EFFECT OF TABLE BANKING ON INVESTMENT DECISIONS OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI COUNTY

FLORENCE ASETTO

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

SEPTEMBER 2014

DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

Signed: _____ Date: _____

FLORENCE ASETTO, D61/71628/2007

This project has been submitted for examination with my approval as the University supervisor.

Signed: _____ Date: _____

Dr. Josiah Aduda
Dean and Lecturer,
Department of Finance and Accounting, School of Business
University of Nairobi.

DEDICATION

I dedicate this study to my husband Sylvester, my lovely daughters Linsey and Joan and my prince Miguel for all the support they gave me all the time as I prepared and worked on this project. I do also recognize my brothers Tom Asetto, Evans Asetto and sister Rose Asetto for the support they have given me throughout the period.

ACKNOWLEDGEMENT

It has been an exciting and instructive study period in the University of Nairobi and I feel privileged to have had the opportunity to carry out this study as a demonstration of knowledge gained during the period studying for my master's degree. With these acknowledgments, it would be impossible not to remember those who in one way or another, directly or indirectly, have played a role in the realization of this research project. Let me, therefore, thank them all equally. First, I am indebted to the all-powerful GOD for all the blessings he showered on me and for being with me throughout the study. I am deeply obliged to my supervisor Dr Josiah Aduda for his exemplary guidance and support without whose help; this project would not have been a success. I take this opportunity to express my deep gratitude to my loving husband Sylvester Masinde ,My daughters Linsey Adhiambo and Joan Masinde and My Son Miguel Oketch for the support they have given me throughout my study. I cannot forget my family members i.e Mr Chrisanthus Akongo,George Akongo, Mary Asetto,Dorothy,the late Ken Asetto, Rose Asetto,Tom Asetto, Evans Asetto,Beatrice Asetto, Evaline Asetto ,Vincent Asetto and Christine Marion Asetto who are a constant source of motivation and for their never ending support and encouragement during this project. Last but not least I do recognise my friends and colleagues who have been always encouraged me throughout the period.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

The purpose of the study was to establish the impact of table banking on investment decisions of small enterprises in Nairobi County. To achieve the purpose, the study carried out the following specific objectives. The first was to assess the adoption of table banking by small and medium enterprises. The second was to establish the impact of investment decisions of small and medium enterprises.

The study used a survey design in examining the impact of table banking on investment decisions of enterprises. The study employed both primary and secondary sources of data collection. Primary data included structured questionnaires while secondary data involved written records. A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents.

The study findings established that table banking which is a group funding strategy where members save and borrow immediately from their savings on the table, either in short term or long term loans improves SMEs investment decisions as it reduces huge savings on cost of construction of bank premises and leasing costs than when SMEs are using the Agency premises. It also cuts on human resource expenses. The SMEs do not have to employ new staff to manage the agency and the cost of training if any is to the bare minimum. It further, saves on equipment like furniture and computers. Additionally, the convenience of access to banking services and the extended hours that the banking agencies work is attractive features to the customer. This also helps increase SMEs' revenue will minimizing costs.

The study recommends that the government reduces the period of obtaining the legal documents in adopting table banking. The government should support the program and reduce the high compliance costs, bureaucracy in registration and high cost of taxation. Other areas that the study recommends include the government dealing with the cumbersome laws and regulations, corruption and illegal permits and licenses. The study recommends that regulations be efficient to enable more SMEs to embrace table banking service. The study further recommends that SMEs should fully embrace table banking through adoption of improved technology for information security to make it more reliable to the customers. This will increase volume of transactions which will lead to investment decisions. Based on the findings and conclusions presented above, the study recommends that SMEs should cushion their table banking from certain costs such as insurance costs, cash in-transit or premise set-up costs. This will enhance performance of table banking. Besides, capacity of table banking in providing services can be enhanced by SMEs ensuring that table banking have enough float that can serve more client in order to mitigate clients disappointment and increase the number of customers. They can do this by advancing credit to their table banking. In addition, SMEs should educate and regulate their table banking to ensure uniformity in service delivery so as to enhance customer confidence in table banking. The study recommends that customers should be enlightened on the operation of table banking in order to enhance their confidentiality.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The ability of firms to optimally exploit investment opportunities may crucially depend on the level of financial constraints that they face. Access to finance is commonly identified as the key factor holding small and medium enterprises (SMEs) back from growing at their full potential. Finance providers and the government fail to tackle this issue effectively (Masinde, 2013).

The specific characteristics of SMEs, namely their smaller size, greater likelihood of bankruptcy, greater operational flexibility making easier the substitution of assets, and the more opacity of information that aggravates the problems of asymmetric information, explain why the creditors consider too risky their investment in smaller firms.

Consequently, SMEs are subject to problems of adverse selection and credit rationing especially for young SMEs that have not yet acquired reputation. In Kenya, SMEs are defined as: Micro Enterprise has 1-10 number of employees with a turnover of Kshs 0-5million, Small Enterprise 11-50 employees with turnover of Kshs 5-50m and Medium enterprises has 51-100 employees and turnover of Kshs 51million -1billion (Republic of Kenya, 2009).

1.1.1 Table Banking

Table banking is a group funding strategy where members save and borrow immediately from their savings on the table, either in short term or long term loans (Brannen, 2010).

Table-banking takes on the model of the Grameen Bank of Bangladesh and the village savings and loans schemes of Zanzibar (Ahlén, 2012). The members save and access loans for investments from their small contributions.

This empowers themselves and eradicates poverty. Table banking concept is based on the belief that for the extremely poor, particularly women, the best approach is to begin by building their financial assets and skills through savings rather than debt (Kanyi, 2014). Besides, few institutions exist in the rural areas and informal settlements, and where institutions do exist they often have inappropriate products and services. The reality is most extremely poor households have neither the assets nor the skills to interact with formal institution, even those dedicated to reaching the poor.

In Kenya, table-banking was initially developed by the Poverty Eradication Commission (PEC) under the former Ministry of Planning and Vision 2030, targeting Millennium Development Goals one (MDG 1) on eradicating abject poverty, especially in rural settings in Kenya. Two pilot projects were started by the Government in 1999 and improved in 2004 in Bondo and Gatanga constituencies, which proved to be the best way to help women groups' prosper across the country. The results were very impressive but the government did not continue with the roll out there after.

Currently, the Government has re-launched the system with the aim of helping rural women access their own funds to start income generating projects (Kanyi, 2014). Over 13 counties in Kenya have embraced and benefited from the table banking system (Abuga, 2014). Unlike micro-finance which charges exorbitant interest rates on loans ranging

from 12 percent in a year all the way to 48 percent with a lot of hidden charges, table banking charges members very little interest.

The objective of table-baking is to bring financial services to the poor, particularly women and the poorest to help them fight poverty, stay profitable and financially sound. It is a composite objective, coming out of social and economic visions. Table-banking is based on group guarantee and house-hold collateral. Table-banking is founded on the principle that credit should be accepted as a human right, and builds a system where one who does not possess anything gets the highest priority in getting a loan.

Table-banking methodology is not based on assessing the material possession of a person; it is based on the potential of a person. Table-banking believes that all human beings, including the poorest, are endowed with endless potential. Unlike other financial institutions, table-banking looks at the potential that is waiting to be unleashed in a person and owned by poor members. Through table banking women in groups would pool formidable resources and loan it to a well-trained entrepreneurial women whose investments would give them good returns enough to save (Masinde, 2013).

Table banking has more structure than in many arrangements popularly called ‘merry-go-round’ where people have no repayment schedule. Often they just pay interest on the loan and the group cannot lend again because the capital is tied up. With table banking the group has to set rules for lending and repayment. Having shares requires rules and gives people ‘ownership’. They have to be more businesslike and assess the capability of an applicant to repay. They also have to separate ‘compassionate’ handouts or loans (sickness and funerals) from the real ‘banking’ business (Abuga, 2014).

1.1.2 Investment Decisions of SMEs

Investment decision refers to determination made by management as to how, when, where and how much capital (how much capital to spend and/or debt to acquire) is to be spent on investment opportunities including determining costs and returns for each option. It also refers to the capacity of an SME to know or understand the demands of external fund providers such as investors, SMEs or venture capital funds and hence be able to access the funds for growth and startups.

Both supply and demand-side constraints explain why smaller firms are less willing to use debt financing and rely on internal equity or, if external financing is required, why they prefer debt over outside equity including 'contentment proposition' (Bell and Vos 2009). SMEs are more vulnerable often lacking access to capital as well as funding sources. Growth SMEs access to funding for investement is constrained by the demand side weaknesses. Most of the SMEs are usually not investment ready. The owners of the SMEs are usually not willing to external funding while those that are willing fail to understand what investors are looking for; for instance, how to sell themselves and their businesses to these investors. A large portion of the SME sector does not have access to adequate and appropriate forms of credit and equity.

Kaufmann and Valderrama. (2008) consider that investment behaviour can be described as aggressive, innovative, proactive, risk taking, and autonomy seeking. Owner-managers tend to concentrate on the day-to-day at the expense of investments. La Rocca, et al (2011) warn that typical entrepreneur's features such as: impulsive character i.e. speed is preferred to accuracy (uncalculated risk and carelessness), inability to change problem

solving strategies (low degree of flexibility) and inability to learn from mistakes (risk of vicious circle trap) may affect negatively the process of investment decision making.

Ahiawodzi and Adade (2012) aver that the main constraint that SMEs often face is access to capital and this places significant constraints on SME development. Cook and Nixon (2005) observe that, notwithstanding the recognition of the role of SMEs in the development process in many developing countries, SMEs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs. They estimate that about 90% of small enterprises have credit access as their major constraint to new investment.

1.1.3 Table Banking and Investment Decisions of SMEs

Despite the important contribution to economic growth by SMEs they continue to face numerous challenges including; inadequate infrastructural facilities, challenges with attracting skilled manpower, high rate of enterprise mortality, lack of a facilitative operating environment, restricted market access, and onerous regulatory requirements. However, one of the main areas of concern is access to funding for investment growth. SMEs require adequate financing to meet needs at each stage of their life cycle, from creation through operation, development, expansion and beyond. Financing is necessary to help them set up and enhance their operations, develop new products, and invest in new staff or production facilities (Kilonzo, 2011). Many small businesses start out as an idea from one or two people, who invest their own money and probably turn to family and friends for financial help in return for a share in the business. But if they are successful, there comes a time for all developing SMEs when they need new investments

to expand or innovate further. Access to funding and the high cost of finance for investment growth through the traditional channels have been major constraints to SMEs hence the need to explore alternatives like table banking (Oteh, 2010).

As put by Masinde (2013), the advantages of table-banking is that: all the money belongs to the group; member's savings are not taken away but instead used for loaning; ability to mobilize savings among the poor; interest earned remains with the group; periodic bonus and dividends; education and agriculture booster; capacity building of the groups on group dynamics, entrepreneurship, business skills, record keeping and many other areas relevant to our area of operation and, banking at the convenience of members' homes or table.

Traditionally, the firm's market value and real decisions were considered to be unaffected by its financial structure and financing policies, since in the theoretical context generated by Modigliani and Miller's theorem (1958), capital markets were perfect, fiscal neutrality reigned and, therefore, external funds (shares, bonds and debt) and internal funds (self-financing) were perfect substitutes for each other. This led to an approach to investment theory in which the firm's problem of intertemporal optimization is solved without reference to financial factors, or including them on the basis of assumptions valid in a context of perfect capital markets. Given the hypothesis that all firms have the same access to the capital and information markets and the cost of capital is exogenous, in traditional models the dominant notion is of the "representative firm" (Brannen, 2010).

Savings and investments by SMEs are as vital to financial well-being and security as to a healthy economy. People with in table banking are better able to weather economic

shocks such as a loss of income, to build assets for the future, and are less reliant on credit to cover unexpected expenses. Informal saving clubs also enable further welfare enhancing actions such as entrepreneurial activities and access to education and training. At the macroeconomic level, saving/investment clubs such a table banking drive growth by enabling SMEs to lend to businesses, and by financing – directly or indirectly – investment in companies (Bauer, et al 2008). The ways in which SMEs operate can range from holding surplus income as cash, through simple informal saving mechanisms such as savings and loan clubs, to complex investments, or non-financial saving such as property or livestock. Some of these approaches are more suited to short-term investments and income smoothing, whilst others provide long-term investments. Innovations such as smart cards and mobile phone banking have opened up access to formal saving opportunities for SMEs who previously lacked access to financial services. SMEs, thus, increasingly buy even quite complex investment products online, including across borders. SMEs shift their investment portfolios into less risky, more liquid, financial assets in times of instability, although this effect may be muted by low short-term rates of return (Nahmias, 2012).

1.1.4 SMEs in Nairobi County

According to the SMEs Baseline Survey, the sector employed 2.4 million persons. This increased to 5.1 million persons in 2002 as per the 2003 Economic Survey and translates to 675,000 jobs per year. The level of employment within Micro and Small Enterprises (MSEs) in 2002 accounted for over 74.2% of the total number of persons engaged in the country . Central Bureau of Statistics (Republic of Kenya, 2012) indicates that there is

high rate of failure and stagnation among many start-up businesses and most of them close in their first three years of operation. This study revealed that 57% of small businesses are in stagnation with only 33% of them showing some level of growth. Nairobi City County Government estimates that there are 101,450 SMEs within the County (Nairobi City County, 2014).

Nyagah (2013) state that SMEs in Nairobi are faced with the threat of failure; three out five fail within the first few months. Central Bureau of Statistics (2004) lists the causes of failure to include: competition among themselves and from large firms, lack of access to credit, cheap imports, insecurity and debt collection. In order to overcome stagnation and avoid business failure due to lack of investments and growth, SMEs in Nairobi have embraced table banking. Table banking was introduced through Poverty Eradication Commission to enable people access their own funds to start income generating projects. These SMEs have formed groups and make use of table banking concept to empower themselves as it has enabled them save and access loans for investments from their small contributions. These groups run several projects, including: those that enable members to generate increased income, vocational training, and empowerment through education for adults and focuses on investing at the local level by providing funds for projects that address societal needs as identified by the members themselves (Craig and Drury, 2013).

1.2 Research Problem

SMEs play a significant role in economic development. They are an important source of job creation and innovation. In Kenya , SMEs contribute 80% of employment and contributes about 40% to GDP (Mwarari and Ngugi, 2013). Despite such significant

contribution made by the SME's, they continually face funding constraints in the formal financial market. Fisher et al (2013) reported the funding constraints faced by SMEs and show that very small percentage of surveyed firms (2.5%) are able to receive finance at start up and only 3% afterwards. Overall, the formal finance sector fulfils only about 25% of small firm financing needs which in effect constrain their investment needs, thus, growth. It is against this backdrop that table banking is adopted for SMEs to pool funds together, borrow against such funds and learn about available investment opportunities (Keter, 2013). Despite this, the effectiveness of table banking on realizing this objective is still unknown.

However, there has been differing opinion on whether table banking would have an impact on the nature and magnitude of their investment decision (Ahlén, 2012 and Masinde, 2013). According to De Mel, et al (2009), in the absence of easy access to external finance, saving for business purposes should be positively correlated with entrepreneurial investment. However, Brune, et al (2011) state that the saving mechanism itself might be a critical element in determining the ability to reinvest. It can be hard to prevent the funds from being exploited for the general personal needs of the entrepreneur. Aghion, et al (2010) intimate that for those in saving clubs the opportunity cost of consuming savings instead of investing them is not only the loss of financial reserves but also the foregone interest income.

Although, literature on investment decision is extensive, however, majority have focused on the investment choices of large publicly listed firms. Little has been done on SMEs investment decisions, more so, locally. Gitau (2013) did a study on the growth of SMEs

in Kenya and established that lack of access to finance has constrained SMEs in making use of available investment opportunities. Mwarari and Ngugi (2013) did a study on capital raising opportunities of SMEs in Kenya and listed access to information one of the determinant for raising capital for investment. Keter (2013) studied investment behaviour of SMEs and found investment as a challenge to SMEs owing to lack of credit access. Mwarari's (2013) study looked at capital raising opportunity of Kenyan SMEs and established that access to information hinders access to capital raising opportunity. However, these studies did not look at how table banking, which is a fairly new concept in Kenya, affect investment decisions of SMEs. This leaves a wide knowledge gap that this study seeks to fill in.

The study will, thus, seek to establish the impact of table banking on investment decisions of small and medium enterprises in Kenya. It will, therefore, answer the following research questions: what is the extent of adoption of table banking by small and medium scale enterprises? How has table banking impacted on investment decisions of small and medium enterprises?

1.3 Objectives of the Study

1.3.1 Main Objective

The main objective of the study is to establish the impact of table banking on investment decisions of small and medium enterprises in Nairobi County.

1.3.2 Specific Objectives

The specific objectives were:

i. To assess the extent of adoption of table banking by small and medium scale enterprises;

ii. To establish the impact of table banking on investment decisions of small and medium enterprises.

1.4 Value of the Study

The study's findings would provide useful lessons a number of persons. To begin with, the study is significant to SME investors as it will outline the essence of SME growth and how the table banking enhances such investment decisions. Proper utilization of the study' findings would be invaluable in increasing SMEs' investment decisions, thus, improve its performance which will have a trickle-down effect on the economic growth entire country through job creation and value addition. Besides, others not in business will draw important lessons from the study's findings and recommendations on the importance of table banking.

Secondly, the study is important to financial institutions (micro-finance instructions, savings and credit cooperatives and SMEs) and regulators (Central Bank of Kenya) as they will gain knowledge on table banking. Contributions from table banking are often deposited with these financial institutions which contribute immensely to their performance. Financial institutions would identify opportunities that lie in using table banking to increase their deposits or revenue through partnership with such groups. One of the Government's objectives is to create a favorable employment rate and promote economic growth through, among other things, SMEs growth. Thus, table banking is one

of the avenues through which SMEs can pool finances together, mutually borrow and learn investment opportunities. This study's findings will, therefore, appraise how effective table banking concept has realized this objective. As such, the study's findings and recommendations, thereof, was of great value to the Kenyan Government.

The pursuit of knowledge is a major human endeavour, information in the relationships helps to improve the existing academic body of knowledge. Exploration into an area of study helps scholars better understand the topic and answers questions related to that area of research e.g. mystery surrounding the area of study and hence increase the participation of individuals. Thus, the study was a source of reference materials for future researchers and students on related topic owing to dearth of findings on the same. The study also be an empirical source for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter presents the literature, theories on table banking and investment decisions, and empirical studies on the same. This involves a thorough search of knowledge on the subject being researched on.

2.2 Review of Theories

Frank and Goyal (2008) postulate that the pecking order theory and the trade-off theory are important theories which offer guideline on investment decisions.

2.2.1 Modigliani – Miller Irrelevance Proposition

The Modigliani – Miller irrelevance proposition A modern theory of business finance begins by the Modigliani & Miller (1958) capital structure irrelevance proposition. Before their work was published, there was no theory of capital structure that was generally accepted. The Modigliani & Miller (1958) analysis is based on the assumption that a probability distribution of the firm's cash flows does not depend on the capital structure decision it makes and that all investors share the same expectations regarding the cash flows.

They also assume that there is a perfect capital market, where investors, who act rationally and are well informed, are free to buy and sell securities and can borrow funds at the same terms as companies do. Under assumptions that there are no transaction costs and corporate taxes, Modigliani & Miller (1958) prove that the leverage of a firm has no

effect on a market value of a firm. When the firm chooses its debt-equity mix to finance its assets, all that it does is determine a division of cash flows between debt holders and equity holders. Explicitly Modigliani & Miller (1958, p. 268) state this as Proposition I: "The market value of any firm is independent of its capital structure and is given by capitalizing its expected return at the rate ρ_k appropriate to its class". The underlying logic of this proposition, as Myers (2001) puts it, is that, in a perfect-market supermarket, the value of a pizza does not depend upon how it is sliced.

According to Frank & Goyal (2008), there are two fundamentally different types of the capital structure irrelevance proposition. The classic foundation of the Modigliani-Miller hypothesis is an arbitrage process, which enables investors to pursue homemade leverage by switching their investments from an unlevered firm to a levered firm or vice versa. By borrowing on a personal account at a risk-free rate and buying shares of the unlevered firm investors can create homemade leverage. The other way around, investors can undo undesirable leverage by buying fewer stocks of the levered firm and lending at a risk-free rate.

As investors have this opportunity, they are not willing to pay a premium for levered firms over unlevered firms. Hence, the values of two companies, identical in all aspects except their capital structures, should be equal. The second type of capital structure irrelevance is related to multiple equilibria (Frank & Goyal 2008). Miller (1977) considers both personal and corporate taxes, which determine the equilibrium level of aggregate corporate debt and, hence, an equilibrium debt-equity ratio for a whole corporate sector.

However, Miller's (1977) model does not specify how aggregate quantities are split up among individual firms. Although tax considerations establish an economy-wide leverage ratio, there are multiple equilibria in which debt is issued by different firms (Frank & Goyal 2008). Miller (1977) concludes that it would be still true that the value of any firm, in equilibrium, would be independent of its capital structure.

\Modigliani-Miller's theorem, although being intuitive, has been criticized widely for its limitations. Again referring to the pizza example, Myers (2001) questions credibility of the Modigliani-Miller theory and argues that the value of the pizza actually depends on how it is sliced because consumers are willing to pay more for the slices than for the equivalent whole. A proposition that financing does not matter holds in synthetic Modigliani and Miller's world with strict simplifications, but it seems an unlikely description of how realworld companies are financed.

Modigliani and Miller's (1958, 1963) capital structure irrelevance propositions have motivated debates among the financial economists regarding the optimal capital structure of a firm. In the perfect Modigliani and Miller's world, capital structure is irrelevant for the value of a firm. Despite the fact that a number of subsequent leverage relevance theories have tried to incorporate market imperfections, the empirical research implies that these theories are still not accurate enough to explain the broad patterns of firms' financing decisions.

2.2.2 Trade-Off Theory

A family of related theories is described under the term of the trade-off theory. The idea, which is general in all of these theories, is that a manager running a company assesses benefits and costs of alternative leverage plans. However, trade-off theories might differ in the way they recognize a role of time in capital structure decisions. This leads to two different types of the trade-off theory, namely the static trade-off theory and the dynamic trade-off theory. The main difference between the static and dynamic trade-off models is that dynamic tradeoff models emphasize the importance of time in capital structure decisions.

The static tradeoff model provides the solution of the optimal capital structure for one period and, hence, suggests that firms should have the optimal capital structure in all periods. However, it is unlikely that companies plan their decisions regarding capital structure just one period ahead. In the dynamic trade-off models, what is the optimal capital structure choice in the current period depends on what is expected to be the optimal capital structure in the next period. The trade-off theory suggests that the firm used debt up to the point where the marginal value of the tax shields of additional debt is just offset by the increase in the present value of potential costs of financial distress (Myers 2001). The firm substitutes debt for equity or equity for debt until the point where the market value of the firm is maximized.

Later Fischer, et al (1989) develop a model of a dynamic capital structure choice with recapitalization costs. Their model allows avoiding the unrealistic rapid rebalancing prediction of the early dynamic models. The model also implies that there is no optimal

leverage ratio, but rather a range over which a firm allows its debt ratio to vary (Fischer, et al 1989). Hence, they assert that even small recapitalization costs are responsible for the observations of wide swings in the firms' leverage ratios. As a constant rebalancing is costly, a company does not take any action regarding its capital structure as long as leverage does not reach an upper or lower bound. If leverage reaches a bound, a firm undertakes a discrete rebalancing.

2.2.3 The Pecking Order Theory

Myers et al (1984) propose an alternative explanation of why firms choose certain capital structure, known as the pecking order theory. The pecking order theory is a preference order theory, which describes how firms choose to obtain new financing for their future activities and growth. The key underlying assumption of the pecking order model is asymmetric information between managers of a firm and external investors.

The asymmetric information means that management, which is assumed to act in the interest of existing shareholders, knows the true value of the existing assets and growth opportunities, while external investors are able only to guess these values. Hence, management's actions regarding financing are perceived as a signal about the true value of the firm. A decision to issue stock is perceived as a negative signal by prospective investors because they infer that management is willing to sell equity because the firm is overvalued. New shareholders are willing to invest only if the shares are sold at a marked-down price which increases the costs of attracting additional funds for the firm.

As adverse selection costs make the new issuance of stock more expensive, management might decide not to issue new equity and not to undertake positive NPV projects. If the firm needs external financing and if the issue of debt is not possible, management considers issuing undervalued stock only if the NPV of the new investment exceeds the costs incurred due to undervaluation. Internal funds are always preferred over the external financing because such financing always allows avoiding problems of asymmetric information (Dagnelie and LeMay-Boucher, 2008).

Moreover, in the pecking order, a use of debt is preferred over a use of equity. Debt holders of the firm face less risk than shareholders because debt has a senior claim on the assets and earnings of the firm. The volatility of the future value of debt is lower than the volatility of the future value of equity, i.e., costs of asymmetric information of debt are lower than of equity. Hence, if internal sources are not available or sufficient and external financing is necessary, firms generally prefer to issue debt first, which is the safest security, and then hybrid securities such as convertible bonds or preferred equity. Equity is the last resort of external financing when debt capacity is exhausted (Brune, Gin´e, et al, 2011).

2.3 Determinants of Investment Decisions of SMEs

2.3.1 Table Banking

Just as other saving and investment clubs, table banking is a great way for novice investors to learn more about investment strategy fundamentals without putting a large amount of money at stake. The regular periodic investing approach allows SMEs to build

up a substantial portfolio over a period of time without having to make a large investment at any one time (Brannen, 2010; Abuga, 2014). SMEs' owners can become a top investment performer by learning from others (De Mel,et al, 2009).

The diversity of most investment club's membership brings a breadth of investment experience and knowledge to the group; each club is rich in diversity; for instance doctors, engineers, telecommunications technicians, plumbers, accountants, financial directors and many more. Some table banking is started primarily as a social club with investment interests, whilst others are started as a focused business group (Brannen, 2010). While these investment clubs are certainly interested in making a profit, members should also find that investment clubs are a great way to learn about successful investing (Brune, Gin´e, et al, 2011).

2.3.2 Financing Cost

The interest rate as a variable defining the cost of capital has already been considered by the neoclassical theory as a determinant of a firm´s investment. Gilchrist, et al (2005) defend a connection between monetary policy and investment, considering that this policy has effects on the cost of capital, thereby influencing firms' investment. Gilchrist *et al.* identify a negative relationship between interest rate and investment.

Changes in monetary policy, namely in terms of interest rate, influence the firm's investments and debt capacity, through its effect on cash flow. Indeed, the cash flow of highly indebted firms is more sensitive to changes in the interest rate than that of firms with a minimum level of debt. Effect of the interest rate is more pronounced in smaller

firms' investment, since these firms was more sensitive to alterations in the cost of debt than larger firms. Ghosh and Ghosh (2006) also suggest that the investments of new SMEs are more vulnerable to monetary recession; the relationship between the interest rate and investment is more negative for new firms than for existing SMEs.

2.3.3 Investments Risks and Returns

The financial forecasting aspect of management in SMEs is another determinant of investment readiness. This involves prediction by financial managers of the organizations' future revenues using the available current financial information. Using reliable forecasting techniques greatly boosts the SMEs investment opportunities as they are able to know the amount of funding they need in future to run their businesses. With proper forecasting, SMEs are able to access external financing as they was able to convince the financiers/investors on their ability to get substantial returns from the investments undertaken.

With financial forecasting, the SMEs will achieve their targets for profitability which will foster their investment readiness. In addition, the financial decisions made by financial managers greatly influence SMEs investment readiness. Financial managers make four types of financial decisions including financing decisions where financial manager determines the best sources of funding for the business (Bond and Van Reenen, 2007). They indentify cheap sources of financing which will not strain the financial capability of the SME in terms of financial obligations that arise. The managers also make investment decisions by identifying viable investment opportunities. Therefore, the

ability of SMEs to determine in advance the risk involved and returns expected from the chosen investments also determine the investment readiness of the SME.

Investment readiness for SMEs is also determined by the ability of the SME to demonstrate a credible revenue model. The SME must show that it is in a position to attract sufficient customers so as to cover the costs of doing business. This includes the ability to demonstrate the business' unique selling point; that is, why customers would be interested in buying and how the product or service is to be delivered to the customer. In other words, the projects must give considerations to cost of distribution, marketing as well as customer servicing.

An SME will therefore be considered not to be independent ready if the entrepreneur lacks knowledge and expertise to turn the idea into a viable business, he gives unrealistic expectations and lacks good traits such as integrity, vision and commitment and has high need for control of the business (Ferrando, et al, 2007). In addition, an SME that has poor management, poor profit potential for the level of risk to be undertaken, and provides insufficient information to the potential external investor is considered not to be investment ready.

2.3.4 Investment and Financing Knowledge

Lack of investment readiness by SMEs could largely be attributed to unavailability of market information as well as commitment by financial managers in accessing various sources of funding. In other words, many entrepreneurs are not aware of the available and suitable financing options including the sources that would be most suitable for their

chosen business strategy. Research shows that the universal understanding of financial options available to SMEs is poor (Atanasova, 2011). For the majority, bank loans remain the preferred external financing source. The SMEs fail to realize the benefits accruing from a stronger capital structure for survivor as well as expansion. Investment readiness review programs should also be introduced for the SMEs who are ready to take up external financing. These programs should be aimed at reviewing the ability of such SMEs to access financing. The issues raised in the review programs should be addressed in an investment readiness development programs (Ferrando, et al, 2007).

2.3.5 Management Weakness

External investors reject investment opportunities from SMEs for many reasons that include weaknesses in the SMEs /entrepreneur management teams, marketing and marketing related factors such as flawed and incomplete marketing strategies and financial considerations such as flawed financial projections. SMEs are also considered as not investment ready due to lack of focus. This is where their business plans fail to offer comprehensive and credible market information (Kaufmann and Valderrama, 2008).

Creditors are interested in knowing how the product or service is superior to those of competitors and how the competitive advantage is to be sustained. Therefore, when projects by SMEs contain unrealistic assumptions or information which is not credible and often containing insufficient information and business concepts that require further development as well as limited growth prospects for the business, they are considered not to be investment ready (La Rocca, et al, 2011).

2.4 Review of Empirical Studies

Degryse, et al (2009) analyze the effect of the firm and industry characteristics on the capital structure decisions of Dutch small firms. Their results on the impact of firm-specific variables, such as size, asset structure, profitability and growth, are generally in line with the pecking order theory. Degryse, et al (2009) find that, as SMEs prefer internal funds over external funds, they use profits to reduce the debt levels However, if a firm is growing, it increases its leverage, as the internal funds are exhausted and not sufficient to cover the financing needs. Profitability has an effect on the short-term debt, whereas asset growth only affects long-term debt. They conclude that, after internal funds, long-term debt is next in the financing hierarchy of SMEs.

Contrary to the trade-off theory, many studies find support for the pecking order theory in the SME sector. Hall, et al (2000) study the determinants of capital structure on the sample of the UK SMEs. They conclude that the results of the study are consistent with the pecking order theory as profitability is negatively related to short-term debt and age is negatively related to both long-term debt and short-term debt. In addition, the results suggest that agency problems, particularly asymmetric information, have an influence on firms' capital structures.

Watson & Wilson (2002) empirically test the pecking order model implications on the sample of the UK SMEs. As the pecking order predicts, Watson & Wilson (2002) find that, when additional financing is necessary, SMEs prefer to use retained earnings over debt and that debt is preferred over an issue of new shares to outsiders. The pattern of coefficients in the regressions Watson and Wilson (2002) use is found to be consistent

with the pecking order model predictions, particularly in closely-held firms, where issue of information asymmetry and commonality of interests between managers and shareholders are most evident. Sogorb-Mira (2005) also finds support for the pecking order theory and concludes that the predictions of the pecking order theory seem to explain debt policy of Spanish SMEs quite well. The results also suggest that Spanish SMEs follow the maturity matching principle, as they attempt to finance fixed assets with long-term debt and current assets with short-term debt.

Degryse, et al (2009) analyse the effect of the firm and industry characteristics on the capital structure decisions of Dutch small firms. Their results on the impact of firm specific variables, such as size, asset structure, profitability and growth, are generally in line with the pecking order theory. They find that, as SMEs prefer internal funds over external funds, they use profits to reduce the debt levels. However, if a firm is growing, it increases its leverage, as the internal funds are exhausted and not sufficient to cover the financing needs. Profitability has an effect on the short-term debt, whereas asset growth only affects long-term debt. They conclude that, after internal funds, long-term debt is next in the financing hierarchy of SMEs.

Ramalho and Vidigal da Silva (2009) test if the determinants of capital structure are different for micro, small, medium and large companies. On the sample of Portuguese firms, they test if the factors, such as collateral, profitability, firm's age, growth, size and liquidity, are relevant for the capital structure decisions of the four size-based groups of firms and if the influence of these factors is similar in those groups. Their results suggest that there are some differences among micro, small, medium and large companies

regarding the determinants of long-term debt financing. Although the direction of relationships (positive or negative) between the determinants and leverage is found to be the same among all groups of firms, there are significant differences in the magnitudes of the coefficients in some cases. Differences in the values of coefficients are significant when comparing micro to medium or large firms and small to large firms.

Beck et al. (2006) analyse data of a survey, which was conducted in eighty developing and developed countries, to identify obstacles to firm performance and growth. Beck et al. (2006) find that small firms report significantly higher financing obstacles than medium firms, and both groups of firms report higher financing obstacles than large firms. The study by Beck et al. (2006) reports that the probability that a small firm rates financing as a major obstacle is 38.7%, while it is 37.7% and 28.5% for a medium and large firm, respectively. A survey, organized by the European Commission and conducted in late 2006 in twenty seven countries of the EU, has investigated the perceptions of SMEs on business constraints among other issues (European Commission 2007).

The survey reveals that the limited access to finance is not the primary concern of most SMEs, but 21.1% of surveyed companies report it as a constraint. Moreover, it is also found that there are differences in the views regarding access to finance as a business constraint among the categories of companies according to their size. 20.3% of micro firms encounter limited access to finance, whereas the percentages for small, medium and large enterprises were 19.6, 17.6 and 15.5, respectively (European Commission 2007).

Hence, it seems that the smaller the enterprise, the more likely it is to experience difficulties in obtaining financing.

Kaijage and Elly (2014) did a study on the choice between debt and equity that SMEs face by investigating the influence of various corporate characteristics on the capital structure of deposit taking microfinance institutions (DTMs), as a special group of SMEs, in Kenya. Using secondary data from financial reports of 7 out of 9 licensed DTMs in Kenya for the period 2008 to 2012, the study applied ordinary least squares (OLS) fixed - effect regression models. Capital structure was measured by debt equity ratio while corporate characteristics considered were: size, profitability, liquidity, growth, tangibility of assets and volatility of earnings. The study revealed that size and growth positively influence, in a significant way, the capital structure. Furthermore, liquidity, profitability, and tangibility of assets negatively influenced the capital structure.

Mwarari (2013) examined the factors influencing listing of SMEs in the securities market as a source of expansion capital. The study examined twenty respondents in Nairobi and used both secondary and primary data collected using questionnaire to carry out the study. The study revealed that access to information influence listing of SMEs in the NSE to greatest extent and vouched for reduction of listing requirements like the minimum assets and obligations for SMEs, restructuring of regulations to make it affordable for SMEs and reduce the minimum investment of Treasury Bills. Investment has the merit of fostering individuals' and enterprises' development and survival in the long run.

Study by Keter (2013) on investment behaviour of SMEs found that despite the use of formal banking and other formal financial services such as M-PESA which has increasingly significantly since 2006, investment by SMEs remains a major challenge in Kenya. With table banking SMEs can access loans for startup and growth of businesses. Besides, lack of investment by people belonging to the lower quadrant of socio-economic stratification is a major constraint to the country's economic growth.

2.5 Summary of Literature

Despite the differences in the financing patterns between small firms and large enterprises, empirical evidence regarding the applicability of the capital structure theories for SMEs suggests that firm-specific factors that have an influence on the financing decisions of large firms are also important determinants of capital structure of SMEs. Internal financing and external financing are not perfect substitutes; the existence of problems of asymmetric information, especially for SMEs, makes external financing more expensive than internal financing negating investment decisions of SMEs and in effect making a case for table banking that provides financing at cheaper rates.

Despite the importance of SMEs in economic growth and employment creation, empirical studies thus knowledge on their investment decisions are few and scanty in the Kenyan context. Kaijage and Elly (2014) study focused on choice between debt and equity that SMEs. Mwarari (2013) examined the factors influencing listing of SMEs in the securities market as a source of expansion capital. Keter (2013) looked at the investment behaviour of SMEs. This leaves a wide knowledge gap that the study seeks to fill in by asking the question: how does table banking affect investment decisions of SMEs in Nairobi.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methods that was used in collecting and analyzing the data that enabled the researcher reach the preset research objectives. The chapter is outlined into research design, population, sample and sampling techniques, data collection procedure and data analysis technique.

3.2 Research Design

This is a descriptive study that adopted a cross-sectional survey design. Cross-sectional studies involve observation of a representative subset of a population. It provides a snapshot of the frequency of a phenomenon together with its characteristics in a population at a given point in time (Gratton and Jones, 2004).

Mugenda (2008) state that descriptive study is concerned with finding out the what, where and how of a phenomenon and as such enabled the study achieve its objectives. In this study, the subset was the businesses in Nairobi County which was the sub-set of Kenya. That is, data is collected at one point in time from a sample selected to represent a larger population (Mugenda and Mugenda, 2003).

3.3 Population

The study population was all SMEs within Nairobi County. Nairobi County is composed of 17 constituencies: Westlands, Dagoretti South, Langata, Kibra, Roysambu, Kasarani,

Ruaraka, Embakasi South, Embakasi North, Embakasi Central, Embakasi East, Embakasi West, Makadara, Kamukunji, Starehe and Mathare. Nairobi City County Government estimates that there are 101,450 SMEs within the County (Nairobi City Council, 2014).

3.4 Sample

The study employed cluster sampling technique in selecting a sample from the target population. The sampling technique is considered as it considers diversity within a target population and selects those clusters that are representative of the entire populations considering the constraints faced. Cluster sampling technique also has an added advantage over other sampling techniques as it deselects redundant clusters from sample which makes it economical (Yates, et al, 2008). The target population of 17 constituencies was clustered into 4 constituencies drawn from South, East, North and West regions of the County whereby SMEs that have adopted table banking was selected.

Snowball sampling technique was applied within the clusters to ensure that only the SMEs that have adopted table banking are selected as there are no data on the adopters; sampling frame. Snowball sampling uses a small pool of initial informants to nominate, through their social networks, other participants who meet the eligibility criteria and could potentially contribute to a specific study. This sampling technique is often used in hidden populations which are difficult for researchers to access. From each cluster, 10 SMEs was chosen making a sample size of 40 SMEs which is adequate for the study. That is, it was adequate enough to ensure representation without being subject to data redundancy that would be the case with larger sample sizes. The statistical justification

for this is a constraint on time to cover all the possible SMEs. In addition it will give us a wide range of views from a cross section of the SMEs.

3.5 Data Collection

The study used primary data sources in gathering data for analysis. The primary data source was semi-structured questionnaires. A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents (Mugenda and Mugenda 2003).

Questionnaires was considered given that they are cheap, respondents are given time to fill-in the questionnaires, do not require as much effort from the interviewer as verbal or telephone surveys, and often have standardized answers that make it simple to compile data. The questionnaires had both open (for qualitative data) and close-ended questions (for quantitative data). The questionnaires were self-administered.

3.6 Data Analysis

Based on the questionnaire, both quantitative and qualitative data was generated. The data collected was cleaned, coded and systematically organized in a manner that facilitated analysis using the Statistical Package for Social Sciences (SPSS Version 20). Qualitative data was analyzed through in-depth content analysis which involved categorizing and recombining evidences/themes to address the research questions. Quantitative analysis was analyzed through descriptive statistics such as measure of central tendency to generate relevant percentages, frequency, mean and standard deviation where possible. The study also conducted inferential analysis.

3.6.1 Analytical Model

Inferential analysis involved use of multiple linear regression analysis using ordinary least square method. The regression analysis sought to test the significance and nature of the relationship between table banking and investment decisions controlling for the effect other investment decisions determinants. The regression analysis was, thus, be of the form: $INV = ß_0 + ß_1X_1 + ß_2X_2 + ß_3X_3 + ß_4X_4 + ß_5X_5 + ß_6X_6 + ß_7X_7 + \varepsilon$

Whereby: INV = Investment Decisions of SMEs (INV);

X1 = table banking (CF);

X2= financing costs (FC)

X3= investments risks (IR);

X4= investment and financing knowledge (IF)

X5= management weakness (MW)

X6= investments returns (IR) and

X7= investment decision of SMEs (ID)

B0, β1, β2, β3, β4, β5, β6, β7=Regression model coefficients.

ε = Error Term.

The study used Pearson correlation analysis to measure whether there is a linear relationship between table banking and investment decisions of SMEs. This correlation

coefficient determined the nature and significance of such relationship if any. Analysis and variance (ANOVA) and t-test were used to measure the significance of the model and model's coefficients. These tests were two tailed and tested at 95% significance level ($\alpha \leq .05$).

3.7 Validity and Reliability of Data

The research instrument was pretested in order to test for validity and reliability. Validity is the degree by which items in the research instrument represents the content the test is designed to measure (Mugenda and Mugenda, 2003). To establish the validity of the research instrument the researcher sought opinions of experts in table banking/microfinance especially the researcher's supervisor and lecturers. Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Eriksson and Kovalainen, 2008).

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

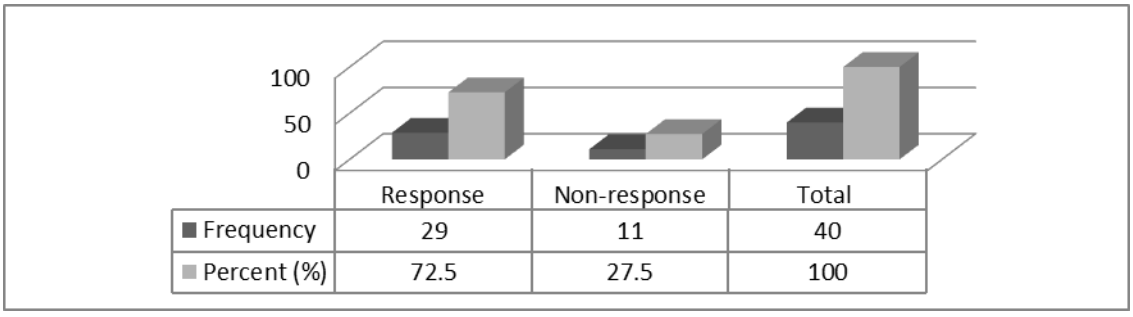
This chapter covers data presentation and analysis. The main objective of the study was to determine the effects of table banking on investment decisions of small and medium enterprises in Nairobi County. In order to simplify the discussions, the researcher provided tables and figures that summarize the collective reactions and views of the respondents.

4.2 Descriptive statistics

4.2.1 Response Rate

The targeted sample size was 40 SMEs. Those filled and returned questionnaires were 29 respondents making a response rate of 72.5 %. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This means that the response rate for this study was excellent and therefore enough for data analysis and interpretation.

Figure 4.1: Response rate



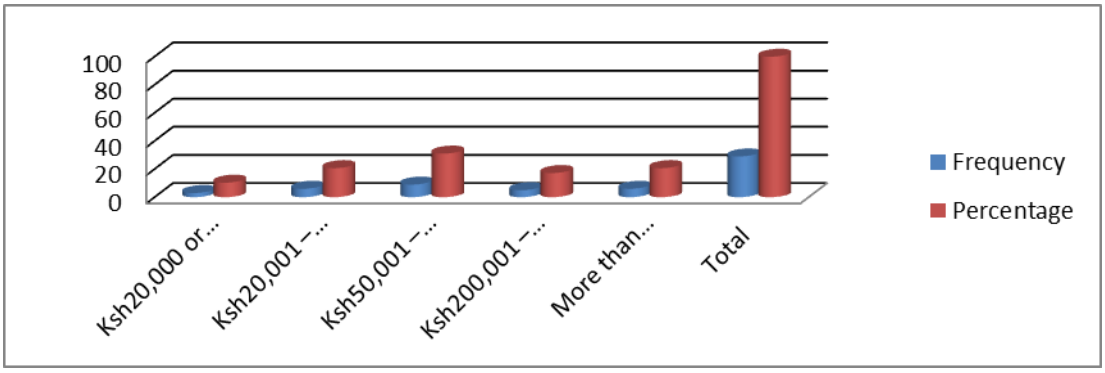
	Response	Non-response	Total
Frequency	29	11	40
Percent (%)	72.5	27.5	100

4.2.2 Approximate size of the total assets

The researcher sought to determine the approximate size of the total assets SMEs. The findings further indicated that 10.34% of the SMEs had approximate assets of Ksh20, 000

or less. While the remaining 17.24% indicated that they had approximate assets of Ksh200, 001 – 300,000. The finding therefore implies that the SMEs had favorable assets to be considered in the study.

Figure 4.2: Approximate size of the total assets

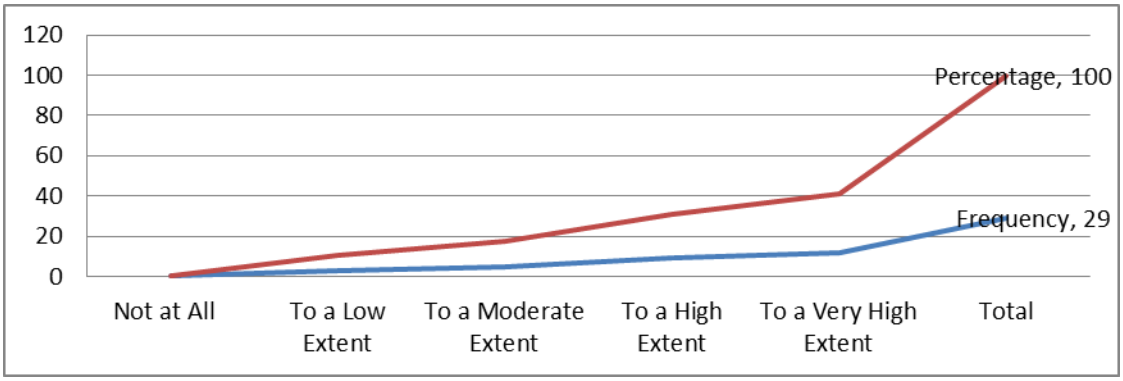


The respondents were required to indicate the approximate size of the total assets of their business where the study findings indicated that majority (31.03%) indicated that the approximate size of the total assets of their business range between Ksh50, 001 – 200,000. Analysis of findings also indicated that 20.69% of the respondents indicated that the approximate size of their company assets was Ksh20, 001 – 50,000 and More than Ksh300, 000.

4.2.3: Extent to which the businesses have adopted table banking

The researcher sought to determine the extent to which the SMEs have adapted to table banking. The table below indicates the findings from the analysis.

Figure 4.3: Extent to which the businesses have adopted table banking



The respondents were required to indicate the Extent to which their businesses have adapted to table banking where the study findings indicated that majority (41.38%) indicated that the SMEs have adapted to table banking to a very high extent. Analysis of findings also indicated that 31.03% of the respondents indicated SMEs have adapted to table banking to a high extent. The findings further indicated that 17.24% of the respondents indicated that SMEs had adapted to table banking to a moderate extent.

While the remaining 10.34% indicated that the SMEs had adapted to table banking to a low extent. The finding therefore implies that the SMEs have adapted to the table banking.

4.2.4: Extent to which SMEs have experienced advantages with table banking

The researcher sought to determine the extent to which SMEs have experienced advantages with table banking. Table 4.3 shows the mean and standard deviation of factors that were used by the researcher to show the extent to which SMEs have

experienced the following advantages with table banking. A mean of 1-3, shows that the factor in question has been adopted by the responding organizations to a low extent.

A mean of 4-5, shows the factor in question has been adopted by the responding organizations to a high extent.

Table 4.1 Extent to which SMEs have experienced advantages with table banking

Sources	Mean	Std. deviation
All the money belongs to the group.	3.21	1.692
Member's savings are not taken away but instead used for loaning	3.97	0.497
Ability to mobilize savings among the low income earners	3.65	0.630
Interest earned remains with the group.	3.53	0.841
Regular Bonus (every quarter, half year)	4.17	1.043
Dividends every year	4.38	0.801
Education booster	3.87	0.594
Banking at the convenience of your homes / Table	4.29	0.997

Source: Author (2014)

Table 4.3 shows that the following factors had been adopted by many SMEs as factors which are advantages with table banking. Factors like Member's savings are not taken away but instead used for loaning (3.97), Ability to mobilize savings among the low income earners (3.65), Regular Bonus (every quarter, half year) (4.17), Dividends every year (4.38), Education booster (3.87) and lastly Banking at the convenience of your homes / Table (4.29) as factors which were advantageous to a high extent. Some of the factors like all the money belong to the group (3.21) and Interest earned remains with the group (3.53) were considered to have an advantage to a low extent and moderate extent

respectively. Table 4.3 therefore shows that most SMEs in Nairobi County have experienced advantages with table banking.

4.2.5 Extent to which the following sources of finance are used

The researcher sought to determine the extent to which the sources of finance are used as start- up capital and growth for the business.

Table 4.2 Extent to which the following sources of finance are used as a start-up capital and growth for the business

Sources	Start-Up Capital		Growth	
	mean	Std. deviation	Mean	Std. deviation
Personal finance (savings)	4.12	0.172	3.79	1.081
Borrowing from friends and relatives	3.78	0.912	2.79	0.997
Borrowing from local money lenders/ cooperatives	3.67	0.123	3.92	0.879
Bank overdraft/loan	4.37	0.892	4.03	1.003
Hire-purchase/ lease finance	4.12	0.178	3.92	0.956
Venture/equity capital finance	4.17	0.123	3.71	1.192
Table banking/revolving funds/investment clubs	4.21	1.109	4.17	0.971

Source author (2014)

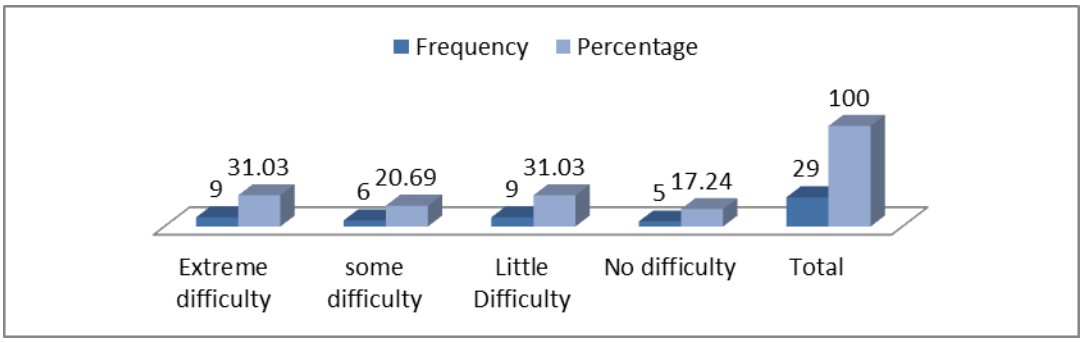
Table 4.4 shows the extent to which sources of finance are used as a start-up capital and growth for the startup businesses. The researcher found out that All the Sources of finance like Personal finance (savings) (4.12), Borrowing from friends and relatives(3.78), Borrowing from local money lenders/ cooperatives(3.67), Bank

overdraft/loan(4.37), Hire-purchase/ lease finance(4.12), Venture/equity capital finance(4.17), Table banking/revolving funds/investment clubs(4.21) were all used to a high extent for start up for the growth of the business, The researcher found out that the Sources of finance like Personal finance (savings) (3.79), , Borrowing from local money lenders/ cooperatives(3.92), Bank overdraft/loan(4.03), Hire-purchase/ lease finance(3.92), Venture/equity capital finance(3.71), Table banking/revolving funds/investment clubs(4.21) were all used to a high extent for the growth of the business. The source of finance that was considered to a low extent was borrowing from friends and relatives (2.79).Some of the factors like all the money belong to the group (3.21) and Interest earned remains with the group (3.53) were considered to have an advantage to a low extent and moderate extent respectively. Table 4.4 therefore shows that most SMEs in Nairobi County source funds from different sources in order to start up or for the growth and the continuity of the business.

4.2.6 Difficulties in obtaining external finance

The researcher sought to determine the extent to which the SMEs have experienced difficulties if any in obtaining external finance from the SMEs and micro finance institutions for starting and growing their business.

Figure 4.4: Difficulties in obtaining external finance



Source: author 2014

According to the researcher, (31.03%) indicated that they experienced extreme difficulty obtaining external finances while the other 31.03% experienced little difficulty in obtaining the funds. Analysis of findings also indicated that 20.69% of the respondents indicated that they experienced some difficulty in obtaining the fund and lastly 17.24% experienced no difficulty at all. The finding therefore implies that obtaining external finances was not a problem as such.

4.2.7 Level of difficulty of the obstacles in obtaining the external financing

The researcher sought to determine the level of difficulty of the obstacles in obtaining the external financing. Table 4.6 shows the mean and standard deviation of factors that were used by the researcher to show the level of difficulty of the obstacles in obtaining the external financing. A mean of 1-3, shows that the level of difficulty of the obstacles in obtaining the external financing is to a low extent. A mean of 4-5, shows the level of difficulty of the obstacles in obtaining the external financing is to a high extent.

Table 4.3 Level of difficulty of the obstacles in obtaining the external financing

Factors	Mean	Std. deviation
Lack of or inadequate Collateral/Securities	3.21	1.692
Inadequate personal financial inputs	3.97	0.497
lack of business feasibility report/financial records	3.65	0.630
Previous experience.	3.53	0.841
Inadequate repayment period	4.17	1.043
financing offered below firm requirement	4.38	0.801
high cost of financing/interest rates	3.87	0.594
financier's desire for shares/equity in the firm	4.29	0.997
Project/Business Venture too risky	2.71	1.046
Business expansion excessively hasty	3.79	0.817
Lack of or insufficient credit history/record	4.01	1.003
Bureaucracy in accessing finance/confusing procedure	3.57	0.783
Lack of information	3.99	1.144

Source: Author (2014)

Table 4.6 shows the level of difficulty of the obstacles in obtaining the external financing. Factors like inadequate personal financial inputs (3.97), lack of business feasibility report/financial records (3.65), inadequate repayment period (4.17), financing offered below firm requirement (4.38), high cost of financing/interest rates (3.87) financier's desire for shares/equity in the firm (4.29), Business expansion excessively hasty (3.79) and Lack of or insufficient credit (4.01) were obstacles with a high level of difficulty.

Some of the factors like Lack of or inadequate Collateral/Securities (3.21) and Project/Business Venture too risky (2.71) were obstacles with a low level of difficulty. Lastly previous experience had a mean of 3.53 which means that it was a moderate concern. Table 4.6 therefore shows that level of difficulty of the obstacles in obtaining the external financing are quite high.

4.2.8 Characteristics of the firm's investment appetite

The researcher sought to determine the characteristics of the firm's investment appetite. Table 4.7 shows the mean and standard deviation of the characteristics of the firm's standard deviation. A mean of 1-3, shows that the characteristics of the firm's investment appetite are to a low extent. A mean of 4-5, shows the characteristics of the firm's investment appetite are to a high extent.

Table 4.4 Characteristics of the firm's investment appetite

characteristic	Mean	Standard deviation
Apart from main business, the company has not diversified its investment	4.02	0.991
The company prefers low-risk, low return investment	2.13	1.025
The company prefers high risk, low return investments	3.18	0.873
The company prefers low-risk, high return investments	4.27	0.883
The company prefers high-risk high return investments	3.29	1.213

Source: Author (2014)

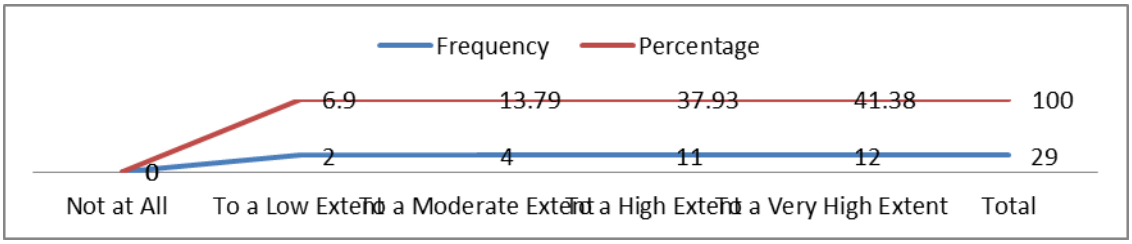
Table 4.4 shows the characteristics of the firm's investment appetite. Characteristics like the company has not diversified its investment (4.02), and the company prefers low-risk,

high return investments (4.27) had a high mean showing that the characteristics of firms investment appetites are to a high extent. Characteristics like the company prefers low-risk, low return investment (2.13), had a low firm investment appetite. Lastly, characteristics like the company prefers high risk, low return investments (3.18) and the company prefers high-risk high return investments (3.29) were moderately considered.

4.2.9: Extent to which table banking adopt influenced investment decision or choice

The researcher sought to determine the extent to which table banking adopt influenced investment decision or choice. The table below indicates the findings from the analysis.

Figure 5: Extent to which table banking adopt influenced investment decision or choice



Source: Author (2014)

The respondents were required to indicate the Extent to which table banking adopt influenced investment decision or choice where the study findings indicated that majority (41.38%) indicated that the adoption of table banking influenced decision making to a very high extent. Analysis of findings also indicated that 37.93% of the respondents indicated that the adoption of table banking influenced decision making to a high extent.

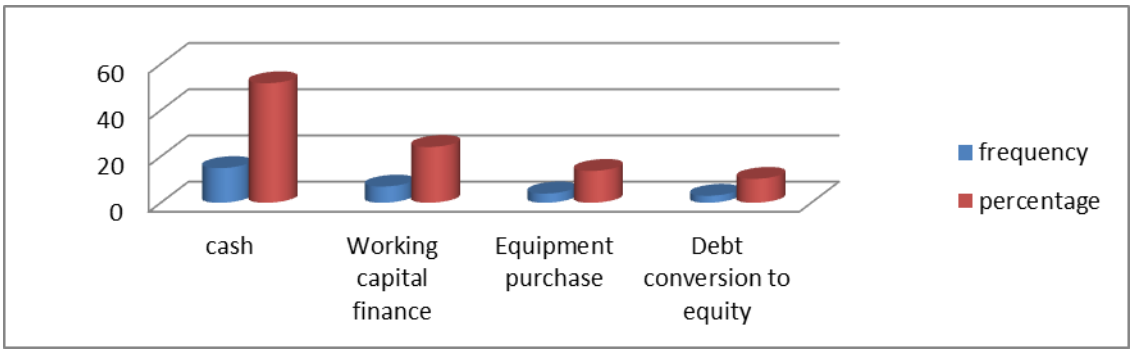
The findings further indicated that 13.79% of the respondents indicated that SMEs adoption of table influenced their decision making moderately, while the remaining 6.9%

indicated that the SMEs adoption of table banking affected the companies decision making to a very low extent to a low extent. The finding therefore implies that the SMEs adoption of table banking influences the decision making of the SMEs.

4.2.10 forms of table banking investment

The researcher sought to find out the available forms of table banking investments presented to the SMEs.

Figure 6: Forms of table banking investment



Source: Author (2014)

The findings indicated that among the available forms of table banking investments cash was found to be the one that is more available with 51.72% of the respondents indicating so. 24.14% of the respondents indicated that working capital finance was the most available form of table banking investment. 13.79% of the respondents indicated that equipment purchase was the most available to the while 10.34% indicated that the debt conversion to equity was the most available form of table banking investment. According to the findings cash was the most available form of table banking investment.

4.3 factors influencing investment decisions and access to financing of SMES

The researcher sought to find out the factors influencing investment decisions and access to financing of SMEs

Table 4.5 Factors influencing investment decisions and access to financing of SMES

Statement	Mean	Std. deviation
Financing Costs		
I look at the interest rate and incidental cost of the financing mode chosen	4.13	0.597
I prefer investing using internally generated funds from the business than debt	3.97	1.047
Whatever financing I use, I must control the management of my business	4.51	1.027
Investments Risks		
I evaluate the risk involved in investments	4.17	1.024
I prefer low risk investment	3.92	0.597
I undertake thorough feasibility studies	4.18	0.734
I prefer long to short-term investments	3.64	0.802
Investment and Financing Knowledge		
I deposit the business money in financial institutions	4.12	1.125
I have knowledge on different sources of financing	4.27	1.230
I have knowledge on different investment opportunity available	3.98	0.941
I read journals on financing/investment and attend investment seminars	3.93	0.997
I have the knowledge and expertise to turn the idea into a viable business	3.75	0.873
Management Weakness		
I keep all financial and business records	4.57	0.801
The management looks for new business opportunities	3.51	1.043
The business management has increased investor confidence	3.75	0.873

The firm has a higher competitive advantage than competitors	3.81	0.794
Investments Returns		
I evaluate the projected investment returns before making investments	4.51	0.937
I prefer a high risk, high return investment	4.33	1.692
The firm has profit potential for the risk to be undertaken	3.40	0.497

Source: Author (2014)

Regarding the financing costs the respondents agreed that they look at the interest rates and cost of the financing mode chosen, they prefer investing using internally generated funds from the business than debt and that they that they like controlling the management of their business. Regarding investment risks, the respondents indicated that they agree they evaluate the risk in investment, they prefer low risk investment and that they undertake thorough feasibility studies before investing in a business. They also indicated that they prefer long to short term investments.

About the investment and financing knowledge, most of the respondents agreed that they deposit the business money in financial institutions; they have knowledge on different sources of financing and different investment opportunities available, they also indicated that they read journals on financing/investment and attend investment seminars. The respondents further indicated that they have knowledge and expertise to turn the idea into a viable business. About Management weakness, the respondents indicated that they keep all financial and business records, they also agreed that the business management has increased investor confidence; the respondents also indicated that their firms have a higher competitive advantage than competitors.

4.4 Influence of table banking on business investment decisions

The researcher sought to find out how table banking influenced business investment decisions.

Table 4.6 influence of table banking on business investment decisions

Sources	Mean	Std. deviation
Providing advice on the business running (management of) growth	3.8	1.03
Issuing low cost financing – low interest rate	4.2	1.24
Issuing low cost financing – lack of collateral	3.6	1.17
Providing advice on investment opportunity	4.3	1.14
Provide dividends and bonus	4.3	1.12
Is my source of savings	3.9	0.96
Carry out group investment	3.7	1.03

Source: Author (2014)

The study sought to find out how table banking influenced business decisions. According to the study findings table banking provides advice on the business running (3.8), it also issues low cost financing at a low interest rate (4.2) and also on lack of collateral (3.6). The researcher also found out that the table banking provides advice on investment opportunity and dividends and bonus (4.3).

4.5: Inferential Statistics

This section presents a discussion of the results of inferential statistics. Correlation analysis was used measure the strength of the relationship between the independent variables i.e. the relationship between table banking, financing costs, investments risks, is investment and financing knowledge, management weakness and investments returns. Regression analysis established the relative significance of each of the variables on investment decision of SMEs.

4.5.1 Correlation Analysis

The Pearson product-moment correlation coefficient (or Pearson correlation coefficient for short) is a measure of the strength of a linear association between two variables and is denoted by r. The Pearson correlation coefficient, r, can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association, that is, as the value of one variable increases so does the value of the other variable. A value less than 0 indicates a negative association, that is, as the value of one variable increases the value of the other variable decreases.

Table 4.7: Correlation coefficient investment decisions

	table banking	financing costs	investments risks	investment and financing knowledge	management weakness	investments returns	investment
table banking	1						
financing costs	0.8345	1					
investments risks	0.8507	0.8679	1				
investment and financing knowledge	0.7612	0.8163	0.7568	1			
management weakness	0.6173	0.6931	0.5371	0.2071	1		
investments returns	0.9724	0.8123	0.9567	0.8579	0.6381	1	
investment decision of SMEs	0.9273	0.9927	0.9111	0.9775	0.9183	0.8437	1

Source: Author (2014)

The study in table 5, show that all the predictor variables were shown to have a positive association between them at a significant level of 0.05 and hence included in the analysis. There was strong positive relationship between the independent and the dependent variables. The correlation between investment decisions of SMEs and table banking was 0.9273, the correlation between investment decisions of SMEs and financing cost was 0.9927, the correlation between investment decisions of SMEs and investments risks was 0.9111, the correlation between investment decisions of SMEs and the investment and financing knowledge was 0.9775, the correlation between investment decisions of SMEs

4.5.2: Regression Analysis

The following are the results of regression analysis.

Table 4.8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.403[a]	.142	-.061	.42127

a. *Predictors*: (Constant), table banking, financing costs, investments risks, investment and financing knowledge, management weakness.

b. *Dependent Variable:* investment decision of SMEs

Source: Author (2014)

Analysis in table above shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R square equals 0.142, that is, table banking, financing costs, investments risks, investment and financing knowledge, management weakness. The Analysis of Variance (ANOVA) was used to check how well the model fits the data. The results are presented in table 13.

Table 4.9: ANOVA (Analysis of Variance)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.045	3	.123	.678	.0025
	Residual	5.102	28	.177		
	Total	5.628	93			

c. *Predictors*: (Constant) table banking, financing costs, investments risks, investment and financing knowledge, management weakness.

a. *Dependent Variable*: investment decision of SMEs

The F statistic is the regression mean square (MSR) divided by the residual mean square (MSE). Since the significance value of the F statistic is small (0.000 smaller than say 0.05) then the predictors variables table banking, financing costs, investments risks, investment and financing knowledge, management weakness explain the variation in the dependent variable which is investment decision of SMEs. Consequently, we accept the Hypothesis that all the population values for the regression coefficients are not 0.

Contrary, if the significance value of F was larger than 0.05 then the independent variables would not explain the variation in the dependent variable, and the null hypothesis that all the population values for the regression coefficients are 0 should have been accepted. The regression output of most interest is the following table of coefficients and associated output associated output

:**Table 4.10: Regression Coefficients results**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.903	0.123		7.367	0.000
	table banking	0.9273	0.028	0.158	2.021	0.045
	financing costs efficiency	0.9927	0.027	0.101	1.157	0.210
	investments risks	0.9111	0.030	0.105	1.194	0.234
	investment and financing knowledge	0.9775	0.028	0.147	1.686	0.093
	investments returns	0.8437	0.056	0.105	1.194	0.234
	management weakness	0.9183	0.034	0.147	1.686	0.210
a. Dependent Variable: investment decision of SMEs						

Source: Author (2014)

From the Regression results in table below, the multiple linear regression model finally appear as Y= 0.903+ 0.9273TB + 0.9927FC + 0.9111 IR ₊ 0.9775IFK + 0.8437IR + 0.9183MW + 0.4213 .The multiple linear regression models indicate that all the independent variables have positive coefficient.

4.6 Summary and interpretation of the findings

The response rate of the study was 72.5% which was an excellent response rate. The findings on the approximate size of the total assets indicated that most of the SMEs have an approximate size of SMEs range between 50,000 to 200,000 Kenyan shillings.

The findings on the extent to which the business have adopted table banking indicated that majority of the SMEs have adopted table banking.

Concerning the extent to which the SMEs have experienced advantages with table banking, factors like Member's savings were not taken away but instead used for loaning (3.97), Ability to mobilize savings among the low income earners (3.65), Regular Bonus (every quarter, half year) (4.17), Dividends every year (4.38), Education booster (3.87) and lastly Banking at the convenience of your homes / Table (4.29) as factors which were advantageous to a high extent. Some of the factors like all the money belong to the group (3.21) and Interest earned remains with the group (3.53) were considered to have an advantage to a low extent and moderate extent respectively.

On the extent to which the following sources of finance are used as a start-up capital and growth for the business The researcher found out that All the Sources of finance like Personal finance (savings) (4.12), Borrowing from friends and relatives(3.78), Borrowing from local money lenders/ cooperatives(3.67), Bank overdraft/loan(4.37), Hire-purchase/

lease finance(4.12), Venture/equity capital finance(4.17), Table banking/revolving funds/investment clubs(4.21) were all used to a high extent for start up for the growth of the business, The researcher found out that the Sources of finance like Personal finance (savings) (3.79), , Borrowing from local money lenders/ cooperatives(3.92), Bank overdraft/loan(4.03), Hire-purchase/ lease finance(3.92), Venture/equity capital finance(3.71), Table banking/revolving funds/investment clubs(4.21) were all used to a high extent for the growth of the business. The source of finance that was considered to a low extent was borrowing from friends and relatives (2.79).Some of the factors like all the money belong to the group (3.21) and Interest earned remains with the group (3.53) were considered to have an advantage to a low extent and moderate extent respectively.

The study findings on the level of difficulty of the obstacles in obtaining the external financing indicated that Factors like inadequate personal financial inputs (3.97), lack of business feasibility report/financial records (3.65), inadequate repayment period (4.17), financing offered below firm requirement (4.38), high cost of financing/interest rates (3.87) financier's desire for shares/equity in the firm (4.29), Business expansion excessively hasty (3.79) and Lack of or insufficient credit (4.01) were obstacles with a high level of difficulty. Some of the factors like Lack of or inadequate Collateral/Securities (3.21) and Project/Business Venture too risky (2.71) were obstacles with a low level of difficulty. Lastly previous experience had a mean of 3.53 which means that it was a moderate concern.

The regression results above reveal that there is a positive relationship between dependent variable (investment decision of SMEs) and independent variables (table banking, financing costs, investments risks, investment and financing knowledge, management weakness). From the findings, one unit change in table banking results in

0.9273 units increase in investment decision of SMEs. One unit increase in financing costs results in 0.9927 units increase in investment decision of SMEs. One unit change in investments risks results in 0.8507 unit increases in investment decision of SMEs. One unit change in investment and financing knowledge results 0.7612 unit increases in investment decision of SMEs. One unit change in management weaknesses results in 0.6173 unit increase in investment decisions of SMEs. One unit change in investment returns results in 0.9724 unit increase in investment decision of SMEs. The t statistics helps in determining the relative importance of each variable in the model. As a guide regarding useful predictors, we look for t values well below -0.5 or above +0.5. In this case, the most important variable was employee morale, organization resources, operation budget and organization efficiency respectively.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The study aimed to establish the status of table banking in the small and medium enterprises that have rolled up the table banking service. The findings further showed that yearly investment decision improved significantly.

This implies that table banking is continuously improving leading access to significance increased investment decision in those SMEs that have rolled up the service due to its convenience and efficiency in operation. Further the study indicates that most SMEs registered the highest number of investment activities, this implies that SMEs have continuously increased investment decision significantly in table banking leading to improved investment decisions.

From the correlation result for model, volume of money flowing through the table banking has a strong negative correlation of with investment decisions. This implies that volume of money flowing through the table banking have a positive effect on the level of investment decisions in Kenyan SMEs due to increased investment decisions. Number of table banking and the number of the transactions per agent also showed significant contribution to investment decisions. They all argued that larger volume of transactions leads to improved investment decisions. From the t-test result, the efficient rolled up table banking SMEs recorded a higher mean while the non-efficient SMEs recorded a slightly lower mean. However, the variance for the efficient SMEs and the no-efficient SMEs also varied significantly.

5.2 Conclusions

From the findings above, it can be concluded that majority of the SMEs in the country have not embraced table banking. It can further be concluded table banking has positively and significantly influenced performance of SMEs.

Table banking enables SMEs to divert existing customers from crowded branches providing a "complementary", often more convenient channel. They use table banking to reach an "additional" client segment or geography. Otherwise, reaching poor clients in rural areas is prohibitively expensive for SMEs since transaction numbers and volumes do not cover the cost of a branch. Table banking that piggy back on existing retail infrastructure – and lower set up and running cost - play a vital role in offering many low-income people access to a range of financial services. Also, low-income clients often feel more comfortable banking at their local store than walking into a marble branch which increases the SMEs' revenue.

Table banking also improves SMEs investment decisions as it reduces huge savings on cost of construction of bank premises and leasing costs than when SMEs are using the Agency premises. It also cuts on human resource expenses. The SMEs do not have to employ new staff to manage the agency and the cost of training if any is to the bare minimum. It further, saves on equipment like furniture and computers. Additionally, the convenience of access to banking services and the extended hours that the banking agencies work is attractive features to the customer. This also helps increase SMEs' revenue will minimizing costs.

5.3 Recommendation for Policy and Procedure

The study recommends that the government reduces the period of obtaining the legal documents in adopting table banking. The government should support the program more often and reduce the high compliance costs, bureaucracy in registration and high cost of taxation. Other areas that the study recommends include the government dealing with the cumbersome laws and regulations, corruption and illegal permits and licenses. The study recommends that regulations be efficient to enable more SMEs to embrace table banking service. The study further recommends that SMEs should fully embrace table banking through adoption of improved technology for information security to make it more reliable to the customers. This will increase volume of transactions which will lead to investment decisions.

Based on the findings and conclusions presented above, the study recommends that SMEs should cushion their table banking from certain costs such as insurance costs, cash in-transit or premise set-up costs. This will enhance performance of table banking. Besides, capacity of table banking in providing services can be enhanced by SMEs ensuring that table banking have enough float that can serve more client in order to mitigate clients disappointment and increase the number of customers. They can do this by advancing credit to their table banking. In addition, SMEs should educate and regulate their table banking to ensure uniformity in service delivery so as to enhance customer confidence in table banking.

The study recommends that customers should be enlightened on the operation of table banking in order to enhance their confidentiality. Additionally, the study recommended

that frequently trained on the operation process and policies to eradicate occurrence of error and mistake that are highly hindering penetration of table banking.

5.4 Limitations of the Study

The researcher encountered various limitations that may have affected the findings of this study. For instance, the study relied on secondary data sources. Secondary data can, however, be unreliable as they were intended for other purposes. This could include convincing external stakeholders that the business performs well. To curb this, the study sought audited financial results.

The sample for this study might have been small. Small samples have the drop-back of not being representative of the population reality. However, the researcher carried the study on all SMEs engaged in table banking hence it was fully inclusive. Further, the performance of SMEs is influenced by other factors other than contributions from SMEs table banking. Thus, establishing the relationship between the two variables might be erroneous. The study tested the significance of the relationship established to mitigate this.

5.5 Suggestions for Further Studies

There is need for further research undertaken which may include studies on the factors affecting the investment decisions of the agent SMEs; the role of the government or regulatory framework in supporting the adoption of table banking and the impact of table banking to the financial sector deepening or financial inclusion and other related studies. This would help establish effect of table banking regulations on table banking

performance and answer the question: Does regulation (from SMEs and CBK) stifle table banking or otherwise?

It is further suggested that further research should be done on the challenges facing implementation of table banking. Studies can also be conducted on the effectiveness of table banking on banking outreach/penetration in Kenya. It is also recommended that, as roadmap to table banking development in Kenya, further studies can be done on customer perception of table banking so as to determine what affect table banking ' performance from the demand side. Moreover, studies can be done on the economic impact of table banking model performance in Kenya.

REFERENCES

Abuga, E. (2014). Embrace table banking, Ruto tells women. *The Standard*, February 07, 2014.

Aghion, P., Angeletos, G.M., Banerjee, A., & Manova, K. (2010). Volatility and growth: Credit constraints and the composition of investment. *Journal of Monetary Economics*, 57 (3), 246-265

Aghion, P., Fally, T., & Scarpetta, S. (2007). Credit constraints as a barrier to the entry and post-entry growth of firms, *Economic Policy*, 22 (52), 731-790.

Ahiawodzi, A.K., & Adade, T.C. (2012). Access to Credit and Growth of Small and Medium Scale Enterprises in the Ho Municipality of Ghana. *British Journal of Economics, Finance and Management Sciences,* 6(2), 34-51.

Ahlén, M. (2012). Rural Member-Based Microfinance Institutions: A field study assessing the impacts of SACCOS and VICOBA in Babati district, Tanzania. *Bachelor's Thesis*, Södertörn University.

Atanasova, M. (2011). On the growth of micro, small and medium sized firms in Central and Eastern Europe: a dynamic panel analysis. *Conference Proceedings of 2011 Annual Meeting of Midwest Finance Association,* Chicago, Illinois.

Bauer, M., Chytilová, J., & Morduch, J. (2008). Behavioral Foundations of Microcredit: Experimental and Survey Evidence from Rural India. *IES Working Paper 28,* Charles University.

Bell, H., & Vos, W. (2009). The Determinants of Financing Obstacles", *Journal of International Money & Finance*, 25, 932-952.

Bond, S., & Van Reenen, J. (2007). *Microeconometric models of investment and employment*, Handbook of Econometrics. In: Heckman, J.J., Leamer, E.E. (Eds.), Handbook of Econometrics, 6: 4417–4498.

Brannen, C. (2010). An Impact Study of the Village Savings and Loan Association (VSLA) Program in Zanzibar, Tanzania. *Masters Thesis*, Wesleyan University.

Brune, L., Gin´e, X., Goldberg, J., & Yang, D. (2011). Commitments to save: A field experiment in rural Malawi. *World Bank Policy Research Working Paper Series*.

Central Bureau of Statistics. (2004) National micro and small enterprise baseline survey. Nairobi, Republic of Kenya.

Cook P. and F. Nixon, (2005). Finance and Medium- Sized Enterprise Development. *IDPM, University of Manchester, Finance and Development Research Programme, Working Paper No 14*, 37-65.

Craig, J., & Drury, A. (2013). An Overview of Eliminate Poverty Now. *Foodtank Journal*, 4(1), 17 – 56.

Dagnelie, O., & LeMay-Boucher, P. (2008). ROSCA Participation in Benin: A Commitment Issue. *UFAE and IAE Working Paper*

De Mel, S., McKenzie, D., & Woodruff, C. (2009). Are women more credit constrained? Experimental evidence on gender and microenterprise returns. *American Economic Journal: Applied Economics*, 1-32.

Degryse, F., Goeij, P., & Kappert, P. (2009). The Impact of Firm and Industry Characteristics on Small Firms' Capital Structure: Evidence from Dutch Panel Data. *CentER Discussion Paper Series No. 2009-21*, European Banking Center Discussion Paper No. 2009-03.

Esson, R. (2003). Savings And Savers: An Analysis of Saving Behaviour among Cape Town's Poor. *Centre for Social Science Research (CSSR) Working Paper No. 59*, p1-45.

Ferrando, A., Köhler-Ulbrich, P., & Pál, R. (2007). *Is the growth of Euro area small and medium-sized enterprises constrained by financing barriers?* Industrial Policy and Economic Reform Papers n. 6, DG Enterprise and Industry.

Fisher, P. J., & Montalto, C. P. (2010). Effect of saving motives and horizon on saving behaviors. *Journal of Economic Psychology*, 31(1), 92-105

Ghosh, S., & Ghosh, S. (2006). Impact of liquidity constraint on firms´ investment decisions. *Economia Internazionale*, 54(1): 17-32.

Gilchrist, S., Himmelberg, C., & Huberman, G. (2005). Do stock price bubbles influence corporate investment? *Journal of Monetary Economics*, 52(4): 805–827.

Gitau, J. (2013). Factors Influencing SMES Growth In Kenya. *MBA Thesis*, Laurea University of Applied Sciences.

Gratton, C., & Jones, I. (2004). *Research methods for sports studies*. London: Routledge.

Jack, W., & Suri, T. (2010). The Risk Sharing Benefits of Mobile Money. *MIT Working Paper*.

Kaijage, E.S., & Elly, D. (2014). Effect Of Corporate Characteristics On Capital Structure Decisions Of SMEs: A Case Of DTMs In Kenya.. In, *The 14th International Conference On African Business And Small Business (ICAESB)*, The University Of Dar Es Salaam, Business School (UDBS).

Kanyi, W. (2014). Women Urged to Adopt Table Banking. *The Star*, January 28, 2014.

Kanyi, W. (2014). Women Urged to Adopt Table Banking. *The Star*, January 28, 2014.

Kaufmann, S., & Valderrama, T. (2008). Bank lending in Germany and the U.K.: are there differences between a bank-based and a market-based country?. *International Journal of Finance and Economics*, 13(3): 266-279.

Keter, G. (2013). Rachel Ruto asks women to embrace table banking. *The Star*, June 7, 2013.

Keter, G. (2013). Rachel Ruto asks women to embrace table banking. *The Star*, June 7, 2013.

Kilonzo, S. (2011). *Consultative Forum On The Proposed Market for SMEs*. Nairobi: Capital Markets Authority.

La Rocca, M., La Rocca, T., & Cariola, A. (2011). Capital structure decisions during a firm`s life cycle. *Small Business Economics*, 37(1): 107-130

Levy, B., Berry, A., & Nugent, J. (2009). Supporting the export activities of small and medium enterprise (SME), in Levy, B., Berry, A. and Nugent, J. B. (eds.), *Fulfilling the Export Potential of Small and medium Firms*, Boston, MA, Kluwer Academic Publishers.

Masinde, J. (2013). Table banking helps women fight poverty. *Daily Nation*, November 27, 2013.

Mensah, S. (2004). A review of SME financing schemes in Ghana. *A Paper Presented atthe UNIDO Regional Workshop of Financing Small and Medium Scale Enterprises*, Accra, Ghana, 15TH to 16TH March 2004.

Mugenda, A.G. (2008). Social Science Research: Theory and Principles. Nairobi: Applied Research and Training Services.

Mugenda, O.M., & Mugenda, A.G. (2003). *Research Methods; Quantitative and Qualitative Approaches.* Nairobi: African Centre for Technology Studies (ACTS) Press.

Mwarari, M. M. (2013). Factors influencing listing of Kenyan SMEs in the securities market for capital raising opportunities. *European Journal of Management Sciences and Economics*, 1(2), 99-115

Mwarari, M. M., & Ngugi, P. K. (2013). Factors influencing listing of Kenyan SMEs in the securities market for capital raising opportunities. *European Journal of Management Sciences and Economics,* 1(2), 99-115.

Nyagah, C.N. (2013). Non-Financial Constraints Hindering Growth Of Sme's In Kenya: The Case Of Plastic Manufacturing Companies In Industrial Area In Nairobi County. *MBA Project*, University of Nairobi.

Oteh, A. (2010). Making Capital Market work for SMEs in Africa. *Presentation by Securities and Commission Exchange for Nigeria, During 2010 Kikonyongo Capital Market Awards,* Kampala, October 2010.

Ramalho, J.J.S., & Vidigal da Silva, J. (2009). A Two-Part Fractional Regression Model for the Financial Leverage Decisions of Micro, Small, Medium and Large Firms. *Quantitative Finance,* 9(5), pp. 621-636.

Republic of Kenya, (2012) *Economic Survey*. Nairobi Kenya: Government Printers, 2012.

Republic of Kenya. (2009). *Sessional Paper No. 2 of 2009 on Development of SMEs for Wealth and Employment creation and Poverty Reduction*. Nairobi: Government Printers.

Sogorb-Mira, F. (2005). How SME Uniqueness Affects Capital Structure: Evidence from a 1994-1998 Spanish Panel Data. *Small Business Economics,* 25, 447-457.

Watson, R. & Wilson, N. (2002). Small and Medium Size Enterprise Financing: A Note on Some of the Empirical Implications of a Pecking Order. *Journal of Business Finance and Economics*, 29(3 & 4), 557-578.

APPENDICES

Appendix I: Introductory Letter

Dear Sir/Madam,

RE: REQUEST FOR DATA COLLECTION

I am studying for an MBA degree at the University of Nairobi and in partial fulfillment of the course I am required to write a research project. The subject of my research is "Effect of Table Banking on Investment Decisions of Small and Medium Enterprises in Kenya".

You have been selected to participate in this study/survey and I would kindly request for your assistance in filling the attached questionnaire.

The information provided is strictly for academic purpose and was handled with strict confidence. Your assistance and co-operation was highly appreciated.

A copy of the research report would be availed to you upon request.

Yours Sincerely,

Florence Asetto

Appendix II: Questionnaire

Instructions: Please read the questions and answer them either by filling in the blank spaces or ticking the check boxes [/] or tables

SECTION A: TABLE BANKING

1. What is the current approximate size of the total assets of your business?

   Ksh20,000 or Less [ ] Ksh20,001 – 50,000 [ ]

   Ksh50,001 – 200,000 [ ] Ksh200,001 – 300,000 [ ]

   More than Ksh300,000 [ ]

2. To what extent has your business or you (in case of sole proprietorship) adopted table banking?

   Not at All [ ] To a Low Extent [ ]

   To a Moderate Extent [ ] To a High Extent [ ]

   To a Very High Extent [ ]

3. **To what extent have you experienced the following advantages with table banking?**

Sources	**Not at All**	**Low Extent**	**Moderately**	**High Extent**	**Very High Extent**
All the money belongs to the group.					
Member's savings are not taken away but instead used for loaning					
Ability to mobilize savings among the low income earners					
Interest earned remains with the group.					
Regular Bonus (every quarter, half year)					
Dividends every year					

Education booster					
Banking at the convenience of your homes / Table					

4. **To what extent were the following sources of finance used as a start-up capital and growth for the business?**

Sources	**Start-Up Capital**	**Growth**
Personal finance (savings)		
Borrowing from friends and relatives		
Borrowing from local money lenders/ cooperatives		
Bank overdraft/loan		
Hire-purchase/ lease finance		
Venture/equity capital finance		
Table banking/revolving funds/investment clubs		

5. Have you encountered any difficulty in obtaining external finance from the SMEs, microfinance institutions for starting and growing your business?

   Extreme difficulty [ ] some difficulty [ ]

   Little Difficulty [ ] No difficulty [ ]

6. What were the difficulty levels of the obstacles in obtaining the external financing?

   (1 = No Obstacle; 2= Uncertain; 3= Minor; 4= Moderate; 5= Major)

   a. Lack of or inadequate Collateral/Securities 1 2 3 4 5
   b. Inadequate personal financial inputs 1 2 3 4 5
   c. lack of business feasibility report/financial records 1 2 3 4 5
   d. Previous experience 1 2 3 4 5
   e. Inadequate repayment period 1 2 3 4 5
   f. financing offered below firm requirement 1 2 3 4 5
   g. high cost of financing/interest rates 1 2 3 4 5
   h. financier's desire for shares/equity in the firm 1 2 3 4 5
   i. Project/Business Venture too risky 1 2 3 4 5
   j. Business expansion excessively hasty 1 2 3 4 5
   k. Lack of or insufficient credit history/record 1 2 3 4 5

l. Bureaucracy in accessing finance	1	2	3	4	5
m. Lack of information	1	2	3	4	5

SECTION B: TABLE BANKING AND INVESTMENT DECISIONS

7. Based on the business investment portfolio, and speaking generally, what are the characteristic of the firm's investment appetite? Kindly choose an answer that **APTLY** describes the firm:

   Apart from main business, the company has not diversified its investment [ ]
   The company prefers low-risk, low return investment [ ]
   The company prefers high risk, low return investments [ ]
   The company prefers low-risk, high return investments [ ]
   The company prefers high-risk high return investments [ ]

8. In your own opinion, to what extent has table banking adopt influenced your investment decision or choice?

   Not at All [ ] To a Low Extent [ ]
   To a Moderate Extent [ ] To a High Extent [ ]
   To a Very High Extent [ ]

9. In what form has table banking investment been made available to your firm?

   Cash [ ]
   Working capital finance [ ]
   Equipment purchase [ ]
   Debt conversion to equity [ ]

10. **The table below contains statements on the factors influencing investment decisions and access to financing of SMES. Kindly rate the extent to which they influence your investment decisions using the scale of 1 to 5 whereby 1 = not at all while 5 = very high extent**

Statement	Not at All	Low Extent	Moderately	High Extent	Very High Extent
Financing Costs					
I look at the interest rate and incidental cost of the financing mode chosen					
I prefer investing using internally generated funds from the business than debt					
Whatever financing I use, I must control the management of my business					
Investments Risks					
I evaluate the risk involved in investments					
I prefer low risk investment					
I undertake thorough feasibility studies					
I prefer long to short-term investments					
Investment and Financing Knowledge					
I deposit the business money in financial institutions					
I have knowledge on different sources of financing					
I have knowledge on different investment opportunity available					
I read journals on financing/investment and attend investment seminars					
I have the knowledge and expertise to turn the idea into a viable business					
Management Weakness					
I keep all financial and business records					
The management looks for new business opportunities					
The business management has increased investor confidence					
The firm has a higher competitive advantage than competitors					
Investments Returns					
I evaluate the projected investment returns before making investments					
I prefer a high risk, high return investment					
The firm has profit potential for the risk to be undertaken					

11. How has your table banking influenced your business investment decisions? Kindly rate your response on a scale of 1 to 5; 1 = not at all while 5 = very high extent

	Not at All	Low Extent	Moderately	High Extent	Very High Extent

Sources					
Providing advice on the business running (management of) growth					
Issuing low cost financing – low interest rate					
Issuing low cost financing – lack of collateral					
Providing advice on investment opportunity					
Provide dividends and bonus					
Is my source of savings					
Carry out group investment					

12. Kindly recommend what needs to be done in order for table banking to enhance the growth of your business?

……

……

THANK YOU FOR YOUR TIME AND PARTICIPATION

Appendix III: List of Small and Medium Enterprises Included in the Sample

1) Atlas Plumbers and Builders
2) Tropikal Brands Afrika
3) Keppel Investments Ltd
4) Shian Travel
5) Rupra Construction Co.
6) Powerpoint Systems (E.A) Ltd
7) Chemical And School Supplies
8) Satguru Travel And Tours
9) Radar Ltd
10) Kentons Ltd
11) Avtech Systems Ltd
12) Sai Pharmaceuticals Ltd
13) Kunal Hardware And Steel
14) Coninx Industries Ltd
15) R & R Plastic Ltd
16) Capital Colours C. D Ltd
17) Asl Credit Ltd
18) Kandia Fresh Produce Suppliers Ltd
19) Furniture Elegance Ltd
20) Muranga Forwarders Ltd
21) Bbc Auto Spares Ltd
22) Digital Den Ltd
23) Xrx Technologies Ltd
24) Nairobi Garments Enterprise Ltd
25) Charleston Travel Ltd
26) Spice World Ltd
27) Master Power Systems Ltd
28) Software Technologies Ltd
29) Kenbro Industries Ltd
30) Skylark Creative Products Ltd
31) Ganatra Plant & Equipment Ltd
32) Security World Technology Ltd
33) Specialized Aluminium Renovators Limited
34) Wines Of The World Ltd
35) Virgin Tours Ltd
36) Aramex Kenya Ltd
37) Canon Aluminium Fab Ltd
38) Panesar's Kenya Ltd
39) Tyre Masters Ltd
40) Lantech Africa Ltd
41) Warren Enterprise Ltd
42) Africa Tea Brokers Ltd

43) Meridian Holdings Ltd
44) Dune Packaging Ltd
45) The Phoenix Ltd
46) Fairview Hotel Ltd
47) Specicom Technologies Ltd
48) Punsani Electricals & Industrial Hardware Ltd
49) Biselex (K) Ltd
50) Victoria Furnitures Ltd
51) Gina Din Corporate Comm
52) Amar Hardware Ltd
53) Melvin Marsh International
54) Lanor International Ltd
55) Synermed Pharmaceuticals (K) Ltd
56) Sahajanand Enterprises Ltd
57) Vehicle & Equipment Leasing Ltd
58) Silverbird Travelplus
59) Waumini Insurance Brokers Ltd
60) Kenapen Industries Ltd
61) Hardware And Welding Supplies
62) Isolutions Associates
63) Mombasa Canvas Ltd
64) East Africa Canvas Co
65) Total Solutions Ltd
66) Print Fast (K) Ltd
67) Optiware Communications Ltd
68) Deepa Industries Ltd
69) Endeavour Africa Ltd
70) Travel Shoppe Co Ltd
71) Kema (E.A) Ltd
72) Amar Distributors Ltd
73) Pwani Cellular Services
74) Sheffield Steel Sytems Ltd
75) General Aluminium
76) Creative Edge Ltd
77) Brollo Kenya Ltd
78) Trident Plumbers Limited
79) Physical Therapy Services Ltd
80) Praful Chandra & Brothers Ltd
81) Dharamshi Lakhamshi & Co / Dalco Kenya
82) Madhupaper Kenya Ltd
83) Union Logistics Ltd
84) Oil Seals And Bearing Centre Ltd
85) Skylark Construction Ltd
86) Biodeal Laboratories Ltd
87) Warren Concrete Ltd

88) Rongai Workshop & Transport
89) Complast Industries Ltd
90) Kinpash Enterprises Ltd
91) Sight And Sound Computers Ltd
92) De Ruiter East Africa Ltd
93) Ace Autocentre Ltd
94) Kenya Suitcase Mfg Ltd
95) Hebatullah Brothers Ltd
96) Market Power Int. Ltd
97) Nivas Ltd
98) Sigma Suppliers Ltd
99) Impala Glass Industries Ltd
100) Eggen Joinex Ltd
101) Essajee Amijee & Sons (Lusaka Rd)
102) Tropical Wild Expeditions
103) Airtech Cooling Services
104) Pathway International
105) Smart Glass Industries Ltd
106) Destiny Cargo Forwarders Ltd
107) Exxon Trading Co.Ltd
108) Nyals (K) Ltd
109) Fanikiwa Insurance Brokers Ltd
110) Ngecha Industries Ltd
111) Brinks Security Services Ltd
112) Trident Risk Management Consultants Ltd
113) Paragon Signs & Advertising Ltd
114) Ivory Motors
115) Infiniti Africa Business Systems
116) Indigo Telecom
117) Mbagu Enterprises Ltd.
118) Neo Interior Decorators Ltd
119) Soliplus Communication Limited
120) Truckers Kenya
121) Hazel`S Cutlery
122) Lolwe Auctioneers
123) Nairobi Kitchen Care
124) Safarilinks Africa
125) Audio Visual Control Systems Ltd
126) Obiworld Ict Solutions Ltd
127) Trio Craft Ltd
128) Insync Solutions Limited
129) Tintoria Ltd
130) Tononoka Fireworks Ltd
131) Ali Glaziers Ltd
132) All-Tyme Cleaning Services Ltd

133) Associated Technologies & Electricals
134) Bobstats Consulting Worldwide
135) Brital Pest Control Consultant
136) Chowpaty
137) Compulynx Ltd
138) Craft Silicon
139) D K Engineering Co Ltd
140) Doshi Group Of Companies
141) House Of Waine - Karen
142) International Talent Management Consulting
143) Kam Pharmacy Ltd
144) Lolwe Auctioneers
145) Media Eye Ltd
146) Ongata Works Ltd
147) Roy Transmotors Ltd
148) Sayari Afrika Ltd
149) Somak Travel Ltd
150) Swiftweb Technologies Ltd
151) Text Book Centre Ltd
152) The Brew Bistro & Lounge
153) Total Security Surveillance Ltd
154) Tuffsteel Limited
155) Wilken Telecoms
156) Wireless Innovations Nairobi Ltd
157) Azar Anwar Motorsport Training
158) Dalbit International
159) Hassconsult Ltd
160) Marketing Africa Limited
161) Pc World
162) Siginon Freight Ltd
163) Techbiz
164) Wananchi Group (K) Ltd
165) Prideinn Hotels & Conferencing
166) Uneek Freight Services (K) Ltd
167) Transcend Media Group
168) Universal Machining Solutions Limited
169) Xtranet Communications Ltd
170) Aero Kenya
171) Apex Lifestyle Consulting
172) A-Plus Motors Ltd
173) Carlson Wagonlit Travel Kenya
174) Copy Pro Ltd
175) Dallago Tours & Safaris Ltd
176) East African Elevator Company Limited
177) Heavy Construction Equipment Kenya Ltd

178) Insync Solutions Ltd
179) Lloyd Masika Ltd
180) 2020 Marketing
181) Mass Consultancy Firm
182) Newline Ltd
183) Power Innovations Ltd
184) Professional Technologies Ltd - Protec
185) Simbanet Com Ltd
186) Spero Africa
187) T N T International Express
188) Viva Productline Ltd
189) Trendy Opticians
190) Ace Realtors Ltd
191) Enke Investment Ltd
192) Pelican Signs Limited
193) Lotus Africa Ltd.
194) M J Vekaria Electric Ltd
195) Peak Performance International
196) Elit Trailers Limited
197) Extreme Renovators
198) G P Karting Ltd
199) Kams Crafts
200) Turkoman Carpet Emporium
201) Weddings N More
202) Zenith Surveying Equipments Kenya Ltd
203) Aero Club Of East Africa
204) African Trade Insurance Agency
205) Avenue Electronics Ltd
206) Daly & Figgis Advocates
207) Dinesh Construction Ltd
208) Elite Tools Ltd
209) Farmchem
210) Frigorex East Africa Ltd
211) General Plastics
212) Husseini Glass Kenya Ltd
213) Mantrac Kenya Ltd
214) Medilink Labs & Surgicals Ltd
215) Methodist Guest House & Conference Centre
216) Mustek East Africa Ltd
217) N W Realite Ltd
218) Powerpoint Systems (E A) Ltd
219) Space And Style Ltd
220) Surgilinks Ltd
221) Tell-Em Public Relations (E.A) Ltd
222) Universal Signs Ltd

223) Yaya Towers Ltd
224) Ags Frasers
225) Arrow Cars Ltd
226) Astral Aviations Ltd
227) Chemoquip Ltd
228) Coast Data Systems
229) Compulynx
230) Corrington Business Systems
231) Crown Tours
232) Kenital
233) Knight Frank Kenya
234) Laboratory & Allied Ltd
235) Sahannet Ltd
236) Philips Health Care Ltd
237) Pierlite E A Ltd
238) Moringa Enterprises
239) Mitchell Cotts Freights (K) Ltd