

**THE RELATIONSHIP BETWEEN ALTERNATIVE SOURCES OF
FINANCE AND FINANCIAL PERFORMANCE OF SMALL AND
MEDIUM ENTERPRISES IN NAIROBI COUNTY**

BY

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DECLARATION

This research project proposal is my original work and has not been submitted to any other university for examination.

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DEDICATION

I dedicate this wonderful work to my dear parents Mr. Solomon and Mrs. Evaline
Kenduiywo and My dear Sisters Naomi, Penina and Karen Kenduiywo.

ABSTRACT

The contribution of Small and Medium-sized Enterprise (SME) sector in economic development, job creation and income generation has been recognized worldwide. However, these contributions are not effectively harnessed in Kenya. The main challenge limiting the sector to contribute fully is a shortage of finance. Moreover, corporate failure or success among firms companies in Kenya has often been associated with the financing model; formal source or alternative source of finance. This study therefore investigates the relationship between alternative source of finance and financial performance of SME in Nairobi County.

The study employed descriptive research design. A stratified sampling method was used to collect primary data from eighty five SMEs in Nairobi County for the year 2013. The study applied regression and correlation statistical to tools to analyze data. The results were presented in tables, charts and frequency graphs.

The study found out that the correlation between alternative source of finance and financial performance is 0.762. This is a strong positive relation between the variables which is consistent with studies done by Adenkule (2012) and Musyoka (2011). T-test found the relationship to be statistically significant of 8.46 at 99% confidence level. It also found out that high interest rates, collateral and guarantor requirement are the major hindrances to accessing alternative finance. The study therefore recommends use of alternative finance in SMEs in Nairobi since they will lower cost of finance and improve liquidity which will result in improved financial performance.

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LIST OF ABBREVIATIONS

ANOVA: Analysis of Variance

B2B: Business to Business

IT: Information Technology

KNBS: Kenya National Bureau of Statistics

MM I: Miller and Modigliani Theory without Taxes

MM II: Miller and Modigliani Theory with Taxes

MM: Miller and Modigliani

ROA: Return on Asset

SME: Small and Medium Enterprises

SPSS: Statistical Package for Social Sciences

VC: Venture Capital

WACC: Weighted Average Cost of Capital

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The importance of financing decisions cannot be over emphasized since many of the factors that contribute to business failure can be addressed using strategies and financial decisions that drive growth and the achievement of organizational objectives (Salazar et al, 2012). The finance factor is the main cause of financial distress. Financing decisions result in a given finance costs or benefits. A great dilemma for management and investors alike is whether to source finance for the organization. The objective of all financing decisions is wealth maximization and the immediate way of measuring the quality of any financing decision is to examine the effect of such a decision on the firm's performance. Financing decisions must take into account the risks of choosing the source of finance since it has impact on financial performance of the firm (Moyer et al, 2005).

In developing countries, Small and Medium Enterprises (SMEs) play important roles in the process of economic growth. Apart from increasing per capita income and output, SMEs create employment opportunities, enhance regional economic balance and generally promote effective resource utilization considered critical to engineering economic development and growth (Ogujiuba et al, 2004). However, the long-term growth and competitiveness of SMEs are compromised by the constraints on their access to alternative forms of finance, among other systematic and institutional problems in developing countries. Limited access of SMEs to credit and financial services has been identified as one of the most important supply constraints confronting the sector in Kenya

(Soderbom, 2001). As a result, SMEs share of financing resources is disproportionately less than their relative importance in domestic employment and to the value added.

1.1.1 Alternative sources of finance

Firms can obtain finance from either commercial banks or alternative sources. Alternative sources of finance include retained earnings, trade credit, bills of exchange, factoring, accrued expenses promissory notes and invoice discounting. Alternative sources of finance play a critical role in SME financing since they can not meet the stringent bank requirement access funds. Some of the stringent requirements to access finance from bank or equity include collateral, guarantors, audited financial statements and stable income. Alternative sources of finance bridge the gap between those who can not access funds through banks by providing a cheaper means of procuring finance and at the same time flexible repayment terms (Manasseh, 2007).

1.1.2 Financial Performance

The financial performance of a firm usually relates to how well a company can use its strength to generate revenue. Financial performance is a subjective measure of how well a firm can use its assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firms overall financial health over a given period of time (Manasseh, 2007). Financial performance is the level of performance of a business over a specified period of time, expressed in terms of profits and losses during that time (Pandey, 2008). Financial performance is the degree to which financial

objectives has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms (Ojiuko, 2001).

Importance of financial performance helps in judging the development of a company position in the market. It is used to indicate firm's success, conditions and compliance. It is used to measure the firms overall health over a given period helps to identify the financial strength and weaknesses of the firm by properly establishing relationship between balance sheet and profit and loss account (Ojiuko, 2001).

In financial management, ratios are used to measure and to gauge the financial performance and position of a company over a specified period of time. Return on assets evaluates how efficiently assets are used to produce profits. It is widely considered the best measure of profitability. ROA is used internally by companies to track asset use overtime, monitor firm's performance. ROA is measured by dividing profit before tax and interest by total assets (Manasseh, 2007).

1.1.3 Relationship Between Alternative sources of Finance and Financial Performance

Financing decisions constitute the most significant role played by financial managers. This is because the issue of raising finance is one of the traditional roles of finance managers. It is therefore absolutely imperative to raise finance in the most efficient and effective means to enjoy tax allowances, low cost of funds, liquidity and reduce overall risk of the business (Pandey, 2008).

Kira et al (2012) did a Study on impact of firm characteristics in accessing financing by small and medium enterprises in Tanzania. The Study found out that location, industry, business, size, age and collateral influence access to finance. Adenkule (2012) carried out Study on relationship between available forms of finance and performance of intermediate cocoa processing firms in Lagos state, Nigeria. The Study found out a strong correlation between available forms of finance and financial performance. Rafiq (2012) carried out a Study on causal relationship between financing decisions and financial performance of SMEs in Jordan. The Study noted that there is positive relationship between financing decision and performance.

Mogiro et al (2006) did a Study on Kenya manufacturing SME needs of information on alternative sources of finance. The Study concluded that Kenya had a weak enterprise finance information system that could not support in particular the information needs of SMEs. Kiprono (2010) carried out Study on relationship between source of funds and profitability of SMEs in Nakuru. The result of the findings was that there exist relationship between source of finance and profitability. Musyoka (2011) carried out Study on relationship between alternative source of funds and financial performance of agricultural firms in Kenya. Findings of the Study were that financial performance was positively related to alternative source of funds.

1.1.4 Small and Medium Enterprises in Kenya

Small and Medium Enterprises are defined differently across countries sectors. Definitions differ in the break points they employ and also in the underlying basis used for classification (Ayyagari et al, 2003). Some of these definitions are based on quantitative measures such as staffing levels and turnover or total assets while others employ a qualitative approach (Meredith, 1994).

In Kenya, classification of enterprises is primarily by the number of employees engaged by firms (Republic of Kenya, 1986). Those firms that engage less than five employees are referred to as micro-enterprises, while those that employ five to 49 workers and 50 to 99 workers are respectively classified as small-scale enterprises and medium-scale enterprises. The firms with 100 or more workers are categorized as large-scale enterprises.

The Kenyan SME sector is a mixture of dynamic enterprises involved in an array of activities that are concentrated in urban areas but are also evident in rural Kenya (Manos et al, 2002; Mullei et al, 1999). The baseline survey by Kenya National Bureau of Statistics of 2012 indicated that there were 1.1 million small and medium enterprises in Nairobi employing 2.8 million people and generating as much as 18% of the county's GDP. Overall, SMEs create 75% of all new jobs in Nairobi (KNBS, 2012).

1.2 Study Problem

According to Whincop (2001) large firms benefit from established capital markets where small firms cannot raise funds. Owing to lack of well-developed finance information systems, the financial sector is the main source for SMEs external funds (Darson, 1995). SMEs therefore, cannot raise funds from other alternative sources. Lack of credit for SMEs development is a cardinal problem to SME development in developing countries. Therefore, this proposal is seeking to establish the relationship between alternative sources of finance and financial performance of SMEs in Nairobi.

Rafiq (2012) carried out a Study on causal relationship between financing decisions and financial performance of SMEs in Jordan. The Study noted there is positive correlation between the variables. Adenkule (2012) carried out Study on relationship between available forms of finance and performance of intermediate cocoa processing firms in Lagos state, Nigeria. The Study found out strong positive correlation between available forms of finance and financial performance. Kira et al (2012) did a Study on impact of firm characteristics in accessing of financing by small and medium enterprises in Tanzania. The Study found out that location, industry, business size, age and collateral influence access to finance. It recommended that SMEs should maintain attractive firm attributes to stimulate lenders to extend debt financing to their investments.

Mogiro et al (2012) carried out a Study on Kenyan manufacturing SMEs needs to information on alternative sources of finance. The Study found alternative sources of finance are little known to SMEs. Although several studies have been done concerning

overall sources of finance, very few have specifically dealt with alternative sources of finance and financial performance. Therefore, no Study has been carried out on relationship between alternative sources of finance and financial performance of SMEs Nairobi. Study question for the Study is; what is the relationship between alternative sources of finance and financial performance of SME in Nairobi?

1.3 Study Objective

To determine the relationship between alternative sources of finance and financial performance of SMEs in Nairobi.

1.4 Value of the Study

This empirical Study would contribute to the existing literature by examining the relationship between alternative sources of finance and financial performance SMEs in Nairobi. By empirically determining the relationship between alternative sources of finance and financial performance, the findings of the Study would help to answer the stated problem of Study. Besides, policy makers have a better understanding of the issues relating to the Study and this would help in tackling issues relating to alternative sources of finance.

The understanding of the relationship between alternative sources of finance and financial performance is crucial for policy makers in formulating policies relating to sources of finance because it determines growth and stability of the firms. Therefore this

Study aim to aid policymakers in their decision making by providing clear reference of how alternative sources of finance affects financial performance.

In addition, the Study would contribute to the existing knowledge relating to alternative sources of finance. It would also provide a platform for further Study of the concerned variables.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter seeks to identify theoretical literature on alternative sources of finance and financial performance. The chapter also highlights empirical studies carried out in the area and points out the knowledge gap in the area under Study and how this Study intends to fill the gap. This Study is underpinned by capital structure theories and working capital management theories.

2.2 Theoretical Literature Review

2.2.1 Modigliani and Miller's Capital Structure Theories

The Modigliani-Miller theorem proposed by Franco Modigliani and Merton Miller, forms the basis for modern thinking on capital structure, though it is generally viewed as a purely theoretical result since it disregards many important factors in the capital structure process factors like fluctuations and uncertain situations that may occur in the course of financing a firm. From their analysis, they developed the capital-structure irrelevance proposition. Essentially, they hypothesized that in perfect markets, it does not matter what capital structure a company uses to finance its operations. They theorized that the market value of a firm is determined by its earning power and by the risk of its underlying assets and that its value is independent of the way it chooses to finance its investments or distribute dividends (Williamson, 1988).

The basic MM proposition is based on the following key assumptions: no taxes, no transaction costs, no bankruptcy costs, equivalence in borrowing costs for both companies and investors, symmetry of market information, meaning companies and investors have the same information and no effect of debt on a company's earnings before interest and taxes (Gitman, 1997). In this simplified view, the weighted average cost of capital (WACC) should remain constant with changes in the company's capital structure. For example, no matter how the firm borrows, there will be no tax benefit from interest payments and thus no changes or benefits to the WACC. Additionally, since there are no changes or benefits from increases in debt, the capital structure does not influence a company's stock price, and the capital structure is therefore irrelevant to a company's stock price. However, taxes and bankruptcy costs do significantly affect a company's stock price (Modigliani et al, 1958).

The tradeoff theory assumes that there are benefits to leverage within a capital structure up until the optimal capital structure is reached. The theory recognizes the tax benefit from interest payments. This is because interest paid on debt is tax deductible, issuing bonds effectively reduces a company's tax liability. Paying dividends on equity, however, does not. Thought of another way, the actual rate of Interest Company's pay on the bonds they issue is less than the nominal rate of interest because of the tax savings. Studies suggest, however, that most companies have less leverage than this theory would suggest is optimal. In comparing the two theories, the main difference between them is the potential benefit from debt in a capital structure, which comes from the tax benefit of the interest payments. Since the MM capital-structure irrelevance theory assumes no taxes, this benefit is not recognized, unlike the tradeoff theory of leverage, where taxes and thus

the tax benefit of interest payments are recognized (Modigliani et al, 1958).

In summary, the MM I theory without corporate taxes says that a firm's relative proportions of debt and equity don't matter; MM I with corporate taxes says that the firm with the greater proportion of debt is more valuable because of the interest tax shield. MM II deals with the WACC. It says that as the proportion of debt in the company's capital structure increases, its return on equity to shareholders increases in a linear fashion. The existence of higher debt levels makes investing in the company more risky, so shareholders demand a higher risk premium on the company's stock. However, because the company's capital structure is irrelevant, changes in the debt-equity ratio do not affect WACC. On the other hand, MM II with corporate taxes acknowledges the corporate tax savings from the interest tax deduction and thus concludes that changes in the debt-equity ratio do affect WACC. Therefore, a greater proportion of debt lowers the company's WACC (Modigliani et al, 1958).

2.2.2 Trade-off Theory

Trade-off theory allows the bankruptcy cost to exist. It states that there is an advantage to financing with debt (namely, the tax benefits of debt) and that there is a cost of financing with debt (the bankruptcy costs and the financial distress costs of debt). The marginal benefit of further increases in debt declines as debt increases, while the marginal cost increases, so that a firm that is optimizing its overall value will focus on this trade-off when choosing how much debt and equity to use for financing. Empirically, this theory

may explain differences in debt and equity ratios between industries, but it doesn't explain differences within the same industry (Gitman, 1997).

2.2.3 Pecking Order Theory

Pecking order theory tries to capture the costs of asymmetric information. It states that companies prioritize their sources of financing (from internal financing to equity) according to the law of least effort, or of least resistance, preferring to raise equity as a financing means “of last resort”. Hence: internal financing is used first; when that is depleted, then debt is issued; and when it is no longer sensible to issue any more debt, equity is issued (Barnett et al, 1983).

This theory maintains that businesses adhere to a hierarchy of financing sources and prefer internal financing when available, and debt is preferred over equity if external financing is required (equity would mean issuing shares which meant 'bringing external ownership' into the company). Thus, the form of debt a firm chooses can act as a signal of its need for external finance. The pecking order theory is popularized by Myers (1984) when he argues that equity is a less preferred means to raise capital because when managers (who are assumed to know better about true condition of the firm than investors) issue new equity, investors believe that managers think that the firm is overvalued and managers are taking advantage of this over-valuation. As a result, investors will place a lower value to the new equity issuance (Singh et al, 2005).

Pecking order theory implies that managers raise finance in the following order: managers always prefer to use internal finance, when they do not have internal finance

they prefer issuing debt instruments and as a last resort issue shares. The pecking order is therefore able to explain the negative inverse relationship between profitability and debt ratio within an industry (Moyer et al, 2005).

2.2.4 Baumol Model

The Baumol–Tobin model is an economic model of the transactions demand for money as developed independently by William Baumol and James Tobin. The theory relies on the tradeoff between the liquidity provided by holding money and the interest forgone by holding one's assets in the form of non-interest bearing money. The key variables of the demand for money are then the nominal interest rate, the level of real income which corresponds to the amount of desired transactions, and the fixed transaction costs of transferring one's wealth between liquid money and interest-bearing assets. The model was originally developed in order to provide micro-foundation for aggregate money demand functions commonly used in Keynesian and Monetarist macroeconomic models of the time (Simerly, 2000).

Baumol model of cash management provides a formal approach for determining a firm's optimum cash balance under certainty. It considers cash management similar to inventory management problem. As such the firm attempts to minimize the sum of cost of holding cash and cost of converting marketable securities to cash. The model makes the following assumptions: the firm is able to forecast its cash needs with certainty cash payments occur uniformly over a period of time, opportunity cost of holding cash is known and it does not change over time and firm will incur the same transaction cost whenever it

converts securities to cash. One of the primary responsibilities of the financial manager is to maintain a sound liquidity position of the firm so that dues are settled in time. The firm needs cash to purchase inventory as well as meet daily operational expenses. The test of liquidity is the availability of cash to meet the firm's obligations when they become due. A firm maintains the operating cash balance for transaction purposes. It may also carry additional cash as a buffer or safety stock. The amount of cash balance will depend on risk-return trade off (Pandey, 2008).

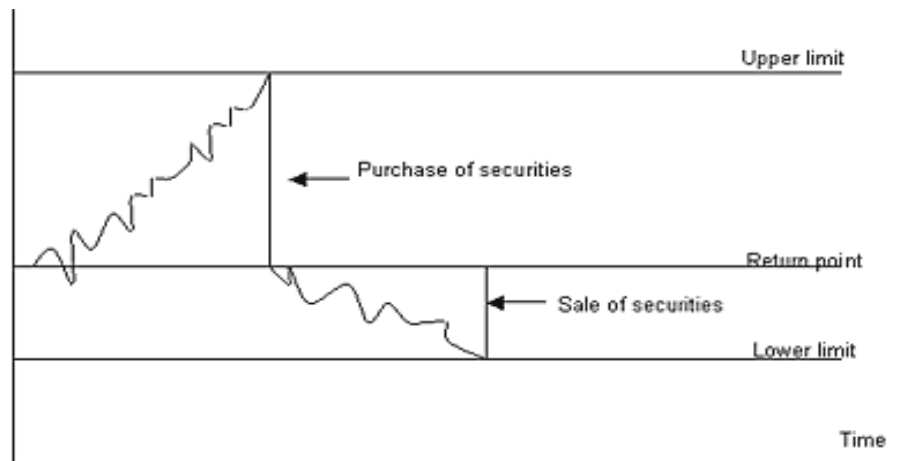
2.2.5 Miller- Orr Model

The Miller and Orr model of cash management is one of the various cash management models in operation. It is therefore an important cash management model as well. It helps the present day companies to manage their cash while taking into consideration the fluctuations in daily cash flow. As per the Miller and Orr model of cash management the companies let their cash balance move within two limits - the upper limit and the lower limit. The companies buy or sell the marketable securities only if the cash balance is equal to any one of these. When the cash balances of a company touches the upper limit it purchases a certain number of salable securities that helps them to come back to the desired level (Manasseh, 2007).

If the cash balance of the company reaches the lower level then the company trades its salable securities and gathers enough cash to fix the problem. It is normally assumed in such cases that the average value of the distribution of net cash flows is zero. It is also understood that the distribution of net cash flows has a standard deviation. The Miller and

Orr model of cash management also assumes that distribution of cash flows is normal. The Miller and Orr model of cash management is widely used by most business entities. However, in order for it applied properly the financial managers need to make sure that the following procedures are followed: find out the approximate prices at which the salable securities could be sold or bought, decide the minimum possible levels of desired cash balance, check the rate of interest and calculate standard deviation of regular cash flows (Manos et al, 2002).

Figure 1: Miller Orr Model



Source: Pandey (2008)

2.2.6 Liquidity versus Profitability Theory

A firm would just make enough investment in current assets if it were possible to estimate working capital needs exactly. Under perfect certainty, current asset holdings would be at minimum level. A larger investment in current assets under certainty would

mean a low rate of return on investment for the firm as excess investment in current assets will not earn enough return (Meridith, 1994).

The two important aim of financing decision is profitability and solvency. Solvency refers to firm's continuous ability to meet maturing obligations. Lenders and creditors expect prompt settlement of their claims as and when due. To ensure solvency, the firm should be very liquid which means larger current assets holding. If the firm maintains a relatively large investment in current assets it will have no difficulty in paying claims to the creditors when they become due and will be able to fill all sales order and ensure smooth production. Thus a liquid firm has less risk of insolvency; it will hardly experience cash shortage. However, there is a cost associated with maintaining sound liquidity position. A considerable amount of the firm's funds will be tied up in current assets, and to the extent that this investment is idle, the firm's profitability will suffer. To have higher profitability a firm may sacrifice solvency and maintain a relatively low level of current assets. When the firm does so, its profitability will improve as fewer funds are tied up in idle current assets, but its solvency will be threatened and would be exposed to greater risk of cash shortage and stock outs (Turuel et al, 2005).

A different way of looking into the risk return trade off is in terms of the cost of maintaining a particular level of current assets. There are two costs involved: cost of liquidity and cost of illiquidity. If the firm's level of current assets is very high, it has excess liquidity. Its return on assets (ROA) will be very low as funds are tied up in idle cash and earn nothing and high levels of debtors reduce profitability. Thus, the cost of liquidity (through low rates of return) increases with level of current assets. The cost of illiquidity is the cost of holding insufficient current assets. The firm will not be in a

position to meet its obligations if it carries too little cash. This may force the firm to borrow at high interest rates. This will also affect the creditworthiness of the firm and it will face difficulties in obtaining funds in future. All this may force the firm to go into insolvency (Whincop, 2001).

2.3 Determinants of Financial performance of Small and Medium Enterprises

Return on Assets (ROA) is an indicator of how a firm performs financially relative to its assets. It provides an idea of how efficient management is using its assets to generate revenue. It is widely considered the best measure of performance for small and medium enterprises. An increasing trend is favorable and indicates increasing profitability. It is calculated by dividing net profit before interest and tax by total assets (Manasseh, 2007).

Cost of finance is a major determinant of SMEs financial performance. It is the return the company pays to the parties which provided funds to finance the company operations. It is explicit cost plus implicit cost of finance (Modigliani et al, 1958). Cost of capital can be classified into average cost and marginal cost, explicit cost, implicit costs and nominal costs. Marginal cost is the average cost of new or additional funds which the company has to pay in order to raise additional finance. Explicit cost is the costs which the company must pay to lenders directly such as interest rates and dividends. Implicit costs are costs which the company may not necessarily pay to lenders directly but which it may obtain finance such as insurance fees. Nominal cost is the total cost the company has to pay and include nominal cost. It is explicit cost plus implicit cost (Modigliani et al, 1958). Cost of finance is the yard stick which the viability of an investment is measured.

Cost of finance is used to gauge the availability of finance. This implies that if the cost of finance is high, it will be difficult to raise finance needed for company operations. This situation will affect the firm investment and growth.

Liquidity risk is also an important determinant of financial performance in SMEs. Liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit). There are two types of liquidity risk: asset liquidity and funding liquidity. Funding liquidity risk occurs when liabilities cannot be met when they fall due or can only be met at an uneconomic price. Interest rate risk is the risk that arises for bond owners from fluctuating interest rates. How much interest rate risk a bond has depends on how sensitive its price is to interest rate changes in the market (Turuel et al, 2005). Liquidity ratios measure the ability of the firm to meet its current obligations. Liquidity is measured by quick ratio which is current assets less inventories divide by current liabilities. Generally, a quick ratio of 1 to 1 is considered to represent a satisfactory current financial condition (Pandey, 2008).

Trade credit is the largest use of capital for a majority of business to business (B2B) sellers in the Kenya and is a critical source of capital for a majority of all businesses. Trade credit is the credit extended by one trader to another for the purchase of goods and services. Trade credit facilitates the purchase of supplies without immediate payment. Trade credit is commonly used by business organizations as a source of short-term financing. It is granted to those customers who have reasonable amount of financial standing and goodwill (Turuel et al, 2005).

Retained earning is a source of finance to the SMES which arises out of undistributed profits. This is a cost free source of finance to the firm and its cost is an opportunity cost. The opportunity cost is equal to the dividends paid out. These retained earnings constitute growth in equity which is a cost of equity because the company may declare retained earnings as extra dividends (Moyer et al, 2005).

Invoice discounting is an arrangement where the selling company discounts its invoices usually with a bank and will receive large percentage of invoices in cash in advance. Usually it is expensive source of finance and should be used if the company can not obtain overdraft finance from commercial banks. The invoice discounter will analyze which invoices to discount and in this case he will request the selling company to send original invoices to the customer and a copy to the discounter. The invoice discounter has not only lien on debts but also recourse to the borrower in which case the seller or borrower will have to pay the discounter should any debtor default to pay his bills on the due date (Simerly, 2000).

Lease finance is also an important determinant of financial performance. It is available through the granting of an asset to a company (lease) which obtains full use of the asset for a specific period of time in return for payment of regular charges. After the lease period which can be as long as 90 years for leased land the lesser may repossess the asset or the lessee may get the option to purchase it or renew the lease contract. The lessee enjoys wear and tear allowance which is tax allowable expense. In order to use this

finance the lessee must generate a return from the same asset which should be higher than the regular lease charges, payable to the lesser for using such asset (Pandey, 2008).

2.4 Empirical review

Mogiro et al (2006) did a Study on Kenya manufacturing SME needs of information on alternative sources of finance. The target population was 940 registered SMEs in Nairobi, Nakuru, Kisumu and Eldoret through stratified sampling method. The Study found out that some financing sources were little known to SME operators such as leasing, angel finance and venture capital. The Study concluded that Kenya had a weak enterprise finance information system that could not support in particular the information needs of SMEs.

Kira et al (2012) did a Study on impact of firm characteristics in accessing financing by small and medium enterprises in Tanzania. Data was collected from a survey of 163 SME firms in Tanzania. The Study found out that location, industry, business, size, age and collateral influence access to finance. It recommended that SME in Tanzania should maintain attractive firm attributes to stimulate lenders to extend debt financing to their investments.

Adenkule (2012) carried out Study on relationship between available forms of finance and performance of intermediate cocoa processing firms in Lagos state, Nigeria. The Study used purposive sampling technique to select six out of eleven intermediate cocoa processing identified on the registered list of Nigeria Export promotion Council. The

Study found out a strong correlation between available forms of finance and financial performance. The Study suggested that policy makers should route their intervention fund or assistance to agricultural sector.

Rafiq (2012) carried out a Study on causal relationship between financing decisions and financial performance of SMEs in Jordan. Data was collected from a survey of 163 SME firms in Jordan. The Study noted that there is positive relationship between financing decision and performance. The Study recommended that SMEs in Jordan should consider risk and benefits when sourcing finance.

Irwin (2010) carried out a Study on barriers faced by SMEs in raising finance in United Kingdom. Data was collected through telephone survey of 400 SMEs through stratified random sample. The survey confirmed that ethnic minority business particularly black owned managers had the greatest problem raising finance.

Kiprono (2010) carried out Study on relationship between source of funds and profitability of SMEs in Nakuru. The Study was done on 50 SMEs in Nakuru in 2005 to 2009 using descriptive Study design. The Studyer used both secondary data from financial statements and primary data. The result of the findings was that there exist relationship between source of finance and profitability.

Musyoka (2011) carried out Study on relationship between alternative source of funds and financial performance of agricultural firms in Kenya. Study was done on seven

agricultural companies using prospective Study design. Findings of the Study were that financial performance was positively related to alternative source of funds.

Mutungi (2010) carried out Study on relationship between alternative source of finance and financial performance of oil marketing firms in Kenya. The Study focused on oil marketing firms who are members of Petroleum Institute of East Africa (PIEA by analyzing their financial statements from 2006-2009. The Study found out that identified independent variables affect performance.

Globally, the Study by Bartholdy (2010) attempted to investigate the relationship between alternative source of finance and firm performance. Data was collected from 82 SMEs in London, United Kingdom from 2006-2009 which showed that there is positive correlation between alternative source of finance and firm's performance.

In Nigeria, Olanrewaju et al (2011) assessed alternative source of finance in selected small businesses in Kwara State, Nigeria. Using a regression model to explain the effect of source of finance on financial performance over a period of ten years. The result of the Study indicated strong positive relationship between alternative source of finance inventory and financial performance of small businesses in Nigeria. They thus concluded that small businesses are likely to generate higher profit if effective they utilize alternative source of funds.

2.5 Summary of Literature Review

According to both theory and empirical studies there exist relationship between alternative source of finance and financial performance. However, some studies both local and global suggest positive relationship while others suggest negative. In addition, some suggest significant relationship while others suggest insignificant relationship. Therefore, the Study will seek to find the nature of the relationship between alternative sources of finance and financial performance of SMEs in Nairobi.

CHAPTER THREE: STUDY DESIGN AND METHODOLOGY

3.1. Introduction

This chapter describes the Study design and Study methodology used in the Study. This is organized in sections under subheadings containing Study design, target population, sample for the Study, data collection and data analysis.

3.2. Study Design

Mugenda et al (1998) observes that a Study design can be regarded as an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance with Study purpose. The Study adopted a descriptive survey Study design. The descriptive design was appropriate since it is a fact finding and exploratory in the capacity of establishing the truth. Kothari (2004) notes that descriptive Study has the capacity to describe the present status of a phenomenon, determining the nature of the prevailing conditions, practices and attitudes and seeking accurate descriptions of activities.

3.3. Population

A population can be defined as including all items with the characteristic one wish to understand (Mugenda, 2008). The population for small and medium enterprises in Nairobi County is 1.1 million. The population sample was taken from Nairobi County only because of limited time and finance available to carry out the Study. Nairobi County

was also selected as the population sample area hosts the highest number of small and medium enterprises in Kenya.

3.4. Sample Design

The Studyer ensured a high degree of correspondence between the sampling frame and the sample population as the accuracy of the sample depended, first and foremost, on the sampling frame. Further, Kerlinger (1986) argued that the sample size depends on what one wants to know, the purpose of the inquiry, what is at stake, what is useful, what is credible and what can be done with available time and resources. Simple stratified random sampling was used to get the sample population from the target population. The sample size was eighty five respondents.

3.4.1. Sampling Techniques and Procedure

Stratified random sampling technique was used to ensure the representativeness of the respondents in the survey method. These particular sampling techniques ensured the validity and reliability of the data based on the number of the respondents who respond to the survey questionnaires. It also helped to prevent bias in the selection process. The Study used a sample of eighty five respondents.

In order to increase the chances of obtaining a representative sample, the target population was stratified by putting all variables and then simple random sampling technique was used to select the sample. These techniques ensured that each sector had

equal chances of being selected. The techniques also helped to prevent bias in the selection process.

3.5. Data Collection

This section presents Study instruments, validation and reliability assurance of the Study instruments and the data collection procedure.

3.5.1. Study Instruments

Data was collected for the Study about total assets, sales, net profit, current assets, current liabilities, cost of credit, cost of invoice discounting and lease finance. The data was collected using questionnaire as well as from relevant journals, Study reports, the internet, published text books and government publications. The Studyer undertook the survey with questionnaires which were distributed to the identified respondents in all the sectors of economy. To do these, structured questionnaires were used; when well designed they are easy to be administered and collect data from a wide section of respondents in a relatively cheap process and short duration.

3.5.2. Validity of Study Instruments

According to Saunders (2009) validity is quality attributed to proposition or measures to the degree to which they conform to established knowledge or truth. An attitude scale was considered valid, for example, to the degree to which its results conformed to other measures of possession of the attitude. Validity therefore refers to the extent to which an

instrument can measure what it ought to measure. It therefore referred to the extent to which an instrument asked the right questions in terms of accuracy.

Mugenda (2008) notes that validity is the accuracy and meaningfulness of inferences which are based on Study results. The content validity of the instrument was determined in two ways. First the Study, discussed the items in the instrument with the supervisor and fellow class mates, who indicated by tick or cross for every item in the questionnaire if it measures what it is supposed to measure or not. The advice given helped the Studier determine the validity of the Study instruments. The advice included suggestions, clarifications and other inputs. The suggestions were used to make necessary changes. Secondly, content validity of the instrument was determined through piloting, where the responses of the subjects were checked against the Study objectives. For a Study instrument to be considered valid, the content selected and included in the questionnaire must be relevant to the variable being investigated as argued by Fink (2002).

3.6. Data Analysis and Presentation

The questionnaire was checked for completeness and consistency of information once they were returned by the respondents. Data capturing was be done using Excel software. The data from the completed questionnaires was cleaned, re-coded and entered into the computer using the Statistical Package for Social Sciences (SPSS) for analysis. Data analysis and the findings are reported in chapter four.

The regression model is as shown below;

$$ROA = \alpha + \beta X_1 + \beta X_2 + \beta X_3 + \beta X_4 + \epsilon_t$$

Where:

ROA = Financial performance as measured by return on assets which is calculated by dividing net profit before tax and interest by total assets

α = Regression constant

β = Beta coefficients

X_1 = cost of trade credit as measured by amount of discount foregone

X_2 = cost of invoice discounting as measured by interest paid

X_3 = cost of lease finance as measured by amount of lease paid less tax deduction

X_4 = other factors affecting financial performance

ϵ_t = error term

The t-test at 99% confidence level was used to determine the statistical significance of the constant term and coefficient terms. The F-test was used to determine whether the regression is of statistical importance at 95% confidence level. Analysis of Variance (ANOVA) and R squared were used to test the variances. Descriptive statistic was computed for presenting and analyzing the data. Descriptive statistics enabled the Studier to describe the aggregation of raw data in numerical terms (Cochran, 1997). The descriptive statistics used multivariate analyses. Data was presented in the form of frequency distribution tables, graphs and pie charts that facilitated description and explanation of the Study findings.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis, results and discussion of findings from the data collected. In addition, it highlights summary of the findings. The Studier used SPSS and Ms Excel for data analysis and the results were presented in tables for easy presentation and interpretation of the results.

4.2 Descriptive statistics

4.2.1 General statistics

Descriptive statistics presents the mean, standard deviation, maximum and minimum values of the different variables in the Study. The mean value of return on assets for 85 observations was 2.65 with a standard deviation of 0.29 and minimum and maximum values of -0.34 and 4.24 respectively. The positive return on assets indicates that the companies were on average profitable although some companies were operating at a loss as reflected in the negative minimum observed value of return on assets. The mean for the total assets for the firms under consideration was Ksh. 18,400 million with a standard deviation of Ksh. 186,765. The maximum value of the asset for the period covered was Ksh. 76,581,124 while the minimum value was zero.

The mean for the cost of credit for the firms under consideration was Ksh. 86,654 with a standard deviation of Ksh. 43,005. The maximum cost of credit for the period covered was Ksh. 845,156 while the minimum value was Ksh. 14,532. The mean for the cost of invoice discounting for the firms under consideration was Ksh. 56,410 with a standard

deviation of Ksh. 14,614. The maximum cost of invoice discounting for the period covered was Ksh. 645,710 while the minimum value was Ksh. 12,435. The mean for the cost of lease finance for the firms under consideration was Ksh. 132,054 with a standard deviation of Ksh. 12,065. The maximum cost of lease finance for the period covered was Ksh. 1,145,120 while the minimum value was Ksh. 26,743.

Table 4.1: Descriptive Data

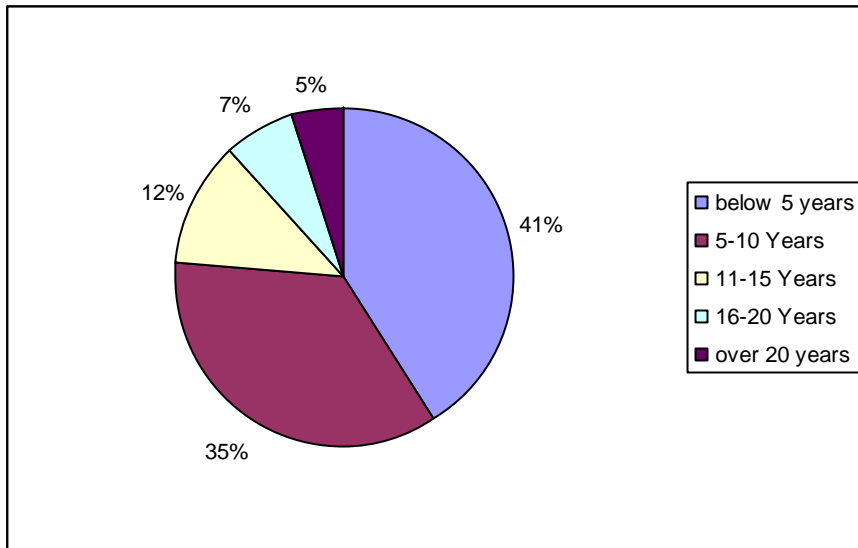
Variable	N	Max	Min	Mean	Standard Deviation
ROA	85	4.24	(0.34)	2.65	0.29
Cost of trade credit	85	845,156	14,532	86,654	43,005
Cost of invoice discounting	85	645,710	12,345	56,410	14,614
Cost of lease finance	85	1,145,120	26,743	132,054	12,065
Total assets	85	76,581,124	0	186,765	58,432

Source: Study Findings

4.2.2 Age of the Business

According to the findings, 41% of the SMEs have been in operation for less than five years. Small and medium Enterprises which have been in operation for 5-10 years are 35%. SMEs whose age is over 10 years are only 24%. This shows that most of them are in take off and growth stage.

Figure 4.1: Age of the Business

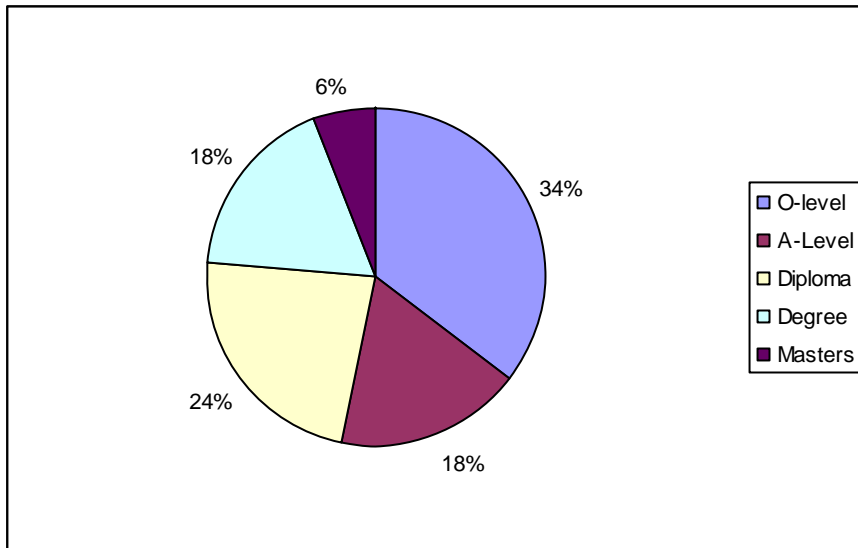


Source: Study Findings

4.2.3 Qualification of the Management/owner

The education level for managers/owners of SMEs is O-level at 34%, A-level at 18% and Diploma at 24% according to the findings. Graduates and masters degree holders are at 18% and 6% respectively. This shows that the management relatively well educated.

Figure 4.2: Qualification of the Management/owner

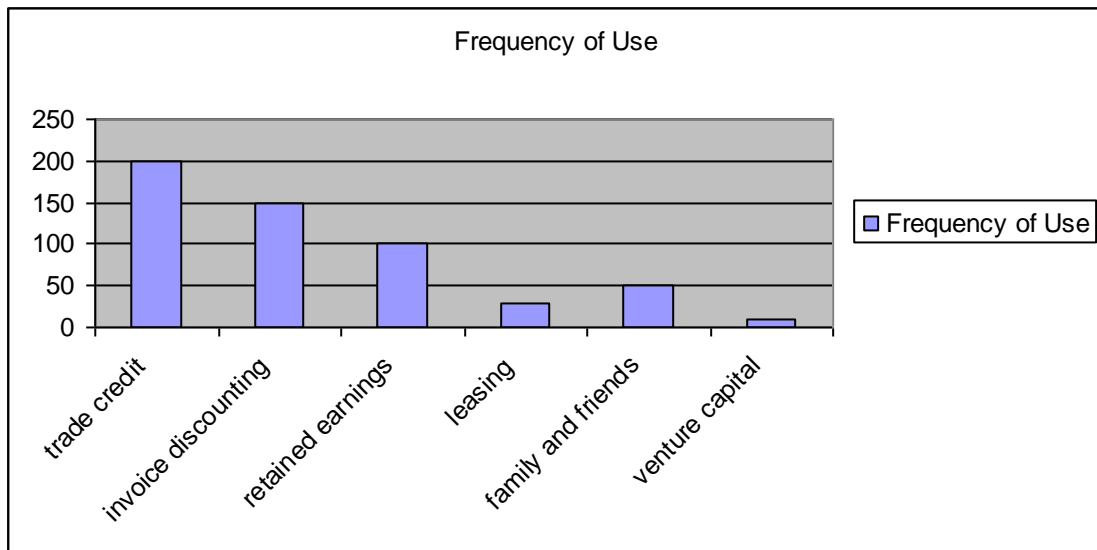


Source: Study Findings

4.2.4 Use of Alternative Source of Finance

According to the findings, trade credit is the most used alternative source of finance by SME in Nairobi according to the findings. Invoice discounting is second followed by retained earnings, family and friends, leasing and venture capital. Trade credit is most popular because of ease and access especially for medium enterprises.

Figure 4.3: Use of Alternative Source of Finance

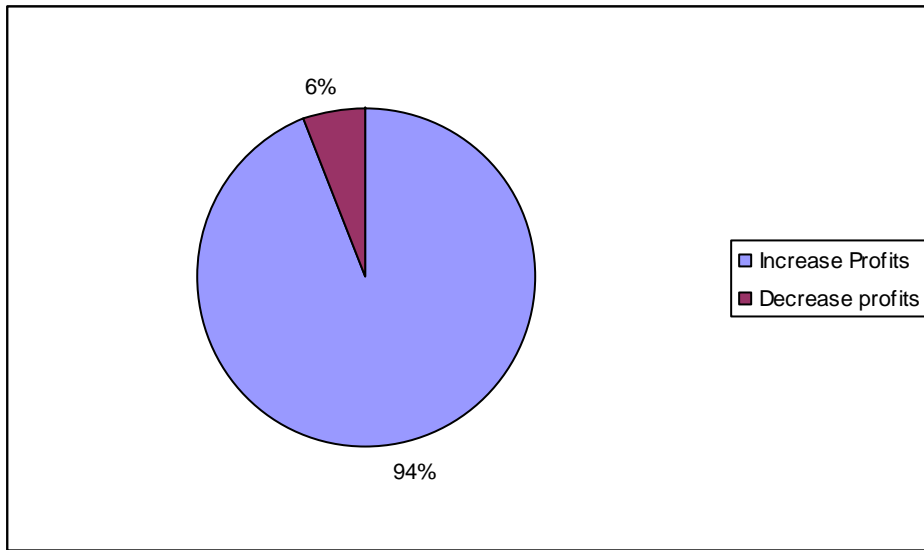


Source: Study Findings

4.2.5 Effect of Alternative Source of Finance on Performance

According to the findings of the Study, only 6% of the respondents claimed that alternative source of finance have negative impact on profitability. The rest 94% said use of alternative source of finance improved the financial performance of their firms.

Figure 4.4: Effect of Alternative Source of Finance on Performance

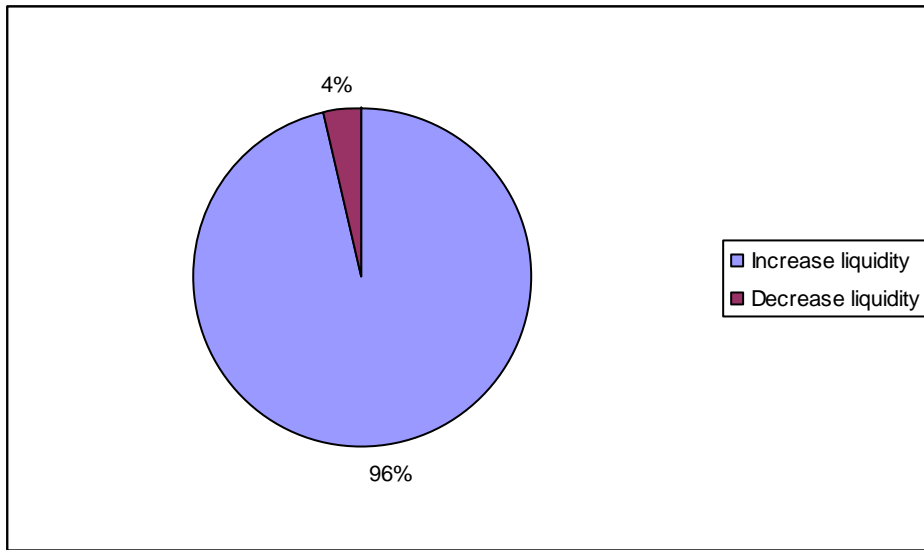


Source: Study Findings

4.2.6 Effect of Alternative Source of Finance on Liquidity

Only 4% of the respondents claimed that alternative source of finance have negative impact on liquidity according to the Study findings. The rest 96% said use of alternative source of finance improved the liquidity levels of their firms.

Figure 4.5: Effect of Alternative Source of Finance on Liquidity

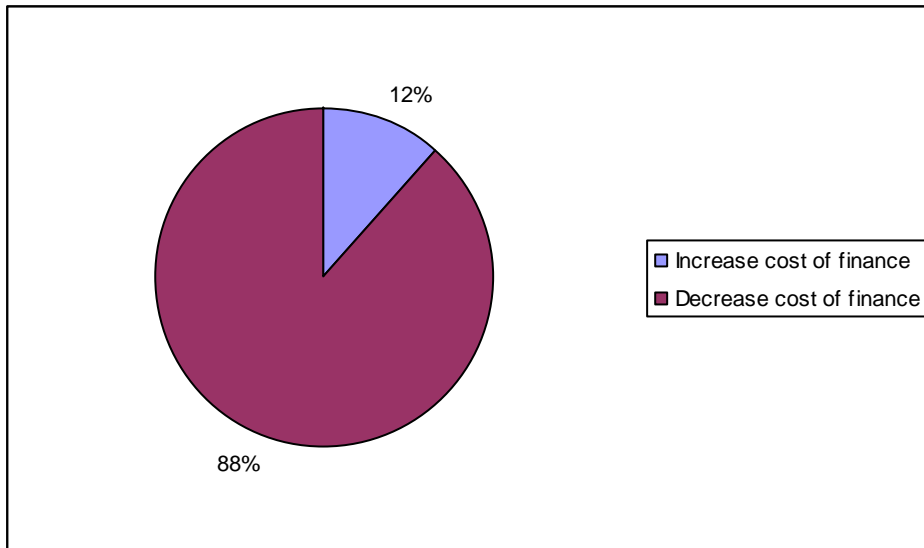


Source: Study Findings

4.2.7 Effect of Alternative Source of Finance on the Cost of Finance

According to the Study, only 12% of the respondents claimed that alternative source of finance have negative impact on cost of finance. The rest 88% said use of alternative source of finance improved the financial performance of their firms.

Figure 4.6: Effect of Alternative Source of Finance on Cost of Finance

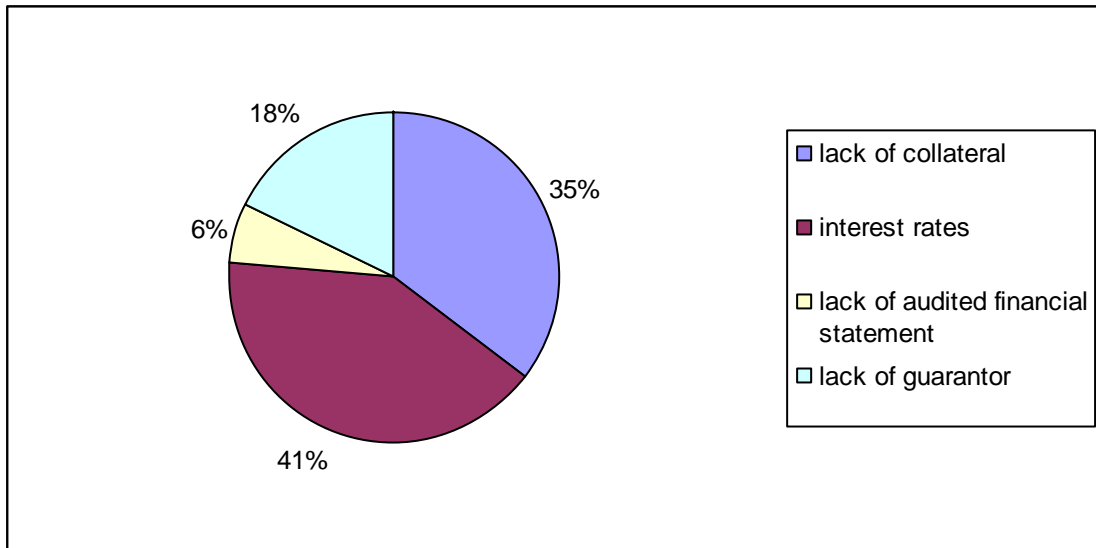


Source: Study Findings

4.2.8 Factors Hindering Access to Alternative Source of Finance

According to the Study high interest rate is the major hindrance to accessing interest rates at 41%. Lack of collateral, lack of guarantor and lack of audited financial statement follow at 35%, 18% and 6% respectively.

Figure 4.7: Factors Hindering Access to Alternative Source of Finance

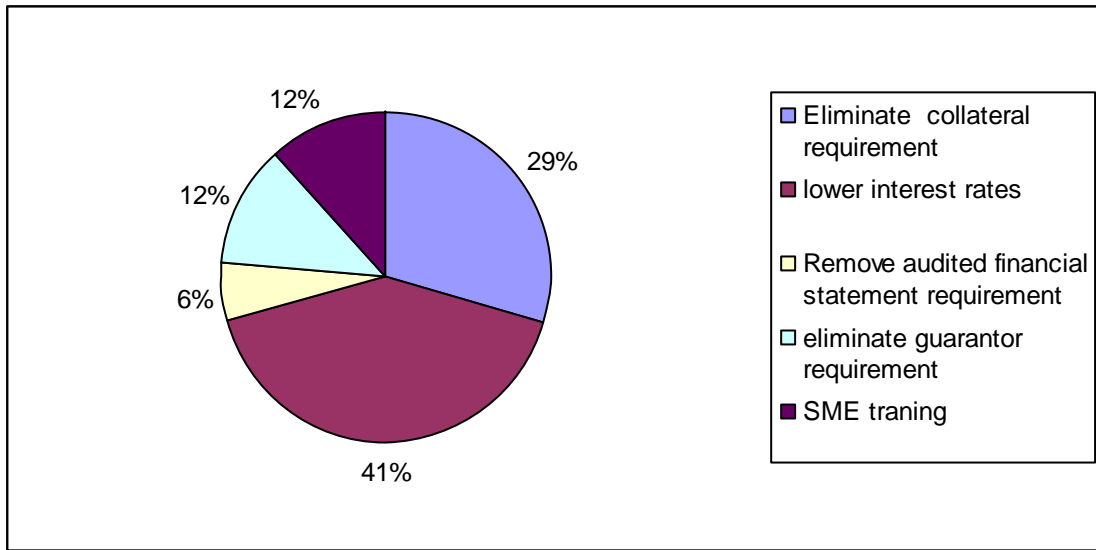


Source: Study Findings

4.2.9 Factors that can Improve Access to Alternative Sources of Finance

According to the findings lowering interest rate can improve access to alternative sources of finance by 41%. Eliminating requirement for collateral can improve by 29%. SME training and eliminating guarantor requirement can ease access to alternative finance by 12% each. Eliminating requirement for audited financial statement by only 6%.

Figure 4.8: Factors that can Improve Access to Alternative Source of Finance



Source: Study Findings

4.3 Correlation Analysis

To examine the relationship between the two factors, a Spearman correlation coefficient was used. The table indicates that there is strong positive correlation between alternative source of finance and ROA at + 0.762 (p = 0.762) at 1 % significance level.

Table 4.2: Spearman Correlation Coefficient Matrix

	ROA	Cost of trade credit	Cost of invoice discounting	Cost of lease finance
ROA	1			
Cost trade credit	0.652	1		
Cost of invoice discounting	0.543	0.122	1	
Cost of lease finance	0.423	0.096	0.142	1

Note: Correlation is significant at 0.05 level

Source: Author

4.4 Regression Analysis

The regression analysis for the relationship between alternative source of finance and financial performance was tested.

$$ROA = \alpha + \beta X_1 + \beta X_2 + \beta X_3 + \beta X_4 + \epsilon_t$$

Where:

ROA = Financial performance as measured by return on assets which is calculated by dividing net profit before tax and interest by total assets

α = Regression constant

β = Beta coefficients

X_1 = cost of trade credit as measured by amount of discount foregone

X_2 = cost of invoice discounting as measured by interest paid

X_3 = cost of lease finance as measured by amount of lease paid less tax deduction

X_4 = other factors affecting financial performance

ϵ_t = error term

The result shows $ROA = 7.581 + 2.2X_1 + 2.4X_2 + 1.8X_3 + 0.6X_4$

To test the significance the Study used T-test, F-test, standard error of estimate and R squared test. T-test found the relationship to be statistically significant of 8.46 at 99% confidence level. Standard error of estimate which is used to test the reliability of regression equation showed non-significance of 1.74 at 95% confidence level. F-test which is used to measure variation showed 3.114 at 99% confidence level. R squared which is also referred to as coefficient of determination which is used to assess the strength of linear relationship showed 0.580

4.5 Summary and Interpretation of Findings

The mean value of return on assets for the eighty five observations was 2.65 with a standard deviation of 0.29 and minimum and maximum values of -0.34 and 4.24 respectively. The positive return on assets indicates that the companies were on average profitable although some companies were operating at a loss as reflected in the negative minimum observed value of return on assets.

Over of 41% of the SMEs sampled had been in operation for less than five years. Small and medium enterprises which have been in operation for 5-10 years accounted for over

30%. This therefore shows that over 85% of the sampled SMEs were in take off and growth stage of business. At this stage the financing method is critical for survival and growth.

Trade credit is the most used alternative source of finance by SME in Nairobi according to the findings. This may be attributed by the fact that it readily available. Invoice discounting and lease finance are available to medium enterprises due to complexity involved.

Almost all respondents agreed that use of alternative source of finance enhanced profitability, liquidity and reduced cost of finance. This is consistent with studies done by Mogiro (2006) and Kiprono (2010). High interest rate is the major impediment to accessing finance. Currently, interest rates are between 16% and 18% which is quite high. In addition they demand a collateral or guarantor. Lowering interest rate can greatly increase access to alternative sources of finance.

The regression equation is $ROA = 7.581 + 2.2X_1 + 2.4X_2 + 1.8X_3 + 0.6X_4$. The correlation between alternative source of finance and ROA is 0.762. R squared which is also referred to as coefficient of determination which is used to assess the strength of linear relationship showed 0.580. This implies that 58% of ROA is attributed to source of finance. This is very strong positive relation between the variables. This is consistent with studies done by Adenkule (2012) and Musyoka (2011).

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusion, limitation, recommendation of the Study and suggestion for further studies.

5.2 Summary of the Findings and Discussions

The objective of the Study was to determine the relationship between alternative source of finance and financial performance of SMEs in Nairobi County. The Study adopted a descriptive survey Study design. Stratified random sampling method was used to select eight five firms in which primary data was collected. Data was collected for the Study about total assets, sales, net profit, currents assets, current liabilities, cost of credit, cost of invoice discounting and lease finance. The data was collected using questionnaire as well as from relevant journals, Study reports, the internet, published text books and government publications. Regression and correlation analysis was used to analyze the relationship between the variables. Data was presented in the form of frequency distribution tables, graphs and pie charts.

The positive return on assets indicates that the companies were on average profitable although some companies were operating at a loss as reflected in the negative minimum observed value of return on assets. Trade credit is the most used alternative source of finance by SME in Nairobi according to the findings. This may be attributed by the fact that it readily available. According to the Study use of alternative source of finance

enhanced profitability, liquidity and reduced cost of finance. High interest rate is the major impediment to accessing finance for small and medium enterprises. Lowering interest rate can greatly increase access to alternative sources of finance in the sector.

The regression equation is $ROA = 7.581 + 2.2X_1 + 2.4X_2 + 1.8X_3 + 0.6X_4$. The correlation between alternative source of finance and ROA is 0.762. This Study found a strong positive relation between alternative source of finance and financial performance at +0.762. According to R squared it shows that 58% of ROA is due to alternative source of finance while 42% is caused by other factors such as size and investment. It shows that an increase in use of alternative sources of finance results in improvement in financial performance.

5.3 Conclusion

The objective of this Study is to determine the relationship between alternative source of finance and financial performance of SME in Nairobi County. Financing is important decision of finance managers. Specifically, the source of fund affects the cost of finance and ultimately growth and stability of the SMEs. Source of finance dictates the risk of the investments to be carried out and the liquidity levels to be maintained. This in turn affects the firms overall performance.

The Study concluded that use of alternative sources of finance has a positive effect on performance as measured by ROA of small and medium enterprises in Nairobi County. The Study therefore concluded that the alternative sources of finance which include trade

credit, lease finance and invoice discounting among others should be the first choice when financing investments or day to day operations. The Study established that use of alternative source of finance increases liquidity and at the same time lowers cost of finance.

The Study further established that the performance of the firm improved using more alternative sources of finance to fund growth, investment and day to day operations. This is probably because alternative sources of finance are less costly than commercial loans. Additionally, the Study found that increasing the proportion of alternative sources of finance in relation to total assets enhanced performance as measured by ROA.

This is consistent with prior studies done by Adenkule (2012) and Musyoka (2011) which showed that there is strong positive relation between alternative sources of finance and firm performance. It is also in line with theoretical literature on alternative sources of finance by studies done by Mogiro (2006) and Kiprono (2010). It is clear that alternative source of finance greatly influences financial performance. Conclusively, use alternative source of finance influence financial performance of SMEs in Nairobi County.

5.4 Limitations of the Research

The Study focused only on small and medium enterprises only. Therefore the results may be applicable only in small and medium enterprises since financing needs vary among the different sectors and sizes of businesses.

Secondly, the Study also faced time limitations. The Study was conducted within a short period and hence exhaustive and comprehensive Study could not be carried out. In addition it covered only one year which may not be enough.

The Studier faced difficulties while obtaining data since the information required is sensitive and management was unwilling to give to outsiders. Moreover, primary data was used in the Study. There is limitation on disclosure and the business providing honest information since none is listed in the stock exchange.

The regression model used is still under trial and therefore may not be very accurate. This is because it assumes only the highlighted factors affect or influence alternative source of finance. In addition, it only considers trade credit, lease finance and invoice discounting yet there are many more alternative sources of finance.

Lastly, the Study also faced financial limitations. The Study was carried out using a tight budget which may have impeded on comprehensive Study. Moreover, the flow of the funds for the Study was intermittent.

5.5 Recommendations

5.5.1 Policy Recommendations

According to the findings, there is strong positive relationship between alternative sources of finance. The Study recommends that SME use alternative source of finance since it lowers the cost of raising finance, improves liquidity and ultimately improve

financial performance. In addition, the Study recommends lowering of interest rate and removing the requirement for collateral when outsourcing finance.

5.5.2 Suggestions for the Further Research

The Study focused on small and medium enterprises only. Further studies should be carried out to determine the relationship between alternative source of finance and financial performance in large organization and listed firms. Moreover, the sample can be increased to cover more counties in Kenya. The Study was carried out on eighty five enterprises only. This may give more accurate and reliable information.

Secondly, the duration of the Study should be increased to cover six years. The Study was carried out for only one year. This would give clear picture of the variables involved in alternative sources of finance in Nairobi County.

The regression model should be fine tuned to ensure it is very accurate measure of alternative source of finance. This would ensure that it reflects the situation on the ground. It should also include more sources of alternative finance.

The Study should be accorded more time so that it is comprehensive. It is recommends a six month as enough for exhaustive Study in the area. This would enable the Studyer to even sample more firms and even cover larger geographical area.

The Study should be allocated more funds for comprehensive and exhaustive Study. This would cover Study assistants fee, printing and consultation fee. In addition, the funds should be available at the start of the Study.

Lastly, further Study should be carried out to establish the relationship between alternative source of finance and financial risk in Kenya. This would widen the existing knowledge and theories on alternative sources of finance.

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Index I

QUESTIONNAIRE

This is a questionnaire on relationship between alternative sources of funds and financial performance of small and medium scale enterprises in Nairobi.

Instructions

- Answer all questions in section A, B, and C.
- Answer questions in the questionnaire by either ticking where necessary or open – ended answers where necessary.
- Use clear, short and precise answers when answering open ended questions.

Section A

1. What type of business are you doing?
 2. What is size of staff in your organization?
 3. What is your designation in the business.....
 4. What is your level of education?
 - i) O level []
 - ii) A level. []
 - iii) Diploma []
 - iv) Degree []
 - v) Masters degree []
- Others.....

5) How long have you been doing the business?

Below 5 years []

Five years - 10years []

11 years-15 years []

16 years - 20 years []

21 years & above []

6. What is the current value of total assets in your business?

Below 100,000 Ksh []

100,000-500,000 Ksh []

500,000-1,000,000 Ksh []

1,000,000-5,000,000 Ksh []

Over 5,000,000 ksh []

7. What was your net profit in 2013 from your business?

Below 100,000 Ksh []

100,000-500,000 Ksh []

500,000-1,000,000 Ksh []

1,000,000-5,000,000 Ksh []

Over 5,000,000 ksh []

Section B

1. Do you know any kind of alternative source of finance?

Yes []

No []

2. List the following alternative sources of finance on frequency of use in your business?

(Rate this question using this scale, 1 = Very frequently, 2 = Frequently 3 = Rarely 4 = Very rarely 5= unknown)

Type	Rating
Trade Credit	
Leasing	
Angel finance	
Trade credit	
Invoice discounting	
Peer to peer lending	
Family and friends	

3. (a) Does sourcing finance from alternative sources affect profitability in your business?

Yes []

No []

b) If yes, tick how it affects profitability?

Increase profits []

Decrease profits []

4. (a) Does alternative sources of finance impact on the liquidity of the business?

Yes []

No []

b) If yes, tick how impacts on liquidity?

Increase liquidity []

Decrease liquidity []

5. (a) Does alternative sources of finance affect on the cost of raising finance of the business?

Yes []

No []

b) If yes, tick how it affects?

Increase cost of finance []

Decrease cost of finance []

6. What is the total amount of funds accessed from alternative sources in 2013?

Below 100,000 Ksh []

100,000-500,000 Ksh []

500,000-1,000,000 Ksh []

1,000,000-5,000,000 Ksh []

Over 5,000,000 ksh []

7. What is the total amount trade discount foregone in 2013 due to use of trade credit?

Below 20,000 Ksh []

20,000-50,000 Ksh []

50,000-100,000 Ksh []

100,000-500,000 Ksh []

Over 500,000 ksh []

8. What is the total cost of invoice discounting in 2013?

Below 20,000 Ksh []

20,000-50,000 Ksh []

50,000-100,000 Ksh []

100,000-500,000 Ksh []

Over 500,000 ksh []

9. What is the total cost of lease finance in 2013?

Below 20,000 Ksh []

20,000-50,000 Ksh []

50,000-100,000 Ksh []

100,000-500,000 Ksh []

Over 500,000 ksh []

10. What is the total cost of other factors related to alternative sources of in 2013?

- Below 20,000 Ksh []
- 20,000-50,000 Ksh []
- 50,000-100,000 Ksh []
- 100,000-500,000 Ksh []
- Over 500,000 ksh []

Section C

1. Is there any limitation to the process of raising sources of finance?

Yes []

No []

2. If yes, to what extent the following factors limit sourcing of finance?

Rate this question using this scale, 1 = very great extent, 2 = great extent

3 = Low extent 4 = Very low extent.

Factor	Rating
Lack of collateral	
High interest rates	
Lack of audited financial statements	
Lack of guarantors	

2. The following factors can help in improving access to finance by SME in Nairobi.

List the following factors on how they could help improve financial access of SMEs in Nairobi using this scale, 1 = very great extent, 2 = great extent 3 = Low extent 4 = Very low extent.

Factor	Rating
SME training	
Lowering interest rates	
Eliminating collateral requirement	
Eliminating guarantors requirement	
Encouraging group lending	

Index II

Study Budget

Item	Amount
Transport fee	5,000
Typing	15,000
Communication	3,000
Printing	5,000
Miscellaneous	5,000
Total	33,000

Index III

Project Timeline

Study Goal	August	September	October	November
Phase I: Writing Proposal				
Preparing synopsis				
Writing proposal				
Presenting the proposal				
Phase II : Data Collection				
Testing the questionnaire				
Collecting data				
Phase III: Data Analysis				
Arranging the collected data				
Analyzing data using charts, tables				
Comparing results with previous studies				
Phase IV: Completion				
Project write up and editing				
Publishing the project for presentation				

Appendix IV

List of sampled Small and Medium Enterprises

	Name of the SME	Sector
1	Jada Technology Ltd	Retail
2	Makapera Enterpises	Manufacturing
3	CAPM Ltd	Hospitality
4	Red Icon ltd	Retail
5	Brica Investments	Manufacturing
6	New World Ltd	Manufacturing
7	Alexis Systems	Retail
8	Keroka Enterpises	Retail
9	Muumandu Supermarkets	Retail
10	Linchpin Enterpises	Real Estate
11	Kaka Ltd	Manufacturing
12	Studio One Ltd	Hospitality
13	Magomano Enterprise	Hospitality
14	Hunters Ltd	Hospitality
15	Van Sharks	Retail
16	Wanja and Brothers Enterprise	Retail
17	G-Tech Enterpises	Retail
18	Wamutu Ltd	Manufacturing
19	Kags Ltd	Manufacturing

20	Kiima Kimwe ltd	Retail
21	Kava Kava Enterprises	Retail
22	Two Diamond Ltd	Manufacturing
23	Eastleigh One	Retail
24	Garissa Hotel Ltd	Hospitality
25	Roka Ltd	Retail
26	Kona Ltd	Retail
27	Kim Enterprises	Retail
28	Red Hill Enterprise	Retail
29	Limuru Stockist	Retail
30	Hayahoto Ltd	Manufacturing
31	Suga Enterprises	Manufacturing
32	Mombasa Pipes	Manufacturing
33	Mwalimu Wines and Spirits	Retail
34	Thindigua Ltd	Hospitality
35	Gloria Enterprises	Hospitality
36	Jomark Enterprises	Retail
37	New Paints Ltd	Retail
38	Jazana Enterprises	Retail
39	Alligator Electricals	Retail
40	Chania Bookshop	Retail
41	Njamaba Bookshop	Retail
42	Lamp Chemist	Retail

43	Alloys Stationers	Retail
44	Kitabu Ltd	Retail
45	Prime Movers Spares Ltd	Retail
46	New Dawn Ltd	Retail
47	Morning Glory Enterprises	Manufacturing
48	Fast Track Automobiles	Retail
49	Clear Cut Saloon	Hospitality
50	Ashley Saloon	Hospitality
51	Beauty Point Ltd	Hospitality
52	Sweet Memories	Hospitality
53	Rwathia Investments	Retail
54	Rware Enterprises	Retail
55	Kilimambogo Ltd	Retail
56	Rockers Hardware	Retail
57	Little Red	Retail
58	Milano Enterprises	Retail
59	Rahisi Bookshop	Retail
60	Prime Printers	Manufacturing
61	Focus Printers	Manufacturing
62	Mfangano Printers	Manufacturing
63	Summit Ltd	Manufacturing
64	Impact Manufactuers Ltd	Manufacturing
65	Prudential Ltd	Manufacturing

66	Provida Manufacturers	Manufacturing
67	Agrovine Manufacturers	Manufacturing
68	High Tech Systems	Manufacturing
69	G – Tech Technology Ltd	Manufacturing
70	Advant Systems	Retail
71	Kimbra Ltd	Retail
72	Hert Manufacturers	Manufacturing
73	Yuna Manufacturers	Manufacturing
74	Abide Ltd	Manufacturing
75	Morning Rise ltd	Manufacturing
76	Sunland Hotels Ltd	Manufacturing
77	Bamato Enterprises	Manufacturing
78	Changa Ltd	Manufacturing
79	Valia Enterprises	Manufacturing
80	High Footwear Ltd	Manufacturing
81	Comfort Footwear	Manufacturing
82	Blankets & Mattresses Ltd	Manufacturing
83	Homeland Supermarkets	Retail
84	Mchana Investments	Retail
85	Fine Print Stationers	Retail

