# INFLUENCE OF FINANCING SOURCES ON THE PERFORMANCE OF BUILDING CONTRACTORS IN EMBU WEST SUB-COUNTY, EMBU COUNTY, KENYA.

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## DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

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## DEDICATION

To my father and mother, Mr. & Mrs. Mutambu, who have supported me both in prayer and financially to enable me to finish this course.

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## TABLE OF CONTENT

## LIST OF TABLES

## LIST OF FIGURES

## LIST OF ABBREVIATION AND ACRONYME

**APO:** Asian Productivity Organization

**CAK:** Competition Authority of Kenya

**CBK:** Central Bank of Kenya

**ECB**: European Central Bank

**EIB:** European Investment Bank

**GDP:** Gross Domestic Product

**ICA:** Infrastructure Consortium of Africa

**IRR**: Internal Rate of Return

**NCA:** National Construction Authority

**NPV:** Net Present Value

**OECD:** Organization of Economic Cooperation and Development

**ROA:** Return on Assets

**ROI:** Return on Investment

**SACCO:** Savings and Credit Cooperative Organization

## ABSTRACT

The construction industry is an important sector with immense contribution to the socioeconomic development of nations. In Kenya and specifically in Embu County, there is growing demand for residential, commercial, industrial and other infrastructure buildings. But due to lack of financial capacities, most contractors are unable to meet the rising demand. One of the barriers to the performance of building contractors is financial insecurities related to access, use and servicing of capital. This study sought to examine the influence of financing sources on the performance of building contractors in Embu West Sub-County, Embu County, Kenya. The specific objectives of the research were to: determine the influence of private lenders on the performance of building contractors in Embu west sub-County; assess the influence of Savings and Credit Cooperative Organizations on the performance of building contractors in Embu west sub-County; examine the influence of banking institutions on the performance of building contractors in Embu west sub-County and establish the influence of personal savings on the performance of building contractors in Embu west sub-County. The study was grounded on the credit channeling theory and supported by credit rationing theory. The correlational survey design was used in the research inquiry. The study population was 120 building work firms in Embu west sub-County, Embu County, Kenya. A sample of 36 was chosen using stratified random sampling. Data was collected using semi-structured questionnaires. Reliability of the instruments was assessed using split-half method and tested using Cronbach`s Alpha method at 0.7. Data was analyzed using descriptive statistics namely: arithmetic mean, standard deviation and percentages. Pearson correlation coefficient was used to compute the relationship between variables at 95% confidence interval. The results revealed that sourcing of finances from private lenders, SACCOs and banking institutions had statistically significant influence on the performance of building contractors in Embu West, Embu County in Kenya. However, sourcing finance from personal saving had no statistically significant influence on the performance of building contractors in Embu West sub-County, Embu County in Kenya. It is recommended that building contractors should always seek for cheaper and less risky sources of financing so as to sustain their operations and performance. Also, lending institutions should strive to make lending easier and affordable by recognizing the constraining financial environment to building contractors.

# CHAPTER ONE
# INTRODUCTION

## 1.1 Background of the Study

It is in no doubt that construction industry is among the most important sectors that drive the global economies. Construction industry is highly dynamic owing to several environmental changes that have happened over the last few decades. For example, a report by the Future of Construction Global 2030 reveals four specific trends that have occurred in this sector namely: digitization, autonomy, sustainability and economic stability (Research and Markets, 2019). The high rate of digitization is driven by new technologies such as Artificial Intelligence and high speed broadband connectivity (Koutsogiannis, 2019). The greatest contribution to this trend is the increase in the Generation Z population that places a lot of emphasis on innovation and entrepreneurship. Technology has led to various adjustments in how construction projects are done. For instance, Bar-code technology is now being widely used to track construction materials and equipment for cost reduction and efficiency (RMS Omega Technologies, 2019).

Despite the increased level of outsourcing that has increased the independence of the construction sector, there are concerns about the sustainability of construction projects. In response, the Agenda 21 of the 1992 Earth Summit which was held in Rio de Janeiro sought to increase construction sustainability, especially in the developing countries which are characterized by incomplete projects and poor safety conditions (du Plessis, 2001). Nevertheless, the fluctuating global economics has negative consequences to the financial stability of the constructors. The OECD Economic Outlook (2007) explored the impact of recessionary pressures in the efficiency of the construction industry in the member countries of the Organization of Economic Cooperation and Development. Similar concerns are raised in Kenya when the construction sector exhibited significant boom despite poor economic conditions (Ayieko, 2013).

In order to counter this and ensure efficiency and profitability, building contractors are exploring various sources of financing in order to adopt a mix of capital finances with minimal risks and costs. Among the sources of financing are private lenders, savings and credit from cooperative organizations, bank loans and personal savings. While favorable credit access to MSEs is crucial in fostering financial flexibility, competition, growth, innovation in organizations (Kung'u, 2011), empirical studies have explored this

argument inconclusively. For this reason, it is vital to explore the concepts of sources of finance and building contractors' performance.

### 1.1.1 Concept of Building Contractors' Performance

The performance of building contractors is a wide concept that includes issues such as credit rating, their litigation history and completion certificates (Xiong et al., 2019). The basic definition of credit rating is the evaluation of a company's assurance as a debtor (Cetkovic et al., 2012). Sources of finance play specific financial obligations on a company's operations and directly affect their position to honor their financial obligations. Ratings also determine the eligibility of debt and other financial instruments which are necessary to finance projects. Credit ratings respond positively to the degree of compliance and integrity of registered construction companies (Xiong et al., 2019). The credit ranking also has a strong correlation with a company's competitiveness. Credit rating evaluation is also based on a wider economical-accounting concept. Traditionally, the credit rating of construction companies is focuses on their ability to plan and implement projects. However, in the modern era, the rating concept is wider and includes various qualitative aspects such as the client's perception of the organization's brand image.

### 1.1.2 Concept of Sources of Finance

According to Akali et al. (2018), construction financing is a widely studied topic that has led to various definitions and components. Various studies have explored the sources of finance at the global, regional and local level. A study in the OECD countries was able to reveal that countries in that region have a wide array of specialized financing option (OECD, 2015). For instance, most infrastructural development is financed through fixed income instruments such as bonds and loans while others use a hybrid model that involves both debt and equity instruments (OECD, 2015). The lending arrangements are mostly determined by the cash flow generation and risk sharing among the project partners. An analysis of these financing sources revealed that 60% constitutes bank loans and bonds, 20% comprises of hybrid sources and 30% consists of equity (OECD, 2015).

An assessment of the regional level also reveals the prominence of bank loans in construction finance. The Infrastructure Consortium for Africa Report of 2017 revealed that the majority of construction firms in Africa rely on bank loans. Additionally, the

majority of the infrastructure loans are committed to the transport sector in all the regions of Africa, accounting for 47% of expenditure in North Africa, 51.2% in East Africa, 31.7% in West Africa, 27% in Central Africa and 47.1% in Southern Africa (ICA, 2018). However, the report also revealed a considerable level of equity investments in building companies in Africa. This calls for adoption of more innovative means of sourcing for finances amongst the investors in construction industry. However, a cross section survey by Akali et al. (2018) revealed that most road constructors across the country rely heavily on bank loans. However, Embu County remains largely unexplored by similar studies. This particular project will seek to unearth the financing sources that are prominent in this region.

Approximately 34% of the registered contractors in Embu west Sub County are in building works (National Construction Authority, 2019). However, approximately 60% of the registered building works contractors fall in the category of NCA 6 and below (NCA, 2019). These particular organizations are small-scale and may lack adequate resources and sufficient experience. Due to their small scope of operations, these firms may also find it challenging to raise finance through the mainstream banking system, thus, limiting their growth potential (Osoro and Muturi, 2013). If they do, they may end up carrying a heavy interest burden, which may affect areas of performance such as profitability, quality and environmental impacts. Despite this potential connection between financing and performance, there is a notable lack of studies on how the sources of finance could affect the performance of these firms.

### 1.2 Statement of the Problem

The construction industry is among the most impactful sectors of economy. In Kenya, the construction industry contributes approximately 7% of the GDP (The Big 5 Construct Kenya, 2020). However, this sector has not yet reached its full potential since there remains a high demand for construction projects to provide necessary amenities. This is due to low financial capacities. Several factors have been found to affect firms' decision to access financial resources. For instance, credit ratings respond positively to the degree of compliance and integrity of registered construction companies (Xiong et al., 2019). Litigation history also affects an organization's standing in the sector. For instance, if a company is burdened by multiple lawsuits by suppliers who have not been paid or clients

whose work has not been completed, there are often plausible risks to associate the firm with fraud and other statutory violations (Morris, 2012).

According to Osoro and Muturi (2013), the relationship between credit access and growth of organizations is empirically demonstrated in Kenya. The resultant effect is constraints associated to financial agility leading to slow completion of construction projects. This has been observed in Embu County where due high demand for building projects owing to an increased population and commercial demand, the stakeholders have raised concerns over the limited amount of buildings, which have increased the cost of housing (Embu County Government, 2018).

Past studies by Ogoi (2017), Kungu (2011) and Diar et al. (2017) have concluded that improved finance access raises productivity, improves returns on investment and increases incomes; the results are not only inconclusive but also not generalizable to financial institutions and construction companies in Embu County due to diversity of population and geographical settings. Therefore, this study sought to assess the influence of the financing sources the performance of building contractors in Embu west Sub County in Embu County.

### 1.3 Purpose of the Study

The study focused on the influence of financing sources on the performance of building contractors in Embu west sub-County, Embu County.

### 1.4 Objectives of the study

The specific objectives of the study were to:

i. Determine the extent to which private lenders influence performance of building contractors in Embu West sub-County, Embu County in Kenya.
ii. Assess the influence of Savings and Credit Cooperative Organizations on the performance of building contractors in Embu West sub-County, Embu County in Kenya.
iii. Examine the influence of banking institutions on the performance of building contractors in Embu West sub-County, Embu County in Kenya.
iv. Establish the influence of personal savings on the performance of building contractors in Embu West sub-County, Embu County in Kenya.

## 1.5 Research Questions

The study sought to address the following specific questions:

i. In What ways do private lenders influence performance of building contractors in Embu West sub-County, Embu County in Kenya?
ii. What influence do Savings and Credit Cooperative Organizations have on the performance of building contractors in Embu West sub-County, Embu County in Kenya?
iii. What influence do banking institutions have on the performance of building contractors in Embu West sub-County, Embu County in Kenya?
iv. In what ways do personal savings influence the performance of building contractors in Embu West sub-County, Embu County in Kenya?

## 1.6 Research Hypothesis

The study sought to test the following hypotheses:

**$H_{01}$:** There is no significant relationship between private lending and the performance of building contractors in Embu West sub-County, Embu County in Kenya.

**$H_{02}$:** There is no significant relationship between lending by SACCOs and the performance of building contractors in Embu West sub-County, Embu County in Kenya.

**$H_{03}$:** There is no significant relationship between lending by banking institutions and the performance of building contractors in Embu West sub-County, Embu County in Kenya.

**$H_{04}$:** There is no significant relationship between the use of personal savings and the performance of building contractors in Embu West sub-County, Embu County in Kenya

## 1.7 Significance of the Study

The findings from this study are beneficial to all stakeholders in the building and construction industry. Specifically, the study would benefit building contractors in assessing the impacts of various sources of funding for better performances. Also, the findings resulted into creation of new knowledge on how to access funding sources to improve their performance for further interrogation. In addition, the findings are valuable to financial institutions since the information produced would help bank managers in understanding how contractors view funding sources for improved lending considerations. These institutions may, therefore, design their offers in a manner that attracts this clientele. This study may also benefit the Embu County Government in implementing policies and programmes that may support the performance of building contractors. The County Government relies on these contractors to develop infrastructure

that may service the demand for buildings. Finally, the study may be of benefit to future researcher that intends to expand knowledge in the area.

### 1.8 Assumptions of the Study

The study was based under the assumption that the source of financing is a vital determinant of the performance of building contractors. This assumption also presupposes that the contractors have access to various sources of funding and can rank their impacts on the performance of their firms. Also, the study assumed that private lending constitutes of informal sources of finance that are legal according to the Kenyan law. Therefore, illegitimate sources such as shylocks were excluded. Furthermore, the study assumed that the individuals involved had proper books of accounts that would make the assessment of impact easy. It was also assumed that a significant section of the study respondents were members of SACCOs and that they had access to these resources for construction purposes.

### 1.9 Limitations

Due to the nature of the study, the researcher anticipated bureaucracy of information gathering to be a limitation. The researcher anticipated that this limitation would be more prominent in firms with a longer hierarchy and wide scope of operations. The research design was also expected to pose some challenges due to sample size being limited to Embu west sub-County. The fear of victimization was also considered as a probable cause that would make respondents to be unwilling to participate in the research. Some respondents, owing to the fact that they are lower on the chain of command, were thought to be reluctant to participate since they feel that the information they provide might expose them to superiors.

### 1.10 Delimitations

The researcher, however, attained all the necessary clearance to enable the collection of relevant information. The researcher overcame bureaucracy by collecting data from the top representatives of the organization. The study also assured low-level employees of the confidentiality of their information to overcome their fear of victimization. The study chose a mixed method approach so as to include both quantitative and qualitative data. This design also helped in triangulating data by sourcing from different sources to create multiple points of reference and ensure minimum deviation. The researcher assured all participants that any information provided would be handled with confidentiality.

### 1.11 Definition of Significant Terms used in the Study

| | |
|---|---|
| **Banking Institutions** | The collection of mainstream banks that are licensed under the Central bank of Kenya and that have construction financing arrangements. |
| **Building Contractor** | Any firm or individual that deals with housing projects. |
| **Construction finance** | Short-term and long-term sources of funding that are utilized in construction projects. |
| **Contractor Performance** | The indicators that exhibit efficiency of a contractor such as litigation history, credit rating and completion certificates |
| **Private lenders** | Informal organizations or individuals that offer loans outside the mainstream banking system. |
| **Personal savings** | Financial resources that are held in the savings account of banks and other financial intermediaries including money held by individuals at home. |
| **SACCO** | Voluntary welfare arrangements that promote savings and lending to members. |

### 1.12 Organization of the Study

This study was organized into five major chapters. The introduction chapter assessed the concepts of sources of finance and building contractors' performance. The second chapter reviewed the previous literature according to themes developed from the specific questions. The third chapter identified the research design, population and sample, data collection instruments and the procedure for presentation and analysis. The fourth chapter detailed the study findings and interpretations while chapter five includes summary, discussion, conclusions and recommendations.

# CHAPTER TWO
# LITERATURE REVIEW

## 2.1 Introduction

This chapter explores the empirical literature within the broad framework of the research variables namely: private lenders, SACCOs, banking institutions and personal savings in relation to the performance of building contractors. It also presents the theoretical and conceptual frameworks that will guide this study. The chapter concludes with a summary of the research gaps that were identified from previous literature.

## 2.2 Performance of Building Contractor

Credit rating is an important indicator of building contractor performance since it is directly linked to financial access. Most governments have a centralized credit rating that allows them to assess the risks associated with contracting certain companies. The Government of China, for instance, launched a construction contractor's credit scoring (CCCS) to evaluate the compliance and integrity of contractors and use those ratings to determine the likelihood of granting construction tenders (Xiong et al., 2019).

African countries also have government-led credit systems to rank construction performance (Institute of Developing Economies, 2020). In South Africa, for instance, the construction sector is an essential contributor to economic growth. Thus, the government takes keen interest in ensuring that building contractors comply with various regulations meant to monitor and control their performance. The government of South Africa has, specifically, designed the Contractor Development Programs (CDPs) to create an enabling environment for small and medium-sized contractors and improve their performance (Dapaah et al., 2016). The performance indicators include increased financial capacity, reduced litigation and improved credit rating.

Kenya is yet to have a universal credit rating system but has implemented various initiatives spearheaded by the Central Bank, which allows firms to contract independent rating organizations such as the Global Credit Rating (Guguyu, 2018). Many building firms in Kenya have lost the positive perception due to defaults on loans. A report by the Central bank of Kenya, for instance, revealed that the real estate construction sector was in a Ksh. 3.9 billion debts and some small contractors are moving away from heavy bank financing in order to cushion themselves from the cash flow crisis (Lugaria, 2017).

Therefore, there seems to be a strong relationship between the source of finance and risk of bad credit rating in the country.

An organization's standing in the sector is also affected by litigation history. Often, a company's history of court cases is seen as a sign of its unreliability. For instance, if a company is burdened by multiple lawsuits by suppliers who have not been paid or clients whose work has not been completed, there are often plausible reasons to associate the firm with fraud and other statutory violations (Morris, 2012). However, the completion of a firm's obligations depends on the stream of cash flows. Thus, if a company is attached to burdensome finance sources, there will be higher chances of default and consequently a higher risk of civil litigation. Various countries have different regulations of exposure to litigious liability. In the US, most laws place a strict liability on major contractors, especially for any construction defects that place human life at risk (Lockhart Park, 2020).

In Kenya, a similar principle is also pursued and building contractors must publish their litigation history, both in court and arbitration, when bidding for construction projects (Kenya Industrial Estates Ltd, 2014). Thus, litigation history is an important performance indicator that has a close link to the financing structure of a construction company. Completion certificates are also an important aspect of performance. They are an end product of the input of parties involved in the construction process and are, thus, an important element of the construction supply chain. The speed with which an organization receives this certificate reveals the efficiency of its internal processes and may, thus, point to superior company performance. Secondly, completion certificates are released at the end of the defects liability period, after which the remaining sums can be disbursed to the contractor. Thus, completion certificates are closely linked to client satisfaction. In conclusion, previous literature highlights that contractor performance is weighed against three elements, which are, credit rating, litigation history, and completion certificates (Morris, 2012; Lockhart Park, 2020).

### 2.3 Private lending and performance of building contractors

According to Ayyagari, Demirgüç-Kunt, and Maksimovic (2008), many organizations, especially in the developing world rely highly on informal financing sources due to the high interest associated with the mainstream banking institutions. Their study was largely

based on the Chinese economy where firms experience high barriers in accessing finance from banks. The study also proceeded to determine an important relationship between the availability of this alternative financing and the growth of new investments in the building sector. However, the findings could only be generalized within the settings of the study population.

Aryeetey (2001) explored the same dimension in the African continent and was able to determine that non-bank financing was instrumental in the construction sector in Africa. The sample for the study was 85 small scale building contractors drawn from Ghana, Nigeria, Tanzania and Malawi. The study used a descriptive design and applied measures of central tendency. According to his study, informal private lending constituted approximately 4.7% of small business financing and 30.6% of large firms in Ghana. Methodology, the study was limited to descriptive design. This study used a comprehensive methodology for increasing the validity in concluding the results.

Allen et al. (2014) conducted a meta-analysis of findings from various studies and revealed that many small firms fail to capitalize on the benefits of informal financing due to inadequate understanding of how they work. Thus, the failure of firms to understand adverse selection and moral hazards when it comes to financing options is the major drawback of firms' performance. One of these weaknesses arises since many small firms, especially in the construction sector, lack the services of professional auditors and are therefore not well placed to connect their financing sources to performance (Allen *et al*. 2014: 38).

Aliber (2015) conducted a cross-sectional analysis of firms across Uganda. His study attributed low firm performance to the high interests charged by private moneylenders in Uganda. He, however, also revealed that money lending is not a common practice in most parts of Africa due to the risks associated with enforcing repayment and a general lack of government policy to guide the sector. Secondly, most of the money lending processes relies highly on the trust established between the lender and borrower. Lenders therefore implement different methods of screening to weed out high risk clients and reduce their transaction costs. This situation affects the performance of firm negatively by limiting access to loans.

Tardieu (2006) assessed the impacts of informal credit on the information market in Bulgaria using a sample of 149 firms in Sofia. The study used stratified sampling and divided these firms into three categories, which are micro enterprises, small enterprises and medium enterprises based on the number of employees. The study noted that small firms in the construction sector were among the largest users of informal credit. These findings agree with Muriithi (2014) who assessed small and mid-sized firms and noted their high use of both long-term and short-term credit. Both studies indicated that although informal credit had positive impacts on performance, it was also plagued by heavy government regulation which made it difficult for firms to fully capitalize. Nonetheless, this study overcame the construct validity that suffered past studies by using financial inclusion theory to argue the findings.

In Kenya, private credit suppliers have made significant strides in reaching out to the market through digitization of their credit facilities. By 2006, the most common non-bank loan providers, Tala and Branch, had already implemented over one million installs (Gubbins and Totolo, 2018). Despite this increased subscription, there is a notable lack of studies on how the Kenyan building sector is affected. This study was therefore necessary to establish the impacts of private lending on the performance of contractors in the building industry in Embu County.

### 2.4 SACCOs and performance of building contractors

The African continent has also revealed a significant use of funds from savings and credit bodies, specifically referred to as SACCOs. Most scholars agree that the rise of SACCOs stems from the need for financial resources in countries with high levels of poverty and thus, less access to mainstream loan facilities (Allen and Maghimbi, 2009). SACCOs are guided by the principles of cooperation and mutual self-help, which make them very suitable for development projects (Mwangi and Wambua, 2017).

Mwania (2017) conclude that SACCO loans have boosted the performance of firms in a wide range of sectors. The study leaned more towards the performance of SACCOs and how that performance trickles down to firms that use SACCO financing. He concluded that SACCOs with a large asset base were able to attract more clientele and membership and, subsequently, affect business performance positively. These findings also agree with Hadija (2016), who studied 35 SACCOs in Nairobi County and also came to the

conclusion that the asset base of SACCOs attracts more clientele and also enables the organization to implement long-term growth strategies.

In a study on the cash flow of SACCOs in Kiambu, Maina (2008) revealed that SACCOs were the mainstay of business activity in most rural areas in Kenya and were highly instrumental in financing both consumptions and investment expenditure. His study looked into 154 staff working in SACCOs across Murang'a County. The study classified the building sector as one the major beneficiaries of SACCO financing in the country. However, Maina (2016) states that the inability of SACCOs to modernize their operations has been a hindrance to business support.

Maina (2016) further stated that SACCOs lacked significantly when it came to debt collection and relied heavily on credit insurance and collateral, which increase the cost of loans making them unattractive to potential borrowers. The building sector mostly deals in risky projects that require high assurances. Thus, it could be difficult for most of the contractors to access loans from SACCOs due to a high security threshold.

Rop (2015) assessed 55 real estate firms across the country and studied the effects of SACCO development loans on the growth of the real estate in Kenya and revealed that Kenya has a SACCO membership of 3.5 million people and a loan portfolio of over $2 billion, a substantial part of which goes to real estate projects. The study also indicated that SACCOs have been able to support the high demand for housing and infrastructure, increase the liquidity of contractors and enable firms to increase their scope of operations. This study also maintained that SACCOs were instrumental in increasing the efficiency of the construction industry which Cheruiyot et al. (2014), views as a positive effect on the growth of real estate due to their ability to both facilitate and mobilize savings. The study by Cheruiyot et al. (2014), used an explanatory research design on 30 selected SACCOs and 180 SACCO members. It revealed that SACCOs are based on more personal and intimate relationships because the members present common interests unlike banks which have a heterogeneous clientele.

The study, therefore, highlighted proper customer relations as a major factor in popularizing SACCO development loans. Mwai and Okatch (2017) looked into the impact of SACCOs on poverty eradication and highlighted their importance in

infrastructural development, access to credit and sectoral development. The study consisted of 94,592 SACCO members in 5 SACCOs in Murang'a County. The study revealed that for SACCOs to have the desired effects at both the macro and micro economic levels, the institutions must emphasize on nature of loans issued, share capital structure and financial literacy training. Embu west Sub County had a total of 26 audited SACCOs as per the 2017 government records, where five of them are in the real estate sector (Ministry of Industrialization, 2017). Limitations in empirical literature on the extent to which building contractors borrow from these institutions motivated this study to assess the influence of SACCOs on performance building contractors in Embu County.

### 2.5 Bank institutions lending and performance of building contractors

Various studies have sought to highlight the relationship between bank loans and performance of the building sector in various countries. Manamgoda et al. (2018) used an exploratory design on a cross-section of firms in Sri Lanka. The study looked into the effect of bank loans on the performance of road construction in Sri Lanka and identified interest rates as a major determinant of performance. According to the study, interest rates are closely linked to the business cycle of the economy since they are influenced by cost of capital and investment behavior.

Thus, highly interest-sensitive sectors such as construction base most of their financing decisions on the suitability of interest rates. According to Dhanani *et al* (2008), who conducted interviews on ten UK companies, interest rates affect the pricing of industrial inputs, and this impact may influence a firm's decision to either borrow or not. The risk of borrowing becomes high due to the possibility of default. Matara (2008), who conducted a cross-sectional survey of banks in Kenya, argues that this is one of the reasons why banks were reluctant to lend for infrastructural purposes due to the difficulty in repossessing the financed projects.

In Europe, interest barriers are key in the financing of infrastructural projects but conditions have improved over the last decade. The monetary policy of the European Central Bank significantly lowered the burden of interest as from June 2014 enabling banks to have both long-term and short-term loaning options, a move that has increased the growth of the construction sector substantially (European Investment Bank, 2014). In support, Rixtel (2007) looked into a selection of firms in Japan and revealed a negative

marginal effect of lending to the construction industry in Japan despite the government trying to ease the central bank rate. He theorizes that the market expectations of the banks did not rely solely on government policy but rather on experience and economic expectations. For this reason, banks took precautions when lending to high risk investment projects such as constructions.

Studies conducted within the African region have highlighted on various impacts of interests on lending and firm performance. Abuka et al. (2019), for instance, conducted a desk research and compared various monetary policy effects in Uganda. The Ugandan scenario revealed that banks still face high barriers to lending due to the risk of default, and this situation has affected the construction industry significantly among other industries such as agriculture, manufacturing, water, transportation, mining and quarrying. In Kenya there was a high rate of loan default by the construction industry at the end of 2018 due to high interest rates despite the sector showing significant growth (Central Bank of Kenya, 2018). This situation implies that most of the infrastructure in use was still under loan obligations. These studies provide various paths to pursue when assessing the impact of bank loans on the performance of the construction industry. Attractiveness of bank loans is determined by the nature of the economy. Secondly, government monetary policy plays an important role in establishing the interest rates and accessibility to bank loan facilities. Finally, the construction sector is highly sensitive to interest rates due to the nature of projects and risks involved. All these dimensions were be essential in studying how bank financing affects the performance of the building contractors in Embu west sub-County.

### 2.6 Personal savings and performance of building contractors

Personal savings are, perhaps, the least studied form of construction financing. However, several studies have aimed at establishing how the rate of savings creates financial capability which, in turn, affects the construction industry. Sandilands (1992) was among the first scholars to explore the role of savings and investments on the housing sector in Singapore. He conducted secondary research and used government records to compare the monetary policy effects in various periods. The study revealed a strong link between government policy and encouragement of personal savings, which could be ploughed back into construction investments.

Freestone, Gaudry et al. (2012) later adopted a similar study in the Australian economy and highlighted the importance of household savings on the retail and residential construction sectors. This study was also a secondary research that relied on government records. According to the study, an increase in savings fueled a period of construction growth in the 1980s and 1990s since it insulated the public from adverse economic shocks and also created a capacity to invest in real estate. In South Africa, Jordaan (2013) conducted secondary research of treasury records and linked savings to interest rates and revealed a negative relationship, which had an impact on construction and other sectors such as agriculture, mining, manufacturing, energy and trade. The study also revealed that a decrease in savings was detrimental to the growth of real estate. The ability to save largely depends on individual and household incomes.

Haupt and Padayachee (2016) used convenience sampling to select 30 small medium enterprises in Kwazulu-Natal, South Africa. Their study revealed that small firms rely on personal savings of the founder, especially in the early stages of the business and that some contractors use this mode of financing due to their general inability to meet the requirements of accessing banking loans. Most of the study respondents indicated that personal savings were the most important source of financing next to bank loans while special aid and donor funds were the least important.

However, by virtue of their small size, they had a specific challenge of financial management due to improper books of accounts and mixing of funds with bank loans, which led to poor project performance. According to the Central Bank of Kenya (2018), interest rate spreads have seen an increase in savings since 1973 to 1994, and have led to a corresponding change in the building and construction sectors.

This rise in savings has also partially crowded off bank financing. This situation implies that the public is more willing to use savings instead of loans to finance construction projects. However, there a notable lack of studies that investigate the impact of savings on the performance of construction firms. The studies mentioned, however, provide a link between savings and both the economic condition of the country and means of finance channeling to construction projects.

## 2.7 Theoretical Framework

This study was based on concepts, assumptions and implications of the credit channel theory and credit rationing theory. The credit channeling theory is based on the assumption that credit is a function of monetary policy and, thus, its flow relies on the decisions of the government. The credit rationing theory on the other hand assumes that credit is a function of information asymmetry and was thus be available to individuals and entities that have access to privileged information. Both theories have practical implications on the ability of institutions to access the right amount of credit, at the right cost and at the right time.

### 2.7.1 Credit Channeling Theory

This theory suggests that the amount of credit created by banks is a function of monetary policy. Interest is considered to be the price of capital, and is therefore under the control of the central bank which controls the base lending rate (Ledgerwood, 1999). Therefore, the central bank policy can expand or contract the size of loans an economy can access by influencing its policy. These changes would affect the real economy of a country.

This theory is relevant to this study because lending institutions which include banks, private lenders and SACCOs are considered to be the transmission mechanisms through which the economy accesses these loans. Ledgerwood (1999) suggest that the channel theory depends highly on interest rate sensitivity. Since interest is the price that stabilizes the capital market, it is also the vehicle through which broader impacts can be made on the market. Affordable credit is by definition low-interest loan facilities. This theory was important for the study since it explores the effects of finance channels on the performance of organizations.

### 2.7.2 Credit Rationing Theory

This theory was developed in 1981 by Stiglitz and Weiss. According to the theory, information asymmetry is the major reason behind credit inequalities, especially in developing countries. When banks advance loans to customers, they are not only interested in the reward, that is, the interest they receive, but also in the risks that such loans bear (Armendariz, 2007). Lenders mostly have information that borrowers are not privy to. This situation is known as adverse selection and it is basically the reason why interest rates get modified with time even when the borrower does not see any apparent reason why that should happen.

This theory fits well with the study because some institutions such as SACCOs are generally low-interest lenders and most of the time for reasons not yet fully understood by the market. However, information asymmetry may also lead to a moral hazard problem i.e. a situation where two parties may have incomplete information about each other. These two conditions are the reason behind the rigorous screening process adopted by financial institutions when identifying potential borrowers. This theory was useful because it assesses the impacts of credit squeezing by financial intermediaries on the performance of an organization.

### 2.8 Conceptual Framework

Figure 2.1 shows the flow of research variables for the study on influence of financing sources on the performance of building contractors in Embu West sub-County, Embu County.

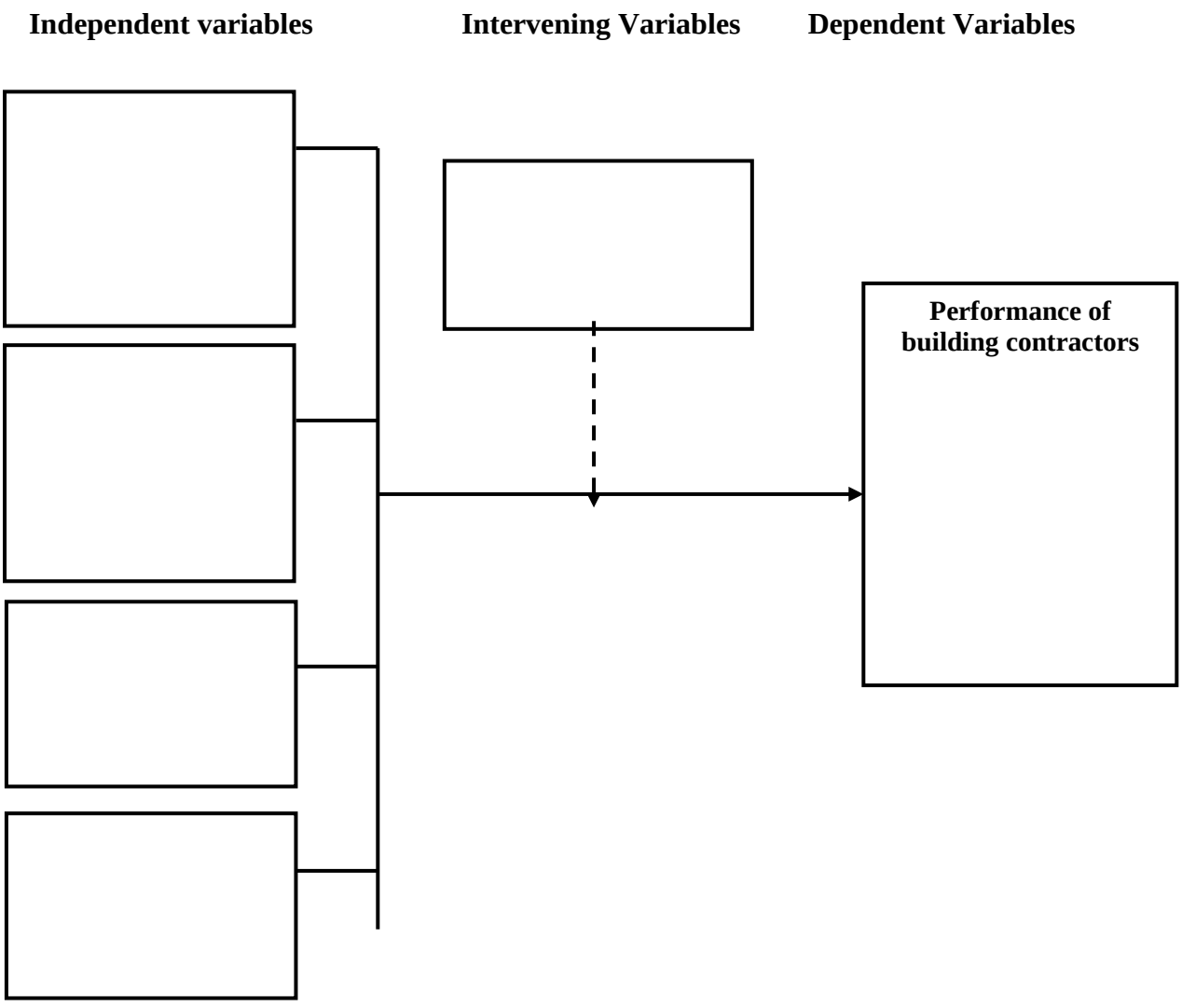


**Figure 2.1:** Conceptual Framework

The dependent variable is performance of building contractors and is perceived to be indicated by levels of credit rating, litigation history and completion certificates. The predictor variables are private lenders, SACCOs, bank institutions and personal savings. the measures of private lenders are; friendly relations with lender, accessibility, convenience and flexibility. SACCOs was measured by levels of friendly relations with lender, accessibility, convenience and flexibility. To measure banking institutions, the following indicators were used: interest rates, collateral and credit worthiness. Personal saving was measured using the indicators of personal income and personal expenditure.

### 2.9 Gaps established in the literature review

The literature reviewed on private lenders, SACCOs, banking institutions and personal savings revealed various gaps. These gaps are presented in Table 2.1.

**Table 2.1: Summary of Knowledge Gaps**

| Study | Focus of the Study | Findings | Knowledge Gap | Focus of the current study |
|---|---|---|---|---|
| Allen, Qian and Xie (2014) | Informal financing for small firms | Many firms lack ability to calculate moral hazards and therefore do not capitalize on financing | Focused on SMEs in general and failed to emphasize on the construction sector | Places an emphasis on the small firms in the construction sector and how they are affected by high level financial decision-making |
| Rop (2015) | Effects of SACCO development loans on the growth of real estate | SACCOs have been able to support the high demand for housing and infrastructure, increase the liquidity of contractors and enable firms to increase their scope of operations | Emphasized on liquidity as the measure of performance and ignored other performance indicators such as accessibility, convenience and flexibility | explores the effects of SACCO financing on a wider scope of performance measures such as profitability, market size and company image |

| | | | | |
|---|---|---|---|---|
| Manamgoda, et al. (2018) | Effect of bank loans on the performance of road construction in Sri Lanka | Interest rates are closely linked to the business cycle of the economy since they are influenced by cost of capital and investment behavior. | Addressed issues relating to the Sri Lanka economy and also emphasized on public works jobs tendered by the government | Focuses on the Kenyan market and construction works that are primarily private sector |
| Sandilands (1992) | The role of savings and investments on the housing sector in Singapore | A strong link between government policy and encouragement of personal savings, which could be ploughed back into construction investments. | Addressed issues relating to the Singapore economy and also emphasized on public works jobs tendered by the government | Focuses on the Kenyan market and construction works that are primarily private sector |

In the area of private lenders, the studies were able to establish the importance of informal sector lending and its impact on access to finance. The sources also conducted a comparative study in different regions of the world and stated that Africa is among the leading consumers of informal financing. The information was not new considering the impact of economic development on financing decisions. The studies focused on SMEs in general and failed to emphasize on the construction sector. The previous studies also emphasized on liquidity as the measure of performance and ignored other performance indicators such as accessibility, convenience and flexibility

This study unearthed the specific impacts of private lenders on all the dimensions of project performance. SACCOs have been widely studied since their activity is predominantly found in developing countries. Most of the studies, however, assess the importance of SACCOs in accessing construction finance but underperform in outlining the specific impacts of SACCOs on the performance of building contractors. Secondly, none of the studies investigates SACCO membership in the construction sector and its impact on performance. Also, just like the case of private lenders, the previous SACCO studies also emphasized on liquidity as the measure of performance and ignored other performance indicators such as accessibility, convenience and flexibility

Banking institutions have also been widely studied in many countries. The studies are, however, limited to interest rates and collateral. This study sought to explore other banking factors such as savings and investment policies and mortgage financing and their impacts on performance of building contractors. The previous studies also addressed issues relating to the Sri Lanka economy and also emphasized on public works jobs tendered by the government. Thus, there is a major gap in studies that address Kenya in general and Embu west sub-County in particular.

Finally, personal savings is an inadequately studied variable both at the international and local level. The study sought to expand on the economic theorization of the link between savings and investment with special emphasis on building contractors. The previous studies, however, addressed issues relating to the Singapore economy and also emphasized on public works jobs tendered by the government. This study intended to focus on the Kenyan market and construction works that are primarily private sector.

# CHAPTER THREE
# RESEARCH METHODOLOGY

## 3.1 Introduction

The study was on the influence of finance sources on the performance of building contractors. The gaps revealed laid the foundation for formulating a research methodology strategy to address the study variables. This chapter describes the methodology used in the research inquiry in terms of research design, target population, sampling design, methods of data collection and data analysis.

## 3.2 Research Design

The study employed mixed methods research design. Both descriptive survey design and correlation survey design were used to describe the phenomena as it exists and to explain the relationship between variables respectively. Mixed design enables the researcher to collect and analyze both qualitative and quantitative data (Kothari, 2003). Mixed methods design was used due to its ability to understand the context of a specific situation with an identified population; which was the major objective of this study. Detailed information was gathered by subjecting the respondents to a series of items in a questionnaire or interview schedule. Finally, mixed methods design was useful in understanding any contradictions that existed between quantitative results and qualitative findings.

## 3.3 Target Population

A study population is a group of individuals, objects or items from which a sample or study subjects are drawn (Kothari, 2003). The subjects or objects forming a sample have at least one thing in common. For the purpose of this study, the target population was120 contractors registered with the NCA in Embu West Sub County and that deal in building works which fall on category NCA6 and below (NCA, 2019). This target population was chosen since these firms have the shared the homogenous characteristics such as a small financial base and relative experience and are, thus, more inclined to exhibit different financing options.

## 3.4 Sample Size and Sampling Procedure

Stratified random sampling was the most appropriate because the sample comprised of firms which fall under different NCA categories. These categories include NCA 6, NCA 7 and NCA 8. Stratified random sampling method minimizes bias since every single item

in the population has an equal chance of being selected into the sample (Mugenda and Mugenda, 2003). This method involved dividing a population into smaller sub-strata based on shared characteristics (Mugenda and Mugenda, 2003). In this case, the shared characteristics were the NCA groupings into which all the construction firms are classified. The major distinguishing characteristics were size of the organization's operations and the amount of financial resources. Random samples were then drawn from each stratum using random number generators to ensure that each item in each group has an equal chance of being selected. The study sample comprised of 30% as suggested by Mugenda and Mugenda (2003), which totaled to 36 firms.

### 3.5 Research Instruments

The study employed the questionnaires as means of data collection.

#### 3.5.1 Questionnaire

The research employed a semi-structured questionnaire. The questionnaire comprised of question on demographic characteristics of respondents and specific questions per research variable. Questions were designed to understand the perceptions, attitude, knowledge and views of the respondents. Questionnaires were presented to the management of each selected organization. The persons of interest were the individuals at the management level that have wide knowledge on the firm's decisions regarding finances and operations. The persons of interest are the heads of the organizations in the sample. A questionnaire was given to one manager in every organization. A semi-structured questionnaire was used since it has the capacity to capture both quantitative and qualitative data.

### 3.6 Piloting of Research Instrument

Pilot testing was conducted in Embu East Sub-county to determine feasibility of research instruments. For this reason, 5 questionnaires were presented to five related building contractors were not part of the sample. The study based its pilot test on the ideas of Whitehead et al. (2016) who recommended at least 10% of the sample size. The researcher dropped the questionnaires and allowed the respondents 2 days to fill them, after which the two research assistants collected them for further processing. The collected questionnaires were cleaned for incomplete data and coded for processing. The researcher used the pilot study to improve on the relevance of the methodology in

answering the research questions. This process enabled the researcher to reformulate questions that were ineffective in generating clear and relevant responses. The feedback was useful in modifying the questions to fit the study objectives.

### 3.6.1 Validity of the Instruments

The study also sought to establish if the research instruments measure what they purport to measure. The content validity of the data collection instruments was tested by seeking expert review on the appropriateness of the questionnaire items and if they have the ability to collect relevant data. The researcher discussed the questionnaire with the supervisor.

### 3.6.2 Reliability of the Instruments

The study also sought to establish if the results yielded by the research instruments are consistent. Split-method was used to test reliability. In this method, instruments were administered and numbered. Odd numbers were put together same to even numbers. Cronbach's alpha test was running on each cluster to check and compare internal consistency of each cluster. The formula is expressed as:

$$\propto = \left(\frac{k}{k} - 1\right)\left(1 - \frac{\sum_{i=1}^{k} \sigma}{\sigma}\right)$$

Where k is the number of scale items and σ is the variance associated with item i. the formula is therefore appropriate in testing the average covariance between pairs of items and the variance of the total scores. The resulting α coefficient ranges from 0 to 1. If the scores of scale items are closer to 0, then they are independent from each other and if they approach 1, they share a level of covariance. The results indicated a high internal consistency thus safeguarding the reliability.

## 3.7 Data Collection Procedure

Introductory letter to respondents was acquired from the University of Nairobi, Embu learning Center. Research permit was acquired from the National Commission of Science Technology and Innovation after successful compliance with the application process. Sampling list was then obtained from the National Construction Authority. From the contact list, a sample of 36 building construction firms was selected using stratified random sampling. The managers of the selected firms were contacted and agreement made on the most convenient time for administering the instruments. Two graduate research assistants were recruited, sensitized on the research objectives and ethics and

trained on data collection process. Each respondent was allowed for 30 minutes to fill in the questionnaire with the help of research assistants. Follow-up was made to ensure all questionnaires were fully filled and retrieved back from the respondents.

### 3.8 Data Analysis Procedures

Before data analysis, the 5-point Likert-scale ordinal data was transposed to interval data through assignment of 0.8-equidistance (Lantz, 2013). The study employed both qualitative and quantitative analysis. Questionnaires collected from the field were checked to confirm if all questions were answered and data was cleaned and coded. The first step of cleaning the data was to ensure that the collected questionnaires were checked for completeness. The second step was to ensure that the respondents answered on the correct allocated spaces to avoid confusion. Quantitative data was analyzed using the Statistical Package for Social Sciences (SPSS) version 17.0.

Descriptive statistics such as frequencies, standard deviation and arithmetic mean were used. In addition, inferential statistics such as Pearson Product Movement Correlation Coefficient (r) was used to establish the relationship between variables. The value of $r$ ranges between +1 and -1 where $r > 0$ indicates a positive relationship of $X$ and $Y$: as one gets larger, the other gets larger; $r < 0$ indicates a negative relationship: as one gets larger, the other gets smaller and $r = 0$ indicates no relationship. The hypothesis was accepted at 95% confidence interval. The results were presented in tables.

### 3.9 Ethical Considerations

The researcher complied with all legal, ethical and regulatory requirements for conducting research. Research permits and approvals were obtained from the relevant institutions. The researcher assured respondents of the confidentiality with which information provided would be handled. This assurance was part of the consent form that was attached to the introductory letter and questionnaire. The researcher also provided all information necessary to allow the respondent to give an informed consent on participating in the study. This chapter presents the methodology used to conduct the research operations so as to arrive to the solution to the stated problem. The methodology is described in terms of research design, the target population, the sample size and sampling procedure, data collection instruments, research instruments, procedures for

data collection, data analysis methods, ethical and legal considerations and operationalization of variables.

### 3.11 Operational Definition of the Variables

Table 3.1 presents the summary of the measures together and analytical techniques per research variable.

**Table 3.1: Operationalization of Variables**

| | Research Objectives | Variables | Indicators | Measurement scales | Research Methods | Data Analysis |
|---|---|---|---|---|---|---|
| **1.** | To determine the extent to which private lenders influence performance of building contractors in Embu West sub-County, Embu County in Kenya | **Independent:**<br>• Friendly relations with lender<br>• Accessibility<br>• Convenience<br>• Flexibility<br>**Dependent:**<br>Performance of building contractors | • Number of loans acquired<br>• Ease of accessing the loans<br>• Variety of loans accessed | Interval | Quantitative | Mean, , correlational standard deviation, percentage analysis |
| **2.** | To assess the influence of SACCOs on the performance of building contractors in Embu West Sub-County, Embu County, Kenya | **Independent:**<br>• Accessibility<br>• Friendly relations<br>• Convenience<br>• Flexibility<br>**Dependent**:<br>Performance of building contractors | • Ease of accessing loans<br>• Variety of loans accessed | Interval | Quantitative | Mean, , correlational standard deviation, percentage analysis |

| | | | | | | |
|---|---|---|---|---|---|---|
| **3.** | To examine the influence of banking institutions on the performance of building contractors in Embu West Sub-County, Embu County, Kenya | **Independent:**<br>• Interest rates<br>• Collateral<br>• Credit worthiness<br>**Dependent:**<br>Performance of building contractors | • Level of demand for loans<br>• Credit rating | Interval | Quantitative | Mean, , correlational standard deviation, percentage analysis |
| **4.** | To establish the influence of personal savings on the performance of building contractors in Embu West Sub-County, Embu County, Kenya | **Independent:**<br>• Personal income<br>• Personal expenditure<br>**Dependent:**<br>Performance of building contractors | • Propensity to save<br>• Amount of savings | Interval | Quantitative | Mean, , correlational standard deviation, percentage analysis |
| **5.** | The purpose of the study was to examine the influence of financing sources on the performance of building contractors Embu West Sub-County, Embu County, Kenya | **Dependent:**<br>Performance of building contractors | • Credit rating<br>• Litigation history<br>• Completion certificates | Interval | Quantitative | Mean, , correlational standard deviation, percentage analysis |

# CHAPTER FOUR

# DATA ANALYSIS, PRESENTATION, AND INTERPRETATION

## 4.1 Introduction

Chapter four comprises of data analysis, presentation and interpretations of the research findings. The data was collected using questionnaires. Descriptive statistics such as percentages, arithmetic mean and standard deviations together with correlational analysis (inferential statistics) were the main method used in data analysis. Results are presented in tables.

## 4.2 Reliability Testing

The reliability of questionnaires was tested using split-half method and computed using Cronbach`s Alpha method and the results are shown in Table 4.1

**Table 4.1: Reliability Test Results**

| Variable | Cronbach's Alpha | No. of Items |
|---|---|---|
| Private Lending | .816 | 7 |
| SACCOs | .908 | 5 |
| Banking Institutions | .926 | 4 |
| Personal Savings | .854 | 3 |

Table 4.1 shows the reliability findings of the Cronbach test. The Cronbach alpha coefficient (α) for the study variables were as follows: private lending (α=0.816), SACCOs (α=0.908), banking institutions (α=0.926) and personal savings (α=0.854). The reliability of above the 0.7 minimum recommended for correlation studies (Lance et al., 2006).

## 4.3 Response Rate

Out of 36 questionnaires presented to the study sample, 34 were returned with complete information. Two of the questionnaires were not returned by the respective research participants. Thus the response rate was 94%. This data is presented in Table 4.2.

**Table 4.2: Response Rate**

| Category | Frequency | Percentage (%) |
|---|---|---|
| Returned | 34 | 94 |
| Not Returned | 2 | 6 |
| **Total** | **36** | **100** |

Therefore, the majority of respondents returned the questionnaires. Since the number of returned questionnaires was 34, they satisfied the threshold to commence with the study analysis. Fincham, (2008) recommends for a minimum of 80% response rate for concluding survey findings. Thus, a response rate of 94% was above the required threshold.

### 4.4 Background Information

The study also sought to collect information of various demographics of the respondents.

#### 4.4.1 Gender of the Respondents

To answer this question, respondents were asked to indicate their gender as either male or female and the results as shown in Table 4.3

**Table. 4.3 Gender of respondents**

| Gender | Frequency | Percentage (%) |
|---|---|---|
| Male | 26 | 76 |
| Female | 8 | 24 |
| **Total** | **34** | **100** |

The gender composition of the respondents was 26 male and 8 female, which translates to 76% and 24% respectively. This implies that building construction industry is a male dominated industry. Socially, building and construction industry is perceived as a labour intensive arena thus discouraging the women in venturing into the field.

#### 4.4.2 Age of the Respondents

Respondents were asked to indicate their age under the following categories: 42-52, 33-42, 23-32 and the results are presented in Table 4.4.

**Table 4.4: Age of the Respondents**

| Age (Years) | Frequency | Percentage (%) |
|---|---|---|
| 42-52 | 7 | 20 |
| 33-42 | 17 | 50 |
| 23-32 | 10 | 30 |
| **Total** | **34** | **100** |

Out of the 34 respondents, 10 of the respondents aged between 23 and 32 years, 17 of the respondents were between 33 and 42 years while the rest (7) aged between 43 and 52 years. Thus the majority of the respondents (50%) are adults who are on transition from youth-hood to adult-hood (between 33 and 42 years). Those between 23 and 32 years constituted 30% and those between 43 and 52 years accounted for 20% of the respondents. It implies that building and construction sector is largely run by younger contractors. The major implication of the finding the study was that the majority of respondents were younger contractors.

### 4.4.3 Marital Status of the Respondents

The respondents indicated their marital status as married, single or divorced. The results are shown in Table 4.5

**Table 4.5: Marital Status of Respondents**

| Marital Status | Frequency | Percentage (%) |
|---|---|---|
| Married | 24 | 70 |
| Single | 7 | 21 |
| Divorced | 3 | 9 |
| **Total** | **34** | **100** |

Table 4.5 shows that, 24 of the respondents were married, 7 were single and 3 were divorced. Thus, the majority of the respondents (70%) were married. The single respondents constituted 21% while the divorced were 9%. This suggests that married individuals accounted for running

most of building contractors. This knowledge is essential in understanding how family background shapes the establishment of building contractors.

### 4.4.4 Length of Business

The length of business was categorized as 5-10 years; 11-15 years and 16 years and above. The responses are presented in Table 4.6.

**Table 4.6: Length of Business Existence**

| Length of Business Existence | Frequency | Percentage (%) |
|---|---|---|
| 5-10 years | 10 | 30 |
| 11 to 15 years | 15 | 44 |
| 16 years and above | 9 | 26 |
| **Total** | **34** | **100** |

From table 4.6, 10 out of the 34 firms aged 5-10 years, 15 aged 11-15 years and 9 had existed more than 16 years i.e. 30%, 44%, and 26% respectively. It means that most of the firms aged above 10 years (70%) thus providing good experience in acquiring, using and servicing source of finance and thus provide good grounds for assessing performance.

## 4.5 Influence of private lenders on the performance of building contractors

The study sought to establish the influence of private lenders on the performance of building contractors. The respondents were required to indicate their levels of agreement with 11 statements on the variable of private lenders. The results are presented in Table 4.7. The values assigned to the categories are Strongly Disagree (SD)=1, Disagree (D)=2, Moderately Agree (M.A) =3, Agree (A)=4 and Strongly Agree (SA) = 5.

**Table 4.7: Influence of private lenders on the performance of building contractors**

| Statement | SD(%) | D(%) | MA(%) | A(%) | SA(%) | Mean | S.D |
|---|---|---|---|---|---|---|---|
| Borrowing from informal lenders is easier than any other source of finance | 1(2.94) | 1(2.94) | 6(17.65) | 14(38.34) | 12(35.29) | 4.0294 | 0.6809 |
| There are sufficient private lenders within the area of operation | 18(52.94) | 8(23.53) | 3(8.82) | 2(5.88) | 3(8.82) | 1.9412 | 0.6877 |
| Borrowing from private lenders is always the first option when financial need arises | 0(0) | 0(0) | 11(32.35) | 10(29.41) | 13(38.24) | 4.0588 | 0.6877 |
| Private loans have a lower cost than other forms of loans | 10(29.41) | 9((26.47) | 3(8.82) | 12(35.29) | 0(0) | 2.5000 | 0.5839 |
| Private loans are faster to process than other loans | 0(0) | 0(0) | 2(5.88) | 10(29.41) | 22(64.70) | 4.5882 | 0.8278 |
| Private loans are flexible in a way that support business objectives | 0(0) | 0(0) | 1(2.94) | 11(32.35) | 22(64.70) | 4.6177 | 0.8364 |
| Private lenders have the capacity to lend for substantial projects | 20(58.82) | 11(32.35) | 3(8.82) | 0(0) | 0(0) | 1.5000 | 0.8025 |
| Personal relationship with the lender is a significant determinant of loan access | 0(0) | 2(2.94) | 7(20.59) | 8(8.82) | 17(50.00) | 4.1765 | 0.7160 |
| Private loans have reduced litigation by clients | 0(0) | 2(2.94) | 7(20.59) | 10(29.41) | 15(44.12) | 4.1177 | 0.7016 |
| Credit rating has improved due to the use of private loans | 0(0) | 3(8.82) | 7(20.59) | 10(29.41) | 14(41.18) | 4.0294 | 0.6809 |
| Project completion has improved due to private loans | 0(0 | 2(5.88) | 8(8.82) | 12(35.29) | 12(35.29) | 4.0000 | 0.6742 |
| | | **Composites** | | | | **3.5962** | **0.7163** |

The composite mean and standard deviation for private lenders and performance of building contractors were 3.5962 and 0.7163 respectively. This implies that majority of the respondents agreed that private lending contributes to performance of building contractors. The first three statement with the highest arithmetic means were: private loans are flexible in a way that

support business objectives, private loans are faster to process than other loans and personal relationship with the lender is a significant determinant of loan access representing arithmetic means of 4.6177, 4.5882, 4.1765 respectively. The last three aspects with lowest arithmetic means were: private lenders have the capacity to lend for substantial projects, sufficient private lenders within the area of operation, and private loans have a lower cost than other forms of loans representing arithmetic means of 1.5000, 1.9412 and 2.5000 respectively.

Majority of the sampled building contractors agreed that private lenders had a significant influence over loan access, flexibility, credit rating, project completion and litigation. However, they had mixed results on whether private loans were cheaper than other sources of finance.

### 4.6 Influence of SACCOs on performance of building contractors

The study also sought to establish the influence of SACCOs on the performance of building contractors. The respondents were required to indicate their levels of agreement with 9 statements relating to SACCOs. These findings are presented in Table 4.8.

**Table 4.8: Influence of SACCOs on performance of building contractors**

| Statement | SD(%) | D(%) | MA(%) | A(%) | SA(%) | Mean | S.D |
|---|---|---|---|---|---|---|---|
| The organization belongs to at least one professional SACCO | 17(50.00) | 0(0.00) | 0(0.00) | 0(0.00) | 17(50.00) | 3.0000 | 0.55048 |
| SACCO loans are easier to process than bank loans and loans from private lenders | 2(5.88) | 2(5.88) | 3(8.82) | 10(29.40) | 17(50.00) | 4.1177 | 0.7016 |
| SACCO loans are the first option when financing needs arise | 0(0.00) | 0(0.00) | 10(29.40) | 10(29.40) | 14(20.59) | 4.1177 | 0.7016 |
| SACCO loans are lower in cost when compared with private lenders and banks | 0(0.00) | 0(0.00) | 0(0.00) | 12(35.9) | 22(64.70) | 4.6471 | 0.8450 |
| The majority of projects are financed through SACCO loans | 0(0.00) | 0(0.00) | 2(5.88) | 10(29.40) | 22(64.70) | 4.5882 | 0.8278 |
| SACCO loans are flexible enough to support business financial needs | 0(0.00) | 0(0.00) | 3(8.82) | 9(26.47) | 22(64.70) | 4.5588 | 0.81927 |
| SACCO loans have improved completion of projects | 0(0.00) | 2(5.88) | 5(14.70) | 7(20.59) | 20(58.80) | 4.3235 | 0.75395 |
| SACCO loans have reduced litigation by clients | 0(0.00) | 0(0.00) | 4(11.76) | 10(29.40) | 20(58.80) | 4.4706 | 0.7942 |
| SACCO loans have improved the credit rating of the business | 0(0.00) | 2(5.88) | 5(14.70) | 8(15.22) | 19(55.88) | 4.2941 | 0.7462 |
| **Composite** | | | | | | **4.2353** | **0.7489** |

From Table 4.8, the composite mean and standard deviation for SACCOs and performance of building contractors were 4.2353 and 0.7489 correspondingly. It suggests that most of the respondents strongly agreed that of the respondents agreed that SACCOs as a source financing contributes to performance of building contractors. The aspects of SACCO lending with highest arithmetic means were: SACCO loans are lower in cost when compared with private lenders and banks, the majority of projects are financed through SACCO loans and SACCO loans are flexible enough to support business financial needs having means of 4.6471, 4.5882 and 4.5588 respectively. The three aspects of SACCO lending with lowest mean are: the organization belongs to at least one professional SACCO, SACCO loans are easier to process than bank loans and loans from private lenders and SACCO loans are the first option when financing needs arise representing means of 3.0000, 4.1177 and 4.1177 respectively.

### 4.7 Influence of Banking institutions on the performance of building contractors

Another objective of this study was to establish the influence of banking institutions on the performance of building contractors. The respondents were required to indicate their levels of agreement based on 9 statements relating to banking institutions as shown in Table 4.9.

**Table 4.9: Influence of Banking institutions on the performance of building contractors**

| Statement | SD(%) | D(%) | MA(%) | A(%) | SA(%) | Mean | S.D |
|---|---|---|---|---|---|---|---|
| A majority of projects are funded by bank loans | 20(58.82) | 9(26.47) | 5(14.71) | 0(0.00) | 0(0.00) | 1.5588 | 0.7860 |
| Bank loans are the most common means of financing as compared to SACCOs and private lenders | 22(64.70) | 9(26.47) | 3(8.82) | 0(0.00) | 0(0.00) | 1.4412 | 0.8193 |
| Bank loans are cheaper to access than SACCOs and private lenders | 14(41.18) | 12(35.29) | 8(23.53) | 0(0.00) | 0(0.00) | 1.8235 | 0.7161 |
| Credit worthiness is an important factor in accessing bank loans | 0(0.00) | 0(0.00) | 5(14.71) | 7(20.59) | 22(64.70) | 4.5000 | 0.8025 |
| Bank loans are well-tailored to the financing needs of the business | 22(64.70) | 9(26.47) | 3(8.82) | 0(0.00) | 0(0.00) | 1.4412 | 0.8193 |
| Bank loans are less risky compared to SACCOs and private lenders | 20(58.82) | 7(20.59) | 5(14.71) | 0(0.00) | 0(0.00) | 1.5000 | 0.8025 |
| Bank loans have improved the credit rating of the business | 20(58.82) | 7(20.59) | 5(14.71) | 2(5.88) | 0(0.00) | 1.6765 | 0.7540 |
| Bank loans have improved project completion | 20(58.82) | 10(29.41) | 4(11.76) | 0(0.00) | 0(0.00) | 1.5294 | 0.7942 |
| Bank loans have reduced litigation by clients | 19(55.88) | 10(29.41) | 5(14.71) | 0(0.00) | 0(0.00) | 1.5882 | 0.7778 |
| **Composite** | | | | | | **1.8955** | **0.7867** |

The data in Table 4.9 indicates that the composite mean and standard deviation for lending from institutions and performance of building contractors are 1.8955 and 0.7867 correspondingly. The finding demonstrate that majority of respondents disagreed that lending from banks contributes to performance of building contractors. The statement with the highest mean score regarding bank lending was credit worthiness is an important factor in accessing bank loans (Mean=4.500). All other statements had a mean score below the composite mean of 1.8955. This implies that bank loan as source of financing is not a preference to building and construction companies.

### 4.8 Influence of Personal Savings on the performance of building contractors

The fourth objective sought to examine the influence of personal savings on the performance of building contractors. The respondents were required to indicate their levels of agreement with 9 statements that relate to personal savings. The findings are presented in Table 4.10.

**Table 4.10: Influence of Personal savings on the performance of building contractors**

| Statement | SD(%) | D(%) | MA(%) | A(%) | SA(%) | Mean | S.D |
|---|---|---|---|---|---|---|---|
| The business income enables the firm to have healthy financial reserves | 0(0.00) | 0(0.00) | 5(14.71) | 7(20.59) | 22(58.82) | 4.5000 | 0.8025 |
| Business savings are a crucial source of finance for building projects | 2(5.88) | 2(5.88) | 3(8.82) | 10(29.41) | 17(50.00) | 4.1176 | 0.7016 |
| Personal savings are often enough to finance substantial projects | 20(58.82) | 7(20.59) | 7(20.59) | 0(0.00) | 0(0.00) | 1.6177 | 0.7698 |
| Using savings reduces the cost of construction projects | 0(0.00) | 0(0.00) | 5(14.71) | 14(41.18) | 15(44.12) | 4.2941 | 0.7462 |
| Financing through personal savings has increased the firm's efficiency | 18(52.94) | 10(29.41) | 3(8.82) | 3(8.82) | 0(0.00) | 1.7353 | 0.7385 |
| The firm takes advantage of banking products that support savings | 0(0.00) | 0(0.00) | 5(14.71) | 7(20.59) | 22(64.70) | 4.5000 | 0.8025 |
| Personal savings have improved project completion | 20(58.82) | 9(26.47) | 5(14.71) | 0(0.00) | 0(0.00) | 1.5588 | 0.7860 |
| Personal savings have helped in minimizing litigation by clients | 0(0.00) | 0(0.00) | 5(14.71) | 9(26.47) | 20(58.82) | 4.4412 | 0.7860 |
| Personal savings have improved credit rating | 22(64.70) | 12(35.29) | 0(0.00) | 0(0.00) | 0(0.00) | 1.3529 | 0.8450 |
| **Composite** | | | | | | **3.1242** | **0.7753** |

Table 4.10 indicates that the composite mean and standard deviation for the personal savings and performance of building contractors were 3.1242 and 0.7753 respectively. It meant that majority of respondents moderately agreed that personal savings contributes to the performance

of building contractors. The items with the highest mean scores were: the business income enables the firm to have healthy financial reserves, personal savings have helped in minimizing litigation by clients and business savings are a crucial source of finance for building projects having mean scores of 4.4412, 4.2941 and 4.1176 respectively. The statements with the lowest mean scores were: personal savings have improved credit rating, personal savings have improved project completion and personal savings are often enough to finance substantial project representing mean scores of 1.3529, 1.5588 and 1.6177 correspondingly.

When asked on the measures to for improving access to finances, all the respondents stated that government interventions are needed to lower the cost of access to finance. They also stated that the county government should consider direct investments from the private sector to increase funding through collaborations with the private sector financial intermediaries.

### 4.9 Correlation among Study Variables

Pearson correlation coefficient was used to examine the relationship between the study variables. Two variables are said to be correlated if their coefficient of correlations (r) is greater than 0.5 at 95% confidence interval. Table 4.12 presents the results from correlation analysis.

**Table 4.12: Correlation Matrix**

| | | Contractor Performance | Private Lending | SACCOs | Banking Institutions | Personal Savings |
|---|---|---|---|---|---|---|
| Contractor Performance | Pearson Correlation(r) | 1 | | | | |
| | Sig. (2-tailed) | | 0.000 | | | |
| Private Lending | Pearson Correlation(r) | 0.714 | 1 | | | |
| | Sig. (2-tailed) | 0.000 | | | | |
| SACCOs | Pearson Correlation(r) | 0.695 | 0.099 | 1 | | |
| | Sig. (2-tailed) | 0.011 | 0.555 | | | |
| Banking Institutions | Pearson Correlation(r) | 0.609 | 0.332 | 0.150 | 1 | |
| | Sig. (2-tailed) | 0.000 | 0.052 | 0.369 | | |
| Personal Savings | Pearson Correlation(r) | 0.051 | 0.029 | 0.022 | 0.061 | 1 |
| | Sig. (2-tailed) | 0.11 | 0.863 | 0.872 | 0.715 | |

Correlation is significant at the 0.05 level (2-tailed). n=34

Table 4.12 show a significant correlation between contractor performance and private lending (r= 0.714, p=0.000), contractor performance and SACCOs (r= 0.695, p=0.011), contractor performance and banking institutions (r=0.609, p=0.000). However, the relationship between contractor performance and personal savings was not statically significance (r= 0.051, p=0.11). The correlation was highest between contractor performance and private lenders. However, correlation was lowest between contractor performance and private savings. This implies that private saving least influenced the performance of building contractors.

### 4.10 Hypothesis Testing

After testing the correlation, this study sought to test the null hypotheses. The test results are presented in Table 4.13.

**Table 4.13: Hypothesis Testing**

| Hypothesis | Significant Value | Correlation Coefficient | Testing Result |
|---|---|---|---|
| $H_{01}$: There is no significant relationship between private lending and the performance of building contractors in Embu West Sub-County, Embu County, Kenya. | 0.000 | 0.714 | Null hypothesis was rejected and concluded that there is significant relationship between private lending and the performance of building contractors in Embu West Sub-County, Embu County, Kenya |
| $H_{02}$: There is no significant relationship between lending by SACCOs and the performance of building contractors in Embu West Sub-County, Embu County, Kenya | 0.01 | 0.695 | Null hypothesis was rejected and concluded that there is significant relationship between lending by SACCOs and the performance of building contractors in Embu West Sub-County, Embu County, Kenya |
| $H_{03}$: There is no significant relationship between lending by banking institutions and the performance of building contractors in Embu West Sub-County, Embu County, Kenya. | 0.000 | 0.609 | Null hypothesis rejected and concluded that there is significant relationship between lending by banking institutions and the performance of building contractors in Embu West Sub-County, Embu County, Kenya. |
| $H_{04}$:There is no significant relationship between the use of personal savings and the performance of building contractors in Embu West Sub-County, Embu County, Kenya | 0.11 | 0.051 | Failed to reject null hypothesis and concluded that there is no significant relationship between the use of personal savings and the performance of building contractors in Embu West Sub- |

Table 4.13 indicates that for $H_{01,}$ $H_{02}$ and $H_{03}$ p vales were 0.00, 0.01 and 0.00 respectively. With the p values < 0.05, the null hypotheses were rejected and concluded that there is statistically significant relationship between private lenders, SACCOs, banking institutions and performance of building contractors. However, $H_{04}$ had a p value of 0.11 which is > 0.05. Then we failed to reject the null hypothesis as there was enough evidence to conclude that the relationship between personal saving and contractor performance in Embu west sub-County was not statistically significant.

# CHAPTER FIVE

# SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

## 5.1. Introduction

Chapter five presents the summary of the study findings, conclusion and specific recommendations per research objective. The overall purpose of this study was to examine the influence of financing sources on performance of building contractors in Embu West sub-County, Embu County, Kenya.

## 5.2 Summary of Findings

In this section, the findings on each objective are highlighted.

### 5.2.1 Influence of Private Lenders on the Performance of Building Contractors

The descriptive statistics indicated a composite mean of 3.5962 for the statements regarding the influence of private lenders on performance of building contractors. This implied that majority of the respondents agreed that private lending contributes to performance of building contractors. The correlation analysis revealed that private lending had statistically significance influence on the performance of building contractors in Embu West Sub county, Embu County, Kenya ($r=0.714$ for $p=0.00<0.05$). At 95% confidence interval, null hypothesis was rejected as there was enough evidence to conclude that there is significant relationship between private lending and the performance of building contractors in Embu West Sub-County, Embu County, Kenya. These results partially agreed with the findings of Tardieu (2006) and Aliber (2015) both of whom stated that private lenders were preferable due to the flexibility, easy access, and ability to minimize contractor-client tension that results in poor credit rating and litigation. However, the results did not agree with most of the literature that suggests private loans are less expensive. This is supported by credit rationing theory that the choice of finance is determined by the underlying risks and the confidence to exploit the risk when accessing capital (Ledgerwood, 1999).

### 5.2.2 Influence of SACCOs on the Performance of Building Contractors

From descriptive statistics, the statements on the influence of SACCOs on performance of building contractors had a composite mean of 4.2353. This implied that majority of the respondents strongly agreed that lending from SACCOs contributes to performance of building contractors. The correlation results shown that lending from SACCOs had statistically significance influence on the performance of building contractors in Embu West Sub county,

Embu County, Kenya (r=0.695 for p=0.01<0.05). At 95% confidence interval, null hypothesis was rejected and concluded that there is significant relationship between lending by SACCOs and the performance of building contractors in Embu West Sub-County, Embu County, Kenya. These findings may support the conclusions of Maina (2016) who stated that SACCOs rarely resort to legal action and prefer using third parties to negotiate loan defaults. Thus, the majority of SACCOs do not litigate defaulters. Additionally, Cheruiyot et al. (2014) stated that due to easy access to loans, SACCO members are more liquid and tend to complete their projects in time to avoid litigation by clients. In general, therefore, litigation rarely arises where SACCOs are concerned. Hence, SACCOs have a positive influence on loans access, cost of credit, completion of projects, loan flexibility, litigation and credit rating. Credit rationing theory supports some institutions such as SACCOs are generally low-interest lenders hence the most preferred source of finance to business people (Armendariz, 2007).

### 5.2.3 Influence of Banking Institutions on the Performance of Building Contractors

The descriptive results on the statements on bank loans indicated a composite mean of 1.8955 implying that majority of the respondents disagreed that lending from bank institutions contributes to performance of building contractors. However, the results from correlation analysis depicted that lending from bank institutions had statistically significance influence on the performance of building contractors in Embu West Sub county, Embu County, Kenya (r=0.609 for p=0.00<0.05). At 95% confidence interval, the null hypothesis was rejected as there was strong evidence to conclude that there is significant relationship between lending by banking institutions and the performance of building contractors in Embu West Sub-County, Embu County, Kenya. These findings agree with Dhanani et al. (2008) who stated that the interest-sensitive sectors such as construction are not well served by bank loans due to the volatility of the interest rates. Also, these findings agree with Matara (2008) who stated that the high risk of default and the impersonal nature of bank-client relationship are the major reasons why most organizations avoid bank loans. According to Mira and Ogolla (2013), increased cost of lending has ripple effects on the loan payments and enterprise funding levels. When interest rates are high, business earnings are reduced thus impending business growth. In addition, it also affects the cash flows that had already been set for the business to service loan. Overly, high interest rates reduce disposable income thereby reducing the ability to pay dues to the creditors. Credit rationing theory supports that when banks advance loans to customers; they are not only interested in the reward, that is, the interest they receive, but also in the risks that such loans bear (Armendariz, 2007). This discourages borrowing from banks.

### 5.2.4 Influence of Personal Savings on the Performance of Building Contractors

The composite mean for the statements on personal savings was 3.1242 thus implying that majority of the respondents just agreed that financing from personal savings contributes to the performance of building contractors. The correlational results indicated that financing from personal savings had statistically significant influence on the performance of building contractors in Embu West Sub county, Embu County, Kenya ($r=0.051$ for $p=0.11<0.05$). At 95% confidence interval, we failed to reject the null hypothesis as there was strong evidence to conclude that there is no significant relationship between the use of personal savings and the performance of building contractors in Embu West Sub-County, Embu County, Kenya. The findings agree with Haupt and Padayachee (2016) who stated that personal savings are relatively small in size and may not be sufficient to finance large projects, especially at the early stages of a business.

## 5.3 Conclusions

The first objective sought to determine the extent to which private lenders influence performance of building contractors in Embu west sub-County. Based on the descriptive and correlation results, it is concluded that financing from private lenders is a critical influencer of the performance of building contractors in Embu West, Embu County, Kenya.

The second objective aimed to assess the influence of Savings and Credit Cooperative Organizations on the performance of building contractors in Embu west sub-County. The descriptive and correlational results lead to the conclusion that Savings and Credit Cooperative Organizations is a critical influencer of the performance of building contractors in Embu west sub-County, Embu County, Kenya.

Objective three wanted to examine the influence of banking institutions on the performance of building contractors in Embu west sub-County. From the descriptive and correlational results, it is concluded that banking institutions is a critical influencer of the performance of building contractors in Embu west sub-County, Embu County, Kenya.

Objective four sought to establish the influence of personal savings on the performance of building contractors in Embu west sub-County. According to the descriptive and correlational results, it is concluded that personal savings is not a critical influencer of the performance of building contractors in Embu west sub-County, Embu County, Kenya.

### 5.4 Recommendations

Based on the findings, the following recommendations are made:

1. Most of the firms agreed that private finances were easily accessible and flexible and rely on good personal relationships. They also stated that private finance increase credit rating and also minimizes the risks of litigation. However, they were not in agreement on cost of financing as some of them stated that private loans were relatively expensive when compared to bank loans and SACCO funds. Thus, it is imperative for building contractors and project managers firms to always seek for low cost private finance by accessing affordable loan packages. Half the respondents indicated that they were not members of any registered professional SACCO despite knowing the financing advantages that arise from membership. Also, as stated earlier, Embu west sub-County has approximately 26 audited SACCOs, which have the authority to lend substantially for construction purposes. Thus, it is vital to join a SACCO to be able to capitalize on financing advantages offered by these institutions to building contractors. Most of the respondents have a positive perception of the interventions of the government as stated in their recommendations. However, they ought also to pull their resources together to form building societies with the main objective of funding their operations. In this way, they can benefit from the economies of scale that arise from consolidating their resources.

2. Most of the factors contributing to the choice of financing sources were attributed to perceptions related to cost of lending and associated risks. Thus, government should come up with more favorable financial regulations so as to motivate into lowering credit considerations to building contractors. In addition, government should establish a credit facility to offer alternative cheap sources of financing to the building contractors so as to motivate more venturing into housing sector.

3. There is a used mixed strategy to research inquiry so as to enhance validity of the findings. This study used correlational survey design to implement the research. Whereas this study used quantitative analytical method, the use of semi-structured questionnaire allowed for the collection of disaggregated data for concluding the results.

### 5.5 Suggestions for Further Study

The researcher identified the following areas for further study:

1. The finding of this study revealed that while personal lending, SACCOs and bank institutions influences performance of building contractors, personal saving was found not to have a significant influence on the performance of the building contractors in Embu County. However, these findings can further be tested in broader population of contractors so as to boost generalization across population settings.
2. Conceptually, the study was limited to the financing sources and their influence on the performance of building contractors. Future studies examine how financing sources influence financial agility of the firms for them to perform.
3. Methodologically, this study was limited to the quantitative design. Future studies can focus on mixed strategies to the research inquiry so as to integrate both qualitative and quantitative methodologies for enhanced validity in concluding results.

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## APPENDICES

### Appendix I: Request Letter to Research Participants

**P.O Box 740-60100**

**Embu, Kenya**

**gracey.mulwa@gmail.com**

**Dear Sir/ Madam,**

**RE: PERMISSION TO COLLECT DATA IN INSTITUTION**

My name is Grace Mawia Mulwa, a master degree student in Project Planning and Management at the University of Nairobi. I am carrying out an academic research titled *"*Influence of Financing Sources on the Performance of Building Contractors in Embu west sub-County, Embu County*"*, as a requirement for the award of the master degree. I humbly request for your participation providing data through the attached questionnaire and also answering the questions during the administration of the interview guide. The information provided will be handled with utmost confidentiality and used for academic purposes only. You will also have access to the study findings and will also be free to use the study findings for decision-making.

**Yours faithfully,**

**Sign……..…**

**Grace Mawia Mulwa**

**University of Nairobi**

## Appendix II: NACOSTI Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **647339**

Date of Issue: **16/August/2020**

**RESEARCH LICENSE**

**This is to Certify that Ms.. GRACE MAWIA MULWA of University of Nairobi, has been licensed to conduct research in Embu on the topic: INFLUENCE OF FINANCING SOURCES ON THE PERFOMANCE OF BUILDING CONTRACTORS IN EMBU TOWN SUBCOUNTY, EMBU COUNTY, KENYA for the period ending : 16/August/2021.**

License No: **NACOSTI/P/20/6220**

**647339**

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

**Appendix III: Consent Form**

Serial Number:

Company Name:

**CONSENT FORM**

Title of Project: INFLUENCE OF FINANCING SOURCES ON THE PERFORMANCE OF BUILDING CONTRACTORS IN EMBU WEST SUBCOUNTY, KENYA

Name of Researcher: GRACE MAWIA MULWA

Please initial all boxes

1. I confirm that I have read and understand the information sheet for the above study. I have had the opportunity to consider the information, ask questions and have had these answered satisfactorily. ☐
2. I understand that my participation is voluntary and that I am free to withdraw at any time without giving any reason, without my legal employment rights being affected. ☐
3. I understand that relevant sections of my data collected during the study, may be looked at by individuals from the researcher and the University of Nairobi where it is relevant to my taking part in this research. I give permission for these individuals to have access to my records. ☐
4. I agree to my superior being informed of my participation in the study. ☐
5. I agree to take part in the above study. ☐

| | | |
|---|---|---|
| Name of Participant | Date | Signature |
| Name of Person Researcher | Date | Signature |

## Appendix IV: Questionnaire

**Section A: Background Information**

1. Gender
   Male [ ]
   Female [ ]

2. Age
   Below 18 [ ]
   19 – 25 years [ ]
   26 – 32 [ ]
   33 – 42 [ ]
   43 – 52 [ ]
   53 and above [ ]

3. Marital Status
   Married [ ]
   Single [ ]
   Other (Specify)…….

4. Length of business existence
   Less than 5 years [ ]
   5-10 years [ ]
   11-15 years [ ]
   16-20 years [ ]
   Over 20 years [ ]

**Section B: Influence of private lenders on the performance of building contractors**

**5.** What is your level of agreement with the following statements regarding the influence of private lenders on the performance of building contractors? Rate your response on scale of five units whereby 1=strongly disagree, 2= disagree, 3=moderately agree 4= agree, and 5=strongly agree.

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Borrowing from informal lenders is easier than any other source of finance | | | | | |
| There are sufficient private lenders within the area of operation | | | | | |
| Borrowing from private lenders is always the first option when financial need arises | | | | | |
| Private loans have a lower cost than other forms of loans | | | | | |
| Private loans are faster to process than other loans | | | | | |
| Private loans are flexible in a way that support business objectives | | | | | |
| Private lenders have the capacity to lend for substantial projects | | | | | |
| Personal relationship with the lender is a significant determinant of loan access | | | | | |
| Private loans have reduced litigation by clients<br>Credit rating has improved due to the use of private loans<br>Project completion has improved due to private loans | | | | | |

6. Has access to private loans affected business profitability in any way?
   Yes [ ] No [ ]
   If Yes, mention the specific effect……..

**Section C: Influence of SACCOs on performance of building contractors**

7. Rate the extent of your agreement on the influence of SACCOs on the performance of building contractors? Rate your response on scale of five units whereby 1= strongly disagree, 2=disagree, 3= moderately agree, 4=agree, and 5=strongly agree.

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| The organization belongs to at least one professional SACCO | | | | | |
| SACCO loans are easier to process than bank loans and loans from private lenders | | | | | |
| SACCO loans are the first option when financing needs arise | | | | | |
| SACCO loans are lower in cost when compared to private lenders and banks | | | | | |
| The majority of projects are financed through SACCO loans | | | | | |
| SACCO loans are flexible enough to support business financial needs | | | | | |
| SACCO loans have improved completion of projects<br>SACCO loans have reduced litigation by clients | | | | | |
| SACCO loans have improved the credit rating of the business | | | | | |

8. Why would any business in the building sector settle for SACCO finance...…….
9. Do you think it is a good idea to rely on SACCOs for project finance
   If Yes, why.....
   If No, why not…….

**Section D: The Influence of Banking institutions on the performance of building contractors**

10. What extent do you think banking institutions influence the performance of building contractors? Rate your response on scale of five units whereby 1=totally disagree, 2= disagree, 3=Moderately agree, 4=agree, and 5=totally agree

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| A majority of projects are funded by bank loans | | | | | |
| Bank loans are the most common means of financing as compared to SACCOs and private lenders | | | | | |
| Bank loans are cheaper to access than SACCOs and private lenders | | | | | |
| Credit worthiness is an important factor in accessing bank loans | | | | | |
| Bank loans are well-tailored to the financing needs of the business | | | | | |
| Bank loans are less risky compared to SACCOs and private lenders | | | | | |
| Bank loans have improved the credit rating of the business | | | | | |
| Bank loans have improved project completion | | | | | |
| Bank loans have reduced litigation by clients | | | | | |

11. Have bank loans improved business profits?
    Yes [ ] No [ ]

Explain your answer……..

**Section E: The Influence of Personal savings on the performance of building contractors**

12. What extent do you think personal savings have an influence on the performance of building contractors? Rate your response on scale of five units whereby 1=No extent at all, 2= little extent, 3=Moderate extent, 4=Great extent, and 5=Very great extent.

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| The business income enables the firm to have healthy financial reserves | | | | | |
| Business savings are a crucial source of finance for building projects | | | | | |
| Personal savings are often enough to finance substantial projects | | | | | |
| Using savings reduces the cost of construction projects | | | | | |
| Financing through personal savings has increased the firm's efficiency | | | | | |
| The firm takes advantage of banking products that support savings | | | | | |
| Personal savings have improved project completion | | | | | |
| Personal savings have helped in minimizing litigation by clients | | | | | |
| Personal savings have improved credit rating | | | | | |

13. How do you try to maximize on the benefits of savings?
14. If you do not prefer to use savings, why is that so.....
15. Have personal savings improved business performance?
    Yes [ ] No [ ]
    Explain you answer…….

16. Recommend measures through which performance of building contractors could be improved

……