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

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DECLARATION

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

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

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DEDICATION

This Research Paper is lovingly dedicated to my parents who have been my constant source of inspiration. They have given me the drive and discipline to tackle any task with enthusiasm and determination. Without their love and support this project would not have been made possible.

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ABBREVIATIONS

SME - Small and Medium Enterprises

MDG - Millennium development goals

PEC - Poverty Eradication Commission

ICC - International Criminal Court

CBK – Central Bank of Kenya

ABSTRACT

The ability of firms to optimally exploit investment opportunities may crucially depend on the level of financial constraints that they face. Access to finance is commonly identified as the key factor holding small and medium enterprises (SMEs) back from growing at their full potential. Finance providers and the government fail to tackle this issue effectively. The specific characteristics of SMEs, namely their smaller size, greater likelihood of bankruptcy, greater operational flexibility making easier the substitution of assets, and the more opacity of information that aggravates the problems of asymmetric information, explain why the creditors consider too risky their investment in smaller firms. The study used primary data sources in gathering data for analysis. The primary data source was semi-structured questionnaires. A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. Questionnaires was considered given that they are cheap, respondents are given time to fill-in the questionnaires, do not require as much effort from the interviewer as verbal or telephone surveys, and often have standardized answers that make it simple to compile data. The study findings established that table banking also improves SMEs investment decisions as it reduces huge savings on cost of construction of bank premises and leasing costs than when SMEs are using the Agency premises. It also cuts on human resource expenses. The SMEs do not have to employ new staff to manage the agency and the cost of training if any is to the bare minimum. It further, saves on equipment like furniture and computers. Additionally, the convenience of access to banking services and the extended hours that the banking agencies work is attractive features to the customer. This also helps increase SMEs' revenue will minimizing costs. The study recommends that the government reduces the period of obtaining the legal documents in adopting table banking. The government should support the program more often and reduce the high compliance costs, bureaucracy in registration and high cost of taxation. Other areas that the study recommends include the government dealing with the cumbersome laws and regulations, corruption and illegal permits and licenses. The study recommends that regulations be efficient to enable more SMEs to embrace table banking service. The study further recommends that SMEs should fully embrace table banking through adoption of improved technology for information security to make it more reliable to the customers. This will increase volume of transactions which will lead to investment decisions. Based on the findings and conclusions presented above, the study recommends that SMEs should cushion their table banking from certain costs such as insurance costs, cash in-transit or premise setup costs. This will enhance performance of table banking. Besides, capacity of table banking in providing services can be enhanced by SMEs ensuring that table banking have enough float that can serve more client in order to mitigate clients disappointment and increase the number of customers. They can do this by advancing credit to their table banking. In addition, SMEs should educate and regulate their table banking to ensure uniformity in service delivery so as to enhance customer confidence in table banking. The study recommends that customers should be enlightened on the operation of table banking in order to enhance their confidentiality. Additionally, the study recommended that frequently trained on the operation process and policies to eradicate occurrence of error and mistake that are highly hindering penetration of table banking

CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

Access to finance is commonly identified as the key factor holding SMEs (Small and Medium Enterprises) back from growing to their full potential. Finance providers and the government fail to tackle this issue effectively (Masinde, 2013). The specific characteristics of Small and Medium Enterprises, namely their smaller size, greater likelihood of bankruptcy, greater operational flexibility making easier the substitution of assets, and the more opacity of information that aggravates the problems of asymmetric information, explain why the creditors consider too risky their investment in smaller firms. Consequently, Small and Medium Enterprises are subject to problems of adverse selection and credit rationing especially for young Small and Medium Enterprises that have not yet acquired reputation. In Kenya, Small and Medium Enterprises are defined as: Micro Enterprise has 1-10 number of employees with a turnover of Kshs 0-5million, Small Enterprise 11-50 employees with turnover of Kshs 5-50m and Medium enterprises has 51-100 employees and turnover of Kshs 51million -1billion (Republic of Kenya, 2012).

Post-election violence witnessed in 2008 and the subsequent ICC (International Criminal Court) cases together with the uncertainties that come every five years during elections cause business disruptions. The worst affected of them are the Small and Medium Enterprises because unlike the blue chip companies they normally have small cash reserves. Small and Medium Enterprises normally plan their business around positive economic growth and when such disturbances occur they can easily go out of business. Most of the Small and Medium Enterprises cannot survive months of business closure caused by things like political instability like the one witnessed in Kenya in 2008. During such times Small and Medium Enterprises need funding the most and the truth is that they find it hard to secure funding from the financial institutions hence the need to explore other funding options like table banking (Masinde 2013).

1.1.1 Table Banking

Table banking is a group funding strategy where members save and borrow immediately from their savings on the table, either in short term or long term loans (Brannen, 2010). Table-banking takes on the model of the Grameen Bank of Bangladesh and the village savings and loans schemes of Zanzibar (Ahlén, 2012). The members save and access loans for investments from their small contributions. This empowers themselves and eradicates poverty. Table banking concept is based on the belief that for the extremely poor, particularly women, and the best approach is to begin by building their financial assets and skills through savings rather than debt (Kanyi, 2014). Besides, few institutions exist in the rural areas and informal settlements, and where institutions do exist, they often have inappropriate products and services. The reality is most extremely poor households have neither the assets nor the skills to interact with formal institution, even those dedicated to reaching the poor.

In Kenya, table-banking was initially developed by the Poverty Eradication Commission (PEC) under the former Ministry of Planning and Vision 2030, targeting Millennium Development Goals one (MDG 1) on eradicating abject poverty, especially in rural settings in Kenya. Two pilot projects were started by the Government in 1999 and improved in 2004 in Bondo and Gatanga constituencies, which proved to be the best way to help women groups' prosper across the country. The results were very impressive but the government did not continue with the roll out there after. Currently, the Government has re-launched the system with the aim of helping rural women access their own funds to start income generating projects (Kanyi, 2014). Over 13 counties in Kenya have embraced and benefited from the table banking system (Abuga, 2014).

Unlike micro-finance which charges exorbitant interest rates on loans ranging from 12 percent in a year all the way to 48 percent with a lot of hidden charges; table banking charges members very little interest. The objective of table-baking is to bring financial services to the poor, particularly women and the poorest - to help them fight poverty, stay profitable and financially sound. It is a composite objective, coming out of social and

economic visions. Table-banking is based on group guarantee and house-hold collateral (Abuga, 2014).

Table-banking is founded on the principle that credit should be accepted as a human right, and builds a system where one who does not possess anything gets the highest priority in getting a loan. Table-banking methodology is not based on assessing the material possession of a person; it is based on the potential of a person. Table-banking believes that all human beings, including the poorest, are endowed with endless potential. Unlike other financial institutions, table-banking looks at the potential that is waiting to be unleashed in a person and owned by poor members. Through table banking women in groups would pool formidable resources and loan it to a well-trained entrepreneurial women whose investments would give them good returns enough to save (Masinde, 2013).

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

1.1.2 Investment Decisions of Small and Medium Enterprises

Investment decision refers to determination made by management as to how, when, where and how much capital (how much capital to spend and/or debt to acquire) is to be spent on investment opportunities including determining costs and returns for each option. It also refers to the capacity of an SME to know or understand the demands of external fund providers such as investors, banks or venture capital funds and hence be able to access the funds for growth and startups, Cook and Nixon (2005).

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

Kaufmann and Valderrama. (2008) consider that investment behavior can be described as aggressive, innovative, proactive, risk taking, and autonomy seeking. Owner-managers tend to concentrate on the day-to-day at the expense of investments. La Rocca, La Rocca and Cariola (2011) warn that typical entrepreneur's features such as: impulsive character i.e. speed is preferred to accuracy (uncalculated risk and carelessness), inability to change problem solving strategies (low degree of flexibility) and inability to learn from mistakes (risk of vicious circle trap) may affect negatively the process of investment decision making.

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

1.1.3 Table Banking and Investment Decisions of Small and Medium Enterprises

Despite the important contribution to economic growth by Small and Medium Enterprises they continue to face numerous challenges including; inadequate infrastructural facilities, challenges with attracting skilled manpower, high rate of enterprise mortality, lack of a facilitative operating environment, restricted market access, and onerous regulatory requirements. However, one of the main areas of concern is access to funding for investment growth. Small and Medium Enterprises require adequate financing to meet needs at each stage of their life cycle, from creation through operation, development, expansion and beyond. Financing is necessary to help them set up and enhance their operations, develop new products, and invest in new staff or production facilities (Kilonzo, 2011). Many small businesses start out as an idea from one or two people, who invest their own money and probably turn to family and friends for financial help in return for a share in the business. But if they are successful, there comes a time for all developing Small and Medium Enterprises when they need new investments to expand or innovate further. Access to funding and the high cost of finance for investment growth through the traditional channels have been major constraints to Small and Medium Enterprises hence the need to explore alternatives like table banking (Oteh, 2010).

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

Traditionally, the firm's market value and real decisions were considered to be unaffected by its financial structure and financing policies, since in the theoretical context generated by Modigliani and Miller's theorem (1958), capital markets were perfect, fiscal neutrality reigned and, therefore, external funds (shares, bonds and debt) and internal funds (self-financing) were perfect substitutes for each other. This led to an approach to investment

theory in which the firm's problem of inter-temporal optimization is solved without reference to financial factors, or including them on the basis of assumptions valid in a context of perfect capital markets. Given the hypothesis that all firms have the same access to the capital and information markets and the cost of capital is exogenous, in traditional models the dominant notion is of the "representative firm" (Brannen, 2010).

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

1.1.4 Small and Medium Enterprises in Nairobi County

According to the Small and Medium Enterprises Baseline Survey, the sector employed 2.4 million persons. This increased to 5.1 million persons in 2002 as per the 2003 Economic Survey and translates to 675,000 jobs per year. The level of employment within Micro and Small Enterprises (MSEs) in 2002 accounted for over 74.2% of the

total number of persons engaged in the country(Central Bureau of Statistics Republic of Kenya, 2012) indicates that there is high rate of failure and stagnation among many start-up businesses and most of them close in their first three years of operation. This study revealed that 57% of small businesses are in stagnation with only 33% of them showing some level of growth. Nairobi City County Government estimates that there are 101,450 Small and Medium Enterprises within the County (Nairobi City County, 2014).

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

1.2 Research Problem

Small and Medium Enterprises play a significant roles in economic development of the economy and are an important source of job creation and innovation. In Kenya alone, Small and Medium Enterprises contribute 80% of employment and contributes about 40% to GDP (Mwarari and Ngugi, 2013). Despite such significant contribution made by the SME's, they continually face funding constraints in the formal finance market. Fisher and Montalto (2010), and Keter (2013) report the funding constraints faced by Small and Medium Enterprises and show that very small percentage of surveyed firms (2.5%) are able to receive finance at start up and only 3% afterwards. Overall, the formal finance

sector fulfils only about 25% of small firm financing needs which in effect constrain their investment needs, thus, growth. It is against this backdrop that table banking is adopted for Small and Medium Enterprises pool funds together, borrow against such funds and learn about available investment opportunities (Keter, 2013). Despite of this, the effectiveness of table banking on realizing this objective is still unknown.

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

Although, literature on investment decision is extensive, however, majority have focused on the investment choices of large publicly listed firms. Little has been done on Small and Medium Enterprises investment decisions, more so, locally. Gitau (2013) did a study on the growth of Small and Medium Enterprises in Kenya and established that lack of access to finance has constrained Small and Medium Enterprises in making use of available investment opportunities. Mwarari and Ngugi (2013) did a study on capital raising opportunities of Small and Medium Enterprises in Kenya and listed access to information one of the determinant for raising capital for investment. Keter (2013) studied investment behaviour of Small and Medium Enterprises and found investment as a challenge to Small and Medium Enterprises owing to lack of credit access. Mwarari's (2013) study looked at capital raising opportunity of Kenyan Small and Medium Enterprises and established that access to information hinders access to capital raising opportunity. However, these studies did not look at how table banking, which is a fairly

new concept in Kenya, affect investment decisions of Small and Medium Enterprises. This leaves a wide knowledge gap that this study seeks to fill in.

The study will, thus, seek to establish the impact of table banking on investment decisions of small and medium enterprises in Kenya. It will, therefore, answer the following research questions: what is the extent of adoption of table banking by small and medium scale enterprises? How has table banking impacted on investment decisions of small and medium enterprises? Does table banking assist in alleviating the problem of funding shortage or itself suffer from the same problem of inadequate funds to satisfy members' financial needs?

1.3 Objective of the Study

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

1.4 Value of the Study

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

Secondly, the study is important to financial institutions (micro-finance instructions, savings and credit cooperatives and banks) and regulators (Central Bank of Kenya) as they will gain knowledge on table banking. Contributions from table banking are often deposited with these financial institutions which contribute immensely to their performance. Financial institutions would identify opportunities that lie in using table banking to increase their deposits or revenue through partnership with such groups. One

of the Government's objectives is to create a favorable employment rate and promote economic growth through, among other things, Small and Medium Enterprises growth. Thus, table banking is one of the avenues through which Small and Medium Enterprises can pool finances together, mutually borrow and learn investment opportunities. This study's findings will, therefore, appraise how effective table banking concept has realized this objective. As such, the study's findings and recommendations, thereof, will be of great value to the Kenyan Government.

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

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

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

2.2 Review of Theories

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

2.2.1 The Pecking Order Theory

Myers (1984) and Myers &Majluf (1984) propose an alternative explanation of why firms choose certain capital structure, known as the pecking order theory. The pecking order theory is a preference order theory, which describes how firms choose to obtain new financing for their future activities and growth. The key underlying assumption of the pecking order model is asymmetric information between managers of a firm and external investors. The asymmetric information means that management, which is assumed to act in the interest of existing shareholders, knows the true value of the existing assets and growth opportunities, while external investors are able only to guess these values. Hence, management's actions regarding financing are perceived as a signal about the true value of the firm. A decision to issue stock is perceived as a negative signal by prospective investors because they infer that management is willing to sell equity because the firm is overvalued. New shareholders are willing to invest only if the shares are sold at a marked-down price which increases the costs of attracting additional funds for the firm. As adverse selection costs make the new issuance of stock more expensive, management might decide not to issue new equity and not to undertake positive NPV projects. If the firm needs external financing and if the issue of debt is not possible, management considers issuing undervalued stock only if the NPV of the new investment exceeds the costs incurred due to undervaluation. Internal funds are always preferred over

the external financing because such financing always allows avoiding problems of asymmetric information (Dagnelie and LeMay-Boucher, 2008).

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

2.2.2 Trade-Off Theory

A family of related theories is described under the term of the trade-off theory. The idea, which is general in all of these theories, is that a manager running a company assesses benefits and costs of alternative leverage plans. However, trade-off theories might differ in the way they recognize a role of time in capital structure decisions. This leads to two different types of the trade-off theory, namely the static trade-off theory and the dynamic trade-off theory. The main difference between the static and dynamic trade-off models is that dynamic tradeoff models emphasize the importance of time in capital structure decisions. The static tradeoff model provides the solution of the optimal capital structure for one period and, hence, suggests that firms should have the optimal capital structure in all periods. However, it is unlikely that companies plan their decisions regarding capital structure just one period ahead. In the dynamic trade-off models, what is the optimal capital structure choice in the current period depends on what is expected to be the optimal capital structure in the next period. The trade-off theory suggests that the firm will use debt up to the point where the marginal value of the tax shields of additional debt is just offset by the increase in the present value of potential costs of financial distress (Myers 2001). The firm substitutes debt for equity or equity for debt until the point where the market value of the firm is maximized.

Later Fischer, Heinkel & Zechner (1989) develop a model of a dynamic capital structure choice with recapitalization costs. Their model allows avoiding the unrealistic rapid rebalancing prediction of the early dynamic models. The model also implies that there is no optimal leverage ratio, but rather a range over which a firm allows its debt ratio to vary (Fischer, Heinkel & Zechner 1989). Hence, they assert that even small recapitalization costs are responsible for the observations of wide swings in the firms' leverage ratios. As a constant rebalancing is costly, a company does not take any action regarding its capital structure as long as leverage does not reach an upper or lower bound. If leverage reaches a bound, a firm undertakes a discrete rebalancing.

2.2.3 Modigliani – Miller Irrelevance Proposition

The Modigliani – Miller irrelevance proposition A modern theory of business finance begins by the Modigliani & Miller (1958) capital structure irrelevance proposition. Before their work was published, there was no theory of capital structure that was generally accepted. The Modigliani & Miller (1958) analysis is based on the assumption that a probability distribution of the firm's cash flows does not depend on the capital structure decision it makes and that all investors share the same expectations regarding the cash flows. They also assume that there is a perfect capital market, where investors, who act rationally and are well informed, are free to buy and sell securities and can borrow funds at the same terms as companies do. Under assumptions that there are no transaction costs and corporate taxes, Modigliani & Miller (1958) prove that the leverage of a firm has no effect on a market value of a firm. When the firm chooses its debt-equity mix to finance its assets, all that it does is determine a division of cash flows between debt holders and equity holders. Explicitly Modigliani & Miller (1958, p. 268) state this as Proposition I: "The market value of any firm is independent of its capital structure and is given by capitalizing its expected return at the rate ρ_k appropriate to its class". The underlying logic of this proposition, as Myers (2001) puts it, is that, in a perfect-market supermarket, the value of a pizza does not depend upon how it is sliced.

According to Frank & Goyal (2008), there are two fundamentally different types of the capital structure irrelevance proposition. The classic foundation of the Modigliani-Miller

hypothesis is an arbitrage process, which enables investors to pursue homemade leverage by switching their investments from an unlevered firm to a levered firm or vice versa. By borrowing on a personal account at a risk-free rate and buying shares of the unlevered firm investors can create homemade leverage. The other way around, investors can undo undesirable leverage by buying fewer stocks of the levered firm and lending at a risk-free rate. As investors have this opportunity, they are not willing to pay a premium for levered firms over unlevered firms. Hence, the values of two companies, identical in all aspects except their capital structures, should be equal. The second type of capital structure irrelevance is related to multiple equilibria (Frank & Goyal 2008). Miller (1977) considers both personal and corporate taxes, which determine the equilibrium level of aggregate corporate debt and, hence, an equilibrium debt-equity ratio for a whole corporate sector.

However, Miller's (1977) model does not specify how aggregate quantities are split up among individual firms. Although tax considerations establish an economy-wide leverage ratio, there are multiple equilibria in which debt is issued by different firms (Frank & Goyal 2008). Miller (1977) concludes that it would be still true that the value of any firm, in equilibrium, would be independent of its capital structure. Modigliani-Miller's theorem, although being intuitive, has been criticized widely for its limitations. Again referring to the pizza example, Myers (2001) questions credibility of the Modigliani-Miller theory and argues that the value of the pizza actually depends on how it is sliced because consumers are willing to pay more for the slices than for the equivalent whole. A proposition that financing does not matter holds in synthetic Modigliani and Miller's world with strict simplifications, but it seems an unlikely description of how real world companies are financed.

Modigliani and Miller's (1958, 1963) capital structure irrelevance propositions have motivated debates among the financial economists regarding the optimal capital structure of a firm. In the perfect Modigliani and Miller's world, capital structure is irrelevant for the value of a firm. Despite the fact that a number of subsequent leverage relevance

theories have tried to incorporate market imperfections, the empirical research implies that these theories are still not accurate enough to explain the broad patterns of firms' financing decisions.

2.3 Determinants of Investment Decisions of Small and Medium Enterprises

2.3.1 Table Banking

Just as other saving and investment clubs, table banking is a great way for beginner investors to learn more about investment strategy fundamentals without putting a large amount of money at stake. The regular periodic investing approach allows Small and Medium Enterprises to build up a substantial portfolio over a period of time without having to make a large investment at any one time (Brannen, 2010; Abuga, 2014). Small and Medium Enterprises' owners can become a top investment performer by learning from others (De Mel, McKenzie and Woodruff, 2009).

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

2.3.2 Management Weakness

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

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

Small and Medium Enterprises needs to invest in qualified human resources if they are to be taken seriously by financial institutions offering loans. This qualified human resources needs to be paid and given other benefits like medical insurance, paid holidays among others. In most cases, the Small and Medium Enterprises do not afford such benefits condemning them to disadvantages caused by unqualified human resources.

2.3.3 Investments Risks and Returns

The financial forecasting aspect of management in Small and Medium Enterprises is another determinant of investment readiness. This involves prediction by financial managers of the organizations' future revenues using the available current financial information. Using reliable forecasting techniques greatly boosts the Small and Medium Enterprises investment opportunities as they are able to know the amount of funding they need in future to run their businesses. With proper forecasting, Small and Medium Enterprises are able to access external financing as they will be able to convince the financiers/investors on their ability to get substantial returns from the investments undertaken. With financial forecasting, the Small and Medium Enterprises will achieve their targets for profitability which will foster their investment readiness. In addition, the financial decisions made by financial managers greatly influence Small and Medium Enterprises investment readiness. Financial managers make four types of financial decisions including financing decisions where financial manager determines the best sources of funding for the business (Bond and Van Reenen, 2007). They indentify cheap sources of financing which will not strain the financial capability of the SME in terms of financial obligations that arise. The managers also make investment decisions by identifying viable investment opportunities. Therefore, the ability of Small and Medium

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

Investment readiness for Small and Medium Enterprises is also determined by the ability of the SME to demonstrate a credible revenue model. The SME must show that it is in a position to attract sufficient customers so as to cover the costs of doing business. This includes the ability to demonstrate the business' unique selling point; that is, why customers would be interested in buying and how the product or service is to be delivered to the customer. In other words, the proposals must give considerations to cost of distribution, marketing as well as customer servicing. An SME will therefore be considered not to be independent ready if the entrepreneur lacks knowledge and expertise to turn the idea into a viable business, he gives unrealistic expectations and lacks good traits such as integrity, vision and commitment and has high need for control of the business (Ferrando, Köhler-Ulbrich and Pál, 2007). In addition, an SME that has poor management, poor profit potential for the level of risk to be undertaken, and provides insufficient information to the potential external investor is considered not to be investment ready.

2.3.4 Financing Cost

The interest rate as a variable defining the cost of capital has already been considered by the neoclassical theory as a determinant of a firm´s investment. Gilchrist, Himmelberg, and Huberman (2005) defend a connection between monetary policy and investment, considering that this policy has effects on the cost of capital, thereby influencing firms' investment. Gilchrist *et al.* identify a negative relationship between interest rate and investment. Changes in monetary policy, namely in terms of interest rate, influence the firm's investments and debt capacity, through its effect on cash flow. Indeed, the cash flow of highly indebted firms is more sensitive to changes in the interest rate than that of firms with a minimum level of debt. Effect of the interest rate is more pronounced in smaller firms' investment, since these firms will be more sensitive to alterations in the cost of debt than larger firms. Ghosh and Ghosh (2006) also suggest that the investments of new Small and Medium Enterprises are more vulnerable to monetary recession; the

relationship between the interest rate and investment is more negative for new firms than for existing Small and Medium Enterprises.

2.3.5 Investment and Financing Knowledge

Lack of investment readiness by Small and Medium Enterprises could largely be attributed to unavailability of market information as well as commitment by financial managers in accessing various sources of funding. In other words, many entrepreneurs are not aware of the available and suitable financing options including the sources that would be most suitable for their chosen business strategy. Research shows that the universal understanding of financial options available to Small and Medium Enterprises is poor (Atanasova, 2011). For the majority, bank loans remain the preferred external financing source. The Small and Medium Enterprises fail to realize the benefits accruing from a stronger capital structure for survivor as well as expansion. Investment readiness review programs should also be introduced for the Small and Medium Enterprises who are ready to take up external financing. These programs should be aimed at reviewing the ability of such Small and Medium Enterprises to access financing. The issues raised in the review programs should be addressed in an investment readiness development programs (Ferrando, Köhler-Ulbrich and Pál, 2007).

Small and Medium Enterprises should invest more resources in exploring the many financing alternatives available like venture capital among others. This is also related to the fact that Small and Medium Enterprises lack the financial ability to higher professionals who have deep knowledge in financial advisory since they normally quote high fees. These locks out the Small and Medium Enterprises from what they need the most to grow and become big companies with the ability to higher personnel who are capable of pushing further their growth agenda of the company.

2.4 Review of Empirical Studies

Degryse, Goeij and Kappert (2009) analyze the effect of the firm and industry characteristics on the capital structure decisions of Dutch small firms. Their results on the impact of firm-specific variables, such as size, asset structure, profitability and growth,

are generally in line with the pecking order theory. Degryse, Goeij & Kappert (2009) find that, as Small and Medium Enterprises prefer internal funds over external funds, they use profits to reduce the debt levels However, if a firm is growing, it increases its leverage, as the internal funds are exhausted and not sufficient to cover the financing needs. Profitability has an effect on the short-term debt, whereas asset growth only affects long-term debt. They conclude that, after internal funds, long-term debt is next in the financing hierarchy of Small and Medium Enterprises.

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

Watson & Wilson (2002) empirically test the pecking order model implications on the sample of the UK Small and Medium Enterprises. As the pecking order predicts, Watson & Wilson (2002) find that, when additional financing is necessary, Small and Medium Enterprises prefer to use retained earnings over debt and that debt is preferred over an issue of new shares to outsiders. The pattern of coefficients in the regressions Watson and Wilson (2002) use is found to be consistent with the pecking order model predictions, particularly in closely-held firms, where issue of information asymmetry and commonality of interests between managers and shareholders are most evident. Sogorb-Mira (2005) also finds support for the pecking order theory and concludes that the predictions of the pecking order theory seem to explain debt policy of Spanish Small and Medium Enterprises quite well. The results also suggest that Spanish Small and Medium Enterprises follow the maturity matching principle, as they attempt to finance fixed assets with long-term debt and current assets with short-term debt.

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

Ramalho and Vidigal da Silva (2009) test if the determinants of capital structure are different for micro, small, medium and large companies. On the sample of Portuguese firms, they test if the factors, such as collateral, profitability, firm's age, growth, size and liquidity, are relevant for the capital structure decisions of the four size-based groups of firms and if the influence of these factors is similar in those groups. Their results suggest that there are some differences among micro, small, medium and large companies regarding the determinants of long-term debt financing. Although the direction of relationships (positive or negative) between the determinants and leverage is found to be the same among all groups of firms, there are significant differences in the magnitudes of the coefficients in some cases. Differences in the values of coefficients are significant when comparing micro to medium or large firms and small to large firms.

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

perceptions of Small and Medium Enterprises on business constraints among other issues (European Commission 2007). The survey reveals that the limited access to finance is not the primary concern of most Small and Medium Enterprises, but 21.1% of surveyed companies report it as a constraint. Moreover, it is also found that there are differences in the views regarding access to finance as a business constraint among the categories of companies according to their size. 20.3% of micro firms encounter limited access to finance, whereas the percentages for small, medium and large enterprises were 19.6, 17.6 and 15.5, respectively (European Commission 2007). Hence, it seems that the smaller the enterprise, the more likely it is to experience difficulties in obtaining financing.

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

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

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

2.5 Summary of Literature

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

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

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

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

3.2 Research Design

This is a descriptive study that will take on a descriptive study that adopt a cross-sectional survey design. Cross-sectional studies involve observation of a representative subset of a population. It provides a snapshot of the frequency of a phenomenon together with its characteristics in a population at a given point in time (Gratton and Jones, 2004). Mugenda (2008) state that descriptive study is concerned with finding out the what, where and how of a phenomenon and as such will enable the study achieve its objectives. In this study, the subset will be the businesses in Nairobi County which will be the sub-set of Kenya. That is, data is collected at one point in time from a sample selected to represent a larger population (Mugenda and Mugenda, 2003).

3.3 Sample and Population.

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

Nairobi City County Government estimates that there are 101,450 SMEs within the County (Nairobi City Council, 2014).

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

3.4 Data Collection

The study will use primary data sources in gathering data for analysis. The primary data source will be semi-structured questionnaires. A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents (Mugenda and Mugenda 2003). Questionnaires will be considered given that they are cheap, respondents are given time to fill-in the questionnaires, do not require as much effort from the interviewer as verbal or telephone surveys, and often have standardized answers that make it simple to compile data. The questionnaires will have both open (for qualitative data) and close-ended questions (for quantitative data). The questionnaires will be self-administered. The research will cover investment decisions made by Small and Medium Enterprises in Nairobi County from January 2015 to September 2015.

3.5 Data Analysis

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

3.5.1 Analytical Model

Inferential analysis will involve use of multiple linear regression analysis using ordinary least square method. The regression analysis will seek to test the significance and nature of the relationship between table banking and investment decisions controlling for the effect other investment decisions determinants. The regression analysis will, thus, be of the form:

$INV = ß_0 + ß_1X_1 + ß_2X_2 + ß_3X_3 + ß_4X_4 + ß_5X_5 + ß_6X_6\ \varepsilon$

INV is investment decision of Small and Medium Enterprises

$ß_0$ - the constant; $ß_1$ to $ß_5$ – are regression coefficients;

X_1 is the table banking;

X_2 is financing costs;

X_3 is investments risks;

X_4 is investment and financing knowledge;

X_5 is management weakness;

X_6 is investments returns; and,

ε is error term.

The study will use Pearson correlation analysis to measure whether there is a linear relationship between table banking and investment decisions of Small and Medium Enterprises. This correlation coefficient will determine the nature and significance of such relationship if any. Analysis and variance (ANOVA) and t-test will be used to

measure the significance of the model and model's coefficients. These tests will be two tailed and tested at 95% significance level ($\alpha \leq .05$).

3.6 Validity and Reliability of Data

The research instrument will be pretested in order to test for validity and reliability. Validity is the degree by which items in the research instrument represents the content the test is designed to measure (Mugenda and Mugenda, 2003). To establish the validity of the research instrument the researcher will seek opinions of experts in table banking/microfinance especially the researcher's supervisor and lecturers. Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Eriksson and Kovalainen, 2008). The study will test internal using Cronbach's Alpha. In the case of this study, values above 0.7 will indicate presence of reliability while values below will signify lack of reliability.

CHAPTER FOUR
DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

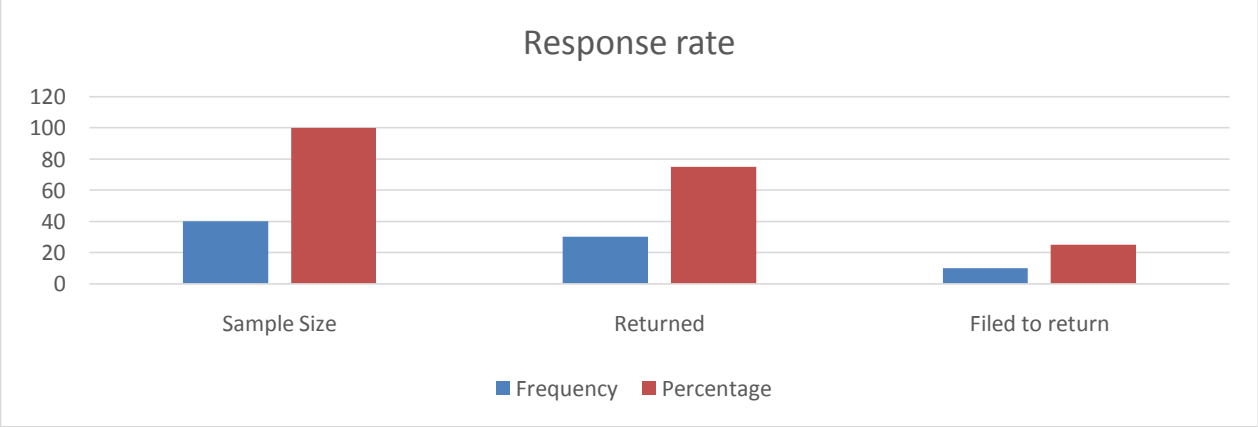
This chapter covers the analysis and presentation of the data captured through the questionnaire. The objective of the study is to investigate the impact of table banking on investment decisions of small and medium enterprises in Nairobi County. Tables has been used to bring out in a more clear way the findings of the research.

4.2 Descriptive statistics

4.2.1 The Response Rate

The response rate was excellent, out of the questionnaires handed out 30 handed them back. The sample size was 40 SMEs in Nairobi County, this represent a response rate of 75%. According to Mugenda and Mugenda a response rate of 50% is adequate for analysis while a response rate of 70% is excellent.

Figure 4.1: Response rate



4.2.2 Total Assets

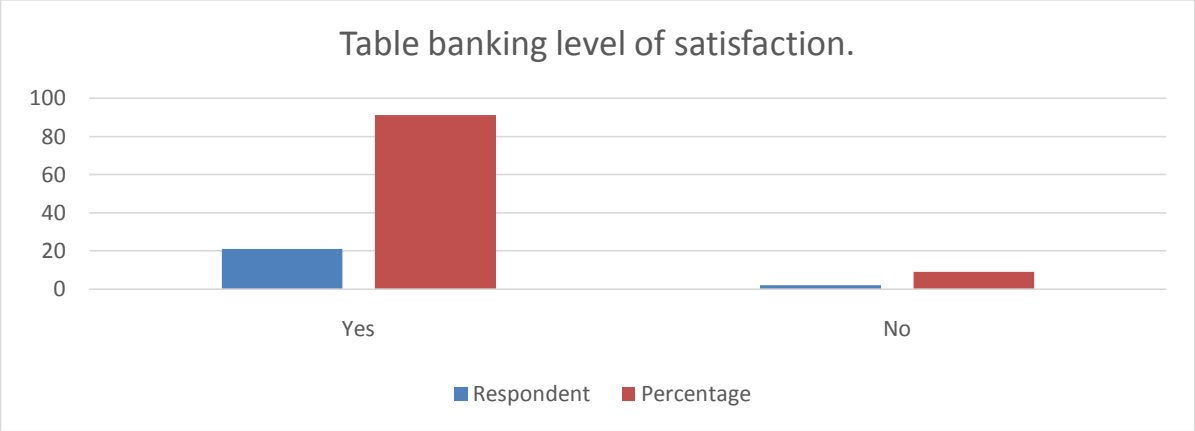
Of the 30 SMEs the researcher classified their total assets and findings were as shown in the table below. The Majority (30%) of the respondents had total assets of between Ksh.

20,001-Ksh50, 000. Analysis of the findings show that 90% of the respondents have assets worth more than Ksh 20,000.

4.2.3 Table banking experience

The researcher sought to know whether the respondents were happy with the table banking advantages of getting dividends and being able to access their saving among others. Analysis of the findings showed that 91% of those who have adopted table banking was satisfied

Figure 4.2: Level of satisfaction



4.2.4 Level of Adoption

The researcher sought to know the level of adoption of table banking among the SMEs in Nairobi County. The findings showed that 77% of the respondents have adopted table banking while 23% have not. The researcher sought to know among those who are yet to adopt table banking the reasons, 29% said they could trust anybody which is not a financial institution with their money, 43% said that table banking needs a lot time for meeting which they don't have as they are preoccupied with running of the business and 28% said they have not heard about table banking.

Figure 4.3: Level of table banking adoption.

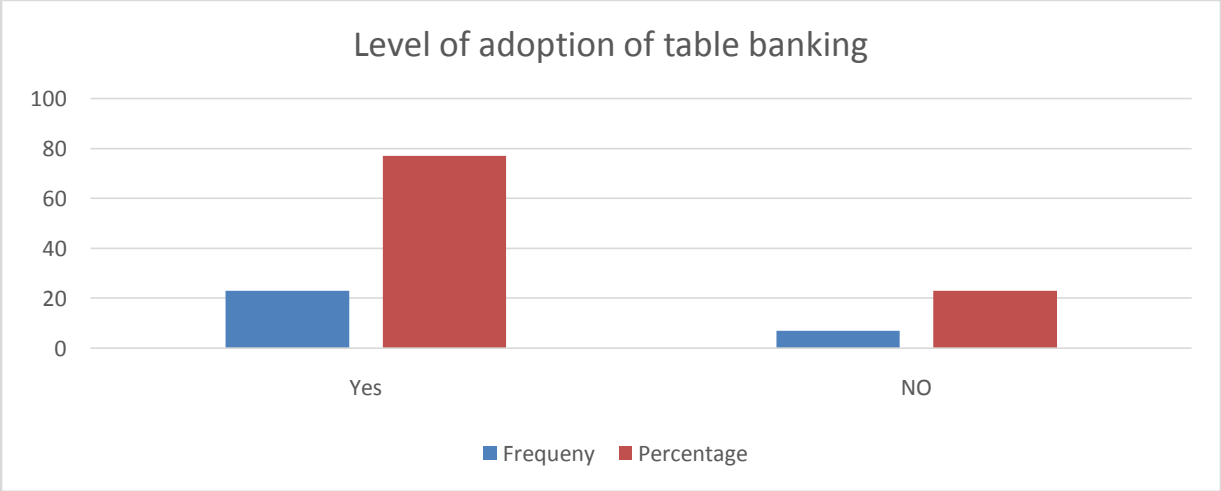
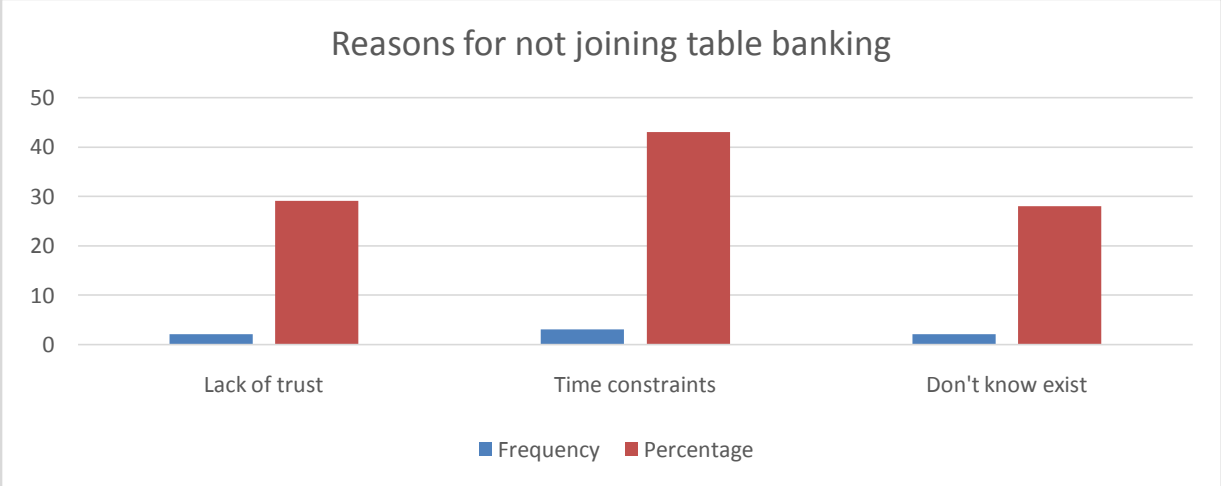


Figure 4.4: Reasons against table banking



4.2.5 Form of Table banking finance

The researcher asked the respondent the form in which the table banking finances has been avail to them. The analysis of findings showed that cash was to a high extent the preferred option with 60% followed by equipment purchase with 25% and to a low extent working capital finance at 15%

4.2.6 Difficulties in obtaining external finance

The researcher sought to determine the level of difficulty if any in obtaining external financing like banks for their SMEs either for startup or to grow their business. The researcher found out that none of the respondents indicated easy, 20% indicated moderated and 80% said it was very difficult to get financing from external sources. This is in line with the results showing a high percentage of SMEs opting for Table banking as an alternative option of financing their business operations.

4.2.7 Factors influencing investment decisions and access to financing of SMES

Access to finance by the SMEs does not only depend on table banking. The researcher sought to know what are these other factors and to what extent.

Table 4.1: factors influencing investment decisions and access to financing of SMES

Statement	Mean	Std. deviation
Financing Costs		
Interest Rates	4.13	0.597
Preference of retained earnings to debt	3.97	1.047
Equity is the very last option(results in loss of control)	4.51	1.027
Investments Risks		
Risk levels	4.17	1.024
Low risk investments preference	3.92	0.597
I undertake thorough feasibility studies	4.18	0.734
I prefer long to short-term investments	3.64	0.802
Investment and Financing Knowledge		
I deposit the business money in financial institutions	4.12	1.125
I have knowledge on different sources of financing	4.27	1.230
I have knowledge on different investment opportunity available	3.98	0.941

I read journals on financing/investment and attend investment seminars	3.93	0.997
I have the knowledge and expertise to turn the idea into a viable business	3.75	0.873
Management Weakness		
I keep all financial and business records	4.57	0.801
The management looks for new business opportunities	3.51	1.043
The business management has increased investor confidence	3.75	0.873
The firm has a higher competitive advantage than competitors	3.81	0.794
Investments Returns		
I evaluate the projected investment returns before making investments	4.51	0.937
I prefer a high risk, high return investment	4.33	1.692
The firm has profit potential for the risk to be undertaken	3.40	0.497

Source: Author (2015)

Regarding financing costs respondents indicated low preference to equity as they preferred to have control of the business. The findings indicated that majority preferred use of internally generated funds followed by debt. The reason for the observation is that internally generated cash is cheaper followed by use of debt.

Regarding investment risks, the respondents indicated that they agree they evaluate the risk in investment, they prefer low risk investment and that they undertake thorough feasibility studies before investing in a business. They also indicated that they prefer long to short term investments.

About the investment and financing knowledge, most of the respondents agreed that they deposit the business money in financial institutions; they have knowledge on different sources of financing and different investment opportunities available, they also indicated that they read journals on financing/investment and attend investment seminars. The respondents further indicated that they have knowledge and expertise to turn the idea into a viable business.

About Management weakness, the respondents indicated that they keep all financial and business records, they also agreed that the business management has increased investor confidence, the respondents also indicated that their firms have a higher competitive advantage than competitors.

4.3: Inferential Statistics

This section presents a discussion of the results of inferential statistics. Regression analysis established the relative significance of each of the variables on investment decision of SMEs. Correlation analysis was used to analyze the strength of the relationship between the dependent and independent variable.

4.3.1 Correlation Analysis

The Pearson correlation coefficient correlation coefficient (r) is a measure of the nature and degree of association of two variables. It (r) ranges from +1 to -1, +1 means a strong positive relationship, -1 means a strong negative relationship and 0 means no relationship between the two variables.

Table 4.2: Correlation coefficient investment decisions

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

Source: Author (2015)

The study in table 5, show that all the predictor variables were shown to have a positive association between them at a significant level of 0.05 and hence included in the analysis. There was strong positive relationship between the independent and the dependent variables.

4.3.2: Regression Analysis

The following are the results of regression analysis.

Table 4.3: Model Summary

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

a. *Predictors*: (Constant), table banking, financing costs, investments risks, investment and financing knowledge, management weakness.
b. *Dependent Variable:* investment decision of SMEs

Source: Author (2015)

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

Table 4.4: ANOVA (Analysis of Variance)

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

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

a. *Dependent Variable*: investment decision of SMEs

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

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

Table 4.5: Regression Coefficients results

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

Source: Author (2015)

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

4.4 Summary and interpretation of the findings

The regression results above reveal that there is a positive relationship between dependent variable (investment decision of SMEs) and independent variables (table banking, financing costs, investments risks, investment and financing knowledge, management weakness). From the findings, one unit change in table banking results in 0.9273 units increase in investment decision of SMEs.One unit increase in financing costs results in0.9927 units increasein investment decision of SMEs.One unit change in investments risks results in 0.8507unit increases in investment decision of SMEs. One unit change in investment and financing knowledge results 0.7612unit increases in

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

CHAPTER FIVE
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter gives conclusion based on the findings, suggestions for further studies and the implications from the findings. It provides a comparison with the literature review and what other scholars have found.

5.2 Summary

The study aimed to establish the status of table banking in the small and medium enterprises that have adopted the table banking service. The findings showed that majority of SMEs in Nairobi county has adopted table banking.

Due to its convenience and less paper work it means that investments among the SMEs have gone up and growth in the SME sector has been accelerated due to the adoption of the table banking.

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

5.3 Conclusion

From the findings above, it can be concluded that majority of the SMEs in the country have embraced table banking. It can further be concluded table banking has positively and significantly influenced growth of SMEs in the county. Those who may not survive past their third anniversary got a boost from the table banking finance.

From the finding above it can be concluded that level of education does not play any role in determining whether a firm adopts table banking or not, there was no significant relationship between the two variables.

Table banking enables SMEs to divert existing customers from crowded branches providing a "complementary" often more convenient channel. They use table banking to reach an "additional" client segment or geography. Otherwise, reaching poor clients in rural areas is prohibitively expensive for SMEs since transaction numbers and volumes do not cover the cost of a branch. Table banking plays key role in offering many SMEs access to different forms of financial services. Also, low-income clients often feel more comfortable banking at their local store than walking into a branch.

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

5.4 Recommendation for Research, Policy and Procedure

The study recommends that the government reduces the period of obtaining the legal documents in adopting table banking. The government should support the program more often and reduce the high compliance costs, bureaucracy in registration and high cost of

taxation. Other areas that the study recommends include the government dealing with the cumbersome laws and regulations, corruption and illegal permits and licenses. The study recommends that regulations be efficient to enable more SMEs to embrace table banking service. The study further recommends that SMEs should fully embrace table banking through adoption of improved technology for information security to make it more reliable to the customers. This will increase volume of transactions which will lead to investment decisions.

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

The study recommends that customers should be enlightened on the operation of table banking in order to enhance their confidentiality. Additionally, the study recommended that frequently trained on the operation process and policies to eradicate occurrence of error and mistake that are highly hindering penetration of table banking.

5.5 Limitations of the Study

The researcher encountered various limitations that may have affected the findings of this study. For instance, the study relied on primary data (questionnaire) it was hard to verify the data submitted by the respondents. The responses given by the respondents were taken to be the actual position without second verification.

The performance of SMEs depends on other factors like macroeconomics issues which are not covered in this study. The sample chosen was small and it may not represent the

whole population, however the researcher has studied all the SMES in Nairobi County therefore it was fully inclusive. Further, the performance of SMEs is influenced by other factors other than contributions from SME stable banking. Thus, establishing the relationship between the two variables might be erroneous. The study tested the significance of the relationship established to mitigate this.

5.6 Suggestions for Further Studies

Further research needs to be done on the factors affecting table banking in all the counties in Kenya as a whole since challenges are unique to regions so that factors that appear to affect table banking adoption in all the areas in Kenya can be addressed either by legislation or by the Central Bank of Kenya (CBK) Further research needs to be done on the role of table banking in eliminating poverty through investments by the SMEs and also financial deepening and inclusion in the country

Further studies needs to be done to determine factors that affect table banking from the supply side. To determine if it is legislation, bureaucracy or difficulty in accessing the necessary government approvals on time.

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APPENDICES

Appendix I: Introductory Letter

Dear Sir/Madam,

RE: REQUEST FOR DATA COLLECTION

I am studying for a Master of Science (finance) degree at the University of Nairobi and in partial fulfillment of the course I am required to write a research project. The subject of my research is "To investigate effects of Table Banking on Investment Decisions of Small and Medium Enterprises in Kenya".

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

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

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

Yours Sincerely,

Name

Appendix II: Questionnaire

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

By the means of tick (√) kindly indicate an option that best describes you where appropriate. Also fill in the blanks where necessary.

1. Gender
   a) (a). Female ☐
   b) (b). Male ☐

2. Age Bracket
   c) 20 - 30 years ☐
   d) 31 – 40 years ☐
   c) 41 - 50 years ☐
   d) 51-60 ☐
   d) 60 and above ☐

3. Level of Education
   a) Secondary Education ☐
   b) Diploma ☐
   c) Bachelor's Degree ☐
   d) Master's Degree ☐

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

Ksh20,000 or Less	[ ]	Ksh20,001 – 50,000	[ ]
Ksh50,001 – 200,000	[ ]	Ksh200,001 – 300,000	[ ]
Ksh300,001 – 500,000	[ ]	Ksh500,001 – 1,000,000	[ ]
Ksh1,000,001–2,000,000	[ ]	Ksh2,000,001 – 5,000,000	[ ]
More than 5,000,001	[ ]		

5. Have you adopted table banking?

Yes [ ] No [ ]

6. How much has your business received through table banking?

Ksh20,000 or Less	[ ]	Ksh20,001 – 50,000	[ ]
Ksh50, 001 – 200,000	[ ]	Ksh200,001 – 300,000	[ ]
Ksh300,001 – 500,000	[ ]	Ksh500,001 – 1,000,000	[ ]
Ksh1,000,001–2,000,000	[ ]	Ksh2,000,001 – 5,000,000	[ ]
More than 5,000,001	[ ]		

7. What is the reason(s) for no adopting table banking

Lack of time [ ] Lack of trust [ ]

Don’t know how it works [ ]

8. Re you happy with the table banking advantages; payment of periodic dividend and ability to get back your money any time?

Yes [ ] No [ ]

9. Has table banking affected your business decision making?

   Yes [ ] No [ ]

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

    Cash [ ]

    Working capital finance [ ]

    Equipment purchase [ ]

11. What is the level of difficulty in obtaining external funding?

    Easy [ ]

    Moderate [ ]

    Difficult [ ]

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

Statement	**Not at All**	**Low Extent**	**Moderately**	**High Extent**	**Very High Extent**
Financing Costs					
Interest rates					
Preference of retained earnings					
Preference of business control. Equity is the last option					
Investments Risks					
Risk level					
Low risk investment preference					
I undertake thorough feasibility studies					

I prefer long to short-term investments					
Investment and Financing Knowledge					
I deposit the business money in financial institutions					
I have knowledge on different sources of financing					
I have knowledge on different investment opportunity available					
I read journals on financing/investment and attend investment seminars					
I have the knowledge and expertise to turn the idea into a viable business					
Management Weakness					
I keep all financial and business records					
The management looks for new business opportunities					
The business management has increased investor confidence					
The firm has a higher competitive advantage than competitors					
Investments Returns					
I evaluate the projected investment returns before making investments					
I prefer a high risk, high return investment					
The firm has profit potential for the risk to be undertaken					

THANK YOU FOR YOUR TIME AND PARTICIPATION