

# Moderating Role of Entrepreneurial Orientation on the Relationship between Relationship Lending and Financial Performance of manufacturing SMEs in Kenya

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## Abstract

The purpose of this study was to determine the moderating role of entrepreneurial orientation (EO) on the relationship between relationship lending and financial performance of manufacturing SMEs in Kenya. Relationship lending has gained a lot of interest worldwide as it is seen as an avenue to help bridge the information gap between SMEs and the banks thus ultimately helping SMEs access credit. Further, although credit is important to SMEs, entrepreneurial orientation (EO) is key as it determines the success or failure of SMEs. There is little research that has been done to determine if EO moderates the relationship between relationship lending and SME performance in Kenya. The study used a cross-sectional survey research design with the population being the 620 manufacturing SMEs involved in relationship lending arrangements with commercial banks in Kenya. Stratified random sampling was used to pick a sample of 160 from which the proprietors / CEOs of the respective companies filled the questionnaires. The main data collection instrument was a semi structured questionnaire. The hypotheses in this study were tested using structural equation modeling and hierarchical moderated multiple regression (MMR). The study found evidence that EO moderates the relationship between relationship lending and financial performance of manufacturing SMEs in Kenya. Further the study determined that relationship lending positively impacts on financial performance of SMEs. It also found

**Keywords:** Relationship lending, Financial performance, Entrepreneurial Orientation, SMEs.

## 1.0: Introduction

The role of small and medium enterprises (SMEs) in any economy cannot be gainsaid. They are key to employment creation and poverty reduction (Wagenvoort, 2003). SMEs have been identified to possess the unique strength of innovation and have served as incubators for new technologies and practices. As such they are an important catalyst to industrial development especially where sufficient linkages between SMEs and large enterprises exist (Wagenvoort, 2003). The financial performance of SMEs is affected by many factors including access to financing, political, legal environment and the Entrepreneurial orientation (EO) of the entrepreneur (Agwang, Ahmad, Asghar and Subari, 2009).

The role of EO in the performance of SMEs has been well articulated in entrepreneurship literature. EO refers to the extent to which a firm is entrepreneurial. An Entrepreneurial firm pursues entrepreneurial activities by adapting structure, management, and processes accordingly in order to gain the required agility, speed, and creativity and drive to act profitably upon specific opportunities (Davidson and Wiklund, 2001). Miller (1983) developed a framework of EO that has three constructs that is, innovation, risk taking and proactivity. Later other constructs were added that is, competitive aggressiveness and autonomy (Lumpkin and Dess, 1996). Scholars such as Miller (1983) and Covin and Slevin (1989) treated EO as a unidimensional construct while others such as Kreiser, et al. (2002) argued that each construct of EO ought to be taken as separate constructs.

Entrepreneurial orientation is concerned with the firm-level strategic processes that firms use to obtain competitive advantage. It is key to the success or failure of a firm. Studies such as Moreno and Cassillas (2008) and Wiklund and Shepherd (2005) have explored the link between EO and financial performance. The effect of EO on financial performance has been highlighted in studies such as Brown, Davidsson, & Wiklund (2001) and Stevenson & Jarillo, (1990) who were able to demonstrate the link between the financial performance of a firm and the entrepreneurial orientation of the owners. Mullins and Forlani (2005) study also did underpin the superiority of EO in explaining financial performance of a firm. That EO contributes to the performance of an enterprise is not in doubt. Wiklund (1999) indicates that EO has implications for firm performance because aspects of EO such as 'risk-taking, innovativeness and proactiveness keep small firms ahead of competitors. Some studies however have found out that EO may be deficient in predicting firm performance because it lacks reference to opportunity identification which is key to SME growth (Stevenson, 1983).

Constrained access to appropriate finance is a significant hindrance to the growth and development of SMEs in Kenya (Goh, 2011). Wanjohi and Mugure (2008) posit that credit constraints are visible in Kenya as a result of financial markets being poorly developed hence entrepreneurs do rely on self-financing informal money lenders. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance (Goh, 2011). Mainstream banks have in the past shunned availing credit to the SME sector on their account of opaqueness, a situation that leads to information asymmetry. This state of affairs leads to adverse selection, information opacity, and moral hazard. One of the avenues available for banks to overcome information asymmetry among SMEs is relationship banking. Boot (2000) describes relationship banking as the provision of financial services by a bank on the basis of long-term investment in obtaining firm-specific information through multiple interactions with diverse financial services.

The effect of relationship lending on financial performance is still controversial. For instance Agarwal and Elston (2001) reported that profitability is likely to improve for firms in relationship lending though this has been disputed by other previous studies such as Chirinko and Elston (2006) who argued that relationship lending does not affect profitability. Further, Weinstein and Yafeh (1998) actually reported that it leads to a decline in profitability of existing firms. Studies have also shown that relationship lending helps firms improve their cash flows. Shen and Wang (2004) argued that when a firm has a strong banking relationship, the firm's investment is less sensitive to cash flow. As such, such firms are unlikely to have cashflow problems and hence their financial performance is likely to improve. The extension of credit limits is another advantage that firms in relationship lending get. As the bank-client relationship increases, the firm's opaqueness from the point of the bank diminishes and hence they become attractive to the bank. This finding agrees with Cole (1998) whose study on the importance of banking relationships to the availability of credit reported that credit limits could be extended to customers in relationship banking. Similar findings were also reported by Petersen and Rajan (1994) and Berger and Udell (1995).

Relationship lending avails credit to the firm which can then be applied to upscale entrepreneurial intensity levels thus enhancing services and product development that eventually lead to superior performance. From the resource based view of the firm, RBV, credit is identified as one of the resources available to a firm which if used well can help a firm gain competitive advantage (Mac an Bhaird, 2010). Thus as a financial resource credit from relationship lending help overcome the financing gap prevalent in many SMEs thereby enabling them to develop their own competencies and competitiveness. Audretsch, Bönte and Mahagaonkar, (2007) research on financing constraints for nascent entrepreneurs in Norway showed that with the availability of credit, entrepreneurial intensity levels increases as they are able to use the borrowed funds to invest in services and product development thus leading firms to post superior performance. For credit to have a positive effect on financial performance, entrepreneurial leadership must be displayed in order to rally the various components of the firm to deliver superior performance (Covin and Slevin, 2002). This also agrees with Wole (2009) whose study on how the availability of finance determines the capacity of an enterprise argued that with the availability of credit, SMEs can invest in innovation, new product development and business expansion hence leading to superior financial performance. This view also agrees with Fitzsimmons, Steffens and Douglas (2005) whose study on growth and profitability in Small and Medium Sized Australian firms reported that entrepreneurial leadership, individual characteristics, values and expectations have a bearing as to the investment direction a firm could take and hence its performance.

The need to determine the link between relationship lending and SME performance has not been conclusive with some studies such as Agarwal and Elston (2001) reporting that relationship lending has positive implications on SME profitability while Chirinko and Elston (2006) reported it has no effect. There is therefore need to conclusively ascertain the effect of relationship lending from a Kenyan perspective. Additionally because the entrepreneurial success depends also on the entrepreneurs capabilities, there is need to find out if EO moderates the relationship between relationship lending and financial performance of manufacturing SMEs. This approach essentially integrates theoretical perspectives of entrepreneurship and links relationship banking and entrepreneurial orientation under strategic entrepreneurship domain.

### **1.2: Objective of the Study**

The objective of this study is to determine the moderating effect of entrepreneurial orientation on the relationship between relationship lending and financial performance of manufacturing SMEs

### **2.0: Literature Review**

Lack of credit has been documented in entrepreneurship literature as being one of the causes of SME attrition and stagnation. SMEs especially in developing countries are plagued by inability to access financing from mainstream banks as they are perceived to be a risky segment because of their information opacity i.e , banks do not have sufficient information on SMEs because of information asymmetry between the two parties (Petersen ,2004) . Relationship lending attempts to solve this problem by basing lending decisions not on 'hard' information, but on soft information collected over time as a result of the mutual relationship between the SME and the bank (Berger et al., 2005).

Relationship lending is touted as a more effective lending technique in the case of SMEs (Boot, 2000). A study by Hernandez-Canovas and Martinez-Solano (2007) on the effect of relationship lending on SMEs in Spain showed evidence that relationship lending helped SMEs access loans from banks. Besides the reduction of information asymmetries, another advantage of relationship lending may be the intertemporal smoothing of borrowing costs. Petersen and Rajan (1994) showed that banks grant a discount at the beginning of the relationship, while, later in the relationship, they charge an interest rate above the risk-adequate rate to recoup their former losses. The credit subsidy at the beginning of the relationship reduces moral hazard and adverse selection problems and enables banks to nance companies which would be credit rationed under transaction banking (DeYoung et al., 2008).

The effectiveness of relationship lending is time dependent as duration of the bank-borrower relationship. Nam (2004) posits that with a long duration, there will be sufficient time to accumulate customer information through repeated interactions, and is largely non-transferable to those outside of the relationship. Commitment and reputation are also built and verified over time. This position is shared by Ferri *et al.*, (2000) who posited that relationship lending can be useful to both parties in the long run. Peltoniemi (2004) studied the determinants of relationship lending and found out that duration and scope were the main determinants of the effectiveness of relationship lending. This is consistent with other previous studies that have found that the element of relationship length is related to loan pricing due to accumulation of private information, often proprietary in nature. Fredriksson (2007) investigated the effect of the intensity banking relationships on loan pricing and found out that the intensity of banking relationships is affected by the elements of the relationship, namely length, scope and depth. The study did find that that the elements of intensity are associated with loan spreads. From an entrepreneurship perspective, relationship lending has been approached from a resource based view (RBV) perspective because studies such as Chrisholm & Nielsen (2009) and Newbert (2007) extended social capital as one of the resources available to firms. In this view, social capital includes networks and linkages that a firm forges with others. Since relationship lending falls in the realm of bank-firm networks, then it is seen as part of the social capital of the firm (Uzzi, 1996). Ellis (2010) posits that aspects of social capital such as networks form part of the critical resource base for firms. Kollock (1994) argued that the availability and costs of a firm's capital should vary with the degree to which its commercial transactions with a bank are embedded in social attachments.

Even if SMEs were to receive credit from banks, EO determines whether this critical resource will make the firm succeed or not. Thus two firms with the same amount of resource endowment are likely to perform differently based on their EO index. This is because the development of entrepreneurial orientation requires organizational members to engage in intensive knowledge activities which cannot be replicated by the competition (Hunt and Arnett, 2006). How firms transfer and infuse EO into their strategic activities determines if they will attain superior performance or not (Nonaka, Toyama, & Nagata, 2000). Hoxha (2009) posit that resources e.g financial resources, are critical to a firm's success and that EO is critical for products and process improvements leading ultimately towards higher performance. The link between EO and SME financing has been explored in entrepreneurship literature. While it is acknowledged that EO helps firm gain an competitive edge, EO needs access to financial capital for it to be effective that is, innovative mindset, proactiveness and risk taking would amount to nothing if there is no access to finance to help translate ideas into innovative products (Tang et al., 2008). Therefore the study hypothesized that;

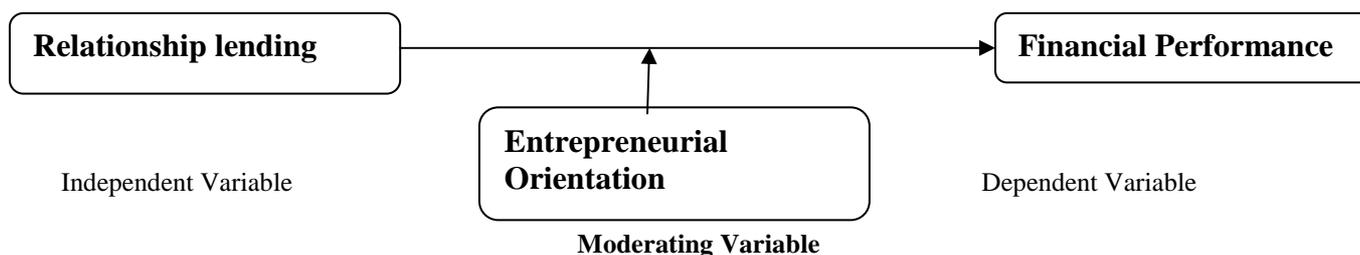
HO<sub>1</sub>: Relationship lending does not influence firm financial performance.

The study also hypothesized that;

HO<sub>2</sub>: There is no significant moderating effect of EO on the relationship between relationship lending and firms' financial performance.

## 2.1 Conceptual Framework

The conceptual framework is based on relationship lending (independent variable), financial performance (dependent variable) and EO being the moderating variable.



### 3.0: Methodology

The study adopted a cross sectional survey research design. A cross-sectional survey design involves the analysis of data collected from a population, at one specific point in time. The target population for this study was the manufacturing SMEs involved in relationship lending with commercial banks in Kenya. The respondents were the proprietors of these enterprises and were appropriate because they are the ones who make decisions on banking relationships for their firms and are also better placed to comment on the financial performance and creating an entrepreneurial culture of their firms. The study employed stratified random sampling to pick a sample of 160 respondents. Data was collected using a semi structured questionnaire. The closed ended questions were on a 5-point Likert-scale (1 – “strongly agree” to 5 – “strongly disagree”) that were used to measure respondents’ agreement with the concepts under investigation. The likert scale is the most widely used approach to scaling responses in survey research (Carifio and Perla, 2007) and it is appropriate for this study as it minimizes variability of response while pre specifying a set of response alternatives to increase response rate (Jarvenpaa *et al.*, 2000). A pilot study was conducted with 5% of the accessible population and the results were used to determine the reliability and validity of the questionnaire. The cronbach alpha was 0.9 indicating a high reliability of the data. Sekeran (2003) indicated that a desirable reliability coefficient would be greater than 0.50. Factor analysis was conducted using principal component analysis (PCA) and Varimax with Kaiser Normalization method. In PCA, all the variance of a variable (total variance) is analyzed and thus PCA is assumed to be perfectly reliable and without error (Bryman & Cramer 2005). Preceding the factor analysis was the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's Test of Sphericity. The KMO statistics vary between 0 and 1 (Argyrous, 2005). A value of zero indicates that the sum of partial correlation is large relative to the sum of correlations indicating diffusions in the patterns of correlations hence factor analysis is likely to be inappropriate (Costello, & Osborne, 2005). A value close to 1 indicates that the patterns of correlations are relatively compact and so factor analysis should yield distinct and reliable factors (Cooper and Schindler, 2006). The study used the Statistical Package for the Social Sciences (SPSS) version 20.0 for running the Exploratory Factor Analysis (EFA). The study also used the Analysis of Moment Structures (AMOS) version 18, which is essentially analysis of mean and co-variance structures, for confirmatory factor analysis (CFA), Path Analysis and Structural Equation Modeling (SEM). The moderation effects of EO was tested using the moderated multiple regression (MMR) analysis. Aiken and West (1991) reported that the MMR approach involves the addition of interaction effects to a multiple regression model by comparing two different least squares regression equations.

### 4.0: Data Analysis and Results

This study followed the two step approach for SEM that is, the measurement model and the structural model as outlined by Anderson and Gerbing (1988). The measurement model was the first step and it involved confirmatory factor analysis (CFA) while the structural model was the second step.

Exploratory factor analysis (EFA) preceded CFA and it involved the determination of the pattern matrix, communalities and factor analysis using principal components analysis (PCA). The Kaiser-Meyer Olkin (KMO) test of sampling adequacy and Bartlett's Test of Sphericity were carried out to determine the fitness of the data for factor analysis with the results being presented in table 1. As shown in table 1, the test yielded a KMO statistics of 0.783 exceeding the KMO threshold value of 0.50 (Hair *et al.*, 1998) for factorable items. On the other hand, Bartlett's test of sphericity showed a p value of 0.000, showing that there were sufficient relationships among the variables to investigate. The results from the KMO and the Bartlett's test of sphericity suggest that the data in this study is suitable for factor analysis.

In the second step, structural equation modeling was conducted. The relationship lending index for every respondent was specified as an exogenous, manifest variable. The financial performance of SMEs was considered as a latent endogenous variable that was measured by two indicator variables. The model fitness statistics are presented in table 2. The values obtained in testing the model fit indices were within the thresholds as shown in table 2. The structural equation modeling (SEM) for the study objective was done and the path diagram displayed in figure 1 with the regression weights being shown in table 3. As shown in table 3, the critical ratio (CR) was  $3.921 > 1.96$ . We thus reject the null hypothesis and accept the alternative hypothesis that relationship lending has a positive influence on financial performance of manufacturing SMEs in Kenya. Structural Equation Modeling (SEM) with moderation was carried out to determine if EO moderates the relationship between relationship lending and financial performance. The path diagram for the moderation is presented in figure 2 while the regression weights are presented in table 4. As shown in table 4 there was a significant interaction,  $RL*EO$  ( $CR > 1.96$ ) at 5%  $\alpha$  level thus suggesting that EO moderates the relationship between relationship lending and the financial performance of SMEs in Kenya.

To further corroborate the moderating effect of EO on the relationship between relationship lending and financial performance of manufacturing SMEs in Kenya, a hierarchical moderated multiple regression (MMR) was performed to determine if EO moderates the relationship between relationship lending and financial performance

of manufacturing SMEs. Using the MMR analysis, the moderating effect of the variable (EO) was analyzed by interpreting (1) the  $R^2$  change in the models obtained from the model summaries, and (2) the regressions coefficients for the product term obtained from the coefficients tables. This was undertaken in a two step process. At the first step, the independent variable i.e relationship lending and the hypothesized moderator (Entrepreneurial orientation) were entered as predictors. At the next step, the cross product of each independent variables and entrepreneurial orientation were regressed on the outcome variable to test for interaction effects. Each step had model 1 and 2. The results are shown in table 5.

In step one, relationship lending and EO were entered as the predictor variables and the results displayed in table 5. As shown in table 5, there is a significant relationship between the predictors and firm performance ( $R^2 = 0.212$ ,  $F(1, 129) = 17.224$ ,  $p < .005$ ). The  $R^2 = 0.212$  shows that relationship lending explains 21.2% of the variation in financial performance. The remaining 78.8% is due to other factors not captured in this model.

The Model 1 in step 1 presents the results for all the predictor variables. While results in Model 2 presents the results for the interaction. The results for Model 1 presented in table 5 indicate that relationship lending has a significant and positive relationship with firm performance ( $\beta = 0.185$ ,  $t = 5.715$ ,  $p < .005$ ). This indicates that a unit change in relationship lending increases financial performance by 0.185 units, EO being constant. Further there is a significant positive relationship between EO and Financial performance ( $\beta = 0.156$ ,  $t = 2.071$ ,  $p < .005$ ) indicating that a unit change in EO increases financial performance by 0.156 units, lending being constant. Substituting these coefficients to the OLS regression model ( $y = \beta_0 + \beta_1 X + \beta_2 Z + \epsilon$ ), the following equation is obtained:

$$\text{Financial Performance} = 12.068 + 0.185 \text{ RL} + 0.156 \text{ EO} \text{ ----- Equation (1)}$$

In model 2 of step 1, the moderation is tested by introducing the interaction term Relationship Lending \* EO. There was a significant relationship between relationship lending and financial performance ( $\beta = 0.46$ ,  $t = 3.457$ ,  $p < .005$ ). Therefore  $\beta = 0.46$  indicates that a unit change in relationship lending is associated with a 0.46 increase in financial performance, EO being constant. The  $\beta$  changed from 0.185 to 0.46 after moderation. Further there was a positive relationship between EO and financial performance. A unit increase in EO causes a 0.534 units change in financial performance, relationship lending being constant. Substituting these coefficients to the OLS regression model ( $y = \beta_0 + \beta_1 X + \beta_2 Z + \epsilon$ ), the following equation is obtained:

$$\text{Financial Performance} = 4.274 + 0.46 \text{ RL} + 0.534 \text{ EO} - 0.014 \text{ RL} * \text{EO} \text{ ----- Equation (2)}$$

In model 2 of step 2, the interaction term Relationship lending\*EO is significant ( $\beta = -0.014$ ,  $t = -2.133$ ,  $p < .005$ ). This shows that EO has some effects on the relationship between relationship lending and financial performance of SMEs with the negative sign showing that EO has negative moderating effects on the relationship between relationship lending and financial performance of SMEs. Table 5 also indicates that the inclusion of the interaction term resulted into an  $R^2$  change of .027, [ $F(1, 129) = 13.318$ ,  $p = 0.035$ ]. The results show a presence of significant moderating effect. The change in  $R^2$  is a way to evaluate how much predictive power was added to the model by the addition of another variable in step 2. Cohen (1992) recommendation that a change in  $R^2$  of 0.02 and above would indicate a unique contribution to overall variance. The p value ( $p = 0.035$ ) is less than the level of significance (0.05) hence the change is significant. This shows that the moderating effect of Entrepreneurial Orientation explains 2.7% variance in the financial Performance of SMEs, above and beyond the variance by relationship lending and Entrepreneurial Orientation. Thus the null hypothesis was rejected and therefore Entrepreneurial Orientation moderates the relationship between relationship lending and financial performance of SMEs.

The slope regressing the financial Performance of SMEs on relationship lending is steeper for SMEs with high entrepreneurial orientation as compared to SMEs with low entrepreneurial orientation, as shown in figure 3. The results support the presence of a significant moderating effect of EO.

The results from the structural equation modeling showed that EO moderates the relationship between relationship lending and financial performance of SMEs. The MMR process has also found significant moderating effects of EO on the same relationship. The results of the moderated multiple regression (MMR) analysis corroborated the results of the Structural Equation Modeling (SEM) with moderation hence we conclude that EO moderates the relationship between relationship lending and financial performance of manufacturing SMEs in Kenya.

## 5.0: Discussion and Conclusion

The study found out that relationship lending has a positive relationship with financial performance is also supported in literature. Nam (2004) found out that firms in relationship lending arrangements with banks have more access to finance with better credit terms than those who are not in relationship banking. Similar findings were also reported by Hiraki et al. (2003) whose study on relationship lending in Japan showed a positive correlation between relationship lending and the financial performance of a firm. The ability of firms in this study to extract benefits from relationship lending fits well into the RBV theory that sees bank credit as a financial resource that can help a firm gain competitive advantage. SMEs are plagued by the 'missing middle' phenomena hence they face a financing gap. The credit advanced can be applied to exploit entrepreneurial opportunities and gain market leadership that not only lead to superior performance but also has consequences on the sustainability of the enterprise. This view is consistent Barney and Arikan (2001) in their study on the origins and implications of RBV noted that as a resource, credit, can be applied to exploit promising opportunities in the business environment thus increasing revenue and competitiveness of the firm. This agrees with Audretsch, Bönte and Mahagaonkar, (2007) whose research on financing constraints for nascent entrepreneurs in Norway showed that with the availability of credit, entrepreneurial intensity levels increases as they are able to use the borrowed funds to invest in innovation thus leading firms to post superior financial performance. These findings also agree with the discovery theory of opportunity recognition and exploitation which posits that that opportunities arise from competitive imperfections in markets as a result of changes in technology and consumer preferences, (Kirzner, 1973). Finances are required to exploit such entrepreneurial opportunities and relationship lending is thus helpful in this regard. Thus if entrepreneurs exploit opportunities earlier than others they may attain the first mover advantage although this may not be for long because information about these opportunities and how to exploit them typically diffuses quickly (Grant, 1996). Further this is also consistent with the creation theory of the formation and exploitation of entrepreneurial opportunities, which posit that opportunities to produce and sell new products or services do not exist until entrepreneurs act to create them (Baker et al., 2005). To do so, finances are crucial hence relationship lending is key as it enables cash-strapped SMEs to access finances that can be used to exploit such create opportunities. Won (2010) advanced the view that to expand the chances of discovery or creation of entrepreneurial opportunities, the entrepreneur requires resources to ensure successful exploitation of the same. In Kenya this findings are consistent with Wambua and Mugambi (2013) who found evidence that relationship lending is positively correlated to financial performance.

The moderation results led to the conclusion that there was a significant moderating effect of EO on the relationship between relationship lending and financial performance of manufacturing SMEs in Kenya. This view is supported by previous studies such as Bhuian, Menguc and Bell (2005) who posits that aspects of EO such as innovation, risk taking and proactiveness affect how firms translates the credit they receive into competencies. This finding is also consistent with Li, Sun, and Liu (2006) whose study found out that firms with high EO continuously examines alternative sources of sustainable competitive advantage to determine how it can most effectively create superior value for its present and future target customers. Relationship lending in combination with EO enables firms to focus on value adding activities such as product innovation to satisfactorily articulate customer needs which have positive effects on financial performance (Audretsch, Bönte and Mahagaonkar, 2007). The infusion of EO in an enterprise makes the firm to act entrepreneurially which is beneficial as it helps direct credit from relationship lending to fund entrepreneurial activities such as innovations, new venture creation, opportunity exploitation and venturing to new markets. Further this fits to the Schumpeterian theory that sees innovation as one aspect of acting entrepreneurially that enables firms to exploit entrepreneurial opportunities. Schumpeterian opportunities are found in organizations with a strategic focus on proactive product development to satisfy future needs. De Jongand and Marsili (2010) found that the schumpeterian approach would be successful if a firm had sufficient financial resources to be able to innovate.

Thus while credit has been noted in previous studies as being key to SME success and survival (Bowen, Morara and Mureithi, 2009), EO complements that relationship because it factors in the entrepreneurs' key attributes such as risk taking, innovativeness and proactivity. This moderating role of EO has been highlighted in previous studies such as Covin and Wales (2011) who concluded that EO is the driving force of entrepreneurship. An entrepreneur can have resources but it is EO that determines success (Lumpkin and Dess, 1996). Manufacturing SMEs in Kenya are the beneficiaries of relationship lending (Wanjohi, 2014). To cope with competition they not only need relationship lending but also to act entrepreneurially in order to be able to innovate so as to cope with competition.

This study also fills the gaps identified at the literature review stage where it was showed not much had been researched on the moderating effect of entrepreneurial orientation on the relationship between relationship lending and financial performance of manufacturing SMEs in Kenya.

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**Table 1: Test of Factorability**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.783
Bartlett's Test of Sphericity	Approx. Chi-Square	5682.507
	df	2080
	Sig.	0.000

**Table 2: Model Fitness**

Criteria	Cut off Value	Model Result	Description
Chi-Square	Insignificant P value	2435.4	Good Fit
p-value	$\geq 0.05$	0.0898	Good Fit
CFI	Above 0.8	0.936	Good Fit
NFI	$0.8 \leq \& \leq 1$	0.89	Good Fit
RMSEA	$\leq 0.05$	0.06	Good Fit
GFI		0.8	Good Fit

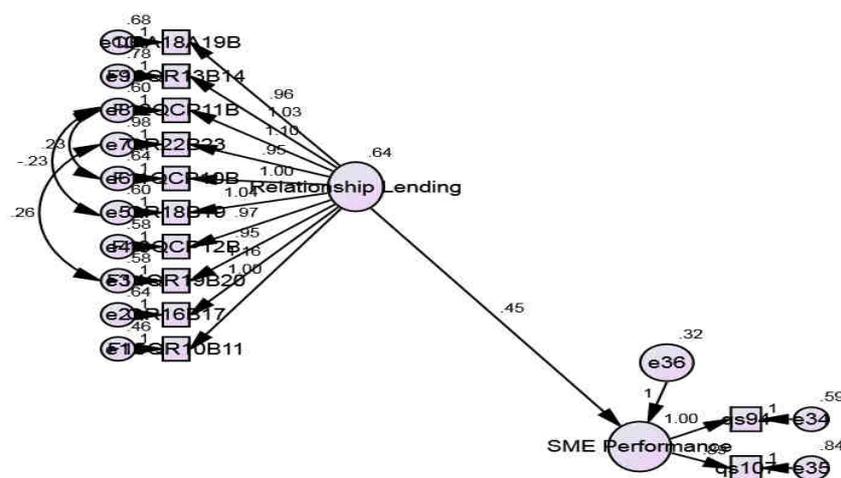


Figure 1: SEM Model for Relationship Lending

Table 3: Regression Weights

			Estimate	S.E.	C.R.	P
Performance	<---	RL	0.452	0.115	3.921	***
F15QR10B11	<---	RL	1			
QR16B17	<---	RL	1.159	0.13	8.9	***
F14QR19B20	<---	RL	0.946	0.115	8.201	***
F13QCP12B	<---	RL	0.966	0.117	8.279	***
QR18B19	<---	RL	1.038	0.123	8.466	***
F11QCP10B	<---	RL	1.002	0.123	8.165	***
QR22B23	<---	RL	0.946	0.137	6.928	***
F12QCP11B	<---	RL	1.102	0.127	8.666	***
F16QR13B14	<---	RL	1.026	0.13	7.869	***
QRA18A19B	<---	RL	0.956	0.121	7.878	***

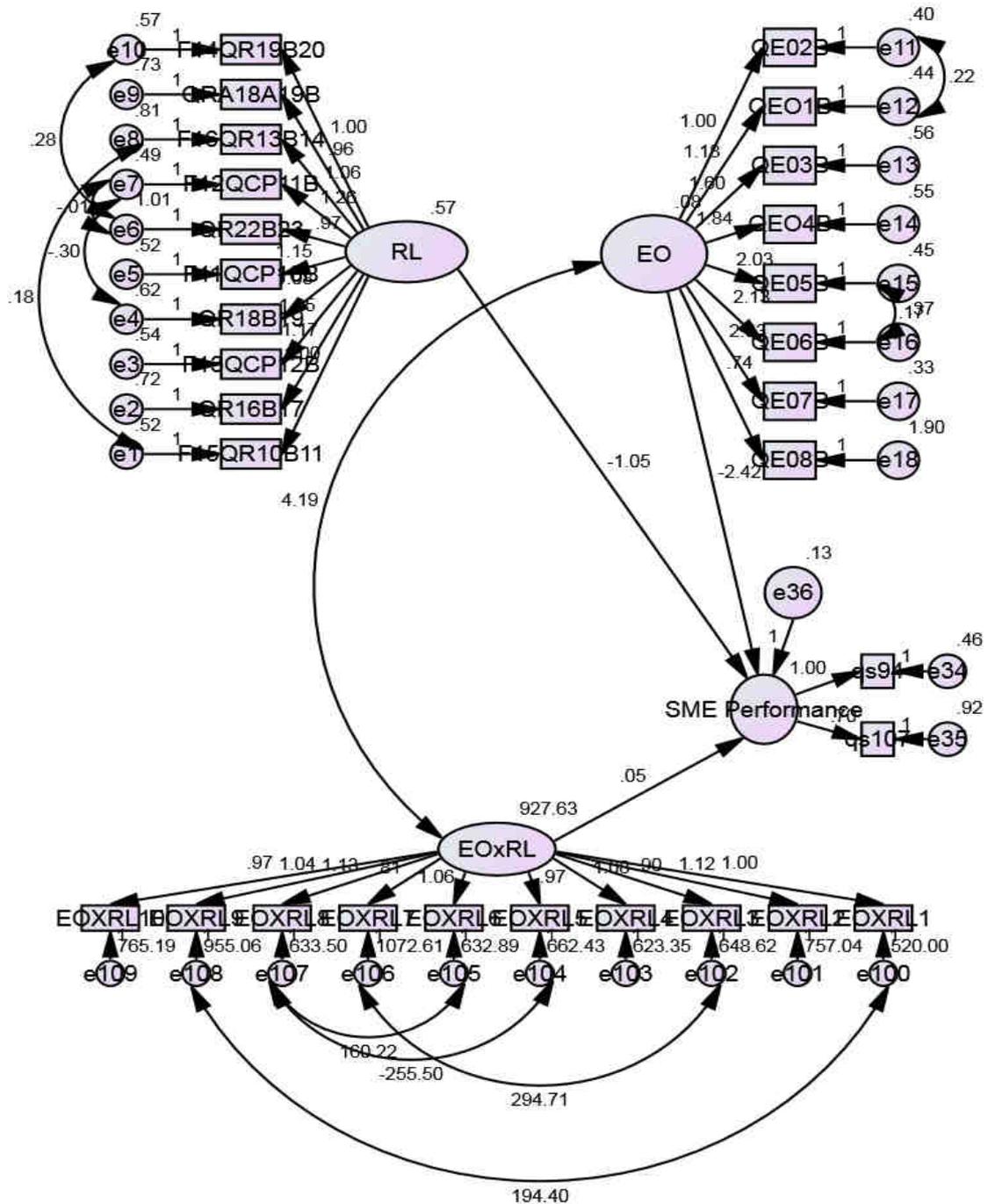


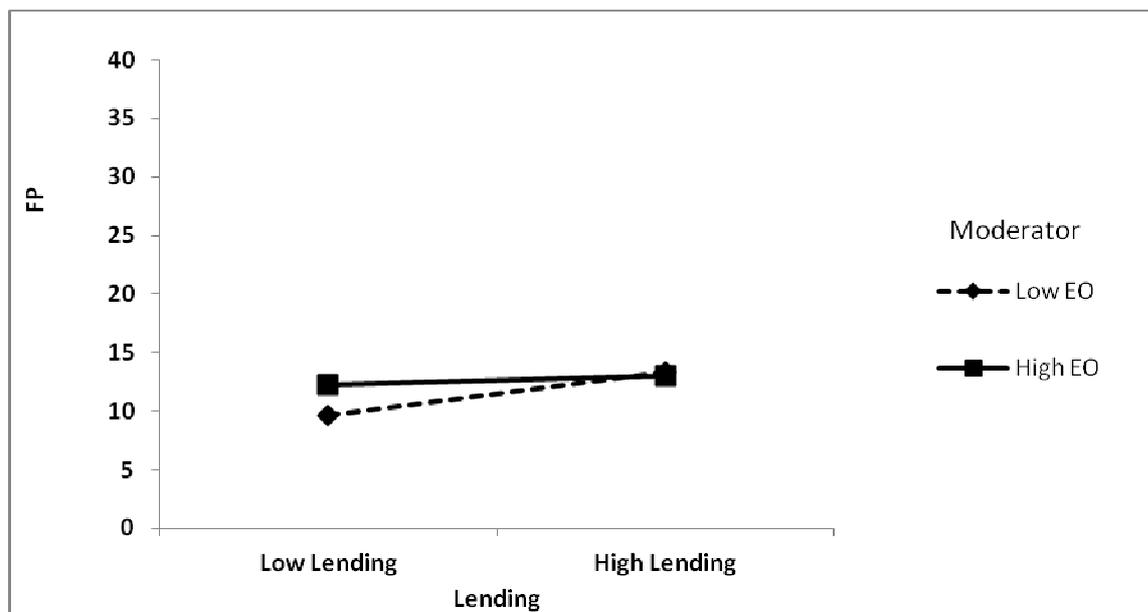
Figure 2: SEM Moderated Model for relationship lending

Table 4: Regression Weights for Moderated Model for Relationship Lending

			Estimate	S.E.	C.R.	P
Performance	<---	EOxRL	0.046	0.005	10.195	***
Performance	<---	RL	-1.045	0.138	-7.551	***
Performance	<---	EO	-2.422	0.635	-3.812	***

**Table 5: Model Summary for Moderated Multiple Regression for Relationship Lending**

	Model 1			Model 2		
	$\beta$	t	P value	$\beta$	t	P value
<b>Step 1 Independent Variables</b>						
Constant	12.068	6.202	0.00	4.274	1.036	0.302
Lending	0.185	5.715	0.00	0.46	3.457	0.001
EO	0.156	2.071	0.04	0.534	2.779	0.006
<b>Step 2: Interaction effect</b>						
Lending x EO				-0.014	-2.133	0.035
R	0.460			0.489		
R <sup>2</sup>	0.212			0.239		
Adj R <sup>2</sup>	0.20			0.221		
Model F	17.224		0.000	13.318		0.000
Change in R <sup>2</sup>	0.212			0.027		
Change in F	17.224			4.551		0.035



**Figure 3: Moderated Multiple regression for Relationship Lending**

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