INVOLVEMENT OF MAINSTREAM BANKS IN FINANCING SMALL AND MEDIUM ENTERPRISE PROJECTS IN KENYA. THE CASE OF DIAMOND TRUST BANK

By

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A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF ARTS DEGREE IN PROJECT PLANNING AND MANAGEMENT OF THE UNIVERSITY OF NAIROBI

2015

DECLARATION

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

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L50/70809/2014

Signature..Date……………………

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

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DEDICATION

This research project is dedicated to my loving husbandKillingoMutua, my pillar and strength. My son Shawn who has been amazing and totally understanding that mummy was in school thus diligently reminding her to always finish her assignment (homework) in time. Lastly, to my colleaguesFrankand John who took time off their busy schedules to freely shareinformation pertinent to the studyas well as read through the work thus enrich it greatly. God bless you all.

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ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CBN	Central Bank of Nigeria
CSR	Corporate Social Responsibility
DTB	Diamond Trust Bank
GDP	Gross Domestic Product
IFC	International Finance Corporation
ILO	International Labour Organisation
IMF	International Monetary Fund
IMP	Industrial Master Plan
MFI	Micro Financial Institutions
SME	Small and Medium Enterprises
SMME	Small, Medium and Micro Enterprises

ABSTRACT

The development of small scale enterprises (SME) has been identified as one of the strategies for generating industrialization, employment generation and poverty reduction. This is as a result of the recognition of their role in socio-economic development as a means for generating sustainable employment and income in most developing countries, Kenya included. This means that the sustenance of the SMEs is of paramount importance to the improvement of livelihood of a critical mass of the population in the country. One way of ensuring the sustenance of the SMEs is through the provision of capital for investment in form of affordable credit facilities. Available firm-level data collected by the World Bank show that access to finance is one of the main obstacles to SMEs doing business in most developing countries. The limited access to finances, researchers allege had led to the collapse of an appreciable number of the SMEs. None the less, researchers acknowledge that mainstream banking institution appreciate that SME sector has one of the fastest growth rates and have always been willing to invest in them. Thus, over the last ten years or so, it is alleged that mainstream banks have begun to embrace SMEs as an important business partner slowly edging aside micro financial institutions as SMEs source of credit. However, there is limited empirical data on factors that have precipitated the turnaround in the perception of the mainstream banking sector towards financing of SME sector. Specifically, data on the extent and influence of these factors on the involvement of mainstream banks in the financing of SMEs projects in developing countries in general and Kenya in particular are almost non-existent. This study therefore sought to review the involvement of mainstream banks in financing of SMEs sector in Kenya with specific focus of Diamond Trust bank in an attempt to contribute in bridging the existing knowledge gap. A case study research of Diamond Trust Bank was designed to help seal this research gap by assessing the factors influencing the involvement of banks in financing SME projects. A census survey of the 47 out of 57 bank officers in charge SME programs in the country was undertaken with the 3 being involved in a prior pilot study to pre-test the research instrument. Data was collected using self-administered questionnaires to branch managers, credit managers and asset finance manager. Data obtained was analysed both quantitatively using descriptive statistics and inferentially with the aid of Statistical Package for Social Sciences (SPSS) version 20 computer software. Specifically, descriptive statistics in the form of frequencies, percentages, mean and standard deviation were used to show various relevant distributions while the relationship between the parameters was tested using Multiple Linear Regression (MLR). Results showed that the factors such as profitability (mean = 4.5319; SD= 0.61218), competition (mean = 4.5036;SD = 0.6074), public image (mean =4.0532; SD = 1.0085) and customer turnover (mean = 4.3298;SD= 0.7506) obtained very high mean rating indicating that they had an influence on the bank's involvement in financing of SME projects. Results from regression analysis showed that profitability (β = 0.287) and public image (β= 0.118) have a positive influence on the banks involvement while competition (β= -0.158) and customer turnover (β= -0.392) influenced it negatively. Further, the results showed that the influence due to profitability, competition and customer turnover were significant ($p<0.05$). It is therefore recommended that the bankorganize training and workshops for customers to understand SME banking products, include well-versed SME banking board members and enhancethe bank's SME customer service mechanism. Similarly, the negative influence of competition and customer turnover on the bank's involvement in financing of SME projects imply that the bank should strategize on how best to strategically position itself to tap into the SME sector's rich market.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The development of small scale enterprises (SMEs) has been identified as one of the strategies for generating industrialization, employment generation and poverty reduction. This is as a result of the recognition of their role in socio-economic development as a means for generating sustainable employment and income (Kiboki, Sakwa&Kiriago, 2014) in most developing countries, Kenya included.Studies indicate that in both advanced economies and developing countries, SMEs contribute on average 60 percent of total formal employment in the manufacturing sector (Ayyagari et al, 2007). Specifically, reports indicate that the formal employment by SMEs ranges from 48% in North Africa to 51% in Latin America, 65% in Asia, and 72% in sub-Saharan Africa (IFC, 2001). According to Ayyagari et al (2007), the contribution of the SME sector to job opportunities for African economiesis even more important taking into account the contribution in the informal sector. When the informal sector is included, the researchers estimate that SMEs could account for about three-quarters of total employment in manufacturing sectors of these economies.

In terms of definition, there is no generally accepted definition of anSME because theclassification of businesses into large-scale or small-scale is a subjective andqualitative judgement (Ekpenyong&Nyong, 1992). The researchers maintain that in countries such as the USA, Britain, and Canada, SMEsare defined in terms of annual turnover and the number of paid employees, in Britain, as an industry withan annual turnover of 2 million pounds or less with fewer than 200 paidemployees. Likewise, in Japan, SMEs are defined according to the type of industry,paid-up capital and number of paid employees. In Germany, the traditional definition limits SMEs to two hundred and fifty (250) employees while in Belgium, it is limited to one hundred (100) employees. In the United States of America, any business with fewer than one hundred (100) employees is classified as small while medium scale business refers to a business with fewer than five hundred (500) employees. Recently, the European Union has standardized the concept by categorizing enterprises with less than ten (10) employees as micro, those with fewer than fifty (50) employees as 'Small' and those with fewer than two hundred and fifty (250) employees as medium. Also in South Africa, the term Small, Medium and Micro Enterprises (SMMEs) is usually used, while in Nigeria, the term Small and Medium Scale Enterprises (SMEs) is generally used. In Kenyan context, small scale enterprises are those businesses that have between 10 and 50 employees' (Ongori&Migiro, 2011).

From the foregoing, it can be deduced that Small and Medium Scale Enterprises, are enterprises that have the capacity to employ at most five hundred (500) employees at a time and it has been proved to be the back bone of every economy. Bowen, Morara and Mureithi (2009) associate SMEs with businesses that are dominated by people with relatively low levels of education while Mugwara (2000) defines small and micro enterprises as businesses owned by individual entrepreneur who employs between one and twenty people as the business grows.According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. Oni and Daniya (2012) perceives it as a sector which have better prospects for developing domestic economy, thereby generating the required goods and services that could propel the economy of developing economies.

A crucial element in the development of the SME sector is access to finance, particularly bank financing, given the relative importance of the banking sector in serving this segment (Calice, Chando&Sekioua, 2012). The researchers posits that firm-level data collected by the

World Bank show that access to finance is perceived as one of the main obstacles to doing business particularly for the SMEs. Similarly, a number of studies have shown that financing has been a greater obstacle for SMEs than for large firms, especially in developing countries, and that access to finance adversely affects the growth of the SME sector more than that of large companies (Schiffer&Weder, 2001; Beck et al, 2005; Beck et al, 2006).

The difficulty of SMEs in accessing financing had been associated with several factors including the suspicion with which they were viewed by mainstream financial institutions. According to Amyx (2005), one of the most significant challenges faced by SMEs is the negative perceptionof the entitiesby market forces, banks included.Green, Kimuyu, Manos and Murinde (2002) suggest that potential providers of finance, whether formal or informal, are unlikely to commit funds to a business which they view as not being on a sound footing, irrespective of the exact nature of the unsoundness which is supported byKimathi (2009) who also holds thatSME are held back from accessing credit from banks by toughconditions imposed on them by some banks.

Because some SMEs were associated with people with limited management skills and were said to be highly risky to invest in due to high probability of failure, most financial institutions imposed stringent borrowing rules including huge collateralsas a condition to access loans(Ghosh et al, 2005).The researchers are categorical that the formal sector has been unwilling to provide credit to the micro-enterprises because the clients from this sector are largely poor and lacking in securities that can be used as collateral in conventional lending and therefore for a long time perceived such business as highly risky. Moreover the costs associated with administering and monitoring credit services to them were perceived to be quite high. Thusmany commercial banks shied away from lending to the SME initially.

Ongile and McCormick (1996) indicate that early research treated SMEs as peripheral survival mechanisms whose developmental impact was marginal though this view was to irrevocably change after the 1972 International Labour Organisation report that demonstrated the significant employment and wealth creation potential of the SMEs (ILO, 1972).Additionally, Green et al (2002) explains that previously many governments had policies slanting towards the promotion of large, capital intensive investors to the detriment of the SMEs.

However,according to King (1996), the benign neglect has been replaced by therecognitionthat SMEs could be the lynchpin for improving economic prospects in the developing world. Green et al (2002) is of the view that compared with large enterprises, SMEs are invariably more labour-intensive and often more efficient and that they promote more equitable distribution of income than larger enterprises. Thesignificance of SMEs to the economy of most countries vis a vi the inherent challenges the sector faces in accessing credit facilities prompted a number of institutions into action.TheWorld Bank for instance, in an attempt to promote investment in SMEs initiated support programs either directly to SMEs or indirectly through governments, financial institutions and non-governmentalorganisations (Snodgrass & Biggs, 1996; DFID, 2000, Grosh&Somolekae, 1996; World Bank, 2004).Specifically, researchers indicate that the World Bank approved financial support to two SME projects in 1975 for Cameroon, and Cote d'Ivoire in Africa and three others in Korea, Philippines and Columbia (Leira, et al, 1996) as pilot projects.Similarly, several micro financial institutions were started in several countries with the support of respective governments, the IMF and World Bank with the sole aim of providing affordable credit facilities to SMEs (Kiboki, Sakwa&Kiriago, 2014).

At the same time, several countries on the prompting of the IMF and World Bank instituted policies that made investment in SMEs by financial institutions including commercial banks more attractive (Green et al, 2002).For example Malaysian government initiated New Economic Policy' for the development of SMEs early 1970swhich aimedto improve people's welfare and restructure ethnic economic imbalances, the second Industrial Master Plan (IMP2), which endedin 2005followed by the Third industrial Mater Plan (IMP3) 2006–2020, to coincide with the country's vision for 2020 (MITI, 2005). Similarly, Nigeria Bank for commence and Industry was established jointly by the federal government of Nigeria and the Central bank of Nigeria (CBN) in 1978 as the apex institution for financing Small and Medium Scale Enterprises. The rationale for establishing the bank was to bring financial discipline to bear and to hopefully ensure a more efficient utilization of scarce financial resources for the development of viable Small and Medium Scale Enterprises (Bullion & CBN, 1992; Oni &Daniya, 2012;Shreiner, 2005).Likewise, Namibian governmentlaunched Namibia's "White Paper onSmall Business Development" in September 1997 (Tonin, Dieci, Ricoveri, Foresi&Hansohm, 1998).

In Tanzania, the government approved a regulatory framework to support SMEs in 2002while for Uganda, the government support facilities, especially those intermediated through the Ugandan Development Bank and the Uganda Enterprise Fund were made available to support SME growth in the country (Calice, Chando&Sekioua, 2012).In Kenya, the government attempted to address the constraints of financing of SMEs bydeveloping policies and strategiescontained in the Sessional Paper no. 2 of 1992on Small Enterprise and Jua Kali Development and the Development Plan of 1989-1993. In thesepolicy documents the problems facing SMEs which were stringent collateral, low volume of credit to thesector and negative attitude of the banking sector were addressed. Subsequent major policy documents include the Sessional Paper Number 2 of 1996 on Industrial Transformation to the year 2020, and Sessional Paper Number 2 of 2005 on the Development of SMEs for Employment and Wealth Creation (Republic of Kenya 1996, 2005;Calice, Chando&Sekioua, 2012).

These efforts have seen the participation of SMEs in income generating activities increase as more people venture into the informal sector to garner additional income for their families. The exponential growth of the sector has turned the SME segment into a strategic priority for the financial institutions, banksincluded (Calice, Chando&Sekioua, 2012) and according to the researchers, SMEs are now considered a profitable business prospect who provide an important opportunity for cross-selling. Likewise, banks consider that the SME lending market is large, not saturated and with a very positive outlook.Additionally, they hold that currently, somecommercial banks in Kenya, Tanzania, Uganda and Zambia have a number of schemes targeting the SMEs. They have adapted to the SME environment and developed mechanisms to cope with them through innovation and differentiation. Specifically, most banks are said to have dedicated units serving SMEs, to which they offer largely standardized products though the degree of personalization is still growing. However, relatively little research exists on whether, why and how banks finance SMEs. This is according to Calice, Chando and Sekioua (2012) is compounded by the fact that comprehensive data on SME finance is still to be more consistently collected and monitored over time.

1.2 Statement of the Problem

SMEsarean essential component of the industrial sector of developing countries such as Kenya. They play an important role in creation and sustenance of jobs to the society's underprivileged that includes women and youth who are the majority in developing countries.

According to the Government of Kenya (1989, 1992 & 1994), the sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low income households in the country accounting for 12-14% of GDP which is particularly important with regard to youth employment in the republic. This means that the sustenance of the SMEs is of paramount importance to the improvement of livelihood of a critical mass of the population in the country.

One way of ensuring the sustenance of the SMEs is through the provision of capital for investment inform of affordable credit facilities. In fact Calice, Chando and Sekioua (2012) insists that access to finance, particularly bank financing is a crucial element in the development of the SME sector, given the relative importance of the banking sector in serving this segment. Similarly, reports at firm-level data collected by the World Bank show that access to finance is one of the main obstacles to SMEs doing business (Schiffer&Weder, 2001; Beck et al, 2005; Beck et al, 2006).

Globally, banks are a major player in the financial sector of the economy providing affordable credit facilities to entrepreneurs. However, the high risks associated with most of the SME's operations have for some time made it difficult for them to access affordable credit facilities from mainstream banking institutions. According to Amyx (2005), the negative perception that SMEs have had to contend with has ensured that mainstream banks keep a safe distance from them. Green, et al (2002) maintain that potential providers of finance, whether formal or informal, areunlikely to commit funds to a business which they view as not being on a sound footing,irrespective of the exact nature of the unsoundness. Similarly, Muiruri (2014) holds thatSMEs are often discounted by banks from applying for finance, and that available credit services usually only reach a small proportion of the total population of the SMEs.The limited access to finances, researchers allegehad led to the collapse of an appreciable number of the SMEs.

None the less, researchers acknowledge that mainstream banking institution appreciate that SME sector has one of the fastest growth rates and have always been willing to invest in them (Amyx, 2005; Green et.al, 2002;Muiruri, 2014). Thus, over the last ten years or so, it is alleged that mainstream banks have begun to embrace SMEs as an important business partner slowly edging aside micro financial institutions as SMEs source of credit. However, there is limited empirical data on factors that have precipitated the turnaround in the perception of the mainstream banking sector towards financing of SME sector. Specifically, data on the extent and influence of these factors on the involvement of mainstream banks in the financing of SMEs projects in developing countries in general and Kenya in particular are almost non-existent. The knowledge gap is further widened by the secrecy with which mostbanksguard information.Aside from these, the significance of SMEs to developing countries such as Kenya coupled with existing knowledge gap demands that studies aimed at investigating the structure of the SME lending market be undertakenso as to understand the main drivers and obstacles to SME financing as well as banks' operational approaches(Calice, Chando&Sekioua, 2012). This study therefore intended to review the involvement of mainstream banks in financing of SMEs sectorin Kenya with specific focus of Diamond Trust bank in an attempt to contribute in bridging the existing knowledge gap.

1.3 Purpose of the Study

The study sought to determine the factors enhancing involvement of mainstream banks in financing small scale enterprise projects in Kenya.

1.4 Objective of the Study

The study was guided by the following objectives:

i. To establish the extent to which profitabilityinfluences Diamond Trust bank involvement in financing of SMEprojects.
ii. To determine the extent to which competitioninfluences Diamond Trust bank involvement in financing of SME projects
iii. To establish the extent to which public imageinfluences Diamond Trust bank involvement in financing of SME projects
iv. To determine the extent to which customer turnoverrate influences Diamond Trust bank involvement in financing of SME projects.

1.5 Research Questions

The study attempted to answer the following research questions:

i. To what extent does profitability influenceDiamond Trust bank involvement in financing of SME projects?
ii. How does high competition influenceDiamond Trust bank involvement in financing of SME projects?
iii. To what extent does public image influenceDiamond Trust bank involvement in financing of SME projects?
iv. How does customer turnover rate influenceDiamond Trust bank involvement in financing of SME projects?

1.6 Significance of the Study

The findings of this study arebeneficial to:

Government of Kenya: It will enable GOK and CBK make appropriate policy adjustments that would ensure all players in the sector have a level playground.

SME sector players:Focussedattention would attract more financial institutions thus enable them acquire affordable credit facilities.

Scholars:The results of this study will be of importance to scholars and researchers as it contribute to the body of knowledge of SME sector that could form a basis for other related studies.

1.7 Assumption of the Study

The following assumptions were made in conducting the study:

i. That the respondents drawn from Diamond Trust bank gave a representative sample of all major banks in Kenya.
ii. That the respondents who participated in this study worked under similar conditions and that they were honest in answering all questions thus provided reliable data.

1.8 Delimitations of the Study

This study delimited itself to financing of small scale enterprise projects in Kenya. First and foremost, although there are several mainstream banking institutions, only Diamond Trust bankwas involved in the study. Secondly, whereas financial institutions in their day to day operations involve themselves in a number of operations, the study confined itself to the banks involvement in small scale enterprise projects only.

1.9 Limitations of the Study

The main limitation of the study was that the sample respondents were drawn from Diamond Trust bank only. The sample may therefore not been a very accurate representation of all the major banks in Kenya. The study also involvedfinancing of small scale enterprise projects by major banks only whereas there are many other projects being implemented by major banks in Kenya. The findings may therefore not accurately reflect the process of implementation of the project in the country.

1.10 Definition of Significant Terms

Corporate social responsibility: Policies and procedures including services adopted by banks seen to seek to serve the common good of the community including the marginalised poor.

Financial Institutions: Institutions that offer financial services to clients.

Mainstream Banking: Organisations that transacts the business of bankingwhich means the accepting for the purpose of lending allinvestments, of deposits of money from the public, repayable ondemand or otherwise and withdraw able by cheque.

Micro financial Institutions: Organisations that provide financial services to clients who are poorer and more vulnerable than traditional bank clients.

SME Projects: These are projects that are undertaken by SMEs

1.11 Organisation of the Study

The report is organised into five chapters excluding the preliminary pages. The preliminary pages contain the title page, declaration, dedication and acknowledgement. Also included in this section are table of contents, list of tables, list of figures, abbreviations and acronyms and an abstract.

Chapter one which provides introductory concepts of the study contains background information, statement of the problem and study purpose. It also contains the study objectives, research questions, significance of the study, issues delimiting and limiting the study scope among others. Chapter two mainly focuses on the review of literature related to the study scope based on research objectives.

Chapter three which provides a sneak preview on the methodology which the researcher adopted to gather data that was required to answer to the research objectives. It contains among others the research design, study locale, target population, sampling method and sample size. Also included in this section are research instruments, data collection process as well as the methods to be used to analyse the data collected.

Chapter four gives the results obtained from the sampled respondents, their interpretation and discussion based on the research objectives. Lastly, chapter five contains, summary of the study, conclusion, recommendation for policy and practice and suggestion for further study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature review for this study focussed on research work related to financing of small scale enterprise projects in Kenya with specific focus on the role of mainstream banking institutions. The review considers as important for the study several issues including the influence of profitability, on the involvement of mainstream banks in financing of small scale enterprise projects.

2.2 Overview of Small and Medium Enterprises

Small and medium entrepreneurs (SMEs) have been recognized as a major source of employment and income generating activity as they create income and employment for a significant proportion of the population both in the rural and urban areas (Kamanza, 2013; Nyachieo, 2013; Wambugu, 2013). In this way therefore, they are credited with contributing greatly to the growth of the economy of many developing countries. Anecdotal records show that SMEs mostly deal in provision of basic goods and services to the rapidly growing populations in many countries of the Third World (Mead, 1998). These activities contribute immensely to the total employment and gross domestic product (GDP) of such countries.

In many developed countries, more than 90% of allenterprises are within the SME sub-sector while 80% of the total industrial labour force inJapan, 50% in Germany and 46% in USA small businesses contribute nearly 39% of thecountry’s national income. Comparable figures in many other developed countries are evenhigher.For Poland, they produce more than 55% of GDP and employ about 60% of all human resources (Duda, 2013). In India, SMEs play a pivotal role in the overall industrial economy of the country which is estimated to account for about 39% of the manufacturing output and about 33% of the total export of the country. For Kenya, the sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low income households in the country accounting for 12-14% of GDP which is particularly important with regard to youth employment in the republic. Youth unemployment is a major challenge in the world today with Sub-Saharan Africa being one of the regions highly affected (ILO, 2003; Jua, 2003).

Although SMEs in developingcountries and countries with economies in transition are regarded as the engine of economicgrowth, they face enormous challenges in attracting investors and accessing moderntechnology.Small domestic markets, inadequate infrastructure,high transportation costs, shortage of capital and foreign exchange, weak currency, lack ofaccess to technology and foreign markets as well as surplus low quality labour are the generalcharacteristics of developing countries (Ahmed, 2006;Mwobobia, 2012).

2.3 Commercial Banks and Small and Medium Enterprises

Banks are commercial financial intermediaries that borrow from savers and lend to individuals or corporate entities in need of resources for investments (Gorton et al, 2002 as cited in Odundo, 2011). According to the researcher, banks are special because of their ability to transform financial claims of household savers efficiently into claims insured to corporations, individuals and governments. Kenya has a relatively sophisticated banking sector consisting of 37 commercial banks with more than 225fully operating branch offices and over 70 sub-branches all over the country (Oketch et al 1995).

Thesector is alleged to have registered steady growth in totalassets and liabilities over the years. Researchers have noted that within the country, bank assets increased from Kenya pounds (K£) 3353million in 1990 to 8005 million in 1994 and recorded a growth rate of 17% in 1991, 19% in 1992, 29%in 1993 and 33% in 1994(Government of Kenya, 1989 and Oketch et al 1995). With this growth, the industry has attempted to meet the financialneedsits customers, SMEs included through special credit programmes.

According to researchers, commercial banksplay several functions including providing long termloans for acquiring productive industrial assets by mobilizing savings for investment andchannelling savings to more productive activities (Odundo, 2011 and Oketch et al 1995).Banks have three social and economic functions: to collect and secure savings and other deposits; to finance the economy by handing out credits; and to facilitate payments and to transfer funds. Their role is to reduce the gap between supply (the money deposited and potentially available) and demand (the money needed for investment) that exists between idle money and productive investment. Another key function is devising different types ofsecurities with different maturity period that are acceptable to the borrowers of loanable funds forpurchasing securities and secondly, to the lenders of such funds. In other words, commercial banks remain the formal source of finance for enterprises. They are an indispensable institution for a country whose government is bent on indigenizing its economic base thus is critical for the development of SMEs in any developing country.

Researchers have noted the initial lukewarm relationship between banks and SMEs which has tended to explain the difficulty with which SMEs have been met with in accessing credit facilities from banks (Oni &Daniya, 2012). According to Cook and Nixson (2000), commercialbanks are conservative and have demonstrated bias towards minimizing risk by lending to prime borrowers who provide collateral. In many countries, empirical data show that access to funding for SMEs continues to be one key obstacle facing mostentrepreneurs. This problem is more acute for SMEs in less developed economies than their counterparts in bothemerging and advanced economies. Beck (2008) argued that Banks in developing countries tend to be lessexposed to SMEs, provide a lower share of investment loans, and charge higher fees and interest rates.To circumvent this problem, entrepreneurs raise funds from friends and relatives leading to inadequate working capital and investment funds, which threaten survival and impede growth (Oni &Daniya, 2012). Similarly, Tagoe et al. (2005) maintains that the main financialchallenge facing SMEs is access to affordable credit over a reasonable period. According to the researchers, this is determined by thefinancing needs of SMEs and the action of investors. Consequently, Balling et al. (2009) maintains that this constraint hamperinvestment and innovation, and thus growth, employment and welfare which are the core mandates of SMEs.

Along the way however, records show that commercial banks probably due to various reasons have come to appreciate the significant role that SMEs play in the markets that they serve. Calice, Chandoand Sekioua(2012) in a study of impact on SME bank financing in East Africa found that all the banks interviewed reported of having SMEs as clients, signifying an important realization amongst the banks of the importance of SME sector. The researchers thus observed that banks appear to be slightly ahead of their respective governments as not all governments in the region had created supportive SME enabling environments, as at the time of the interviews. They noted that banks' interest towards dealing with SMEs was not driven by a general desire by the banks to take advantage of specific positive government and regulatory programs, but rather appear to be largely motivated by the business objective of profit pursuit with the type of involvement beingrooted in basic banking products as almost all the banks disclosed that they had both loan and deposit relationships with SMEs, whilst some banks extended the relationship to include SME training in order to enhance the quality of their SME loan books. Aside from this study, there is no other data that could shed light on the factors that have led to change of heart on the part of commercial banks in financing SME projects in the region. This study therefore seeks to make its contribution in helping seal the existing research gap by assessing factors promoting the involvement of commercial banks in financing of SME projects in Kenya with particular focus on DTB.

2.4 Profitability and Commercial Banks' Financing of Small and Medium Enterprises

Profitability is the capacity to make profit or the state or quality of being profitable (Kamau, 2004 as cited in Odundo, 2011). The researchers maintain that profitability is the matter at hand in all forms of investments which serves as a measure of performance and sustainability of a prospect. According to Odundo (2011), it is one of the most important indicators for measuring the success of a business. Thus maintained profitability is expected to results in continued strengthening of the net worth and value of an entity as a form of investment.

Studies have linked profitability with organisational performance. According to Olutunla and Obamuyi (2008) in a study of factors associated with the profitability of small andmedium-sized firms in Nigeria found that there is interdependence between the SMEs profitabilityand bank loans, a significant relationship betweenprofitability and the size of business and a positive relationshipbetween profitability and interest rate. Specifically, the study established that for highprofitability, more loans and growth in size of businessremain important.Similarly, McMahon et al. (1993) found that the coefficient of loan amount was positive and statisticallysignificant to profitability of SMEs. This implies that bank loan is positivelyrelated to firm's profitability and that profits of SMEs tendto increase with increasing amount of loans. Thefinding according to the researcher is consistent with simple economic theory which suggeststhat access to credit should lead to higher profits. Keasey and Watson (1991) stated that the use of banks' financing by SMEs is associated with higher business performance and thatthe financing decision impacts upon the profitability of anenterprise. This means that profits tend to increase withincrease in sales. For profit maximising firms, a strategyto maintain a high level of profitability requires that thefirms must produce quality products which can easily besold to generate more revenues, especially througheffective and efficient marketing strategies.

The findings implies that governmentshould formulate policies that will compel commercialbanks to relax their restrictive regulations and operationswhich discourage borrowing and offer more credit facilities forSMEs(Olutunla&Obamuyi, 2008). The Government should re-introduce and enforce themandatory minimum credit allocation by banks to SMEs. Also, thegovernment should empower the SMEs to access and getcredits from the commercial banks through formal andinformal entrepreneurship education for SMEs to developtheir managerial capabilities, accounting skills and overall,be more credit worthy.

Relative to effect of profitability of banks on their involvement in financing of SMEs, there is minimal empirical data. Those that exist however points to the strategic importance of SMEs to banks. For instance, Calice, Chandoand Sekioua(2012) in a study of impact on SME bank financing in East Africa found that the SME segment is a strategic priority for the banks in the region. They concluded that SMEs are considered a profitable business prospect and provide an important opportunity for cross-selling. Specifically, fifty percent of Kenyan banks reported that they were motivated to participate in the SME market in view of its profitability. Similar sentiments were reported in Tanzania, Ugandan and Zambia, where at least 75 per cent of banks interviewed reported that the profitability of the sector was the main driver to participate in the SME market. This study seeks to authenticate the veracityof these findings with specific focus on Kenyan banks.

2.5Competitionand Commercial Banks' Financing of Small and Medium Enterprises

Organizations, banks included today operate in an environment of uncertain economic conditions. Each is faced with the challenge of satisfying more informed employees, critical and demanding customers and fierce competition from protagonists (Chemengich, 2013).The fact that this is taking place during hard economic times with an ever shrinking government financial support further compounds an already bad situation. According to Achol (1991), globalisation of world economies has resulted in high environmental volatility for most investments. Many organisations, banks included are thus faced with turbulent and rapidly changing external conditions that at times translate into complex, chaotic, multifaceted, fluid and interlinked streams of initiatives with an overall net effect on their organisational design, resource allocation, work, systems, procedures (Huezynski, 2001) and performance. Coupled with environmental changes such as technological innovation, competition, regulation, deregulation and consumer behaviour; the overall have come to weigh heavily on organisations forcing them to enhance their business processes in order to survive (Ansoff, 1987). Yet, amidst all these uncertainties, they are expected to remain afloat and return profit.

To effectively handle the challenging business environment and thus remain competitive, organisations, banks included have had to institute programs and strategies which wouldenable them to strategically position themselves relative to their competitors (SME, 2014). According to Hamel and Prahalad (1989), management of organisations need not anticipate the future but create the future which illustrates the ability of organisations and their management attempt to be proactive and not reactive. This requires a continuous process of transforming information into intelligence so that the organisation can manage the future.

Consequently, Kahaner (1997) is categorical that commercial banks have had to be more aggressive to have a big share in the market. Commenting on the same issue, Baydas (1997) observes that stiff banking competition in many countries has forced some banks to diversify into new markets a fact to which Delfiner (2007) and Isern (2003) concurs. While Delfiner (2007) is convinced that growing competition in markets previously served by bankssuch as loans to big companies and MFIs drives downscaling, Isern (2003) posits that with the increasing competition, there is margin squeeze leading the forward thinking banks to explore new potential markets that can generate growth in clients' numbers at acceptable profit margins.

Calice, Chandoand Sekioua(2012) in a study of impact on SME bank financing in East Africa found that banks in the region view the SME segment as a strategic priority. In their findings, intense competition for the corporate business was mentioned by 33 percent of the banks. Specifically, quarter of Kenyan banks reported that intense competition for retail clients drove them to the SME sector, 75 percent in Tanzania and 50 percent of Zambian banks. This study seeks to further this work with specific focus on Kenyan banks.

2.6Public Imageand Commercial Banks' Financing of Small and Medium Enterprises

Banking systems play a very important role in the economic life of nations (Katrodia, 2000). The researcher is categorical that the health ofan economy of any country is closely related to the soundness of its banking sector. Likewise, the researcher posits that modern trade and commerce would almost be impossible without the availability of suitable banking services.Thus, though it is appreciated that banks invest with the main objective of making profit, it is also expected that some of their policies and procedures including services seen to seek to serve the common good of the community including the marginalised poor.

According to Odundo (2011), the prospect of businesses focussing on profitmaking, sustainability was not a major concern initially. However, globalisation has made it important that firms discard destructive and unethical practices and concentrate more on those that seem to be geared towards the public good. Similarly, increased media attention, pressure from the civil society and NGOs dictate that organisations adopt sustainable business practices. In addition, in order to attract and retain employees and customers, businesses have come to appreciate the importance of being ethical while conducting their daily operations.

Researchers have indicated that the best practice for this is to have a Corporate Social Responsibility (CSR) policy. According to Petkoski and Twose (2003), in the longrun, the public will endow a host of goodwill on the firms that have CSR in their agenda which is supported by research that suggests that there is a positive relationship between a firm CSRand their financial performance based on US and European data.

Empirical data shows that SMEs play a major role in economic development in every country. Studies have proved that in both advanced economies and developing countries SMEs are viewed as a viable approach to sustainable development because it suits the resources in Africa. SMEs are the main source of employment in developed and developing countries alike, comprising over 90% of African business operations and contributing to over 50% of African employment and GDP (Okafor, 2006). In Kenya, they create employment at low levels of investment per job, lead to increased participation of indigenous people in the economy, use mainly local resources, promote the creation and use of local technologies, and provide skills training at a low cost to society (ILO, 1989). Estimates are that there were about 900,000 SMEs establishments employing 2 million Kenyans and generating about 14 per cent of the country's GDP (Dolman, 1994). It is also stated that in Kenya this sector accounted for 20% of the GDP in 1999 (CBS et al, 1999) and 64% of the urban employment by 2002 (Karekezi&Majoro, 2002). According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. In addition to its importance in creating jobs, the sector contributes 33% of the value-added in manufacturing and the retail trade in Kenya (Onyango &Tomecko, 2008).

Similarly, research has linked a majority of the beneficiaries of SME job related opportunities to the society's underprivileged including less educated, women and youth who constitute a majority of the worlds' poor population ((Okafor, 2006). Since it has also been proved that access to credit has been the most significant deferent factor to SME growth and that some of the reasons making financial institutions to shy away from involving themselves with SMEs are related to the high risks of providing them with credit facilities (Calice, Chando&Sekioua, 2012). It could therefore be argued that in accepting to provide credit facilities to some SMEs could be undertaken from a CSR perspective and not purely from profit making perspective. When viewed from this perspective, it could be presumed the organisation undertakes the procedure in its attempt to give back to the society and thus build its public image. This study seeks to determine the extent to which banks involvement with financing of SMEs is based on CSR and thus public image.

2.7Customer Turnoverand Commercial Banks' Financing of Small and Medium Enterprises

Today, stakeholders in financial sector, banks included are competing to increasetheir profit share in the market (Saleem& Rashid, 2011). This is particularly more manifest with regard to a share in customers churn in which banks have had to contend with intense competition from not only amongst themselves but also with non-banks and other financial institutions offering similar financial products. According to empirical evidence, it is alleged that most bank products development are easy to increase and when banks provide nearly similar services, they can only distinguish themselves based on the price or quality (Odundo, 2011).

Customer turnover, also referred to as customer churn, customer attrition or customer defection is a term used to describe loss of clients or customers. The value of customerrelationship management has become apparent in thiscompetitive era of technological innovation (Saleem& Rashid, 2011). According to the researchers, customer loyalty and customer retention has importance over customer acquisition and that the level of risk involvedin loss of customers varies with the nature of the product on offer. Reichfield (1990) posits that the longer a customer stays with an organisation or a company, the more the utility than seeking new customers.

Successful strategy in terms of customer retention orenhancement ultimately leads to the profitability according to Saleem and Rashid (2011). A streamof research has argued that in the banking sector, the strategicfocus of banks is to remain competitive in order to retain as many customers as possible (Puschel, Mazzon& Hernandez, 2010; Cohen, Gan, Yong &Choong, 2006). They furtheradded that retention of existing customers is moreeconomical compared to acquiring the new ones since as Healy (1999) argues that, long-term customers also take little time ofthe company and are less sensitive to price changes. Thus,customer retention and customer satisfaction are the twomain prospects to be catered while designing firm’s strategy and the task depends on identification of loyal clients for the organisation to hold onto.

Previous research has alleged that banks consider that the SME lending market is large, not saturated and with a very positive outlook (Calice, Chando&Sekioua, 2012). It has also been suggested that banks have adapted to SME environment and developed mechanisms to cope with them through innovation and differentiation and that most banks have dedicated units serving SMEs, to which they offer largely standardized products with the degree of personalization is still growing. However, there is sparse research on the extent to which the dynamics of the SME market especially with regard to their turnover to banking services has contributed in banks involvement in their financing. This study seeks to determine the extent to which factors related to customer turnover in general and those attributed to SMEs could be contributing to banks’ involvement in financing of SME projects.

2.8 Conceptual Framework

Figure 1 conceptualizes the relationship between the elements identified as important in the involvement of commercial banks in financing of SME projects.

Independent variables Moderatingvariables

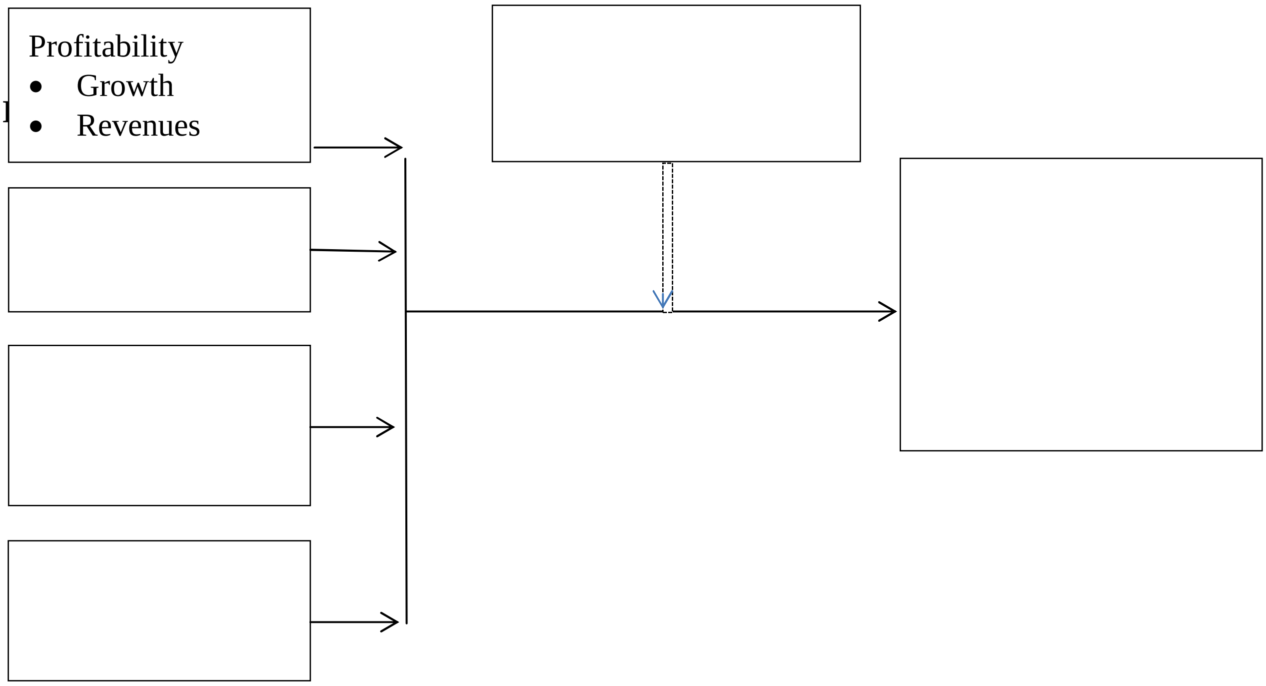

Figure 1 Conceptual Framework

Figure 1 shows the relationship of factors that are perceived to be impacting banks' involvement in financing SME projects. The extent of banks' involvement in financing of SME projects which is the dependent variable involves a number of factors conceived as the independent variables in this study. The variables include profitability, competition by financial institutions;the banks anticipated public image and customer turn over. The process is also believed to be moderated by the existing government statutory investment policies and controlledby the existingenvironmental factors. Banks just like other business entities invest in any market with the major intention of making profit. The extent of profitability of a line of investment would thus automatically imply that banks invest more in that line. However, the extent of profitability of any venture is often hampered by intense competition among similar investors that often results in variable extent of customer turnover. To strategically position themselves most business entities prefer markets with high customers. At the same time, banks just like other public and private business entities have corporate social responsibilities to the general public. Their policies and programs must thus be seen to seek to serve the good of the society.

2.9 Summary of Literature Review

The chapter provides an insight on relevance and financing of SME projects. It particularly provide previous empirical data on the highlights of the reasons linking banks involvement with SMEs and profitability, competition and the need of the banks to build a good public image. Lastly, the review considered the extent to which customer turnover could explain banks involvement with SMEs.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research methodology that was used to carry out the study. It outlines the research design, study location, target population, sampling procedure, and instruments to be used in data collection. The pilot study phase, reliability and validity, procedure to be used for data collection as well as methods of data analysis and issues of ethical consideration are also discussed.

3.2 Research Design

The study applieda case study research design. The case study method waschosen because it gives an in-depth understanding of the behaviour pattern of an organisation. The case study is a form of qualitative analysis where study is done in an institution or situations and from this study data generalizations and inferences are made (Cohen &Manion, 2007). The purpose of the study was toassess how financing of the SMEs by mainstream banks had evolved over the years since inception and Diamond Trust bank was specifically targeted to provide an insight.

3.3 Target Population

A target population refers to all members of real or hypothetical set of people events or objects to which the researcher wishes to generate data for a study (Orodho, 2003). The target population for this study therefore comprised all Diamond Trustbank's branch managers, credit managers at centralised credit departments, the asset financial managerat the head office and the DBT CEO. The bank has 51 branch managers, 3 credit managers at the centralised credit departments and an asset finance officer at the bank's headquarters that constituted the target population. Thus, the total population targeted for this study was 55.A census survey of all the targeted persons was undertaken in this study due to the low population targeted. According to Kothari (2004) where the target population is relatively low, sampling is not necessary and census survey is advocated for. A list of the bank's branches from where the branch managers were drawn is attached to the report as appendix 1.

3.4 Data Collection Instruments

Due to the nature of this study, the researcher used questionnaires to collect data from sampled respondents. A questionnaire was considered the most appropriate in this instance for the researcher because its administration enabled the researcher to collect relevant data from respondents easily. Thequestionnaire consisted of closed ended and open ended questions. Closed ended questions are easy to analyse because their information content is short. Open ended questions are appropriate to the study because the researcher is interested in in-depth information from the respondent since they provide room for respondents to air out their views freely. Other previous research instruments on project planning and management were consulted in coming up with the items in the research questionnaire.

3.5 Validity and Reliability of Research Instruments

These are terms associated with the extent to which data collection tools are able to accurately gather the intended information from respondents.

3.5.1 Validity

The study used content and construct validity. According to Joppe (2000), validity determines whether the research instrument truly measures that which it was intended to measure or how truthful the research results are. Kothari (2004) intimates that validity can be determined by using a panel of persons who shall judge how well the instruments meet the standards. To ensure that the instruments have content and construct validity, the researcher carefully consulted with supervisors and made any necessary adjustments.

3.5.2 Reliability

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. Cronbach alpha was used to assess the reliability of each of the instruments to be used for data collection based on the data obtained from the pilot study. Gliem and Gliem (2003) describes Cronbach alpha as a technique that measures internal consistency reliability using only a single test administration to provide a unique estimate of the reliability for a given test. It is the average value of the reliability coefficients one would obtained for all possible combinations of items when split into two half-tests (Brown, 2002). A pilot study was carried at in 5 Barclays Bank branches in Mombasa area to pre-test the research instrument. The data obtained yielded a reliability coefficient as summarised in Table 3.1

Table 3.1 Reliability Analysis

Element	Cronbach's Alpha	Number of Items
Influence of profitability	0.874	4
Influence of competition	0.910	3
Influence of public image	0.865	2
Influence of customer turnover	0.862	4

Source: Research data, (2015)

Cronbach's Coefficient Alpha was established for every variable which formed a scale. The table 3.1 shows that influence of competition had the highest reliability (α=0.910), followed by influence of profitability (α=0.874) then influence of public image (α=0.865) while influence of customer turnover had the least value (α=0.862). This illustrates that all the four scales were reliable as their reliability values exceeded the prescribed threshold of 0.70.

According to Cronbach's Alpha reliability, a coefficient of 0.70 or higher is considered "acceptable" in most social science research situations (Nassiuma and Mwangi 2014).

3.6 Data Collection Procedure

Data for this studywas gathered using a drop and pick questionnaire. Questionnaires designed by the researcher were used to elicit responses from the respondents on a wide range of issues. The questionnaire items were developed to address the specific objectives of the study and are found appropriate in enabling the researcher gather large amounts of data from many subjects economically (Orodho, 2009).Prior to commencement of data collection, permission was sought from the university. With the permit, the researcher presented a letter of introduction to each of the target respondent to formally seek permission and to book appointments for the real exercise of collecting data. Then the questionnaires were circulated to the managers and the importance of the exercise explained to them after which they were allowed to complete the questionnaire within a week.

3.7 Data Analysis

The data collected was analysed using quantitative techniques. Descriptive statistics in the form of frequency table and mean was used to analyse quantitative data. For inferential analysis, regression analysis was used to show the relationship between dependent and independent variables (Meyers, Gamst&Guarino, 2005, Tabachnick& Fidel, 5th Ed, 2006).

3.8 Ethical Considerations

Ethical guidelines were followed since the researcher sought permission from the university and the respondents through their companies in order to carry out the study. The information gathered from the study was used for academic purposes and data gathered was divulged to third parties at any cost. To this end, information provided was treated as private and confidential and solely for this study. Names of respondents were not in any way disclosed so as to protect their rights. After the study, the report will be accessible to them in the university library.

3.9 Operational Definition of Variables

The study considered for review several variables. The independent variables included profitability, competition, public image and customer turnover. In the study, these variables had the following meanings:

Competition: The act or process of trying to get or win something (such as a prize or a higher level of success) that someone else is also trying to get or win; the act or process of competing.

Customer turnover: Rate of loss of clients or customers

Profitability: The capacity to make profit or the state or quality of being profitable.

Public Image: The way in which an entity would wish to be viewed by the public. Also implies the image that an entity projects to its customers.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents analysis of data obtained from employees of Diamond Trust Bank in loan management positions, interprets and discusses their findings. The study intended to determine the involvement of mainstream banking institutions in financing of SME projects in Kenya with specific focus on DTB. The data obtained from respondents was analyzed using SPSS version 20.

4.2 Response Rate

The study targeted 51DTB bank managers drawn from its branches, 3centralized credit departments and an asset finance manager at the bank's headquarter. A total of 47 useful questionnaires were obtained which represents a response rate of 92.16%.

Table 4.1 Response Rate

Designation	Frequency	Percentage
Branch managers	44	93.6
Credit control managers	2	4.3
Asset finance manager	1	2.1
Total	47	100.0

The respondents included 44 (93.6%) branch managers, 2 (4.3%) credit control managers and 1 (2.1%) asset finance manager. The response rate is deemed reliable for data analysis as per Babbie (2002) who reported that any response of 50% and above is adequate for analysis.

4.3 Demographic Characteristics of Respondents

Respondents demographic variables considered for review include gender and work experience at DTB and in their respective positions.

4.3.1 Distribution of Respondents by Gender

The findings on respondents' gender were as is summarized in Table 4.2.

Table 4.2 Respondents Gender

Gender	Frequency	Percentage
Male	25	53.2
Female	22	46.8
Total	47	100.0

Data on respondents' gender shows there were 25(53.2%) males and 22 (46.8%) females indicating that though the population of male workers were slightly more than that of females, the gender composition of the meets the a third gender rule envisaged in the country's constitution.

4.3.2 Work Experience

Similarly, an inquiry was made on the respondents' work experience at DTB and their responses were as is summarized in Table 4.3.

Table 4.3 Work Experience

Number of years worked at DTB	**Frequency**	**Percentage**
Below 1 year	10	21.3
1 – 5	13	27.7
6 – 10	13	27.7
Above 10	11	23.4
Total	47	100.0

Table 4.3 contains the results of the respondents work experience at DTB. From the results, 10 (21.3%) of them had worked for less than 1 years, 13 (27.7%) for between 1 and 5 years, 13 (27.7%) for between 6 and 10 years and 11 (23.4%) for more than 10 years. This means that the sample consisted of workers with a spread of durations of work experience in

proportions suitable for this study with a majority having worked at DTB for more than 1 year a period presumed long enough to master the dynamics of the bank operations.

4.3.3 Number of Dependents'

Further, the study assessed the respondents' work experience in the respective positions they were holding for a better understanding of their mastery of the bank's handing of SMEs. Their responses were as is captured in Table 4.4.

Table 4.4Work Experience in Respective Positions.

Work experience in years	Frequency	Percentage
Less than 1	20	42.5
1 – 5	13	27.7
More than 5	14	29.8
Total	47	100.0

The results of the respondents work experience in their respective positions which included serving the bank's SMEs show that 20 (42.5%) had served for less than 1 year, 13 (27.7%) had served for between 1 and 5 years while the remaining 14 (29.8%) had worked for DTB in their respective positions for more than 5 years. This implies that a majority of the respondents had served in their respective positions for a period long enough to enable them provide credible information for this study.

4.4 Diamond Trust Bank Involvement in Financing of SMEs

The study principally sought to assess the extent and influence of DTB involvement in financing of SME projects within the country in order to isolate factors influencing the involvement. An inquiry was made from sampled respondents all of who had initially acknowledged that part of their responsibilities included serving the bank's SME clients using statements to ascertain their level of involvement. To begin with, an inquiry on the bank's system for categorisation of a customer as an SME. The findings were as is summarised in Table 4.5.

Table 4.5Parameters for Classification of Clients as SMEs

Parameter	Bank's Bench mark
Annual turnover	Above KSh. 500,000
Number of employees	Between 10 and 100 people
Amount of loan applied for	Between KSh. 500,000 and 2 M
Services offered to clients	Overdraft and Term loan

Table 4.5 contains the respondents' conception for the parameters that the bank uses in classifying its clients as being SMEs. From the Table, it is evident that the bank mainly uses three parameters: annual turnover, number of employees and amount of loan applied for. Thus, for DTB, SMEs are entities with annual turnovers of over KSh. 500,000, employees ranging between 10 and 100 and usually applies for a loan of between KSh. 500,000 and 2 million. Respondents also indicated that the most common services that were offered to SME clients included overdraft and term loan.

Additionally, an inquiry was made on respondents' conception of the banks initiatives towards serving SME clients. Their responses to an array of statements towards this end were as is summarised in Table 4.6.

Table 4.6 Bank's Initiative towards Serving SMEs

Statement	NS		A		SA		Total	
	f	%	f	%	f	%	f	%
The bank culture is tailored to serve SMEs	8	17.0	34	72.3	5	10.6	47	100
The bank is committed in providing services to SME clients	15	31.9	19	40.4	13	27.7	47	100
The bank has adequate network for serving SME clients	6	12.8	22	46.8	19	40.4	47	100

Note: **NS –** Not Sure; **A–** Agree and **SA** – Strongly Agree

Figure 4.6 contains information on respondents’ conception of DTB initiatives towards financing SME projects. The information shows that 39 (83%) respondents indicated that the bank’s cultured is tailored to serve SMEs, 32 (68.9%) insisted that the bank is committed in providing services to SME clients while 41 (87.2%) confirmed that the bank has adequate network for serving SME clients. This implies that a significant majority of the were convinced that DTB was committed in offering financial services to SMEs and was doing all that is possible to make this possible.

Similarly, the respondents’ conception of the significance of SMEs to DTB was sought and the responses were as is summarised in Table 4.7.

Table 4.7 Significance of SMEs to Diamond Trust Bank

Statement	**LI**		**FI**		**I**		**VI**		**Total**	
	f	%	f	%	f	%	f	%	f	%
Lowering of bank charges	-	-	5	10.6	4	8.5	38	80.9	47	100
Increased earning on deposits & savings	2	4.3	6	12.8	8	17.0	31	66.0	47	100
Relaxing the collateral requirement during lending	-	-	4	8.5	15	31.9	28	59.6	47	100
Diversifying SME banking	-	-	4	8.5	4	8.5	39	83.0	47	100
Continuous review and improvement of SME products	-	-	4	8.5	14	28.9	29	61.7	47	100
Bonus to marketing staff	9	19.1	10	21.3	8	17.0	20	42.6	47	100

Note: **LI –** Less important; **FI–** Fairly important; **I –** Important and **VI –** Very important

Table 4.7 provides a summary of the respondents’ conception of the significance of SMEs to DTB. Results show that 42 (89.4%) respondents indicated that lowering of the banks charges was an indicator attributed to the importance with which the bank considered the SMEs, 39 (82.9%) said increased earnings on deposit and savings had made the bank to either consider the SME sector as important or very important which was also true for relaxing of collateral requirements during lending according to 43 (91.5%) respondents. Similarly, a significant proportion of the respondents, 43 (91.5%) asserted that diversifying in SME banking was either important or very important, a similar proportion of respondents (91.5%) insisted that continuous review and improvement of SME products was of paramount importance for the bank as well as award of onus to marketing staff according to 28 (59.8%) respondents. This therefore means that according to a majority of the respondents, DTB consider SME as important players in today's business environment and has strategically positioned itself to exploit some of their inherent benefits.

Lastly for this item, an inquiry was made on the respondents' perception of the factors that were suspected to be influencing the sustainability of SME banking for commercial banks. Their responses were as captured in Table 4.8.

Table 4.8 Factors influencing SME Banking

Statement	Mean	S. Dev.	Rank
Banks have laid down institutional policies and procedures to regulate SME products	4.0851	0.40806	4
Banks have customized products to suit customer preferences	4.0426	0.62406	5
The market is experiencing increased number of SME customers	4.4468	0.50254	1
The bank have aligned SME products policy to the overall bank strategy	4.1064	0.69888	3
The bank has well versed SME banking board members	3.1489	1.58771	7
The bank has a management and staff that understand SME banking market dynamics	4.2766	0.45615	2
The bank has a good SME customer service mechanism	3.8085	0.85053	6
The bank organizes training and workshops for customers to understand SME banking products	3.0000	1.60163	8

The findings show that a majority of respondents indicated that the fact that the market is experiencing increased number of SME customershad the highest mean ranking of 4.4468 and a standard deviation of 0.50254 implying that it had the highest influence. It was followed by the fact that the bank has a management and staff that understand SMEbanking market dynamics(mean of 4.2766 and standard deviation of 0.45615)thenthen the fact that DTB has aligned SME products policy to the overall bank strategy (mean of 4.1064 and standard deviation of 0.69888) followed by the fact that banks have laid down institutional policies and proceduresto regulate SME products (mean of 4.0851 and standard deviation of 0.40806) and the fact that banks have customized products to suit customer preferences (mean of 4.0426 and standard deviation of 0.62406). Other factors which were found to be impacting on sustainability of SME banking include the fact that the bank has a good SME customer service mechanism (mean of 3.8085 and standard deviation of 0.85053), the fact that the bank has well versed SME banking board members (mean of 3.1489 and standard deviation of 1.58771) and the fact that thebank organizes training and workshops for customers to understand SME banking products (mean of 3.0000 and standard deviation of 1.60163).

4.5 Profitability and Diamond Trust Bank Involvement in Financing of SME Projects

The study to begin with sought to establish the influence of profitability on the involvement of DTB in financing of SME projects. It thus made an inquiry on the respondents' perception of various issues related to profitability of SME operations. The findings were as is indicated in Table 4.9.

Table 4.9 Influence of Profitability on DTB Involvement in financing of SMEs Projects

Statement	**ME**		**GE**		**VGE**		**Total**		**Mean**	**S. DEV**
	f	%	f	%	f	%	f	%		
Diverse revenue sources from SMEs	2	4.3	20	42.6	25	53.2	47	100.0	4.4894	0.58504
Increased earning on deposits from SMEs	2	4.3	14	29.8	31	66.0	47	100.0	4.6170	0.57306
Increased earning on savings from SMEs	5	10.6	18	38.3	24	51.1	47	100.0	4.4043	0.68078
Huge profit noted from SMEs	3	6.4	12	25.5	32	68.1	47	100.0	4.6170	0.60982
Grand Mean									**4.5319**	**0.61218**

The results as is contained in Table 4.9 shows that except for 2 (4.3%) of the respondents who insisted that the influence of diverse revenue sources from SMEs affected DTB involvement in financing of SME projects to a moderate extent, a majority 45 (95.8%) thought their influence were either to a great or very great extent. A similar proportion of the respondents, 45 (95.8%) indicated that increase in earning on deposits from SMEs influenced involvement in financing either to a great or very great extent, 42 (89.4%) were categorical that increase in earning on savings from SMES influenced it either to a great or very extent while 44 (93.6%) affirmed that huge profit noted from SMEsinfluenced DTB involvement in financing of SME projects to a great or very great extent. Thus the element attained a mean rating of 4.5319 and standard deviation of 0.61218 implying that for a majority of the respondents, profitability influences DTB involvement in financing of SME projects.

The study also sought to assess the respondents' perception of the influence of various indicators of profitability on the banks involvement in financing of SME projects.

Table 4.10 Indicators of Influence of Profitability

Indicator	Mean	Standard Dev.	Rank
Active borrowers	4.6383	0.48569	1
Number of clients served	4.5532	0.58267	2
Revenue per average loan	4.4468	0.71653	3
Net interest margin	4.3830	0.82233	4
Cost per current unit lending	4.2553	0.73627	5

The results show that active borrowers had the highest influence thus the indicator had highest mean of 4.6383 and a standard deviation of 0.48569. It was followed by the number of clients served (mean of 4.5532 and standard deviation of 0.58267) thenrevenue per average loan (mean of 4.4468 and standard deviation of 0.71653) followed by net interest margin (mean of 4.3830 and a standard deviation of 0.82233) and lastly cost per current unit lending (mean of 4.2553 and standard deviation of 0.73627) in decreasing order of influence.

4.6 Competition and Diamond Trust Bank Involvement in Financing of SME Project

The elements of competition were also assessed to determine the respondents' perception of theirinfluence on DTB involvement in financing of SME projects.The results were as is presented in Table 4.11.

Table 4.11Influence of Competition on DTB Involvement in financing of SMEs Projects

Statement	ME		GE		VGE		Total		Mean	S. DEV
	f	%	f	%	f	%	f	%		
Large untapped SME market share	2	4.3	17	36.2	28	59.6	47	100.0	4.5532	0.5827
High environmental volatility for most investments	2	4.3	21	44.7	24	51.1	47	100.0	4.4681	0.5843
Increased competition in traditional markets	4	8.5	16	34.0	27	57.4	47	100.0	4.4894	0.6552
Grand Mean									**4.5036**	**0.6074**

The findings show that 45 (95.7%) acknowledged that there is large untapped SME market share which was influencing DTB involvement in financing of SME projects. Similarly, 45

(95.7%) respondents felt that high environmental volatility for most investment influenced DTB involvement financing of SME projects and 43 (91.5%) insisted that increased competition in traditional markets could be a great or very great influence of DTB involvement in financing of SME projects. Overall therefore, the respondents mean rated the influence of elements of competition on DTB involvement in financing of SME projects at a mean of 4.5036 out of 5 and a standard deviation of 0.6074. This implies that a significant proportion of the respondents indicated that competition influenced DTB involvement in financing of SME projects.

4.7 Public Image and Diamond Trust Bank Involvement in Financing of SME Project

Further, elements of public image were probed to assess their extent and influence on DTB involvement in financing of SME projects. Their responses were as is summarized in Table 4.12.

Table 4.12 Influence of Public Image on DTB Involvement in financing of SMEs Projects

Statement	SE		ME		GE		VGE		Total		Mean	S.DEV
	f	%	f	%	f	%	f	%				
Need to give back to the community.	2	4.3	13	27.7	15	31.9	17	36.2	47	100.0	4.0000	0.9089
As a boost to the banks image	4	8.5	14	29.8	2	4.3	27	57.4	47	100.0	4.1064	1.1080
Grand Mean											**4.0532**	**1.0085**

Table 4.12 contains information on respondents' conception of the influence of elements of public image on DTB involvement in financing of SME projects. The results show that 45 (95.7%) respondents felt that the need to give back to the community could be either greatly or very greatly influencing the bank's involvement in financing of SMEs projects. Similarly, 43 (91.5%) respondents were categorical that the bank's involvement in financing of SME

projects was being undertaken either to a great or very great extent as a boost to the bank's image. Thus the element attained a mean ranking of 4.0532 and standard deviation of 1.0085 signifying that a majority of the respondents perceive that the need to give back to the community in a appreciation of the support could be a great influence on the bank's involvement in financing of SME projects.

4.8 Customer Turnover Rate and DTB Involvement in Financing of SME Project

Lastly, elements of customer turnover were assessed to verify their impact on DTB involvement in financing of SME projects within the country. The results of the inquiry were as in Table 4.13

Table 4.13 Influence of Customer Turnover Rate on DTB Involvement in financing of SMEs Projects

Statement	ME		GE		VGE		Total		Mean	S.DEV
	f	%	f	%	f	%	f	%		
High customer turnover in the traditional markets	6	12.8	19	40.4	22	46.8	47	100.0	4.3404	0.7002
Need to establish a niche in the market and stem customer attrition	4	8.5	11	23.4	32	68.1	47	100.0	4.5957	0.6481
Top management and organization culture orientation	17	36.2	9	19.1	21	44.7	47	100.0	4.0851	0.9048
Conducive government regulation and support	8	17.0	17	36.2	22	46.8	47	100.0	4.2979	0.7493
Grand Mean									**4.3298**	**0.7506**

The findings show that41 (87.2%) of the respondents indicated that the high customerturnover in the traditional markets were influencing DTB involvement in financing of SME projects either to a great or very great extent. At the same time, 43 (91.5%) respondents felt that the need to establish a niche in the market influenced DTB involvement financing of SME projects to a great or very great extent, 30 (63.8%) thought that top management and organization culture orientation's influence were either greatly or very greatly whileand 39 (83.0%) insisted that conducive government regulations and supportcould be greatly or very greatlyinfluencing DTB involvement in financing of SME projects. In general therefore, the respondents mean rated the influence of elements of customer turnover on DTB involvement in financing of SME projects at 4.3298 and a standard deviation of 0.7506. This implies that a significant proportion of the respondents felt that customer turnover influenced DTB involvement in financing of SME projects.

4.9 Regression Analysis

An inferential analysis of the relationship between the elements of profitability, competition, public image and customer turnover rate and DTB involvement in financing of SMEs was undertaken using the multiple linear models:

$$\mathbf{Y = B_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Whereby: Y is DTB involvement; α_1 is regression constant; β_1 – β_5 are regression coefficients; X_1 is profitability; X_2 is competition; X_3 is public image;X_4 is customer turnoverrate and ε is error term.

Table 4.14Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.665[a]	.442	.435	.64362

a. Predictors: (Constant), Customer turnover rate , Pubic image, Profitability, Competition

R shown in Table 4.14 is the correlation between the observed and predicted values of dependent variable implying that the association of 0.665 between the factors (profitability, competition, public image and customer turnover rate) and DTB involvement in financing of SME projects was good. R-Square is coefficient of determination and measures the proportion of the variance in the dependent variable – factors - that is explained by variations in the independent variables - profitability, competition, public image and customer turnover rate. This implied that 44.2% of variance or correlation between dependent and independent variables. That is, 44.2% of variations or changes in the banks involvement in financing of SME projects are caused by the factors. However, it does not reflect the extent to which any particular independent variable is associated with the banks involvement in financing of SME projects.

Table 4.15 Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	108.321	4	27.080	65.372	.000[b]
	Residual	136.703	330	.414		
	Total	245.023	334			

a. Dependent Variable: Banks involvement

b. Customer turnover rate, Pubic image, Profitability, Competition

The ANOVA statistics shown in Table 4.15 was used to present the regression model significance. An F-significance value of p = 0.000 was established showing that there is a probability of 0.0% of the regression model presenting a false information. Therefore, the model is very significant.

The regression compares the magnitude of the coefficients of the independent to determine which one had more effects on the banks involvement in financing of SME projects.

Table 4.16 Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.845	.212		3.994	.000
Profitability	.287	.059	.3104.848		.000
Competition	-.158	.054	-.1792.937		.004
Public image	.118	.065	.0761.805		.072
Customer turnover	-.392	.045	-.3828.646		.000

a. Dependent Variable: Banks involvement

From Table 4.16, the following regression model is established:

Bank's Involvement = 0.845 + 0.287X_1 - 0.158X_2 + 0.118X_3 - 0.392X_4 P = 0.000

Where $X_{1=}$ Profitability, $X_{2=}$ Competition, $X_{3=}$ Public image, $X_{4=}$ Customer turnover rate;

β_0 = 0.845; β_1 = 0.287; β_2= -0.158; β_3= 0.118 and β_4= -0.392.

The regression constant shows that when the independent variables (profitability, competition, public image and customer turnover rate) are constant at zero, the bank's involvement in financing of SME projects value would be minimal (0.845). This shows that without the four factors, the bank's involvement in financing of SME projects would be insignificant.

It was established that the respondents' level of the bank's involvement in financing of SME projects would increase by 0.287 with every unit positive increase in profitability provided that other factors (competition, public image and customer turnover rate) are constant. This statistic is significant at 95% confidence level (p = 0.000). Similarly, application of public image would lead to an increase in the banks involvement in financing of SMEs by a factor of 0.118 this statistics being insignificant at 0.05 level of significant (p=.072).

However, application of influence of competition would lead to a decrease in the bank's involvement in financing of SME projects by a factor of 0.158 at P = 0.004 should other factors be held constant. Additionally, holding the other factors (profitability, competition and public image) constant, a unit increase in customer turnover rate would lead to a 0.392 decrease in the bank's involvement in financing of SME projects (p = 0.000).

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS.

5.1 Introduction

This chapter presents a summary of the research findings, conclusions, recommendation and suggestion for further research. The main purpose of this study was to determine the influence of various factors on commercial bank's involvement in financing of SME projects with specific focus on Diamond Trust Bank. Data for analysis was obtained through structured questionnaires presented to the respondents through drop and pick method. Information obtained was analysed quantitatively with the aid of SPSS computer software version 20.

5.2 Summary of Findings

The contents of the study findings are summarized based on the four study objectives and two themes that include respondents' background characteristics as well as the results from regression analysis.

5.2.1 Profile of the Respondents

The study attained a response rate of 92.16% which can be said to be very good. Specifically, 93.6% of the respondents were branch managers, 4.3% were credit control managers and 2.1% were asset finance manager. Additionally, 53.2% were males, 51.1% had worked for DTB for more than 5 yearsand 57.5% had served in their respective positions for more than 1 year to enable them master the bank's SME operations.

5.2.2 Diamond Trust Bank Involvement in Financing of SMEs

Findings showed that an entity annual turnover, number of employees and amount of loan applied for. Specifically, 83% of the respondents indicated that the bank's culture is tailored to serve SMEs, 68.9% insisted that the bank is committed in providing services to SME clients while 87.2% confirmed that the bank has adequate network for serving SME clients. This implies that a significant majority of the respondents were convinced that DTB was committed in offering financial services to SMEs. Relative to the indicators of the bank's involvement, 89.4%) respondents indicated that lowering of the banks charges was an indicator attributed to the importance with which the bank considered the SMEs 82.9% said increased earnings on deposit and savings had made the bank to either consider the SME sector as important or very important which was also true for relaxing of collateral requirements during lending according to 91.5% respondents.

5.2.3 Profitability and Bank Involvement in Financing of SME Projects

Results showed the element of influence of profitability attained a mean rating of 4.5319 and standard deviation of 0.61218 implying that the factor greatly influenced DTB involvement in financing of SME projects. Specifically,95.8% of the respondents thought that the influence of diverse revenue sources from SMEs affected DTB involvement 95.8% indicated that increase in earning on deposits from SMEs influenced the bank's involvement, 89.4% were categorical that increase in earning on savings from SMES influenced the bank's involvement as well as 93.6% who affirmed that huge profit noted from SMEs influenced DTB involvement in financing of SME projects. Regression analysis showed that profitability influenced the bank's involvement in financing of SME positively (**β = 0**.287).

5.2.4 Competition and Bank Involvement in Financing of SME Projects

The influence of elements of competition on involvement of DTB in financing of SME projects was mean rated at 4.5036 out of 5 and a standard deviation of 0.6074.A majority, 95.7% of the respondents acknowledged that there is large untapped SME market share which was influencing DTB involvement in financing of SME projects, a similar proportion (95.7%) felt that high environmental volatility for most investment influenced DTB involvement and 91.5% insisted that increased competition in traditional markets could be a great influence of DTB involvement in financing of SME projects. Regression analysis showed that competition influenced the bank's involvement in financing SMEs negatively (**β=** -0.158).

5.2.5 Public Image and Diamond Trust Bank Involvement in Financing of SME Projects

Elements of public image were found to have an influence on involvement of DTB in financing of SME projects by a majority of the respondents as confirmed by a mean rating of 4.0532 and standard deviation of 1.0085. A majority of the respondents (95.7%) indicated that they felt that there is need to give back to the community. Similarly, 91.5% of the respondents were categorical that the bank's involvement in financing of SME projects was being undertaken as a boost to the bank's image'. Regression analysis showed that quest for positive public image influenced the bank's involvement in financing SMEs positively (**β**= 0.118).

5.2.6 Customer Turnover and Bank Involvement in Financing of SME Project

The respondents mean rated the influence of elements of customer turnover on DTB involvement in financing of SME projects at 4.3298 and a standard deviation of 0.7506 implying that a significant proportion felt that customer turnover influenced DTB involvement in financing of SME projects. Specifically, 87.2% of the respondents indicated that the high customer turnover in the traditional markets were influencing DTB involvement in financing of SME projects either to a great or very great extent, 91.5% were categorical that the need to establish a niche in the market influenced DTB involvement, 63.8% thought that top management and organization culture orientation's influence was great or very great while 83.0% insisted that conducive government regulations and support was of great influence to DTB financing of SME projects. Regression analysis showed that customer turnover rate influenced the bank's involvement in financing SME projects negatively (**β**= -0.392).

5.3 Discussions

The findings illustrated that the bank mainly uses three parameters in ascertaining whether a customer was an SME: their annual turnover, number of employees and amount of loan applied for. This observation is similar that of Calice, Chando and Sekioua (2012) who in a study of banking finance to SMEs in East Africa established that the most widely used criteria was loan size and company turnover, both of which were employed by 69 percent of the banks. According to the study, staff size was an additional SME definition used by two banks in Kenya and one in Tanzania. Most banks which used the turnover as a classification criterion reported very wide variances in the qualifying amounts, with the minimum turnover between zero and US$1 million. In this study, respondents indicated that for DTB, SMEs are entities with annual turnovers of over KSh. 500,000, employees ranging between 10 and 100 and usually applies for a loan of between KSh. 500,000 and 2 million. Additionally, a significant majority of the respondents were convinced that DTB was committed in offering financial services to SMEs and the bank was doing all that is possible to make this a reality.

With regard to the influence of profitability on the involvement of DTB in financing of SME projects, the respondents were categorical that DTB consider SME as important players in today's business environment and therefore the bank has strategically positioned itself to exploit some of their inherent benefits. The element attained a mean rating of 4.5319 and standard deviation of 0.61218 implying that for a majority of the respondents, profitability played a significant role in influencing DTB involvement in financing of SME projects. Respondents were categorical that they had noted increase in earning on deposits from SMEs, increase in earning on savings from SMEsand that huge profit had been noted from SMEs that influenced DTB involvement in financing of the SME projects. This finding concurs with that of Calice, Chandoand Sekioua(2012) who found that the SME segment is a strategic priority for the banks in the region. The researchers concluded that SMEs are considered a profitable business prospect and provide an important opportunity for cross-selling. Specifically, fifty percent of Kenyan banks reported that they were motivated to participate in the SME market in view of its profitability. Similar sentiments were reported in Tanzania, Ugandan and Zambia, where at least 75 percent of banks interviewed reported that the profitability of the sector was the main driver to participate in the SME market.

Therespondents mean rated the influence of elements of competition on DTB involvement in financing of SME projects at 4.5036 out of 5 and a standard deviation of 0.6074. This implies that a significant proportion of them were convinced that competition influenced DTB involvement in financing of SME projects. Similar sentiments were also expressed by Kahaner (1997) who asserted that commercial banks have had to be more aggressive to have a big share in the market. Baydas (1997) on his part observed that stiff banking competition in many countries has forced some banks to diversify into new markets a fact to which Delfiner (2007) and Isern (2003) concurs. While Delfiner (2007) is convinced that growing competition in markets previously served by banks such as loans to big companies and MFIs drives downscaling, Isern (2003) posits that with the increasing competition, there is margin squeeze leading the forward thinking banks to explore new potential markets that can generate growth in clients' numbers at acceptable profit margins. Likewise, Calice, Chandoand Sekioua(2012) posit that banks in East Africa view the SME segment as a strategic priority. In their findings, intense competition for the corporate business was mentioned by 33 percent of the banks. Specifically, quarter of Kenyan banks reported that intense competition for retail clients drove them to the SME sector, 75 percent in Tanzania and 50 percent of Zambian banks. This study seeks to further this work with specific focus on Kenyan banks.

Further, respondents mean rated the influence of elements of public image on DTB involvement in financing of SME projects at 4.0532 and standard deviation of 1.0085 signifying that a majority of them perceive that the need to give back to the community in an appreciation of the support could be a great influence on the bank's involvement in financing of SME projects. This observation corroborates that of Petkoski and Twose (2003), who stated that in the long run, the public will endow a host of goodwill on the firms that have CSR in their agenda which is supported by research that suggests that there is a positive relationship between a firm CSRand their financial performance based on US and European data.

With regard to the influence of elements of customer turnover rate, results showed that respondents were convinced that the high rate of attrition by bank's customers to competitors could be a major reason for the bank diversifying to SME sector thus they mean rated the influence of elements of customer turnover rate on DTB involvement in financing of SME projects at 4.3298 and a standard deviation of 0.7506. This implies that a significant proportion of the respondents felt that customer turnover rate influenced DTB involvement in financing of SME projects. Saleem and Rashid (2011) argue that successful strategy in terms of customer retention orenhancement ultimately leads to the profitability. Similarly,a streamof research has argued that in the banking sector, the strategicfocus of banks is to remain competitive in order to retain as many customers as possible (Puschel, Mazzon& Hernandez, 2010; Cohen, Gan, Yong &Choong, 2006). They furtheradded that retention of existing customers is moreeconomical compared to acquiring new ones since as Healy (1999) argues, long-term customers take little time ofthe company and are less sensitive to price changes.

5.4 Conclusion

From the proceeding discussion, it can be concluded that various factors influence the bank's involvement in financing of SME projects. Specifically, the findings showed that there is a significant relationship between profitability, competition and customer turnover and DTB involvement in financing of SME projects. Similarly, results showed that profitability and public image influenced the bank's involvement positively with the influence of profitability being greater. However, competition and customer turnover were found to influence the bank's involvement negatively, the effect of customer turnover being greater.

5.5 Recommendations

It is therefore recommended that stake holders should consider putting in place the recommended steps to enhance commercial banks involvement in financing of SME projects. The findings to begin with indicate that though DTB was found to have strategically positioned itself to tap into the SME sector, some of its programs and policies with regard to the sector appeared to still be in their initial stages of implementation thus require to be enhanced for quality service to the sector. They includeorganizes training and workshops for customers to understand SME banking products, inclusion of well versed SME banking board members and enhancing the bank's SME customer service mechanism.

Similarly, though the study established that profitability and public image impacted on the banks involvement positively, the extent of influence of public image was still too low and needs to be fortified thusenhance the bank's involvement in financing of SME projects. Additionally, the negative influence of competition and customer turnover on the bank's involvement in financing of SME projects imply that the bank should strategize on how best to strategically position itself to tap into the SME sector rich market by offering quality and competitive services and products to the sector.

5.6 Suggestions for Further Research

The following areas are suggested for further study:

i. A comparative study of extent and influence of the involvement of various commercial banks in financing SME projects in Kenya.
ii. A comparative study of the extent and influence of the involvement of commercial banks and micro financial institutions in financing SME projects in Kenya..
iii. A study of factors inhibiting involvement of financial institutions in financing SME projects in Kenya.

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APPENDICES

Appendix I: Diamond Trust Bank Branches

1. Capital centre	21. Bungoma Branch	41. Kisii Branch
2. OTC centre	22. Kisumu Branch	42. Courtyard Branch
3. DYB centre	23. Kakamega Branch	43. Nakuru East
4. Buruburu	24. Nakuru Branch	44. Nyali Branch
5. Tom Mboya	25. Eldoret Branch	45. Mariakani
6. Nation centre	26. Kitale Branch	46. Voi
7. Eastleigh	27. Migori Branch	47. Upper Hill
8. Industrial Area	28. Kisumu East Branch	48. Kilifi
9. Prestige Plaza	29. Parklands centre	49. Lamu
10. Lavington	30. Diamond Plaza centre	50.
11. Village Market	31. Wabera Street Branch	51.
12. Westgate	32. Kitengela Branch	
13. South C centre	33. Karen Branch	
14. Thika Branch	34. Thika Mall	
15. Mombasa centre	35. T Mall Branch	
16. Changamwe Branch	36. Crown Plaza	
17. Jomo Kenyatta Branch	37. Cross Roads	
18. Diani Branch	38. Shimanzi Branch	
19. Malindi Branch	39. Meru Branch	
20. Mtwapa Branch	40. Kericho Branch	

Appendix II: Questionnaire

Introduction

The statements below are intended to gather information about the extent and factors influencing DTB involvement in financing SME projects within the country. Suggest to the best of your ability your opinion against each of the statements. The information obtained will be treated with utmost confidentiality and will not be used for any other purpose other than academic. Thanks for accepting to take part in the programme.

Part A: Respondents Information

Kindly ticks in the space provided √ ( ) the correct answer or supply the required information where required.

1. Designation:Branch Manager ( ) Credit Control Manager ( ) Asset Finance Manager ( )
2. Gender of the respondent?

   Male ( ) Female ( )
3. How long have you worked for DTB?

   Less than 1 year ( ) 1-5 years ( ) 6-10 years ( ) above 10 years ( )
4. How long have you served DTB in your current position?

   Less than 1 year ( ) 1-5 years ( )above 5 years ( )
5. Do your responsibilities include serving the bank's SME clients? Yes ( ) No ( )

Part B: Banks Involvement in Financing of SME

In this section, againstsome of the items the abbreviations **NE- No extent, SE- Small extent, ME- Moderate extent, GE- Great extent, and VGE- Very great extent** appear. Please respond to all the statements by ticking the one you consider most appropriate.

6. According to the banks policy, what are the basic parameters which the bank uses in classification of a client as an SME? Please provide the estimated quantity range for each parameter.

   Annual turnover ____

   Number of employees____

   Amount of loan applied for ___________________________________

7. To what extent do you rate the level of DTB involvement in financing SME projects?NE (   ) SE (   ) ME (   ) GE (   ) VGE (   )

8. What are some of the services that DTB offer to its SME clients?

9. Indicate the extent of your agreement with the following statements.

   SD- Strongly disagree, **D-** Disagree, **NS**- Not sure, **A-** Agree, **SA-** Strongly agree

Statement	SD	D	NS	A	SA
The bank culture is tailored to serve SMEs					
The bank is committed in providing services to SME clients					
The bank has adequate network for serving SME clients					

10. Indicate the level of importance that you attach to the following factors with regard to introduction and marketing of SME products in DTB. **NI**-Not important; **LE**-Less important; **NS**-Not sure; **I**-Important; **VI-**Very important

Statement	NI	LE	NS	I	VI
Lowering of bank charges					
Increased earning on deposits & savings					
Relaxing the collateral requirement during lending					
Diversifying SME banking					
Continuous review and improvement of SME products					
Bonus to marketing staff					

Part C: Determinants of DTB involvement in Financing of SME Projects

Against some of the itemsin this section, the abbreviations **NE- No extent, SE- Small extent, ME- Moderate extent, GE- Great extent, and VGE- Very great extent** appear. Please respond to all the statements by ticking the one you consider most appropriate.

11. To what extent do the following factors determine the extent of involvement of DTB in financing of SME projects?

Note:**NE**=Not extent**SE**=Small extent **ME**= Moderate extent **GE**= Great extent **VGE**= Very great extent

Profitability	NE	SE	ME	GE	VGE
Diverse revenue sources from SMEs					
Huge profit noted from SMEs					
Competition					
Large untapped SME market share					
Increased competition in traditional markets					
Public Image					
As a corporate social responsibility activity driven by public concern.					
As a boost to the banks image					
Customer turnover					
High customer turnover in the traditional markets					
Need to establish a niche in the market and stem customer attrition					
Top management and organization culture orientation					
Conducive government regulation and support					

12. Indicate the extent to which you perceive each of the followingindicators contribute to profitability of SME

Indicator	NE	SE	ME	GE	VGE
Active borrowers					
Number of clients served					
Revenue per average loan					
Net interest margin					
Cost per current unit lending					

13. Indicate your level of agreement with the statements on factors that influence sustainability of SME banking for commercial banks.

Statement	SD	D	NS	A	SA
Banks have laid down institutional policies and procedures to regulate SME products					
Banks have customized products to suit customer preferences					
The market is experiencing increased number of SME customers					
The bank have aligned SME products policy to the overall bank strategy					
The bank has well versed SME banking board members					
The bank has a management and staff that understand SME banking market dynamics					
The bank has a good SME customer service mechanism					
The bank organizes training and workshops for customers to understand SME banking products					

14. Do you have anything to add which you feel is important in enabling one to understand SME market better?