 1 show that 12.5% of the respondents indicated that bank requires information on business earnings, 20.8% information on business assets, 13.1% daily records of sales and purchases, 11.9% years of business existence, 15.1% business ownership documents, 10.3% business registration documents 8.7% tax payment certificates and 7.7% other types of documents. This shows that majority of the banks (20.8%) requires information on business assets followed by ownership documents (15.1%). This information is the most difficult to be provided by SMEs as shown in Table 1. The study found out that the banks requires all the information about the SMEs in order to lend to them.

The results in Table 2 show that 9.0% of the respondents indicated that information on business earnings is the most difficult to provide, 21.5% information on business assets, 10.3% information on daily records of sales and purchases, 9.9% information on years of business existence, 20.2% information on business ownership 8.0% information on business registration 8.3% information on tax payment 7.4% information on the purpose of the loan and 5.4% other information. This shows that majority of the SMEs (21.5%) finds it most difficult to provide information on business assets followed by ownership documents (20.2%) and this most information required by the banks as shown in Table 3, in order to grant loans to SMEs, thus most of them are unable to acquire loans from banks. The study out that the SMEs had difficult in providing all the information required by the banks. This is in line with the findings of a study by Calice et al. (2012) who investigated the obstacle to the development of SME lending in Kenya and found out that majority of banks in the Kenya (88 percent) considered lack of adequate information as the most important deterrent to their lending to SMEs. Also the study done by Beck et al (2008) in Tanzania, the banks cited the lack of information as the biggest hindrance to SMEs lending. According to most Tanzanian banks, the quality of information provided by SMEs, was the significant obstacle to their dealings with SMEs in lending (Beck et al, 2008).

The results in Table 3 show that 19.9% of the respondents indicated that the major reason of the not providing the required information is that the cost of preparing the information is very high, 18.3% the information they have is not accurate, 15.1% information they have is not enough, 17.3% do not have documents for most of their assets, 15.7% do not have skills to prepare the financial statements and 13.8% are afraid of providing business information because their competitors might exploit it. The descriptive statistics of respondents' opinions on the relationship between information asymmetry and access to finance by SMEs in Kenya is shown in Table 4. The findings of the study are supported by Mthimkhulu and Aziakpono (2012) who in their study found out that SMEs present significant information gaps which is caused by the lack of reliable and accurate financial information, business and operational plans and critical business and financial skills which limits the ability of banks to assess the credit-worthiness of individual SME borrowers.

The study sought to establish the relationship between information asymmetry and access to finance by SMEs in Kenya. The results in this study revealed significant relationship between information asymmetry and access to finance by SMEs as shown in Table 4 in which 66.3% of the respondents agreed and strongly agreed that failure to provide business information due to high cost negatively affect the access to finance while 17.0 % disagreed and 16.7% were not sure of the relationship. The mean score of the responses was 3.76 which indicate that majority of the respondents agreed with the statement on the assertion that failure to provide business information due to high cost negatively affect the access to finance.

The respondents were required to indicate whether inaccurate information negatively affect their access to finance and 65.1% strongly agreed and agreed while only 9.6%

disagreed and 25.3% did not take any position. The mean score of the responses was 3.84 which indicate that majority of the respondents agreed with the statement on the assertion that inaccurate information negatively affect their access to finance. On average 68.3% of the respondents agreed that inadequate information negatively affects their access to finance while 14.4% disagreed and 17.3% took a neutral position showing that a sizeable number of the respondents did not have adequate information to provide to the bank in order to access finance. The mean score of the responses was 3.83which indicate that majority of the respondents agreed with the statements on the assertion that inadequate information negatively affects their access to finance. 16.7% of the respondents disagreed with the statement that lack of documentation for most of the assets negatively affect my access to finance while 67.9% agreed and 15.4% took a neutral position. The mean score of the responses was 3.79 which indicate that majority of the respondents agreed with the statements on the assertion that lack of documentation for most of the assets negatively affect my access to finance

Majority of the respondents agreed that failure to provide information due to lack of skills to prepare the financial documents negatively affect their access to finance that is 67.0 % of the respondents agreed with the statement 12.5% of the respondents disagreed and 20.5% took a neutral position. The mean score of the responses was 3.85 which indicate that majority of the respondents agreed with the statement on the assertion that failure to provide information due to lack of skills to prepare the financial documents negatively affect their access to finance. Also 79.5% of the respondents strongly agreed and agreed that they had fear of providing business information due to competitors, 9.6% of the respondents disagreed while 10.9% took neutral position. The mean score of the responses was 4.06 which indicate that majority of the respondents agreed with the statements on the assertion that they had fear of providing business information due to competitors.

## 4.0 DISCUSSION

The hypothesis of the study was that there is no significant relationship between information asymmetry and access to finance by SMEs. This hypothesis was tested through correlation and regression analysis between information asymmetry and access to finance.

The results presented in Table 5 revealed that there was a significant correlation between information asymmetry and access to finance by SMEs, with p- value of 0.000 which is less than 0.01 and Pearson Correlation coefficient was -0.621 while other independent variables were held constant. This implies that there was a significant relationship (62.1%) between information asymmetry and access to finance by SMEs. According to Mugenda and Mugenda (2008) a correlation coefficient (R) of 0.3 is enough to conclude that there is a significant relationship between the dependent variable and independent variable. The negative R value implies that there is a negative relationship between the information asymmetry and access to finance by SMEs in Kenya, that is as the information asymmetry between the banks and the SMEs increases the access to finance by the SMEs reduces. Thus the null hypothesis was rejected and the alternative hypothesis accepted. The study concludes that there is a significant strong negative relationship between information asymmetry and access to finance by SMEs in Kenya.

Regression analysis for information asymmetry with access to finance by SMEs was done and the model summary was presented in Table 6. The results indicated that there was relationship between information asymmetry and access to finance by SMEs in which $R$ 2 was 0.386 implying that 38.6% of access to finance by SMEs was explained by information asymmetry. This shows that an increase in information asymmetry by one unit causes a decrease in access to finance by SMEs by 0.386. The adjusted R square of 0.377 means the information asymmetry without the constant explains 37.7% variation in access to finance by the SMEs. The remaining 61.4% variation in access to finance by the SMEs is explained by other variables which are not in the model.

The results for Analysis of Variance for information asymmetry with access to finance by SMEs is shown in Table 7 in which computed F-Statistics value was 20751.087 which is greater than the critical value of 3.85 and p value was 0.000 which was less than 0.05 meaning that the relationship between information asymmetry and access to finance by SMEs was significant. Thus the null hypothesis was rejected and concluded that there was a significant relationship between information asymmetry and access to finance by SMEs in Kenya.

Table 8 shows beta coefficient summary in which the t-values are -10.244 and 144.052 with p-values being 0.000 which are less than 0.05 hence the model was statistically significant. The model was defined as Y = 30.4 -1.366X 1 + e, indicating that every unit increase in information asymmetry leads to 1.366 decrease of access to finance by SMEs in Kenya. This implies that information asymmetry negatively affects access to finance by SMEs in Kenya.

## 5.0 CONCLUSION

The objective of the study was to examine the relationship between information asymmetry and access to finance by SMEs in Kenya. The findings revealed a negative significant relationship between information asymmetry and access to finance by SMEs in Kenya meaning that information asymmetry between banks and SMEs negatively affects the SMEs ability to access credit from banks**.** This indicates that information asymmetry is a major factor which affects SMEs access to finance in Kenya. The findings revealed that information asymmetry have a negative influence on access to finance by SMEs in Kenya. The findings are supported by the coefficient of determination ($R^2$ = 0.386) which shows that the variations in access to finance by SMEs is explained by information asymmetry. The influence of information asymmetry on access to finance by SMEs is also statistically significant with the p value of less than 0.05 and hence the null hypothesis was rejected. The study concluded that there is a significant relationship between information asymmetry and access to finance by SMEs in Kenya. The findings are supported by Mthimkhulu and Aziakpono (2012) who in their study concluded that SMEs present significant information gaps which are caused by the lack of reliable and accurate financial information, business and operational plans as well as critical business and financial skills which limits the ability of banks to assess the credit-worthiness of individual SME borrowers.

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**Table 1: The Information Required by the Bank when the SMEs are applying Loans**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Business earning | 39 | 12.5 | 12.5 | 12.5 |
| Business assets | 65 | 20.8 | 20.8 | 33.3 |
| Daily records of sales and purchase | 41 | 13.1 | 13.1 | 46.5 |
| Years of business existence | 37 | 11.9 | 11.9 | 58.3 |
| Ownership documents | 47 | 15.1 | 15.1 | 73.4 |
| Business registration documents | 32 | 10.3 | 10.3 | 83.7 |
| Tax payment certificate | 27 | 8.7 | 8.7 | 92.3 |
| Others (please indicate) | 24 | 7.7 | 7.7 | 100.0 |
| **Total** | **312** | **100.0** | **100.0** | |

**Table 2: The information most difficult Information to be provided by SMEs**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Business earning | 28 | 9.0 | 9.0 | 9.0 |
| Business assets | 67 | 21.5 | 21.5 | 30.4 |
| Daily records of sales and purchase | 32 | 10.3 | 10.3 | 40.7 |
| Years of business existence | 31 | 9.9 | 9.9 | 50.6 |
| Ownership documents | 63 | 20.2 | 20.2 | 70.8 |
| Business registration documents | 25 | 8.0 | 8.0 | 78.8 |
| Tax payment certificate | 26 | 8.3 | 8.3 | 87.2 |
| Purpose for the loan | 23 | 7.4 | 7.4 | 94.6 |
| Others | 17 | 5.4 | 5.4 | 100.0 |
| **Total** | **312** | **100.0** | **100.0** | |

**Table 3: The Reasons for the Difficult in Providing information by SMEs**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| The cost of preparing the information is very high | 62 | 19.9 | 19.9 | 19.9 |
| The information I have is not accurate | 57 | 18.3 | 18.3 | 38.1 |
| The information I have is not enough | 47 | 15.1 | 15.1 | 53.2 |
| I do not have documents for most of my assets | 54 | 17.3 | 17.3 | 70.5 |
| I do not have skills to prepare the financial documents | 49 | 15.7 | 15.7 | 86.2 |
| I am afraid of providing business information since competitors might exploit it | 43 | 13.8 | 13.8 | 100.0 |
| **Total** | **312** | **100.0** | **100.0** | |

**Table 4: Descriptive Statistics on Information Asymmetry**

| | Strongly Disagree | Disagree | Somehow Agree | Agree | Strongly Agree | Mean |
|---|---|---|---|---|---|---|
| Failure to provide business information due to high cost negatively affect my access to finance | 6.7 | 10.3 | 16.7 | 33.0 | 33.3 | 3.76 |
| In accurate information negatively affect my access to finance | 3.8 | 5.8 | 25.3 | 32.4 | 32.7 | 3.84 |
| Inadequate information negatively affects my access to finance | 4.8 | 9.6 | 17.3 | 34.6 | 33.7 | 3.83 |
| Lack of documentation for most of my assets negatively affect my access to finance | 6.4 | 10.3 | 15.4 | 34.3 | 33.7 | 3.79 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Failure to provide information due to lack of skills to prepare the financial documents negatively affect my access to finance | 5.8 | 6.7 | 20.5 | 30.8 | 36.2 | 3.85 |
| Fear of providing business information due to competitors | 3.8 | 5.8 | 10.9 | 39.1 | 40.4 | 4.06 |

**Table 5: Correlation between Information Asymmetry and Access to Finance**

| | | Information Asymmetry | Access to Finance |
|---|---|---|---|
| Information Asymmetry | Pearson Correlation | 1 | -.621** |
| | Sig. (2-tailed) | | .000 |
| | N | 312 | 312 |
| Access to Finance | Pearson Correlation | -.621** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 312 | 312 |

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

**Table 6: Results for Regression Analysis for Information Asymmetry and Access to Finance**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | -.621[a] | .386 | .377 | .14558 |

a. Predictors: (Constant), Information Asymmetry

b. Dependent Variable: Access to Finance by SMEs

**Table 7: ANOVA Test for Information Asymmetry and Access to Finance**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 439.762 | 1 | 439.762 | 20751.087 | .000[b] |
| | Residual | 6.570 | 310 | .021 | | |
| | Total | 446.332 | 311 | | | |

a. Dependent Variable: Access to Finance by SMEs

b. Predictors: (Constant), Information Asymmetry

**Table 8: Test of Beta Coefficients on Information Asymmetry and Access to Finance**

| Model | | Unstandardized Coefficients B | Unstandardized Coefficients Std. Error | Standardized Coefficients Beta | t | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 30.4 | .030 | | -10.244 | .000 |
| | Information Asymmetry | -1.366 | .007 | .621 | 144.052 | .000 |

a. Dependent Variable: Access to Finance by SMEs