

Cost Leadership Strategies and Credit Access Among Micro, Small, and Medium Enterprises in Nairobi City County, Kenya

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Abstract:

Access to credit remains a critical challenge for micro, small, and medium enterprises (MSMEs) in Kenya. Despite their recognized role in driving economic growth, job creation, and social transformation, many MSMEs face difficulties meeting lender requirements due to limited adoption of strategic cost leadership practices. This study sought to examine the effect of cost leadership strategies on credit access among MSMEs within Nairobi City County, with a specific focus on how government regulation moderates this relationship. Specifically, it assessed the effect of operational efficiency, cost minimization, and resource utilization practices in relation to credit access. The study was guided by three theoretical perspectives: Porter's Generic Strategies Model, Resource-Based View (RBV) Theory, and Transaction Cost Economics (TCE) Theory. These frameworks provide a robust foundation for understanding how cost leadership influences MSMEs' ability to access and utilize credit effectively. The research adopted a descriptive and correlation research design and targeted a population of 268,100 licensed MSMEs within Nairobi City County, from which a random sample of 440 MSME owners was selected as respondents. Data was collected through structured questionnaires focusing on the study's four dimensions of cost leadership and their effect on credit access. The data was then coded, cleaned, and analyzed using descriptive statistics including frequencies, percentages, means and standard deviation. Inferential statistics were also utilized including correlation and regression analysis. To ensure reliability and accuracy of the regression model, several diagnostic tests were conducted, including tests for normality using histograms, multicollinearity tests to assess correlations among independent variables, linearity tests to confirm the nature of relationships, and the Durbin-Watson statistic to test for autocorrelation. The quantitative findings are presented using tables and figures while qualitative findings are presented in continuous prose. The correlation results showed a positive and significant association between; operational efficiency and credit access ($r = 0.599$, $p = 0.000$); cost minimization and credit access ($r = 0.463$, $p = 0.000$), and resource utilization and credit access ($r = 0.557$, $p = 0.000$). However, correlation results showed a negative and significant association between; government regulation and credit access ($r = -0.535$, $p = 0.000$). The regression results showed a positive and significant relationship between operational efficiency and credit access ($\beta_1 = 0.456$, $p = 0.000$), cost minimization and credit access ($\beta_2 = 0.163$, $p = 0.000$), and resource utilization and credit access ($\beta_3 = 0.521$, $p = 0.000$). However, the regression results showed a negative and significant moderating effect between cost leadership and government regulation ($\beta = -0.004$, $p = 0.000$). The study concluded that operational efficiency, cost minimization, and resource utilization significantly enhance MSMEs' access to credit, while stringent government regulations negatively moderate this relationship by increasing compliance costs and operational burdens. It recommends that MSME managers strengthen cost leadership practices through efficiency, prudent cost management, and resource optimization to improve creditworthiness. Policymakers should streamline regulatory frameworks, reduce compliance barriers, and introduce targeted incentives to support MSME financing. The study suggests further research on sector-specific effects of cost leadership on credit access, the moderating role of entrepreneurial education, comparative analyses across counties, and the impact of digitalization on MSME financing.

Keywords: Operational Efficiency Resource Utilization Cost Minimization Credit Access Government Regulation

1. Introduction and Background

Cost leadership is a strategic orientation whereby a firm deliberately structures its operations to achieve lower unit costs than competitors while maintaining acceptable value for customers (Isaboke, 2018). For MSMEs, this often means being innovative with how they manage resources through bulk purchasing, streamlining processes, or running lean operations, which allow them to remain competitive and profitable (Kariuki & Kariuki, 2024). In Nairobi County's intensely competitive and resource-constrained marketplace, such strategies are especially vital for MSMEs, empowering them to offer competitive pricing, improve profit margins, and present more credible financial profiles to lenders.

However, formal credit access in Kenya remains highly constrained and uneven, creating a challenging environment in which the benefits of cost leadership may or may not translate into improved financing outcomes. Unfortunately, formal credit access remains limited; only about 16% of Kenya's roughly 7.4 million MSMEs have access to such financing (CBK, 2024). Between 2023 and 2024, MSME loan approvals dropped by 13%, while interest rates remained elevated, averaging 16.4% from commercial banks and 26.3% from microfinance institutions, further constraining credit availability (CBK, 2024). High collateral requirements continue to exclude many MSMEs that lack registered assets, deepening the financing gap (FSD Kenya, 2023). Under these conditions, the extent to which cost-leadership strategies help MSMEs secure loans depends not only on internal efficiency gains but on how those gains are observed and valued by financial institutions.

Cost leadership can improve credit prospects in several ways. First, sustained cost control typically increases profitability and produces more reliable cash flows, direct indicators of repayment capacity that lenders favour. Second, efficient operations can enable firms to produce cleaner financial records and performance metrics (such as consistent gross margins and positive operating cash flow), reducing information asymmetry and perceived monitoring costs for lenders. Third, retained earnings from higher margins can serve as internal collateral or equity, strengthening the firm's balance sheet. However, there are important caveats: aggressive cost cutting that erodes product/service quality, investment in maintenance, or long-term capacity can raise default risk; similarly, price-led cost leadership that relies on razor-thin margins may appear risky to lenders despite high turnover. Thus, the net effect of cost leadership on credit access is theoretically ambiguous and empirically contingent.

Although cost-leadership strategies have been linked to enhanced firm outcomes, such as profitability and survival (Kariuki & Kariuki, 2024), there is limited empirical evidence on whether such practices improve MSMEs' access to credit. Questions remain about whether cost-focused firms secure loans more easily, obtain larger loan amounts, or benefit from fairer terms, such as lower interest rates and reduced collateral requirements. This gap is particularly relevant in Nairobi, where many MSMEs operate in highly competitive markets yet continue to face significant barriers in accessing finance.

For practitioners and policymakers, cost leadership can strengthen MSME creditworthiness, provided efficiency gains are transparent and sustainable. MSMEs should couple cost management with formal record-keeping and prudent reinvestment so that efficiency shows up in audited financial statements and cash flow statements. Policymakers and financial institutions, in turn, can improve the translation of efficiency into credit by lowering information and transaction costs (simplified licensing, credit scoring adapted for MSMEs, and targeted

guarantee schemes) so that genuine operational efficiencies are recognized and rewarded with better access to finance.

1.2 Purpose of the Study

The study aimed to examine the effect of cost leadership strategies on credit access among micro, small, and medium enterprises in Nairobi City County, Kenya.

1.3 Objectives of the Study

1. To examine the effect of operational efficiency on credit access among MSMEs in Nairobi City County.
2. To determine the effect of cost minimization strategies on credit access among Micro, Small, and Medium Enterprises (MSMEs) in Nairobi City County.
3. To assess the effect of resource utilization practices on credit access among MSMEs in Nairobi City County.
4. To investigate the moderating effect of government regulation on the relationship between cost leadership strategies and credit access among MSMEs in Nairobi City County.

1.4 Conceptual Framework

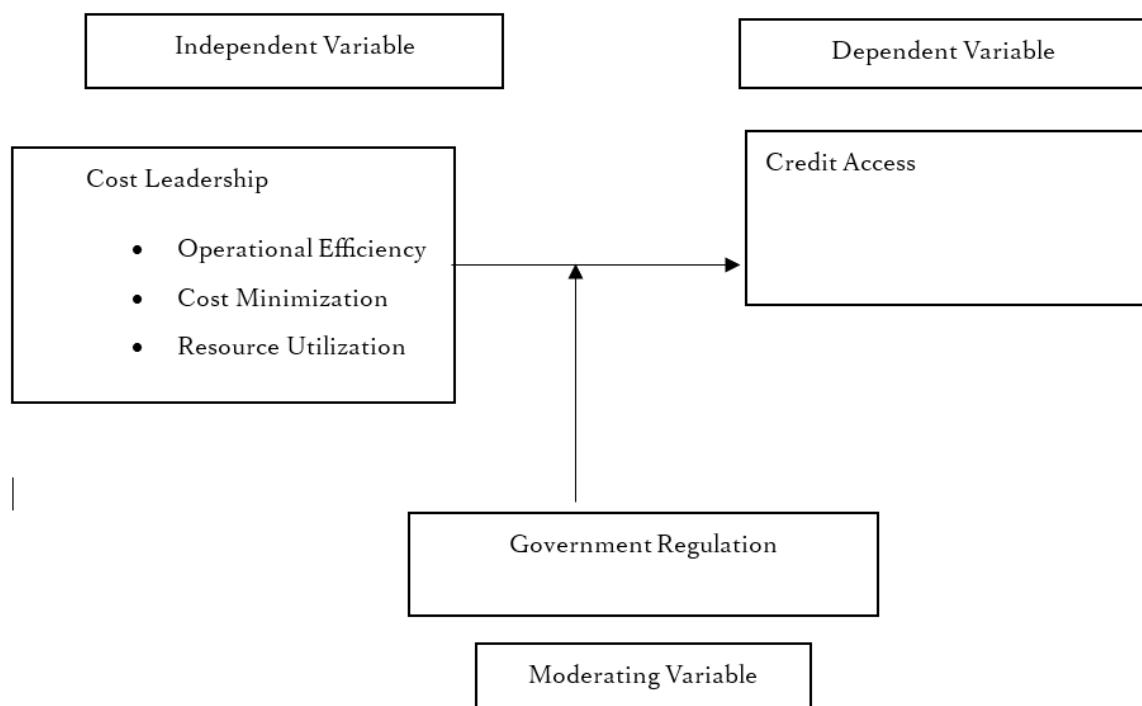


Figure 1: Conceptual Framework

Source: Researcher (2025)

2. Literature and Theoretical framework

2.1 Theoretical Review

Porter's Generic Strategies Model

Porter's Generic Strategies Model, first introduced by Porter (1985), explains how firms can achieve competitive advantage by adopting one of three strategic positions: cost leadership, differentiation, or focus. Businesses that fail to commit to a particular strategy risk being stuck in the middle, which weakens their ability to compete effectively. The model provides a clear framework for understanding how organizations outperform rivals through cost efficiency, unique product offerings, or market segmentation.

For micro, small, and medium-sized enterprises (MSMEs), the cost leadership strategy is especially relevant. The approach emphasizes operational efficiency, cost minimization, and economies of scale, all of which contribute to profitability and sustainability (Porter, 1985). In the context of credit access, cost leadership becomes important because lenders often perceive firms with strong cost controls and stable performance as lower-risk borrowers. Demonstrating efficiency and financial discipline signals creditworthiness, which increases the likelihood of securing external financing.

Empirical research in Kenya has consistently demonstrated the positive impact of cost leadership on firm performance. Gitari, Nderitu, and Ngala (2023) showed that cost leadership strategies enhanced profitability among food and beverage MSMEs in Nairobi County, while Too and Makhamara (2025) reported that Unilever Kenya Limited achieved market share growth and improved financial outcomes through operational efficiency and competitive pricing. In a similar vein, Gikunda and Sawe (2024) discovered that cost leadership accounted for more than 76% of the variance in SACCO performance in Meru County. The results of this research are pertinent to credit access, even if they mainly relate cost leadership to performance outcomes, since lenders frequently use profitability and financial efficiency as measures of payback capacity (Ain, Sabir, & Asghar, 2020). Therefore, even though its direct impact on credit availability has not been well investigated, cost leadership can indirectly improve MSMEs' creditworthiness by boosting financial resilience.

The theory is based on a number of assumptions. It makes the logical assumption that businesses choose tactics that best suit their available resources and the state of the market. It is believed that differentiation or cost efficiency, but not both at once, are the best ways to gain a competitive edge (Porter, 1985). Additionally, it makes the assumption that stringent cost controls, effective value chain management, and economies of scale can all be long-term sources of benefit (Gecheo, 2020). Furthermore, as long as product quality is maintained, the framework assumes that consumers will find lower costs appealing, which will increase sales and market share (Umemezilem & Okuwa, 2024).

The model has drawn a number of criticisms despite its continued high level of influence. In fact, many businesses mix cost efficiency with differentiation efforts, which blurs the lines between the two approaches, according to scholars (Mekić & Mekić, 2014). Additionally, detractors point out that it might be challenging to sustain a cost advantage in emerging nations, where efficiency is frequently disrupted by legislative changes, increased input costs, and limited finance (Khan & Knight, 2025). Furthermore, an overemphasis on cost reduction could compromise product quality, which could eventually erode consumer satisfaction and reduce competitiveness (International Business Review, 2025).

The model remains highly relevant to this study because it connects cost efficiency with financial outcomes that influence creditworthiness. Firms that adopt cost leadership strategies often record stronger profitability, healthier cash flows, and reduced operating risk factors that lenders consider when evaluating loan applications (Too & Makhamara, 2025). Operational efficiency and competitive pricing, when achieved without compromising quality, strengthen a firm's ability to meet repayment obligations and improve its chances of securing financing (Gitari et al., 2023). Within the Nairobi City County, where limited access to credit continues to constrain the growth of MSMEs, cost leadership offers a strategic approach for entrepreneurs to enhance their financial profile and become more attractive to financial institutions

2.2 Empirical Literature Review

Based on previous research, this section offers an empirical literature evaluation pertinent to the subject in order to obtain an understanding of cost leadership and credit access.

Operational Efficiency and Credit Access

Mwangi and Muturi (2018) examined the influence of operational efficiency on access to credit among micro and small enterprises (MSEs) in Nairobi County. The study adopted a descriptive research design and used a stratified random sampling technique to select 250 MSEs. Data was collected through structured questionnaires and analyzed using regression analysis. The findings indicated that firms that maintained proper records, minimized waste, and ensured timely delivery of services had higher chances of securing credit from financial institutions. The study concluded that operational efficiency enhances the creditworthiness of small enterprises as it signals stability and the ability to manage financial obligations effectively.

Kusi et al. (2020) investigated the relationship between operational practices and credit accessibility for SMEs in Ghana. Using a cross-sectional survey of 300 SMEs, the study applied logistic regression to test whether operational efficiency predicts access to formal credit. The results showed that firms with streamlined supply chain processes, adoption of technology, and effective inventory management were more likely to access credit. Lenders perceived operationally efficient firms as less risky, which increased their chances of loan approval. The study recommended capacity-building programs for SMEs to strengthen their operational systems, thereby improving their attractiveness to lenders.

A study by Alhassan and Sackey (2021) focused on how operational efficiency influences credit access among rural agro-processing enterprises in Northern Ghana. The research adopted a mixed-methods approach, combining survey data from 180 enterprises with in-depth interviews with lending officers. The analysis revealed that enterprises with better resource utilization, cost control, and energy efficiency practices demonstrated improved access to credit. Loan officers indicated that efficient operations reduced the likelihood of default, thus making such enterprises more favorable candidates for credit facilities.

In Nigeria, Omeke (2025) looked at how small and medium-sized businesses (SMEs) in Enugu State handle their credit in relation to financial technology. The survey design used in the study was descriptive. 65 SME managers were easily selected for the study using a standardized questionnaire, and 10 SMEs that operate in the city of Enugu were purposefully sampled. Data analysis was done using the Z-test statistical program.

According to the study, financial technology significantly affects both the availability of loans for small and medium-sized businesses in Enugu State as well as their ability to manage their debt.

More recently, Ahmed and Hassan (2023) examined the relationship between operational efficiency and access to credit among manufacturing SMEs in Egypt. The study relied on primary data collected through questionnaires from 220 firms and employed structural equation modeling (SEM) to test the relationship. The results established a positive and significant link between operational efficiency and credit access. Firms that demonstrated high levels of efficiency in cost management, production scheduling, and quality control reported greater success in accessing both bank loans and microfinance. The study emphasized that lenders increasingly consider operational efficiency indicators as part of credit evaluation criteria.

Omondi and Muturi (2021) investigated the role of cost leadership as a competitive advantage strategy in enhancing credit access for Kenyan MSMEs. The study's objective was to determine whether minimizing production costs improves creditworthiness. Using survey data from 270 MSMEs in Nairobi County, the researchers employed multiple regression analysis. The independent variable was the adoption of cost leadership strategies, while the dependent variable was credit access levels. The findings indicated that firms adopting aggressive cost-reduction strategies, such as efficient procurement and process automation, reported significantly higher approval rates of loan applications. The authors recommended policies encouraging MSMEs to embrace digital technologies for cost efficiency.

Achieng and Otieno (2023) studied the relationship between cost leadership and access to microfinance credit among small enterprises in Western Kenya. The objective was to analyze whether cost optimization practices increased the probability of securing microloans. A sample of 280 enterprises was surveyed, and correlation analysis was conducted. Independent variables included operational cost reduction and process efficiency, while the dependent variable was microfinance credit access. The study found that cost-efficient enterprises were more attractive to microfinance institutions due to lower default risks. The authors recommended targeted training for entrepreneurs on how to implement cost-saving measures.

Cost Minimization and Credit Access

Otieno and Achieng (2019) investigated how cost minimization strategies influence the ability of micro and small enterprises (MSEs) in Kisumu, Kenya to secure formal financing. The study targeted 180 MSEs through a descriptive survey design, collecting data from owners and managers. The independent variables included practices such as lean operations, inventory control, and reduction of overhead costs, while the dependent variable was access to bank loans. Using regression analysis, the study found that MSEs that consistently applied cost minimization strategies were perceived as less risky by lenders and had higher loan approval rates. The authors concluded that prudent cost management enhances financial stability, thereby improving creditworthiness. They recommended that MSEs institutionalize cost-reduction frameworks as part of their financial management practices to strengthen their ability to access credit.

Mwangi and Kihara (2020) examined the role of cost management in facilitating access to external finance among SMEs in Nairobi County. The researchers conducted a cross-sectional survey of 220 SMEs and applied multiple regression analysis. Independent variables captured operational cost minimization measures such as outsourcing, digital record-keeping, and energy efficiency, while the dependent variable was access to loans and

credit facilities. Findings revealed that SMEs that demonstrated strong cost control measures reported higher chances of loan approval and better repayment performance. The results underscored that lenders place value on cost efficiency as an indicator of long-term sustainability. The study recommended the adoption of digital financial management systems and outsourcing models to reduce administrative expenses, improve profitability, and attract financing from both banks and microfinance institutions.

Nyangweso and Kosgei (2020) analyzed the effect of cost-cutting practices on access to credit among small enterprises in Eldoret, Kenya. Using a descriptive survey design with a sample of 250 SMEs, the study investigated cost-control mechanisms such as bulk purchasing, waste minimization, and inventory management as independent variables, while the dependent variable was access to credit from banks and savings and credit cooperatives (SACCOs). The data, analyzed using probit regression, indicated that SMEs that implemented consistent cost minimization practices were more likely to be granted credit facilities. The study concluded that effective cost management not only improves operational margins but also signals to lenders that the business is financially disciplined. Recommendations were made for SMEs to formalize cost-reduction policies and integrate them into their business operations to enhance resilience and creditworthiness.

Abubakar and Suleiman (2021) investigated the relationship between cost minimization and loan accessibility among SMEs in northern Nigeria. The study employed a cross-sectional design, surveying 300 SMEs across manufacturing, trade, and service sectors. Using multiple regression analysis, the independent variables included supplier contract renegotiation, shared services, and expense control, while the dependent variable was access to bank and microfinance loans. The findings depicted that structured cost minimization practices influenced loan approval rates positively. SMEs that demonstrated systematic cost reductions were perceived by lenders as more likely to meet repayment obligations. The study recommended that SMEs adopt formal cost accounting and supplier management practices and further suggested that banks integrate cost minimization indicators into their credit scoring models to reduce lending risks.

Muthoni (2021) explored how cost minimization influences SME access to bank financing in Nairobi, Kenya. A sample of 150 SMEs in the trade and service sectors was surveyed through a cross-sectional design, and regression analysis was applied. Independent variables included overhead cost reduction, price negotiations with suppliers, and elimination of resource wastage, while the dependent variable was access to bank financing. The findings revealed that SMEs that had implemented deliberate cost-reduction strategies not only accessed credit more easily but also maintained lower default rates. The study emphasized that cost minimization enhances operational efficiency, making SMEs more attractive to financial institutions. Recommendations included providing structured training for SME owners on cost management practices to improve both profitability and credit access.

Karanja and Kariuki (2022) assessed the impact of operational cost minimization on financial access among manufacturing SMEs in Thika, Kenya. The study employed a descriptive and inferential survey design and collected data from 200 SMEs. To establish how the independent and dependent variables related a logistic regression was utilized. Results demonstrated that operational cost minimization had an effect on the ability of SMEs to obtain credit, with technology adoption being the most influential factor. The study concluded that investment in automation and energy efficiency not only reduced operational costs but also signaled stability to

lenders. The authors recommended that policymakers create incentives for SMEs to invest in cost-saving technologies as a strategy to strengthen their credit profiles.

Hasan and Rashid (2019) investigated the relationship between cost leadership strategies and access to finance among small and medium enterprises (SMEs) in South Asia. The purpose of the study was to examine how reducing production and operational costs influences the likelihood of securing loans. Using survey data from 450 SMEs in Bangladesh, the authors applied logistic regression analysis to explore the link between strategic cost minimization and credit outcomes. The independent variable was adoption of cost leadership strategies, while the dependent variable was credit access. Findings revealed that firms employing lean production, bulk purchasing, and overhead cost reduction were more likely to obtain external financing. The study recommended that SMEs strengthen internal cost optimization practices to improve their financial credibility with lenders.

Ali and Khan (2021) focused on Pakistani SMEs and studied how cost competitiveness influences their relationship with commercial banks. The study aimed to assess the degree to which lower cost structures enhance the trust of financial institutions. Drawing from a sample of 310 SMEs in Punjab Province, the authors used structural equation modeling (SEM). Key variables included cost leadership practices (independent) and perceived creditworthiness (dependent). Results demonstrated that SMEs practicing cost minimization were deemed more reliable and experienced better access to loans. The study recommended stronger capacity-building initiatives to equip SMEs with tools for cost tracking and reporting.

Mwangi and Kamau (2022) explored the effect of cost leadership strategies on credit accessibility among Kenyan agribusiness enterprises. The objective was to investigate whether firms practicing cost-cutting measures in input sourcing and logistics gain improved access to credit. Data were collected from 250 agribusiness firms, and regression model was applied to test the hypotheses. Independent variables included procurement cost savings and logistics efficiency, while the dependent variable was access to bank credit. Findings revealed a that cost leadership practices and loan approvals. The study recommended the promotion of cooperative purchasing among SMEs to enhance bargaining power and reduce costs.

Resource Utilization and Credit Access

Okeke and Chukwu (2019) examined how efficient resource utilization influences credit access among SMEs in Nigeria. The objective was to evaluate whether firms that managed financial and physical resources prudently were more likely to secure loans. Using a sample of 210 SMEs, the study adopted a descriptive survey design and regression analysis. The independent variables were financial resource utilization, asset management, and human resource efficiency, while the dependent variable was access to credit. Findings showed that efficient financial and asset management significantly improved the likelihood of loan approvals. The study recommended training programs to help SMEs strengthen financial and operational controls to enhance their credit profiles.

Mwangi and Njoroge (2020) investigated the relationship between resource allocation efficiency and credit access among manufacturing SMEs in Kenya. Specifically, the study sought to assess whether strategic allocation of raw materials and labor influenced loan accessibility. A sample of 160 SMEs was surveyed, and the study used logistic regression analysis. Independent variables included material utilization, labor productivity, and capital efficiency, while the dependent variable was loan approval. The results demonstrated that firms with

structured allocation systems and efficient use of inputs had higher approval rates from banks. The study recommended that SMEs adopt formal budgeting and monitoring tools to improve their operational efficiency and creditworthiness.

Mensah and Boateng (2020) analyzed resource utilization and SME credit access in Ghana's agribusiness sector. The aim was to determine the role of effective land, labor, and financial utilization in improving credit uptake. The study sampled 132 agribusiness SMEs using a cross-sectional design and regression modeling. Key independent variables were land use efficiency, workforce management, and financial discipline, while the dependent variable was access to bank credit. Findings indicated that efficient land and financial resource use strongly influenced lender confidence. The study recommended targeted resource management training for SMEs in agriculture to boost credit uptake.

Kilonzo and Waweru (2021) studied how digital resource utilization affects credit access among technology-based SMEs in Nairobi. The objective was to evaluate whether efficient use of digital tools and data resources improved SME financing. A sample of 120 tech SMEs was surveyed, and the study employed correlation and regression analysis. Independent variables included adoption of digital platforms, data utilization, and IT resource efficiency, while the dependent variable was credit access. Results showed that SMEs leveraging digital tools for operations and reporting were more likely to secure credit due to transparency and efficiency. The study recommended SME digitalization as a strategy for improving access to finance.

Zhang and Li (2022) assessed how human resource utilization influences SME financing in China. Specifically, the study focused on whether productivity-oriented HR practices influenced access to bank loans. The study collected data from 250 SMEs using structured questionnaires and applied structural equation modeling (SEM). Independent variables included employee productivity, training investment, and resource alignment, while the dependent variable was access to credit. Findings revealed that firms with strong HR utilization practices were considered lower-risk borrowers. The study recommended continuous investment in workforce skills to improve creditworthiness.

Otieno and Mutua (2023) explored the role of working capital resource utilization on credit access among SMEs in Kenya's retail sector. They aimed at establishing whether efficient management of receivables, payables, and inventory influenced bank loan approvals. A sample of 145 retail SMEs was used, with data analyzed using probit regression. Independent variables were receivable turnover, inventory efficiency, and payable management, while the dependent variable was loan accessibility. Results showed that firms with efficient working capital cycles had higher chances of securing loans. The authors recommended SMEs adopt robust financial management practices to improve their liquidity positions and creditworthiness.

Cost Leadership and Credit Access

Gitari et al. (2023) sought to determine how Nairobi County's small- and medium-sized food and beverage manufacturing companies performed relative to the Cost Leadership Strategy. The study focused on 18 registered small and medium-sized food and beverage manufacturing businesses in Nairobi County using a descriptive methodology. To ensure that only respondents with the necessary information were selected for the study, the sample was drawn using simple random sampling in combination with purposive sampling. To gather primary data, a structured questionnaire was employed. To determine the link between the study's independent

factors and the dependent variable, a multiple linear regression model was employed. The results demonstrated that cost leadership has a favorable and considerable impact on the performance of Nairobi County's small and medium-sized food and beverage manufacturing businesses.

Nguyen and Pham (2020) examined how cost efficiency impacts bank lending decisions in the context of Vietnamese manufacturing SMEs. The objective was to assess whether firms that demonstrate superior cost controls experience better access to bank loans. Using a sample of 320 SMEs and a probit regression, the researchers analyzed the effect of cost-efficiency scores on loan approvals. The key variables included cost efficiency (measured through input-output ratios) as the independent variable and loan approval rates as the dependent variable. Results showed that cost-efficient firms were 25% more likely to access credit than those with higher operational costs. The authors recommended that firms adopt cost benchmarking tools to align with lenders' evaluation criteria.

Chisulo (2019) used descriptive research methods to investigate the effects of cost-cutting initiatives on performance and productivity. There was a strong correlation between cost-cutting measures and the tea industry's performance. The results of the study show that the cost-cutting approach has a remarkable effect on the tea industry. The results of the regression analysis demonstrate that the tea industry's cost-cutting strategies and financial success are unquestionably and substantially related.

Obanda et al. (2025) examined how the application of the cost leadership strategy affects the organizational performance of Kenyan financial technology (Fintech) companies. Porter's idea of competitive advantage served as the study's foundation. A descriptive survey research design and positivism as a research theory were employed. A sample of 276 managers was drawn from the 120 financial technology companies in Kenya that made up the study population, based on 92 selected organizations. A systematic questionnaire was used to gather primary data from the managers. The acquired data was analyzed using both descriptive and inferential statistics. According to the study's findings, financial technology companies perform better organizationally when they adopt a cost leadership strategy.

Using firm-level data from 2001 to 2017, Dahunsi and Soetan (2022) examined the cost leadership of Nigerian manufacturing companies and its effect on business success. Efficiency in the use of labor, capital, total overhead inputs, technical efficiency scores, and business profitability were among the variables considered in the study. The study used System-GMM to examine the effect of technical efficiency on firm performance in quoted manufacturing firms in Nigeria's consumer (food, beverages, and tobacco), industrial, and health (pharmaceutical) sectors. Stochastic frontier analysis (SFA) was used to compute technical efficiency scores. According to the study's findings, inefficiency accounts for 29% of the difference between actual and desired outputs in manufacturing organizations. This study showed that Nigerian manufacturing companies' performance is positively impacted by the technical efficiency variable.

Gure and Karugu (2018) sought to determine how strategic management techniques affected the operational performance of SMEs in Kenya's Nairobi City County. A descriptive research design was employed in the study. Youth-owned SME owners in Nairobi City County's 17 operational sub-counties made up the study's population. Thirty respondents were selected as a sample. Michael Porter's generic strategies of competitive advantage, which included low cost leadership, differentiation, focus, and combination strategies, were found to have a significant impact on the organizational performance of SMEs in Nairobi City County, Kenya.

Zhou and Li (2023) conducted a study in China examining how cost-based competitive strategies influence the ability of SMEs to access alternative financing sources such as fintech lenders. The study's purpose was to understand whether demonstrating strong cost management attracts non-traditional lenders. Using survey data from 400 SMEs in the Chinese manufacturing sector, the authors applied panel regression techniques. The independent variable was cost leadership strategies, while the dependent variable was access to fintech-based credit. Results indicated that fintech platforms favored firms with documented cost-efficiency, as this lowered perceived lending risk. The study recommended integrating cost management performance indicators into SME credit-scoring models.

Kimiti et al. (2020) looked into how Kenyan milk processing companies performed in relation to their cost leadership strategy. Descriptive and explanatory non-experimental research designs were used in the investigation. All 29 milk processing companies that were registered with the Kenya Dairy Board as of June 2019 were surveyed. The proportional stratified random sample technique was used for sampling, and self-administered semi-structured questionnaires were used to gather data. The results demonstrated that a cost leadership approach significantly and favorably impacted the performance of Kenyan milk processing companies, with a competitive advantage acting as a partly mediating factor. 40.1% of the difference in company performance was explained by the cost leadership strategy's component indicators, which include operational efficiency, economies of scale, and economies of scope.

Government Regulation

Mwasiaji (2019) examined the impact of Kenya's legal framework on medium-scale manufacturing enterprises' performance. Using a descriptive design, data was collected from 56 senior managers of firms employing 51–200 people. Responses on a 1–5 Likert scale revealed that complex regulations, unfriendly trade policies, tight credit conditions, corruption, heavy taxes, and restrictive labor laws negatively affect performance. The study concluded that government policies play a critical role in creating a favorable business environment. It recommended removing regulatory bottlenecks, reforming tax systems, simplifying customs processes, adopting IT to reduce bureaucracy, and enhancing transparency and accountability in SME regulation.

Simiyu et al. (2017) examined the impact of government policy and regulations on the growth of women-owned Micro and Small Enterprises (MSEs) in Trans Nzoia County, Kenya. Data was collected from 170 women MSE owner-managers under the Women Enterprise Fund credit scheme using questionnaires, interviews, and observation. Growth indicators included changes in sales revenue, profits, and employment after fund intervention. Analysis involved frequencies, means, correlations, ANOVA, and regression. Results showed government policy and regulations had no statistically significant effect on MSE growth at the 0.05 level. The study recommended accelerating technology adoption, improving business infrastructure, and reducing regulatory bureaucracy to support growth..

Mohammed (2019) examined the influence of government regulations on the growth of small and medium enterprises (SMEs) selling automobile spare parts in downtown Nairobi. Using a descriptive survey design, the study targeted 600 small-scale dealers and randomly sampled 60 respondents through stratified random sampling. Findings revealed that 76.6% were familiar with tax administration, and integrated tax systems significantly affected operations, with 65% reporting negative impacts. Licensing requirements were a major

challenge, as 76.6% noted regulatory procedures hindered business operations, and 90% indicated businesses cannot operate without proper licenses. The study concluded that government regulations, particularly multiple licensing requirements, significantly affect SME growth. It recommended reducing compliance costs, revising business permit regulations, and evaluating taxation policies to create a favorable environment for SMEs in Nairobi.

Maingi et al. (2019) assessed the influence of registration procedures on the growth of youth-owned SMEs in Ruiru Sub-County, Kiambu County. The study adopted a descriptive survey design targeting 571 youth-run SMEs benefiting from the Youth Development Fund, with a sample of 235 respondents. Data was collected using questionnaires and analyzed through priori coding and descriptive statistics, presented in frequency tables. Findings showed that SMEs must obtain a local authority business permit, register a business name, acquire a KRA PIN, and complete stamp duty registration before starting operations. However, registration procedures were found to be costly, complex, and time-consuming, with approval processes posing significant challenges. The study concluded that these burdensome registration requirements negatively affect the growth of youth-owned SMEs in Ruiru. It emphasized the need to simplify and reduce the cost of registration to promote youth enterprise development in the region.

3. Methodology

This study was anchored in the post-positivist paradigm, which assumes that while an objective reality exists, our understanding of it is partial and shaped by human limitations. Post-positivism emphasizes systematic observation, empirical measurement, and the testing of relationships between variables, while also recognizing the role of bias and the need for critical reflection (Emerald Insight, 2023). Descriptive research design is a method used to systematically describe the characteristics of a phenomenon or population as they naturally occur, without manipulating or influencing the variables under study (Creswell & Creswell, 2018). A sample of 440 MSEs was utilized for this study. This study relied solely on primary data, collected from MSME owners in Nairobi City County using structured questionnaires

4. Data Presentation, Analysis, and Discussion of Findings

4.1 Correlation Analysis

Pearson correlations were computed to examine the intercorrelations of cost minimization, operational efficiency, resource utilization practices and credit access among MSMEs in Nairobi County. Table 1 shows that all the variables were significantly correlated. CA denotes credit access, OE denotes operational efficiency, CM denotes cost minimization, RU denotes resource utilization, while GR denotes government regulation.

Table 1: Correlation Matrix

Variable		CA	OE	CM	RU	GR
Credit Access	Pearson Correlation	1				
	Sig. (2-tailed)					
Operational Efficiency	Pearson Correlation	0.599	1			
	Sig. (2-tailed)	0.000				
Cost Minimization	Pearson Correlation	0.463	0.486	1		
	Sig. (2-tailed)	0.000	0.000			
Resource Utilization	Pearson Correlation	0.557	0.183	0.206	1	
	Sig. (2-tailed)	0.000	0.000	0.000		
Government Regulation	Pearson Correlation	-0.535	0.259	0.005	0.471	1
	Sig. (2-tailed)	0.000	0.000	0.922	0.000	

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

Source: Field Data (2025)

The study findings showed that there is a significant positive association between operational efficiency and credit access ($r = 0.599$, $p = 0.000$). The study findings also showed that there is a moderate positive association between cost minimization and credit access ($r = 0.463$, $p = 0.000$). Further, the study findings showed that there is a significant positive association between resource utilization and credit access ($r = 0.557$, $p = 0.000$). Notably, there was a significant but negative association between government regulation and credit access ($r = -0.535$, $p = 0.000$).

4.2 Regression Diagnostic Tests

Regression analysis was conducted to establish the direct effect of cost leadership strategies on credit access among MSMEs, as well as the moderating effect of government regulation on the relationship between cost leadership strategies and credit access among MSMEs. However, before conducting the regression analysis, several diagnostic tests were performed to ensure the reliability of the regression model. These included normality test, multicollinearity test, linearity test, and autocorrelation.

Normality Test

To confirm whether the data was normally distributed the study used histograms. Results are as presented in figures 2, 3, 4, 5 and 6 below.

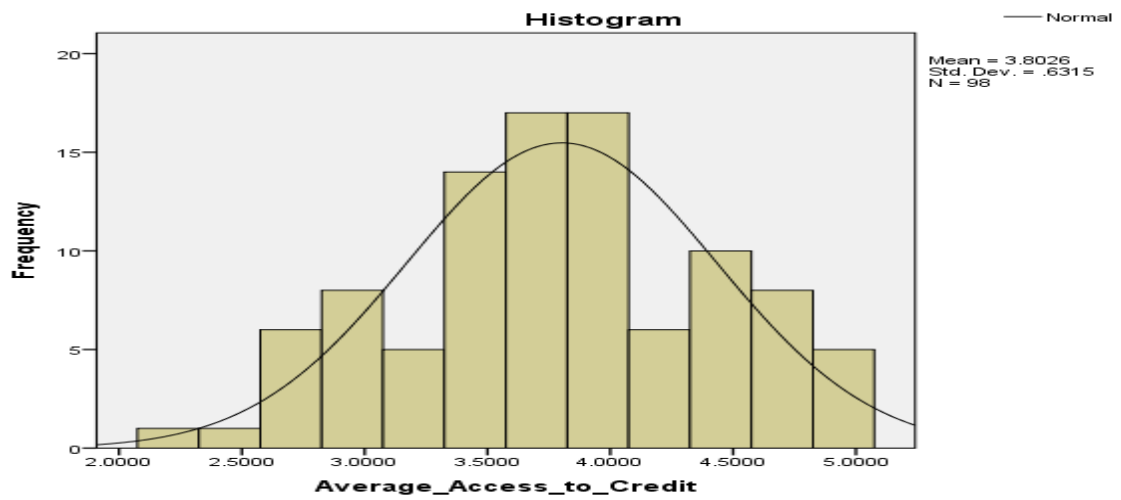


Figure 2: Normality of Access to Credit
Source: Field Data (2025)

Results showed that access to credit data was normally distributed.

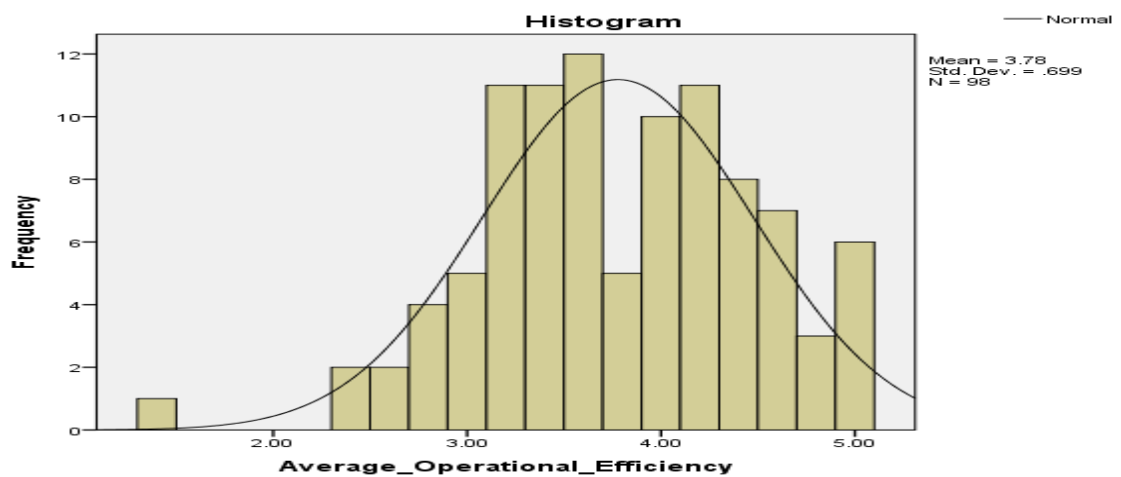


Figure 3: Normality of Operational Efficiency
Source: Field Data (2025)

Results showed that operational efficiency data was normally distributed.

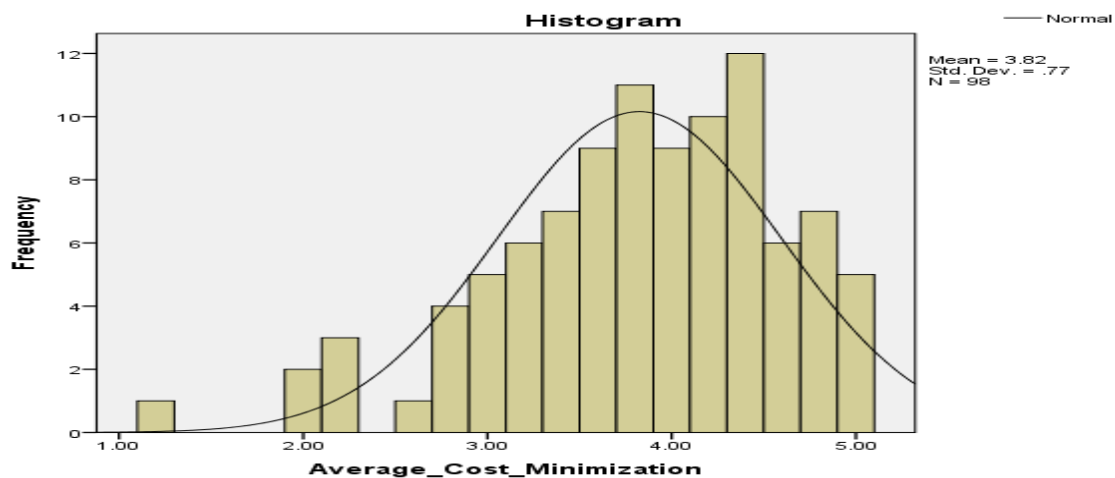


Figure 4: Normality of Cost Minimization
Source: Field Data (2025)

Results showed that cost minimization data was normally distributed.

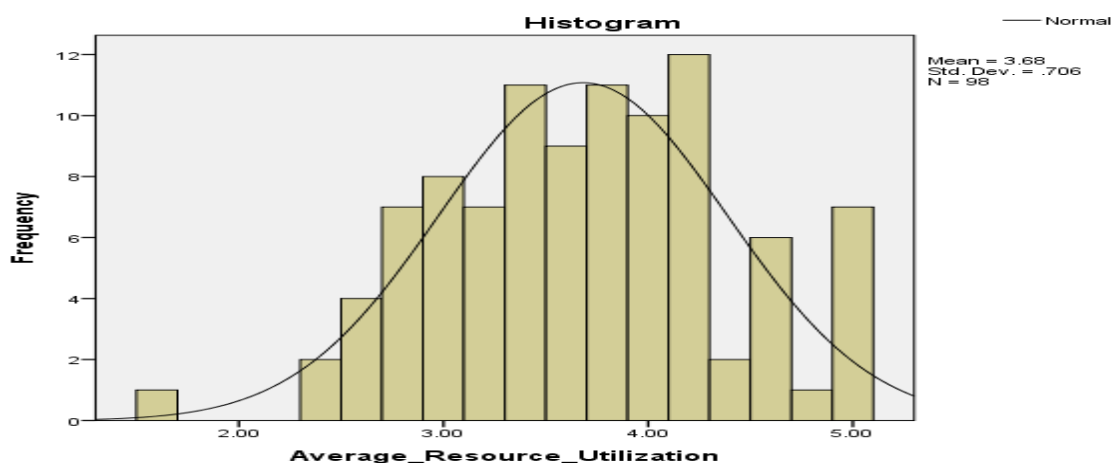


Figure 5: Normality of Resource Utilization
Source: Field Data (2025)

Results showed that resource utilization data was normally distributed.

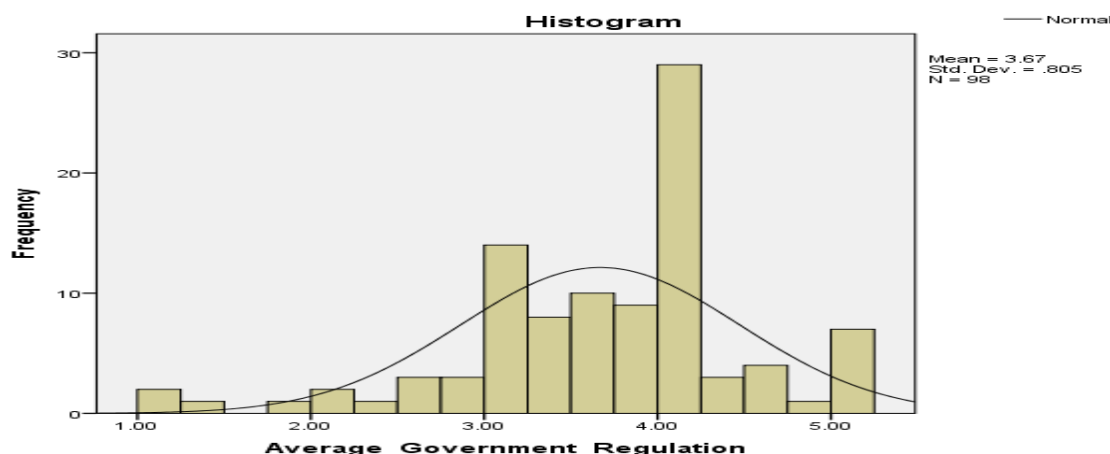


Figure 6: Normality of Government Regulation
 Source: Field Data (2025)

Results showed that government regulation data was normally distributed.

Multicollinearity Test

Multicollinearity occurs when the independent variables in a regression model are highly correlated. Normally, explanatory variables are assumed to be independent; therefore, if the multicollinearity test indicates that they are highly correlated, the data are not valid for undertaking inferential analysis. For this study, tolerance and variance inflation factor (VIF) were utilized to check for multicollinearity.

Table 2: Multicollinearity Test

	Tolerance	VIF
Operational Efficiency	0.756	1.322
Cost Minimization	0.749	1.334
Resource Utilization	0.949	1.054

As shown in Table 2, all the values of tolerance are above 0.2 and all the VIF values are lower than 10, indicating that the explanatory variables have no high correlation, hence proving the non-existence of multicollinearity in the data.

Linearity Test

Linearity test was done using scatter plots. Linearity test for operational efficiency and credit access was presented in Figure 7.

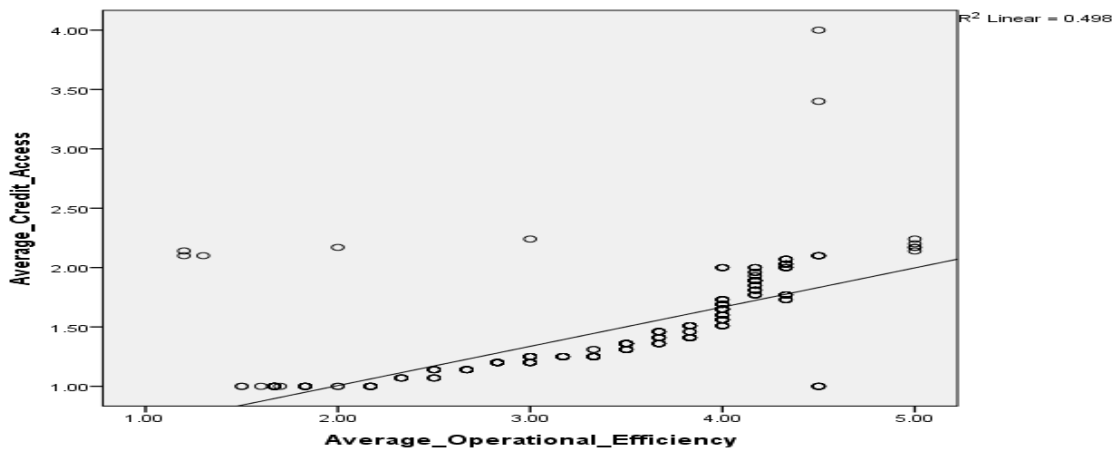


Figure 7: Linearity of Operational Efficiency
Source: Field Data (2025)

Results showed that there was a positive linear relationship between operational efficiency and credit access among MSMEs.

Linearity test for cost minimization and credit access was presented in Figure 8.

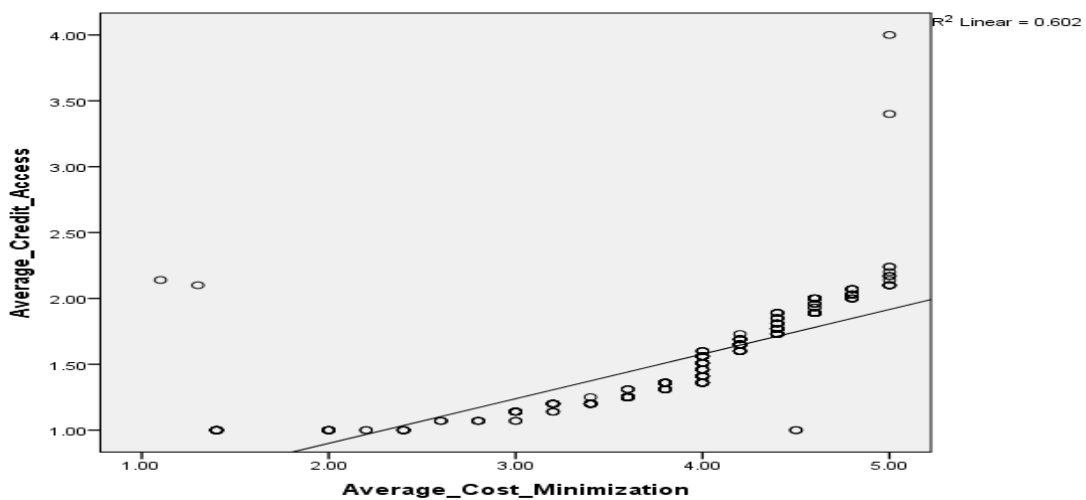


Figure 8: Linearity of Cost Minimization

Results showed that there was a positive linear relationship between cost minimization and credit access among MSMEs.

Linearity test for resource utilization and credit access was presented in Figure 9.

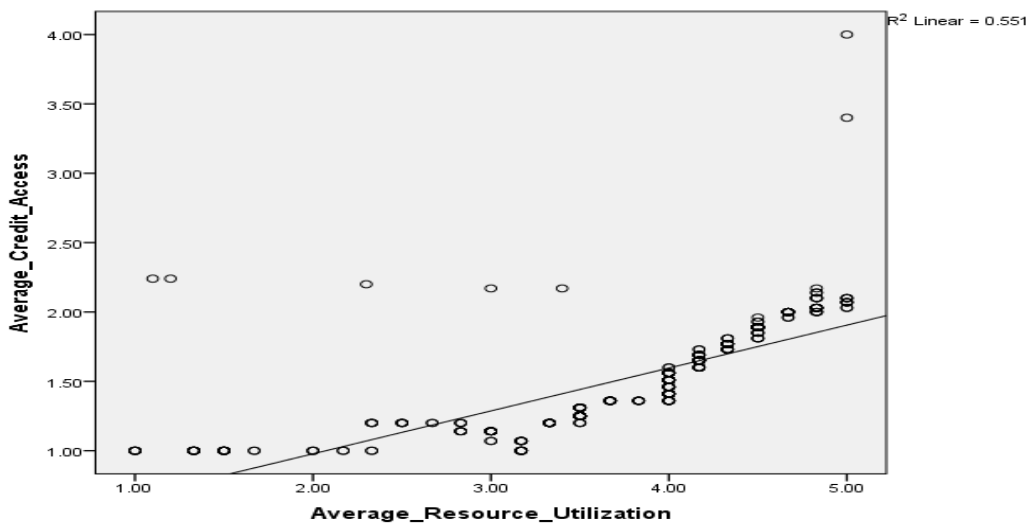


Figure 9: Linearity of Resource Utilization

Source: Field Data (2025)

Results showed that there was a positive linear relationship between resource utilization and credit access among MSMEs.

Autocorrelation

Before running a regression analysis, it is important to establish that the error terms are independent of each other. The Durbin-Watson test was used to test for this assumption.

Table 3: Testing for Autocorrelation

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
0.764	0.584	0.580	0.56337	2.119

Results highlighted in Table 3 show a Durbin-Watson of 2.119, which lies between the recommended value of 1.5 to 2.5, indicating the assumption was met.

Hypothesis Testing of the Study

This study adopted a regression model to test the effect of the independent variables (operational efficiency, cost minimization, and resource utilization) on the dependent variable (credit access). Finally, the study examined the moderating effect of government regulation on the relationship between cost leadership strategies and credit access among MSMEs in Nairobi County.

4.3 Regression Analysis

Direct Effect

The study intends to assess the contribution of the independent variables on the dependent variable.

Table 4: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.764	0.584	0.58	0.56337

Source: Field data (2025)

The results presented in Table 4 showed that operational efficiency, cost minimization and resource utilization were found to be satisfactory variables in explaining credit access. This means that operational efficiency, cost minimization and resource utilization explained 58.4 % of the changes in credit access among MSMEs.

Table 5 provides the results on the analysis of the variance (ANOVA).

Table 5: Analysis of Variance

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	170.469	3	56.823	179.032	0.000
Residual	121.56	383	0.317		
Total	292.029	386			

Source: Field data (2025)

Table 5 indicated that operational efficiency, cost minimization, and resource utilization were good predictors of credit access among MSMEs as represented by an F statistic of 179.032 and the reported p value of 0.000, which was less than the conventional probability of 0.05 significance level. This implies that the operational efficiency, cost minimization, and resource utilization have a statistically significant effect on credit access among MSMEs at a 95% confidence level.

Regressions of coefficient results were presented in Table 6.

Table 6: Regression of Coefficient

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.832	0.211		3.953	0.000
Operational Efficiency	0.456	0.039	0.441	11.635	0.000
Cost Minimization	0.163	0.04	0.157	4.116	0.000
Resource Utilization	0.521	0.04	0.444	13.115	0.000

$$Y = 0.832 + 0.456 \text{ O.E} + 0.163 \text{ C.M} + 0.521 \text{ RU}$$

Source: Field data (2025)

From the model in Table 6, operational efficiency was found to be positively and significantly related to credit access ($\beta_1=0.456$, $p=0.000$). This implies that an increase in operational efficiency practices by one unit would lead to increased credit access among MSMEs by 0.456 units. From these findings, the null hypothesis was rejected since the p-value was less than the significance level. The study accepted and adopted the alternative

hypothesis, and it was concluded that there is statistical significance between operational efficiency and credit access among MSMEs in Nairobi County. The findings are consistent with Kusi et al.(2020), whose study investigated the relationship between operational practices and credit accessibility for SMEs in Ghana. The results showed that firms with streamlined supply chain processes, adoption of technology, and effective inventory management were more likely to access credit. Lenders perceived operationally efficient firms as less risky, which increased their chances of loan approval. The findings also agree with those of Ahmed and Hassan (2023), who examined the relationship between operational efficiency and access to credit among manufacturing SMEs in Egypt. The results established a positive and significant link between operational efficiency and credit access. Firms that demonstrated high levels of efficiency in cost management, production scheduling, and quality control reported greater success in accessing both bank loans and microfinance. The study emphasized that lenders increasingly consider operational efficiency indicators as part of credit evaluation criteria.

The model in Table 21 also reveals that cost minimization was found to be positively and significantly related to credit access ($\beta_2=0.163$, $p=0.000$). This implies that an increase in cost minimization strategies by one unit would lead to increased credit access among MSMEs by 0.163 units. From these findings, the null hypothesis was rejected since the p-value was less than the significance level. The study accepted and adopted the alternative hypothesis and it was concluded that there is statistical significance between cost minimization and credit access among MSMEs in Nairobi County. The findings are consistent with Mwangi and Kihara (2020), who examined the role of cost management in facilitating access to external finance among SMEs in Nairobi County. Findings revealed that SMEs that demonstrated strong cost control measures reported higher chances of loan approval and better repayment performance. The findings also agree with those of Nyangweso and Kosgei (2020) who analyzed the effect of cost-cutting practices on access to credit among small enterprises in Eldoret, Kenya. The study concluded that effective cost management not only improves operational margins but also signals to lenders that the business is financially disciplined.

Further, the model in Table 21 also reveals that resource utilization was found to be positively and significantly related to credit access ($\beta_3=0.521$, $p=0.000$). This implies that an increase in resource utilization practices by one unit would lead to increased credit access among MSMEs by 0.521 units. From these findings, the null hypothesis was rejected since the p-value was less than the significance level. The study accepted and adopted the alternative hypothesis and it was concluded that there is statistical significance between resource utilization and credit access among MSMEs in Nairobi County. The findings are consistent with Mwangi and Njoroge (2020) who investigated the relationship between resource allocation efficiency and credit access among manufacturing SMEs in Kenya. The results demonstrated that firms with structured allocation systems and efficient use of inputs had higher approval rates from banks. The findings also agree with those of Mensah and Boateng (2020) who analyzed resource utilization and SME credit access in Ghana's agribusiness sector. Findings indicated that efficient land and financial resource use strongly influenced lender confidence.

Moderating Effect of Government Regulation

The study intends to assess the contribution of the moderator variable on the relationship between the independent variables and the dependent variable

Table 7: Regression of Coefficients (Moderating Effect)

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.197	0.082		26.687	0.000
Composite Cost Leadership	0.008	0.002	0.254	3.327	0.001
XM	-0.004	0.001	0.546	7.147	0.000
XM -Composite Cost Leadership * Government Regulation					

$$Y = 2.197 + 0.008 \text{ C.C.L} - 0.004 \text{ GR}$$

Source: Field data (2025)

The model in Table 7 shows that the direct effect of all the cost leadership strategies combined was positive and significant ($\beta = 0.008$, $p = 0.001$). This implies that better cost leadership strategies improve access to credit among MSMEs in Nairobi County. These findings are consistent with those of Omondi and Muturi (2021), who investigated the role of cost leadership as a competitive advantage strategy in enhancing credit access for Kenyan MSMEs. The findings indicated that firms adopting aggressive cost-reduction strategies, such as efficient procurement and process automation, reported significantly higher approval rates of loan applications. The models also shows that government regulation had a negative and significant moderating effect ($\beta = -0.004$, $p = 0.000$) on the relationship between cost leadership strategies and credit access among MSMEs in Nairobi County. This implies that enforcement of government regulations dampens credit access among MSMEs in as much as the MSMEs have adopted appropriate cost leadership strategies. These findings agree with those of Maingi et al. (2019), who assessed the influence of registration procedures on the growth of youth-owned SMEs in Ruiru Sub-County, Kiambu County. Findings showed that SMEs must obtain a local authority business permit, register a business name, acquire a KRA PIN, and complete stamp duty registration before starting operations. However, registration procedures were found to be costly, complex, and time-consuming, with approval processes posing significant challenges. The study concluded that these burdensome registration requirements negatively affect the growth of youth-owned SMEs in Ruiru. It emphasized the need to simplify and reduce the cost of registration to promote youth enterprise development in the region.

5. Conclusion and Recommendations

5.1 Conclusion

The study concluded that operational efficiency practices were found to have a strong, positive, and significant effect on credit access. The results revealed that MSMEs that document procedures, assign tasks according to expertise, and adopt simple technologies to streamline workflow not only enhance profitability but also improve their ability to secure loans. This highlights that lenders perceive operational efficiency as a proxy for business sustainability and reduced credit risk. These conclusions align with the conclusions of Kusi et al. (2020), who investigated the relationship between operational practices and credit accessibility for SMEs in Ghana. The

results showed that firms with streamlined supply chain processes, adoption of technology, and effective inventory management were more likely to access credit.

The study also concluded that cost-minimization strategies positively and significantly influence credit access. MSMEs that regularly monitor overheads, negotiate supplier prices, and adopt bulk purchasing practices demonstrated stronger creditworthiness. This highlights that lenders value businesses that strategically manage their costs, as such practices reflect financial discipline and prudent resource management. These conclusions align with those of Muthoni (2021), who explored how cost minimization influences SME access to bank financing in Nairobi, Kenya. The study concluded that SMEs that had implemented deliberate cost-reduction strategies not only accessed credit more easily but also maintained lower default rates.

Third, the study concluded that resource utilization practices emerged as a significant determinant of credit access. MSMEs that clearly define roles, invest in employee training, maintain robust bookkeeping practices, and adopt data-driven decision-making processes reported improved access to credit. This indicates that efficient utilization of both human and financial resources enhances organizational credibility in the eyes of lenders. These conclusions align with those of Mensah and Boateng (2020), who analyzed resource utilization and SME credit access in Ghana's agribusiness sector. The study concluded that efficient land and financial resource use strongly influenced lender confidence.

Finally, the study concluded that government regulation exerts a significant negative moderating effect on the relationship between cost leadership strategies and credit access. Compliance costs associated with licensing, taxation, and labor laws were found to strain MSMEs' operations and limit their ability to fully exploit cost leadership advantages. Although such regulations are essential for accountability and standardization, the findings suggest that excessive regulatory burdens undermine the positive gains MSMEs achieve through cost efficiency, minimization, and optimal resource utilization. The conclusions of this study tally with those of Maingi et al. (2019), who assessed the influence of registration procedures on the growth of youth-owned SMEs in Ruiru Sub-County, Kiambu County. The study concluded that these burdensome registration requirements negatively affect the growth of youth-owned SMEs in Ruiru. It emphasized the need to simplify and reduce the cost of registration to promote youth enterprise development in the region.

Overall, the study affirms that cost leadership strategies, operational efficiency, cost minimization, and resource utilization are critical enablers of credit access among MSMEs. However, the effectiveness of these strategies is constrained by stringent government regulations, underscoring the need for policy interventions that balance regulatory compliance with an enabling environment for MSME growth and financing. These conclusions align with those of Gitari et al. (2023), who sought to ascertain how Nairobi County's small and medium-sized food and beverage manufacturing companies performed in relation to the Cost Leadership Strategy. The study concluded that cost leadership has a favorable and considerable impact on the performance of Nairobi County's small and medium-sized food and beverage manufacturing businesses.

5.2 Recommendations

Based on the findings of this study, several recommendations can be made for both policymakers and MSME managers.

For MSME Managers:

- MSMEs should prioritize operational efficiency by formalizing business procedures, leveraging affordable technologies, and aligning tasks with employee expertise to improve productivity and profitability.
- Managers should adopt robust cost minimization strategies such as bulk purchasing, overhead monitoring, and supplier negotiations, which not only strengthen competitive advantage but also enhance creditworthiness.
- Strong resource utilization practices should be institutionalized through clear role definition, continuous staff training, strict bookkeeping practices, and data-driven decision-making to improve business credibility with lenders.

For Policymakers and Regulators:

- The government should review and streamline regulatory frameworks that impose excessive compliance costs on MSMEs. Simplifying licensing procedures, moderating tax obligations, and reducing bureaucratic barriers would ease operational pressures and improve credit access for MSMEs.
- Regulatory agencies should adopt a balanced approach by providing targeted incentives such as tax breaks, loan guarantees, and subsidies to reward MSMEs that demonstrate efficiency and sound cost management practices.
- Partnerships between the government, financial institutions, and MSME associations should be strengthened to enhance access to affordable credit that supports cost leadership initiatives.

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