

**THE EFFECTS OF FINANCIAL SERVICES ON INVESTMENT DECISIONS OF
SMALL AND MEDIUM SIZE ENTERPRISES IN BOMET COUNTY, KENYA**

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DECLARATION

This project is my original work and has never been presented for a degree in any other university.

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

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DEDICATION

First I would like to dedicate this project to my father, the late Mr. Timothy Langot for the encouragement and the sacrifices he made so that I could get an education. I also would like to dedicate it to my lovely wife Maryline Chelang at Makiche and my children Brian Kipkorir, Kelvin Kipkirui, Milicent Chepkemoi, and Laura Cherutoh for their encouragement, support, and having to put up with my long hours' absence from home during my studies.

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LIST OF ABBREVIATIONS

FI	-	Financial Institutions
GDP	-	Gross Domestic Product
KSH	-	Kenya Shillings
KWFT	-	Kenya Women micro finance bank
MFI	-	Microfinance Institutions
NGOs	-	Non Governmental Organizations
SMEs	-	Small and Medium size Enterprises
UN	-	United Nations

ABSTRACT

Among the sectors of any economy, SME's sector has been found to be the most effective engine of development in terms of employment creation and contributions to GDP. It spurs economic growth and plays a huge role in poverty eradication. Kenya, among many countries in both the developed and the developing world have started to give more prominence to the SME sector and are therefore putting in place supportive infrastructure to ensure the expansion and success of this sector. Many studies have been carried out on the topic of financial services and SMEs growth, profitability, and/ or performance, but none has been done on the effects of financial services on the investment decisions of SMEs. Therefore the purpose of this study was to find out the effects of financial services, namely: credit services, deposit and savings account services, and training, had on the investment decisions of SMEs in Bomet County, Kenya. The study employed descriptive research design and questionnaire was used as the main instrument of data collection. The researcher worked with a sample of 100 SMEs drawn from a population of 1,008 businesses licensed by the county government of Bomet. Data was analysed using both Excel and the Statistical Package for Social Sciences (SPSS) where patterns and relationships were established. A response rate of 74% was achieved which was then subjected to analysis. The multivariate regression model used established that each of the independent variables had a positive influence on the investment decisions of SMEs in Bomet county with credit services showing a comparatively higher effect. The ANOVA carried out showed that there is a positive correlation among the variables, but that the relationship was not significant enough to explain the variation. A recommendation is made that further studies be carried out on this topic preferably on a wider scale to allow for comparability and generalization of the findings.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The contribution of the SMEs to the economy of any country is huge both in terms of its significance to GDP growth and employment creation. SMEs contribute to the national macroeconomic objectives of employment creation, income generation and provision of livelihoods for the majority of the low income households especially in developing countries (Beck, Demirguc-Kunt & Levine, 2005). The EU, for example, reports that in 2013 SMEs contributed over 88.8 million jobs throughout the EU (European Commission, 2015). According to Ngui (2014), SMEs promotes innovation and are able to boost growth in the economy through job creation which in turn leads to the expansion of the taxable income. In Kenya, the role of the SMEs in the economic development and poverty reduction has been given great attention by both the government and other development partners. SMEs cut across all sectors of the Kenyan economy and the government recognizes this as one of the strongest pillar's to its economic growth (Government of Kenya, 2007). More recently the government has focused on assistance to SMEs through the creation of funding support base such as the Youth Enterprise Fund and the Women Development Fund which apart from providing financial support, also offer training and guidance to the beneficiaries (Osoro & Muturi, 2013). According to Andoh & Nunoo (2011), promoting a favourable operating environment for Small and Medium size Enterprises is being prioritized in both developing and developed economies because of the huge role SMEs play in economic development.

The term SME attracts different definitions from country to country, which can be directly attributed to the general size of the economy of the individual countries. But the common criterion for defining an SME is the number of staff employed, the size of the annual turnover and the annual asset base (European Commission (2015), Zheng *et al* (2009), Government of Kenya (2012)). Financial institutions act as financial intermediaries between those who provide the funds (depositors) and those who are in need of/ use the funds (borrowers). They act as agents for the savers by providing financial information and transaction services, act as asset transformers, and at the same

time provide liquidity for the savers (Saunders & Cornett, 2011). Apart from the foregoing services offered, majority of the financial institutions provide support such as advisory services and referrals to third party business partners, business support and coaching and mentoring (Banking Association of South Africa, 2015). SMEs and the majority of the poor population especially in developing countries have very limited access to financial services such as deposits, credit facilities and other products provided by formal financial institutions (Andoh & Nunoo, 2011). Research findings on this reveal that formal financial institutions perceive most SMEs as risky, costly and difficult to serve. Financial institutions fear SMEs because of lack of track records or information about their ability to repay loans, and absence of collateral or guarantees against which loans can be given (Osoro & Muturi, 2013). The limited land ownership and other property rights in Kenya also restrict entrepreneurs' access to loans and other credit facilities (Kinyua, 2014). Andoh & Nunoo (2011) also mention financial literacy as another challenge that most small entrepreneurs struggle with; most of them have got limited financial training and knowledge and this becomes a hindrance to them when it comes to the general management of the business and proper records keeping. This in turn affects their ability to access and utilize financial services such as credit, savings, and insurance offered by formal financial institutions.

The availability of financial services to these SMEs is therefore crucial for their continuity and growth. Financial services play a key role in determining how the SMEs conduct their businesses and their expansion and growth is therefore dependent on the availability of supportive financial services (Kinyua, 2014)

1.1.1 Financial Services

Financial services can be described as services of economic nature that players in the industry of finance provide to consumers. Kidwell *et al* (2008) define financial institutions as such firms like commercial banks, credit unions, life insurance companies, and finance companies, who facilitate the flow of funds from savers to borrowers by selling financial claims to generate funds and then use the money to buy financial claims of businesses, consumers, and government units, thereby funding them. Some of the most common services offered by formal financial institutions include credit financing or

loans, deposit taking and savings, payment services (cash withdrawals, checks clearing and electronic funds transfers), brokerage and underwriting services (Saunders and Cornett, 2011). According to the Banking Association of South Africa, majority of the financial institutions also provide support to SMEs such as information, advisory services and referral system to third party business support and coaching, mentoring or consulting (Banker Magazine, 2015).

According to a study on SME financial services undertaken in Namibia (Tonin *et al* 1998), provision of credit to SMEs was found to greatly influence the growth and development of SMEs. Credit has been defined as the provision of capital by a lender to a borrower with a legal agreement for the repayment of a specific amount over a given term. Tonin *et al* (1998) also noted that the poor can be reliable borrowers if they are given the chance to start or improve a viable business and to become economically active. But due to lack of collateral, access to credit by the small entrepreneurs is greatly hindered. Augusto *et al* (2010) opine that lending is just but a fraction of what financial institutions offer to SMEs and that these institutions try to develop new and diverse products and services, all aimed at serving SMEs.

Kuntchev *et al* (2012) states that there is a likelihood of SMEs being un able to obtain credit from formal financial sources and therefore resorting to informal ones for funds and or resorting to trade credit. It is commonly believed that SMEs in Kenya have got limited access to deposits, credit facilities and other financial support services offered by formal financial institutions mainly because most of the SMEs cannot provide the necessary collateral required by these financial institution and at the same time, the stringent lending procedures demanded by these financial institutions also help to scare away the SMEs (Njeru, 2014). Formal or mainstream financial institutions have a perception that SMEs are potentially risky and are also not viable commercially. This therefore means that SMEs will not be able to get receive any credit services from these financial institutions (Mwewa, 2013).

1.1.2 Investment Decisions

Investment decisions can be described as the determination of how, when, where and how much capital can be spend in line with the aim of making a profit. Investment is the

commitment of funds for a period of time in order to derive future payments that will compensate the investor for the time the funds are committed, the expected rate of inflation, and the uncertainty of the future payments (Brown and Reilly, 2009). Investment decisions can also be simply defined the process of cash outlay in expectation of future cash inflows (Steve and Chris, 2011). It refers to the determination made by management as to how, when, where and how much capital is to be spent on available opportunities including determining the costs and returns for each option (Asetto, 2014). Investments can also be categorized into capital (or long term) expenditure and current (short term) expenditure, but Levy and Sarnat (1994) states that there is no sharp conceptual difference between the two since all of the firm's expenditures are made in expectation of realizing future benefits.

Investment decisions range in magnitude from very small to the very large depending on the view of individual firms (Mark & Sheridan, 2003). Investment decisions are mostly long term and involving, comparatively, huge cash outflows (Terry, 2003). Some examples of investment decisions include launching a new product, expanding the business by going into a new market segment, purchasing stock from the financial markets, purchasing new machines or equipment or other assets, putting up a new plant or expanding an existing one, instituting staff training, all of which involve outlay of funds. The major factors to consider in the investment decision process are the availability of funds, the initial cash outlay or cost of the investment, and the benefit or cash inflow expected to be generated. Investment benefits can arise from cost reductions, expansion of sales of the existing products, expansion into new lines of business, risk reduction, or even contributions to the social benefits of the employees and the community (Levy & Sarnat, 1994).

1.1.3 Financial Services and Investment Decisions

The availability and accessibility of financial services to entrepreneurs has a positive impact on the growth and performance of their businesses (Osoro & Muturi, 2013). Financial institutions in their role of financial intermediation provide such services like payment services, deposit taking, credit provision, client training and development, insurance among others. Such services when offered to SMEs help them improve their

performance; by raising productivity, improving returns on investment, and increasing incomes (Njeri, 2012). The trainings that some of the financial institutions provide to their clients help entrepreneurs to understand basic issues like record keeping which in turn help them better understand their business operations. Trainings add to the skills of the entrepreneurs, change their attitude on how they perceive and conduct business activities and in turn enhance the ability of their firms to perform better. A financially literate entrepreneur can make better decisions regarding utilization of other financial services like saving more, taking full advantage of credit facilities, and mitigating risks through the utilization of insurance services (Andoh & Nunoo, 2011).

SMEs still face several limitations to financial services access. According to Ogiji & Ejembi (2007), there is still less knowledge on financial management by SME managers and or owners despite the huge importance that this has on sound investment decision making. Cohen & Klepper, (1996) opine that small businesses have smaller asset bases to secure loans to finance their investments as compared to larger firms. Munoz (2010) concludes that banks, in most African countries for example, have not made a great effort to reach out to SMEs due to challenges with the processes and procedures involved in administering loans, the high costs of managing small loans and handling savings accounts, and the high risk of loan defaults. This limited access to finances by SMEs therefore translates to limited investment decisions. Ellis *et al* (2010) found out that formal financial services tend to be used more by households and enterprises for investment purposes. They established that more people who borrow to invest and those who save for investment are more likely to do so using formal financial institutions as compared to those who save and borrow for consumption. They conclude that formal financial services encourage or enable individuals to invest.

1.1.4 Small and Medium Size Enterprises in Bomet County

SMEs are an integral part of the Kenyan economy just like for the many other developing countries since 85% of the Kenyan work force is directly employed by the SMEs (Mwewa, 2013). SMEs bring about diversity in the economy and in the process help build a socially stable society while at the same time promoting private sector development. SMEs cut across all sectors of the economy (basic production, manufacturing, and services) and can

be in any form of ownership: sole proprietorship, partnerships, or private limited companies. Some are located outdoors with little or no capital while others are more formal and operate in market stalls and shops (Munoz, 2010). In Kenya, most enterprises are owner- managed or largely controlled and run as a family business and mostly have limited capital base and the technical skills and capacity of those running the business is also limited (Karanja, 2012). Majority of the businesses in Bomet county fall under the SME category and are spread across the county with a good percentage of them being sole proprietorships and family-owned and run businesses.

A study carried out by Ongolo & Awino (2013) in the counties of Bomet, Kiambu, Homabay and Kwale found out that the major challenges encountered by SMEs across the four counties were attributed to limited access to finance despite the existence of various financial institutions meant to cater for SMEs financing in the country. Bomet County has got branches of some of the leading banks in Kenya which include Kenya Commercial Bank, Barclays Bank, Equity Bank, Cooperative Bank of Kenya and Family Bank. It also has got Micro Finance institutions such as Faulu Kenya and Kenya Women micro finance bank (KWFT), other financial services offering institutions such as Savings and Credit Cooperatives, insurance firms, a branch of the Kenya Industrial Estates among others. Ongolo & Awino (2013) attribute these challenges faced by SMEs to the stringent conditions set by financial institutions on the SMEs before they can access financial support. Andoh & Nunoo (2011) also see the critical need of promoting a favorable environment for the development of SMEs in both developed and developing economies because of the huge contributions that the SMEs have in the economy.

1.2 Research Problem

The significance of the contributions that SMEs have on the development of a nation is enormous. SMEs promote both local and regional development through industrial acceleration in the rural areas and help link them to other sectors in the better developed urban areas (Hansah *et al*, 2013). The Kenyan government in its vision 2030, places SMEs development as one of the integral means of achieving the vision. This notwithstanding, statistics show that out of every five businesses three fail before end of the first two years of startup, (Government of Kenya, 2007). Ong'olo & Awino (2013)

also argue that although the SMEs create 85% of Kenya's employment, the subsector contributes only a dismal 20% to the GDP of the country hence there is need to do more towards the support and enhancement of SMEs capacity.

Majority of the businesses in Bomet County can be classified under the SME category based on the sizes of their annual turnovers and average number of employees (Government of Kenya, 2012). The factors identified as hindering SME growth; capital access, cost of capital, collateral requirements for credit, information access, and capital management (Koech, 2011) cannot be exceptionally different for this county. Lack of financial literacy especially as to where to obtain and how to utilize financial services reduce entrepreneurs' ability to invest. Availability of savings facilities and easy access to credit from financial facilities have been found to accelerate households' abilities to invest (Ellis *et al*, 2010).

The linkage between financial services and SMEs' investment decisions has not received extensive research. Andoh and Nunoo (2011) studied how financial literacy influences the utilization of financial services by SMEs where they concluded that financial literacy is crucial for overall financial development. Hasnah et al (2013), Fatoki and Asah (2011) all carried out studies touching on credit access by SMEs where they concluded that lack of collateral among other challenges were limiting SMEs access to credit from financial institutions.

Locally, Njeru (2014) and Kinyua (2014) are among those who have carried out studies touching on credit services and SMEs. Njeri (2012), Mwewa (2013), and Wanjiku are some of the researchers who have carried out studies touching on microfinance services and SME growth and performance. The impact of financial services on the investment decisions of SMEs in Bomet County had not received much research attention. At the same time the question of whether financial services have got any significant influence on SMEs investment decision making had not been widely researched on. Most studies that have been carried out have greatly focused on financial credit facilities and SMEs and have not been conclusive. The purpose of this study was therefore to establish the effect that services from financial institutions have on investment decisions of SMEs in Bomet County. The study was restricted to specific services from financial institutions:

namely credit facilities, deposits and savings accounts services, and customer training and development. It sought to answer the question; what effects do the different services offered by financial institutions have on investment decisions of SMEs in Bomet County?

1.3 Research Objective

The study had a general or main research objective and specific objectives

1.3.1 General Research Objective

The study aimed to establish the effects that financial services have on investment decisions of small and medium size enterprises in Bomet County, Kenya.

1.3.2 Specific Research Objectives

The study aimed to establish:

- i) The effects that that credit services from financial institution have on investment decisions of SMEs in Bomet County, Kenya.
- ii) The effects that savings and deposits services from financial institutions have on the investment decisions of SMEs in Boment County, Kenya
- iii) The effects that training services offered by financial institutions have on the investment decisions of SMEs in Boment County, Kenya

1.4 Value of the Study

The study will help establish the influence that financial services have in investment decisions made by SMEs in Bomet County. This will form a very good source of information for the policy makers in the counties and even the national government to develop policies that will address the financial challenges that are ailing entrepreneurs running small and medium sized businesses. This will help strengthen the entrepreneurs' efforts, and in the process improve the economic well-being of the regions and the country at large.

Conventional banks and other formal financial institutions will also benefit from this study in that it will help establish the gaps in the current SME- financial institution working relationship. Financial institutions can use the information and in an effort to

address the gaps noted, try to tailor their products towards serving the population better and tapping the existing business potential.

The study is also beneficial to development partners and NGOs working with the communities in this county and elsewhere in the fight against poverty in that it sheds more light on the potential that the county residents have despite the challenges they face.

Lastly, other researchers who would want to do further studies on the same subject will find this study a good point of reference.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter looks at the various studies that have been carried out on the topic of financial services and small and medium size enterprises. It involves a review of theoretical aspects and empirical studies relevant to this study and any research gaps that still exist.

2.2 Theoretical Literature Review

This section presents a summarized review of the theories relevant to financial services and investments decisions.

2.2.1 Financial Intermediation Theory

Financial intermediation describes the process where surplus units (savers) give funds, i.e. through deposits, to intermediaries (financial institutions such as banks, credit unions, insurance companies, and mutual funds) who in return channel out the funds to deficit units (spenders or borrowers) (Saunders & Cornett, 2011). Financial intermediation is therefore the transfer of funds from agencies with surplus to agencies with deficit through financial intermediaries (Andries, 2009). Financial intermediaries can therefore be described as the financial institutions specialized in buying and selling of financial capital. Gorton and Winton (2003) describe it more; financial intermediaries borrow from one group of agents and lend to another group of agents, that the borrowing and lending groups are large hence diversification on each side of the balance sheet, and that the claims issued to the borrowers and to the lenders have different state contingent payoffs.

According to Andries (2009), the financial intermediation theory can be traced to the works of Gurley and Shaw and has a basis on the agency theory and the theory of information asymmetry. Allen & Santomero (1998) intimate that the theories of intermediation are built on the models of resource allocation based on perfect markets and that it is the frictions like transaction costs and asymmetric information that are important in understanding intermediation. Andries, (2009) states that the theory highlights the functions of financial intermediaries such as the reduction of liquidity risk,

the reduction of transaction costs, the debt renegotiation, and the provision of information. Financial intermediaries bring together the depositors and the borrowers matching their transaction needs and providing other services and as a result reduce the transaction costs and eliminate information costs. Financial intermediaries also act as delegated monitors (on behalf of the depositors) and therefore help lower monitoring costs hence eliminating would be agency costs, lower liquidity costs, and lower price risks. Depositors entrust their funds with these intermediaries who in turn invest them through loans and other investment projects, with the depositors able to liquidate (through withdrawals) their savings at any given time (Andries, 2009).

SMEs engagement with the financial institutions can therefore be summarized from the roles played by the financial institutions as financial intermediaries. SMEs can both be depositors and or borrowers and are bound to receive, from the financial institutions, such services including transactions services, provision of liquidity, financial consultancy, analysis and evaluation of assets, issuance of financial assets, loan granting, monitoring services, risk management, insurance services, and other services (Andries, 2009, Diamond & Dybvig, 1986, Allen & Santomero, 1998).

2.2.2 Portfolio Theory

Portfolio theory is concerned with the construction of portfolios; i.e. collections of investments (Lumby & Jones, 2011). A portfolio is a bundle or a combination of individual assets or securities (Pandey, 2010). The portfolio theory was developed by Harry Markowitz in 1952 (Ryan, 2007) where he argued that when investors are deciding upon an investment opportunity, they evaluate the returns they expect to get against the attendant risk of the investment. It assumes that all investors are strictly rational in nature in that they seek to maximize their own utility and have the ability to do so in a consistent and transitive way. For a given level of risk, investors prefer higher returns to lower returns or for a given level of expected return, they prefer less risk to more risk. It also assumes that investors are risk averse; this implies that investors hold well diversified portfolios instead of investing their entire wealth on a single or few assets. Another assumption the theory makes is that there are no transaction costs, and that there are no taxes.

The theory is based on mathematical models that demonstrate risk reduction or elimination effects of diversification; that the risk of a combination of several investments i.e. portfolio is less than the weighted average risks of individual constituent investments. According to Lumby and Jones (2011), the statistical result upon which portfolio theory is founded supports the wisdom of not keeping all your eggs (investments) in one basket. SMEs in their investment efforts can be guided by the principle objective of this theory: maximizing returns while minimizing risks (volatility of returns). They need to choose investment opportunities that will minimize their risk exposure while not reducing their expected returns.

2.2.3 Information Asymmetry Theory

Information asymmetry describes a situation where one party to a transaction is in possession of more and timely information than another party. This information imbalance can cause one party to enter into a transaction or make costly decisions. According to Lofgren *et al* (2002) asymmetric information arises because in sellers of goods in many market settings have more information about the quality of their wares than their potential customers, likewise the borrower knows more about his creditworthiness than the lender. Among the pioneers of this theory was George Akerlof (Lofgren *et al*, 2002) who demonstrated how information asymmetries can produce adverse selection in markets. He argued that when lenders or car buyers have imperfect information, borrowers with weak repayment prospects or sellers of low quality cars may thus crowd out everyone else from their side of the market, stifling mutually advantageous transactions.

Financial institutions availing credit to their clients are constantly faced with information asymmetry. This means that these lending institutions will have to put in place mechanisms of screening their borrowers and in turn locking out some prospective borrowers. SMEs in most cases operate with little or at times with no records at all (Njeru, 2014) and this creates a problem for the financial institutions especially during instances where they are seeking for credit financing. This is because banks or lending institutions will have little or no information regarding the track records of the borrowers. The financial institutions on the other hand give out loans from their clients' deposits and

savings. Firms overcome information asymmetry fears by acting as delegated monitors (Diamond, 1984). Financial institutions thus try to overcome the challenges of information asymmetries in lending by developing loan products that reduces risks e.g. by lending to groups, and assessing clients credit worthiness through mobile phone payments service transactions as is the case with KCB-MPESA services that the Kenya Commercial bank is currently offering in Kenya.

2.3 Determinants of Investment Decisions of SMEs

Investment decisions are strategic decisions and therefore their implementation is critical for a firm's future survival and success (Karanja, 2012). Below are some of the major factors that influence investment decisions of SMEs.

2.3.1 Firm's Liquidity

A firm would prefer "cheap" internal financing which mainly is the residual funds after all other prioritized claims have been made (Strong & Meyer, 1990). A firm should be able to meet its short term obligations at any given time; therefore the availability of these residual funds enables the firm to choose an investment opportunity that meets their expectations in terms of returns and risks, keeping in mind the amount of the initial cash outlay required.

2.3.2 Cost of Capital

The cost of capital that the firm will have to incur by choosing a particular source of capital also influences investment decisions of firms. According to Jorgenson (1968), the optimal cost of the capital that a firm requires is the main determinant of its investment decisions. Blinder (1987) adds that credit rationing limits investment spending and thus, the availability of cheap credit promotes investment decisions.

2.3.3 Expected Return on Investment

According to Stigler (1963), the anticipated return on investment or profitability also has a huge influence on firm's investment decisions. Thus attractive expected returns are highly likely to cause more investments by firms.

2.3.4 Expected Portfolio Balance

The expected portfolio balance from the potential investment opportunity also has a huge influence on firms' investment decisions. Tobin (1969) adds that firms' investment decisions are mainly made with the objective of striking a portfolio balance.

2.3.5 Investment Risk

The risks inherent with each individual investment opportunity is among the first factors considered by investors while making investment decisions; investors are risk averse by nature and will prefer a less risky investment to a high risk investment (Lumby & Jones, 2011). The uncertainty with which cash flows from investment are expected to be generated gets a prominent consideration during investment decision; investors always invest where the inherent risk is much less than the expected return.

2.3.6 Management's Ability to Make Sound Investment Decisions

It has also been found out that the capacity of a firm's management to make quality investment decisions and the individual decision maker's attitude has got a huge influence the decision process (Alleyne, 2010). Financial knowledge and skills are therefore crucial attributes that firms' managers should have in order to make prudent investment decisions; improved financial education leads to an increase in financial investment behavior (Karanja, 2012). Various research studies have established that financial management training is among the major challenges facing majority of the SME owners and managers (Andoh & Nunoo, 2011).

2.3.7 Financial Services

According to Bialowolski and Weziak (2013), many studies have shown that financial factors have a greater influence on the investment processes of smaller firms mainly because of the limits that the small firms have on access to capital markets and other external sources of financing and they therefore rely mainly on internal sources like personal savings and borrowings from friends and family. Comparatively, big companies have an easier access to external funds because of their asset base and track or performance records which translate to lesser risk to the credit lenders. According to Ellis *et al* (2010), the availability and accessibility of formal financial services triggers

investments in that entrepreneurs can safely save and can have access to larger sums of money.

2.4 Empirical Literature Review

Andoh and Nunoo (2011) examined how financial literacy influences the utilization of financial services by SMEs in Ghana. In the study, a survey of 556 SMEs operating in Accra Ghana was carried out and the conclusion arrived at from the study is that financial literacy is crucial in stimulating both the financial and the SME sectors. When entrepreneurs have got financial training or knowledge, they are able to borrow, repay promptly save more, and better manage their risks which will help speed overall financial development.

A study conducted in Malaysia by Hasnah *et al* (2013) to examine the factors influencing SMEs in obtaining loans found out that management character (that is knowledge of the business, experience and past projects, management style, reputation and repayment records, and succession plan, and age and health of the entrepreneur or manager), capacity and ability of the business to repay loan, and collateral or security offered by the business are key items that are looked at keenly by credit lenders while assessing loan applications. They also found out that key among these three factors is collateral which is given more consideration by the financial institutions. A sample of 124 bank managers and officers from the study population of all the credit officers from the commercial banks and SME banks offering credit to SMEs in Malaysia had been chosen for this study.

Augusto *et al* (2010) tried to explore the truth of the common notion that banks generally have no interest in transacting with SMEs and that only a few specific banks that contact businesses with SMEs employ relationship lending. They reviewed secondary data from several financial institutions from 12 different countries in an effort to establish the factors, kinds and the degree of involvements that banks have with SMEs. The data used was in four different sets, first the World Bank teams collected data from banks across Colombia, Argentina, Serbia, and Chile in the period 2006 and 2007. Second data set used was collected in 2006 by International Finance Corporation (IFC) team from banks in Australia, Brazil, India, Netherlands, Poland, the United States of America, Thailand,

and United Kingdom. The third set of data was from an SME survey conducted by a consulting firm (FRS) in Argentina, Chile, Colombia, Mexico, Peru, Puerto Rico, and Venezuela within the period from 2002 to 2006. Finally, data from follow-up bank survey aimed at evaluating the trends and impacts of the 2007- 2009 crisis on bank involvement with SMEs. And from the review conducted, the study revealed that all banks whether local or international, small or large, are expanding their operations and developing tailor made services towards serving SMEs because of the important strategic positioning that banks now place the SMEs in their plans. Banks are now developing new business models, technological, and risk management systems towards serving the SMEs. They therefore came to the conclusion that relationship lending is important but that it is not the only way in which banks interact with SMEs, and that other interactions are equally important.

Fatoki and Asah (2011) conducted a study to establish the impact of firm and entrepreneurial characteristics on access to debt finance by SMEs in South Africa. The setting of the study was on SMEs in King William's Town in the Eastern Cape Province of South Africa, where through a survey and using questionnaire, data was collected from a sample of 150 SMEs. From the study, it was concluded that lack of collateral by SMEs is a major setback in the effort to access debt finance. Equally important too, it was discovered, managerial incompetency and lack of business information by the entrepreneurs also explain why SMEs missed out on the finances availed by banks and other financial institutions.

Osoro and Muturi (2013) undertook a case study of micro financial institutions in Kisii town in an effort to establish the role of micro financial institutions on the growth of SMEs in Kenya. The main focus of this study was to determine the effect of credit, the role of training, and the role of savings accounts on the growth of small and medium enterprises. The population of the study comprised of the SMEs operating in Kisii town where a sample of 100 was drawn. With a response rate of 90% of the total sample, the researchers established that accessibility to credit affects the performance of the SMEs positively, i.e. the easier the access to credit, the higher the performance of SMEs. On training, the study concluded that provision of training to SMEs especially on loan

repayment also impacted positively on the performance of SMEs. Also cheaper and easily accessible savings account facilities were found to have a direct positive impact on the financial performance of the SMEs under study.

In a study to determine the effects of credit financing on SMEs' profitability in Nairobi County, Njeru (2014) picked a sample of 100 SMEs. Out of the sample selected, it was found out that all of them were using or had used credit to finance part of their assets and operations. The study found out that credit financing has a positive and significant effect on the SMEs profitability, with limited companies being found to enjoy more profitability than partnerships and sole proprietorships. It was however established that the high cost of credit and lack of collateral were the two major hindrances to accessing credit financing.

The accessibility of credit facilities from micro financing institutions was found to have a great effect on the performance of SMEs in a study carried out by Kinyua (2014) at the Gikomba market in Nairobi County, Kenya. A sample of 125 SMEs had been drawn and both primary and secondary data was used in the study. It was established that most of the respondents accessed credit from financial institutions albeit with difficulties, while others had no access at all. Some of the SMEs also had savings with financial institutions and this was one avenue that enabled them to borrow more credit since the banks were able to monitor their savings hence their sales performance. The study also established that training offered by micro financing institutions had benefited the SMEs to a great extent and helped them improve their managerial skills and specifically on financial management.

In an effort to establish the effects that micro finance services could have on the growth of SMEs, Mwewa (2013) undertook a case study of SMEs in Machakos Municipality, picking a random sample of 100 of the enterprises. And through use of self-administered questionnaires, data was collected and from the analysis done; the researcher established that the SMEs' growth on sales was directly attributable to the changes in microcredit, micro insurance and the trainings provided by MFIs. Hence the conclusion that there is a strong positive relationship between micro finances services and the growth of SMEs.

A study conducted by Njeri (2012) on the impact of microfinance services on the financial performance of SMEs in Kakamega County revealed that there is a positive correlation between microfinance services and financial performance. The independent variables for the study were four specific services offered by microfinance institutions: namely credit, savings, insurance, and training. While the dependent variables were the key performance measures for SMEs which included business capital, liquidity, asset accumulation, risk management and protection against income fluctuations and consumption smoothening. Analysis of the findings showed that most SMEs were highly satisfied with credit, savings and training as having the biggest impact on improving their performance, while the aspect of micro-insurance showed less significance on majority of the respondents.

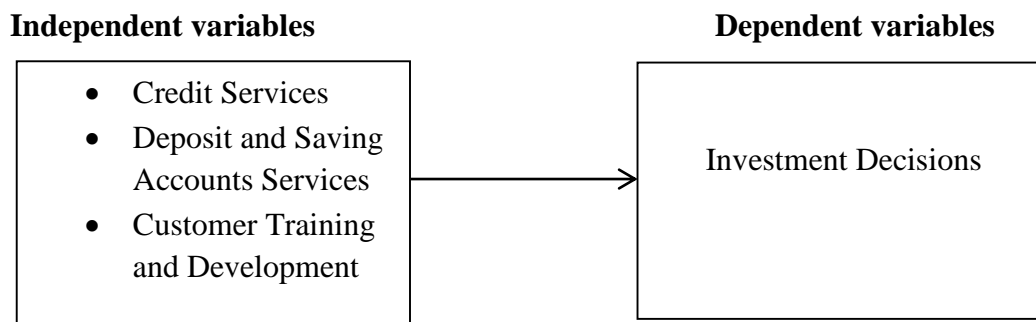
In a study conducted by Wanjiku (2010) on the impact of microfinance services on the performance of small and micro enterprises in Kenya, it was found out and concluded that services received from MFIs enhanced performance of SMEs in that it led to increased sales and profit, enhanced working capital, the number of employees increased, the space occupied by the business increased, retained earnings increased, enterprise stability improved, and that businesses used technology such as computers, internet and emails. The research also found out that most SMEs borrowed investment and working capital from MFIs and that they also received other services such as savings and training from the MFIs. In this study the researcher employed structured and semi structured questionnaires for data collection and used both primary and secondary data in the study and the setting of the study was in Nairobi with a sample of 47 SMEs.

Interesting conclusions were arrived at by Gucheca (2007) in his study of the factors influencing demand for informal financial services in Kenya. In the study, a sample of 120 informal financial services users in Nairobi was used with data being collected through self-administered questionnaire. The researcher found out that most entrepreneurs and in this case SMEs felt that such factors like cost of capital, collateral or security requirements, the ability to meet financial needs at hand, the credibility of service providers, accessibility of the services, repayment terms and conditions, procedures and processes, customer relations, and reliability and dependency force them to seek financial services from informal sources.

2.5 Conceptual Framework

Conceptual framework illustrates the linkage between the independent variables and the dependent variables in the Study (Mugenda & Mugenda, 2003). In this study, the independent variables are three financial services: namely credit services, deposit and savings account services, and customer training and development services. While the dependent variables are the investment decisions made by SMEs.

The conceptual framework is thus as presented in figure 2.1 below



Source: Author

Figure 2.1: Conceptual Framework

2.6 Summary of Literature Review

This chapter reviewed works by scholars and other researchers on SMEs and financial services. From the foregoing studies, it is evident that extensive analysis has been done on the topic but majorly on SME financing: that is SME access to credit from financial institutions in relation to their performance and growth. It has been established that most SMEs face difficulties in accessing services, especially credit, from financial institutions and the reasons given as the major causes of this include lack of collateral, lack of performance track records from the SMEs, unavailability of formal financial services in the rural areas and the informal settlements where majority of these enterprises operate from, lack of or little financial knowledge on the side of the entrepreneurs especially on record keeping and investment, high cost of credit among other factors. Limited Financial literacy has also been cited as another factor that is hindering managers and owners of SMEs from accessing and utilizing financial services.

This study seeks to establish the effect of services offered by financial institutions have on the investment decisions of SMEs.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets to explain the methods and procedures which were employed in conducting the study. These include the research design, population of interest, source of data and the techniques that were used in data analysis.

3.2 Research Design

The study employed descriptive research design since it allowed analysis of both quantitative and qualitative data. According to Cooper and Schindler (2003) a descriptive study helps in determining the frequency of occurrence of something and or how variables relate. Chandran (2004) also mentions descriptive research design as appropriate to describe and portray the characteristics of an event and a group of people or population. This research design was best given that the study focused on subjective and objective assessment of SMEs investment decisions in relation to financial services from formal financial institutions. Questionnaire was used as the main primary data collection instrument and was preferred because it allows deployment to a large population, free from interviewer's biases, and is also less costly (Kothari, 2009).

3.3 Population

A population is the total collection of elements about which we wish to make some inferences (Cooper & Schindler, 2003). The target population of this study was small and medium sized enterprises operating businesses like transport services, retail and wholesale trade, manufacturing, hotel and catering services among others, across Bomet County, with licenses or business permits from the county government. The population of the study was targeted at the 1,008 enterprises operating businesses licensed by the Bomet County.

3.4 Sample

A representative sample of 100 (10%) businesses was selected for collection of relevant data. Mugenda & Mugenda (2003) argued that a sample of between 10-30% of the population, if well selected, is adequate enough for generalization of findings to the

whole population. A simple random sampling technique was used to select the 100 SMEs involved in the study. This sampling procedure was preferred because it eliminates bias in sampling on the side of the researcher and therefore enhances the validity of the research findings.

3.5 Data Collection

The study used both primary and secondary data. Primary data was collected using structured questionnaires with both open and closed formatted questions as well as questions presented in likert-type scales. A questionnaire is free from interviewer's biases and can be administered to a large number of respondents (Kothari, 2009). The researcher employed drop and pick means of distributing the questionnaires in order to save time and ensure that respondents fill them in.

Secondary data was obtained from any available financial records maintained by the SMEs. These included bank statements, balance sheets, income and expenditure statements, and cash flow statements for at least the last three financial years. Information obtained here included movement of cash in and out of the business helping to trace receipts and repayments of loans, payments for investments and savings. This data was useful in confirming and analysing the financial services received as well as any investment decisions undertaken by the SMEs.

3.6 Data Analysis

This involved interpreting data collected from respondents once the questionnaires and recordings of the secondary data were completed and collected from each respondent. With the help of spread sheets, the results were compiled by use of data editing, data sorting, and data coding to develop relationships. Data was analysed quantitatively and qualitatively to describe and summarize the findings. The research obtained detailed information about the study and establish patterns and relationships from the data gathered. The Statistical Package for Social Sciences (SPSS) was employed in carrying out this analysis. The study used frequency tables, charts, tables, and graphs to present the data.

3.6.1 Analytical Model

In order to determine the effects of financial services on the investments decisions of SMEs in Bomet County, the researcher used the following analytical model to carry out a multiple regression analysis.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where

Y = SMEs' Investment Decisions

β_0 = Constant (coefficient of intercept)

X1 = Credit services

X2 = Deposit and Savings account services

X3 = Customer Training and Development services

$\beta_1, \beta_2, \beta_3$ are the regression coefficients or change introduced in Y by each independent variable

ϵ = is the random error term accounting for all other variables that affect SMEs' Investment Decisions but not captured in the model.

3.6.2 Test of Significance

The study used one-way ANOVA to test the level of significance of the independent variables on the dependent variable at 95% level of significance. The one-way ANOVA was used to test whether there exists any significant difference between the study variables.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysed findings of the study together with the interpretations and discussions. The objective of the study was to determine the effects of the services provided by financial institutions on the investment decisions of small and medium sized enterprises in Bomet County. Data was collected mainly through questionnaires from entrepreneurs operating businesses in the county and the findings are as presented below.

4.2 Descriptive Analysis

4.2.1 Response Rate

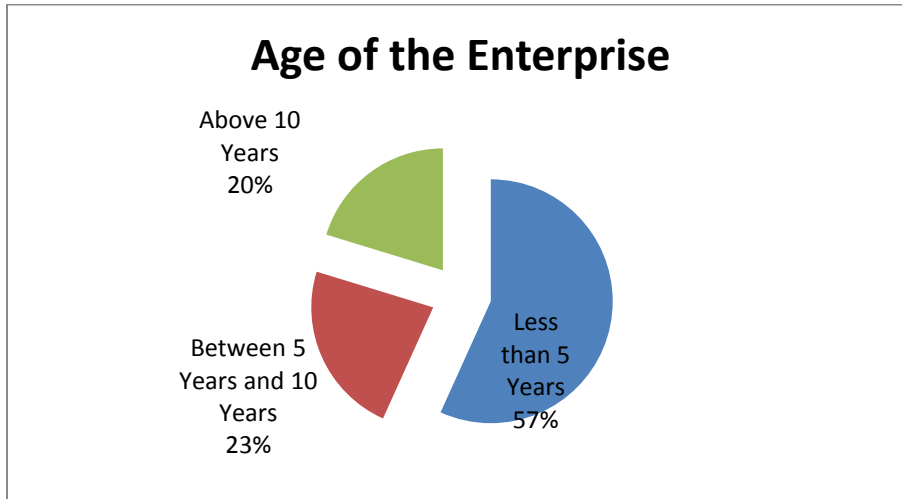
From the intended 100 respondents, a total of 74 filled and returned the questionnaires translating to a response rate of 74%. This response rate was sufficient for data analysis and conclusion (Mugenda and Mugenda, 2003).

4.2.2 Demographic Information

4.2.2.1 Age of the Business

The respondents were asked to indicate the length of time in years that their businesses have been in existence and the results have been summarized and presented in figure 4.1 below. Out of the 74 respondents, 42 (57%) of them reported that their businesses were less than 5 years old in operations, while 17 (23%) were between 5 years and 10 years old in business. Only 15 enterprises (20%) reported being in operation for more than 10 years.

Figure 4.1: Age of the Business



Source: Research Findings

4.2.2.2 Main Business Activity

The respondents were asked to indicate the type of business they operate. The responses received were then broadly categorized into two; product and service. A total of 49 or 66% of the respondents were operating product based businesses, while 25 (34%) were in the service industry. Examples of business activities reported by the respondents and categorized into product included retail shops selling household goods, hardware shops, agricultural goods and veterinary medicine shops, chemists selling human medicines and pharmaceuticals, cosmetic and beauty products businesses, booksellers and stationers, wholesale businesses, bakeries, cereals and dry foods sellers among others. Those categorized as services included salons and beauty parlors, maize millers, hotel services, auto garages, transport services among others.

Table 4.1: Main Business Operated

Activity	Frequency	Percentage
Product	49	66%
Service	25	34%

Source: Research findings

4.2.2.3 Number of Employees

The respondents were required to indicate the number of persons employed by their enterprises. They were to indicate what category in terms of numbers that their employee population fell as per the ranges provided in the questionnaire and the results were as presented in the table 4.2 below. Majority of the enterprises (91%) employed less than 10 people, 6 (8%) reported that they employ between 10 and 25 persons, while only 1 (1%) indicated that they employ more than 25 people.

Table 4.2: Number of Employees Employed by the Enterprise

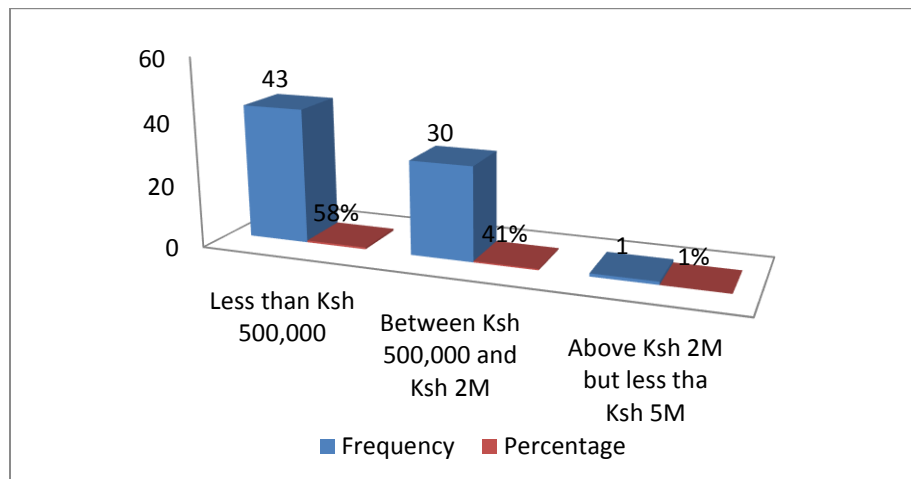
Number of employees	Frequency	Percentage
Less than 10 Employees	67	91%
Between 10 and 25 Employees	6	8%
Above 25 but below 50 Employees	1	1%

Source: Research findings

4.2.2.4 Average Sales in a Year

The study sought to know what bracket the average total sales per year of the enterprises fell in. The ranges provided were: below KSH 500,000, between KSH 500,000 and KSH 2Million, and above KSH 2Million but less than KSH 5Million. The results were as depicted in figure 4.2 below. Out of the total responses collected, 43 (58%) of them indicated that their average annual sales were below KSH 500,000, while only 1% had average annual sales of above KSH 2Million.

Figure 4.2: Average Annual Sales Bracket

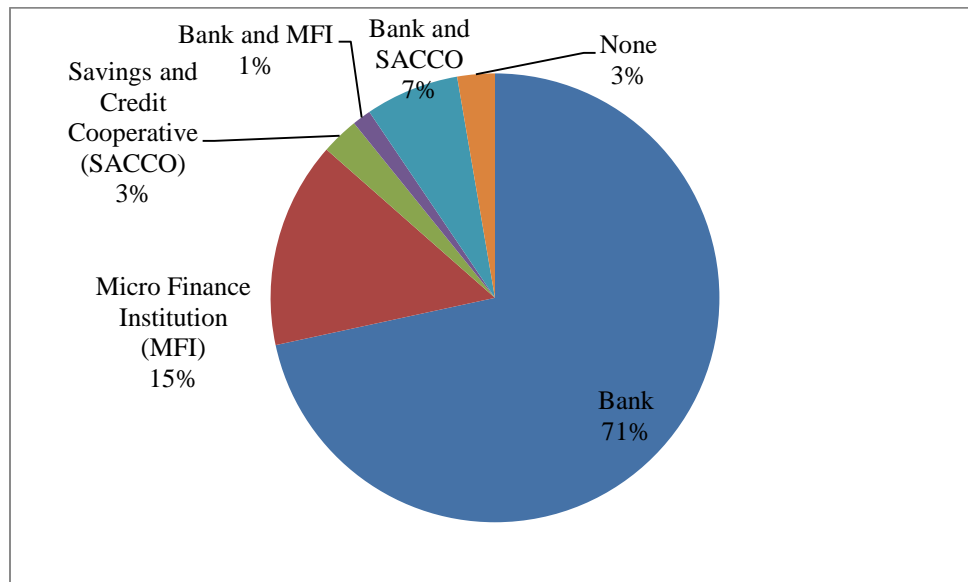


Source: Research findings

4.2.2.5 Major Financial Services Providers

The respondents were required to indicate their main providers of financial services and the results received showed that majority of them (98%) received services from financial institutions; only 2 (2%) said their businesses do not receive any services from any of the financial institutions. Figure 4.3 below presents the findings in detail.

Figure 4.3: Major Financial Services Providers



Source: Research findings

4.2.2.6 Financial Services Received from Financial Institutions

Respondents were required to state the type of services that they have been received from financial institutions in the last three years. From the results, majority of the respondents have been getting different types of services from the financial institutions in the last three years; only 2 (2%) reported not to have received any services at all. Table 4.3 below presents the different combination of services that the respondents reported to have been receiving from the financial institutions.

Table 4.3: Financial Services Received in the Last Three Years

Services Received	Frequency	Percentage
Payment Services only	1	1%
Savings/deposits only	20	27%
Credit or loans only	13	18%
Payments and savings/deposits	3	4%
Payments, savings/deposits, and loans	1	1%
Payments, savings/deposits, loans, and training	2	3%
Payments and Insurance	1	1%
Deposits/savings and loans	26	35%
Deposits/savings, loans, and insurance	1	1%
Deposits/savings, loans, insurance, and training	1	1%
Deposits/savings, loans, and training	3	4%
None	2	3%

Source: Research findings

4.2.2.7 Major Sources of Finance

The respondents were asked to indicate their major sources of financing and the outcome showed that majority of them use a combination of various sources: savings, and loans from both financial institutions and friends/relatives. Table 4.4 below details the analyzed responses:

Table 4.4: Major Sources of Finance

Source of finance	Frequency	Percentage
Savings	24	32%
Loans from bank and other FI	10	14%
Borrowings from Friends and relatives	1	1%
Savings and loans	25	34%
Savings, Loans, and borrowings from friends and relatives	10	14%
Savings and borrowings from friends and relatives	4	5%

Source: Research findings

4.2.3 Factors Influencing Investment Decisions

Respondents were asked to give a rating on their level of agreement with statements regarding major factors that influence investment decisions. The ratings were provided on a likert-type scale for each of the factors with a scale of 1-5, where 1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree. The table 4.5 below summarizes the results. From the table, the respondents agree that cost of capital, expected return on investment, expected portfolio balance, investment risk, management's ability, and financial services influence investment decisions of entrepreneurs. They however moderately agree that firm's liquidity influence the investment decisions of entrepreneurs.

Table 4.5: Factors Influencing Investment Decisions

Factor	Maximum Total Score	Maximum Rating	Actual Total score	Actual Average Rating
Firm's liquidity	370	5	255	3
Cost of capital	370	5	280	4
Expected return on investment	370	5	256	4
Expected Portfolio balance	370	5	262	4
Investment risk	370	5	264	4
Management's ability	370	5	296	4
Financial Services	370	5	273	4

Source: Research findings

4.3 Correlation Analysis

The table 4.6 below presents the summary of the correlation analysis carried out for the study variables (investment decisions, credit services, deposits and savings services, and training services).

From the table 4.6, investment decisions (the dependent variable) has a positive 0.157 correlation coefficient with credit services. This indicates a weak positive correlation

between these two variables. Investment decisions and deposits & savings have a correlation coefficient of 0.067; indicating a weak positive correlation between the two. Investment decisions and training services have a correlation coefficient of 0.156, also indicating a weak positive correlation. It can therefore be concluded from the research findings of SMEs in Bomet County that investment decisions have a positive but weak correlation with the financial services (measured by the independent variables - credit services, deposits and savings, and training services).

Table 4.6: Correlations

		Investment decisions	Credit services	Deposit and savings	Training Services
Investment decisions	Pearson Correlation	1	0.157	0.067	0.156
	Sig. (2-tailed)		0.182	0.57	0.185
	N	74	74	74	74
Credit services	Pearson Correlation	0.157	1	-0.032	.385**
	Sig. (2-tailed)	0.182		0.787	0.001
	N	74	74	74	74
Deposit and savings	Pearson Correlation	0.067	-0.032	1	0.17
	Sig. (2-tailed)	0.57	0.787		0.146
	N	74	74	74	74
Training Services	Pearson Correlation	0.156	.385**	0.17	1
	Sig. (2-tailed)	0.185	0.001	0.146	
	N	74	74	74	74

** . Correlation is significant at the 0.01 level (2-tailed)

Source: Research findings

Amongst the independent variables, credit services and deposits & savings have a correlation of negative 0.032; this indicates a weak negative correlation between these two. Credit services however show positive correlation with training influence (a correlation coefficient of 0.385). Deposit and savings has a positive 0.17 correlation with training influence. Therefore the independent variables are not highly correlated.

4.4 Regression Analysis

Regression analysis run on the data collected has been presented in this section followed by attendant discussions.

4.4.1 Model Summary

The table 4.7 below presents the research study model summary.

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.195 ^a	0.038	-0.003	0.563

a. Predictors: (Constant), Training, Deposit and savings, Credit services

Source: Research findings

From the model summary table above, the R statistic is 0.195. This thus indicates that the dependent variable (investment decisions) has a positive correlation with the independent variables (financial services represented by training, deposit and savings, and credit services). Thus investment decisions have a positive correlation with financial services among small and medium enterprises in Bomet County. The R square statistic is 0.038 indicating that 3.8% of the variations of the dependent variable from the research data is on average explained by the independent variables in the model.

4.4.2 Analysis of Variance

This section discusses the analysis of variance. Table 4.8 below presents a summary.

Table 4.8: Analysis of Variance (ANOVA^a)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.879	3	0.293	0.923	.434 ^b
	Residual	22.216	70	0.317		
	Total	23.095	73			

a. Dependent Variable: Investment decisions

b. Predictors: (Constant), Training, Deposit and savings , Credit services

Source: Research findings

From the table above, the f statistic is 0.923 and significance is 0.434. The analysis was undertaken at 95% confidence level. The significance of 0.434 is therefore above the critical level of 0.05; thus it appears that the independent variables (credit services, deposits and savings, and training services) do not significantly explain the variation in investment decisions.

4.4.3 Model Coefficients

The table 4.9 below provides that model coefficients summary.

Table 4.9: Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	3.434	0.251		13.706	0	2.934	3.933
	Credit services	0.043	0.046	0.12	0.94	0.351	-0.048	0.135
	Deposit and savings	0.022	0.048	0.054	0.45	0.654	-0.074	0.117
	Training Services	0.031	0.04	0.1	0.773	0.442	-0.049	0.112

a. Dependent Variable: Investment decisions

Source: Research Findings

The following analytical model was derived from the table above:

$$Y = 3.434 + 0.043X_1 + 0.022X_2 + 0.031X_3$$

Where Y = investment decisions by SMEs; X₁ = credit services; X₂ = deposit and savings account services; X₃ = customer training and development services.

Investment decisions by SMEs shall therefore be 3.434 when the independent variables are at zero. A change in credit services results in a 0.043 equal change in investment decisions. A unit change in deposit and savings account services results in a 0.022 equal change in the investment decisions variable, while a change in the customer training and development services results in a 0.031 change in the investment decisions by SMEs.

4.5 Discussion of Research Findings

The study revealed that most of the businesses in Bomet County fell in the category of SMEs with a majority of them (91%) employing less than 10 people, 8% of the respondents said their businesses employ between 10 and 25 people, and only 1% employ above 25 persons. From the findings, a huge percentage of the respondents (58%) reported annual sales of less than KSH 500,000, while 41% said that their enterprises make between KSH 500,000 and KSH 2 Million of sales annually. Only 1% of the respondents have sales above KSH 2Million but less than KSH 5Million. Most respondents (57%) revealed that their businesses were less than 5 years old in operation, while 23% and 20% said that their businesses have been in operations for between 5 and 10 years, and above 10 years respectively.

The study revealed that majority of the respondents receive services from the various types of financial institutions with 71% reporting banks as their main financial services providers. Only 3% of the respondents indicated that they do not receive any financial services from any form of financial institution. On major sources of finances, the research revealed that SMEs in Bomet County utilized a combination of various sources of financing with savings being the single most utilized source at 32%. A combination of savings and loans from banks and other financial institutions (34%) also turning out to be highly employed by entrepreneurs. Respondents agreed that the cost of capital, the expected return on investment, the expected portfolio balance, investment risk, the management's ability to make sound investment decisions, and financial services have an effect on their investment decisions. They moderately agree that a firm's liquidity affect investment decisions of their firms.

The test of the relationship between investment decision and financial services was carried out and the correlation analysis results obtained depicted that there was positive but weak correlation between the dependent and the independent variables. Investment decisions against credit services produced a correlation coefficient of 0.157, while investment decisions with savings and deposit services, and investment services with training services resulted in correlation coefficients of 0.067 and 0.156 respectively. The regression analysis carried out to determine the relative influence that each of the

independent variables had on investment decisions showed that 3.8% of the change in investment decisions was on average explained by the independent variables (credit services, savings/deposits, and training services). The results showed that, if the independent variables were at zero, investment decisions would be at 3.434. From the model, $0.043X_1$ means a unit change in credit services will lead to 0.043 units increase in investment decisions. Likewise, $0.022X_2$ means that a unit increase in savings and deposit services results in a 0.022 increase in investment decisions. $0.031X_3$ means that one unit increase in training services provide by the financial institutions results in 0.031 units increase in SMEs' investment decisions. It therefore shows that credit services followed by training services have got greater positive effects on the investment decisions of SMEs in Bomet, whereas savings and deposit services have got the least positive influence. ANOVA carried out at 95% confidence level gave a significance of 0.434 which is more than 0.05 hence leading to a conclusion that the independent variables (credit services, savings and deposit services, and training services) do not significantly explain the changes investment decisions of SMEs in Bomet County.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary and conclusion of the research findings for the study. Section 5.2 summarizes the findings; section 5.3 covers the conclusions arrived at from the research findings while section 5.4 provides recommendations to the relevant parties. Section 5.5 states the limitations of the study while section 5.6 provides suggestions for further researches on the topic.

5.2 Summary of Findings

The Small and Medium Size Enterprises is regarded as the single largest employment creator among the sectors of any economy. The role that it plays in economic development of a country like Kenya is therefore enormous. The development of the SME sector creates new employment opportunities and subsequently leads to expanded tax base (Ngui, 2014) which in turn promotes a multiplier effect on the economy.

Various studies have been carried out on the topic of SMEs and financial services, but majority of them touching on the profitability, financial performance, and growth of the SMEs in relation to financial services. There has been no such study on effects of financial services and SMEs' investments. The main objective of this study therefore was to establish the effects of financial services on the investment decisions of SMEs in Bomet County. Financial services provided by financial institutions like banks, microfinance institutions, savings and credits cooperative societies, insurance firms among others are part of the tertiary services that businesses rely on for their smooth operations. Among these services are the provision of credits or loans, the deposits and savings account services, and trainings that some of the financial institutions provide to their customers. It is through such services that SMEs are able to efficiently run their operations, expand their businesses, and in the process help increase their performance and or profitability.

The results of the multivariate regression model used in the study established that all the independent variables; credit services, savings and deposit services, and training services positively affect the investment decisions (dependent variable) of the SMEs. Credit services depicted a higher positive effect on investment decisions as compared to both training and savings and deposit services. Credit services directly provide the financial capital to which the SMEs could directly invest. It is worth noting that majority of the respondents mentioned loans as among the major sources of finances and this can explain the high ratio. From the model, training services ranked the second highest positive contributor to SMEs investment decisions. Training provides entrepreneurs with new skills and or improve their existing skills as well as bringing about change in attitudes and hence their ability to improve their performance. The ANOVA results carried out however showed that the variations in the dependent variable (investment decisions) were not very significantly explained by the variation in the independent variables (credit services, savings and deposit services, and training services).

5.3 Conclusion

From the findings on the study, it can be concluded that investment decisions of SMEs in Bomet County are influenced but to a smaller extent by the financial services of credit, savings and deposits, and training provided by financial institutions. The results from the correlation analysis demonstrate that each of the individual independent variables have got a positive correlation to the dependent variable. The correlation coefficients range between 0.067 and 0.157 which shows that the relationship, though positive, is weak. The regression analysis and a summary of the model, the R statistic is at 0.195 which further shows that there is a positive relationship between the independent and the dependent variables. The R Square statistic of 0.038 obtained from the results is positive but weak and can be interpreted to mean that 3.8% of changes in investment decisions of SMEs in Bomet County can be attributed to changes in the financial services of credit, savings and deposits, and training.

Though there has not been any published study of a similar nature touching on effects of financial services on the investment decisions of SMEs, studies on around the effects of financial services on the growth of SMEs can be close comparisons. Studies by Osoro

and Muturi (2013) on the effects of microfinance services on the growth of SMEs in Kisii town and a similar one by Mwewa (2013) on the effects of micro finance services on the growth of SMEs in Machakos County both found out that there was a strong correlation between financial services and the growth of SMEs. The positive but weak relationship between financial services and investment decisions from this study can therefore lead to the conclusion that financial services (credit, training, and savings and deposit) do influence the investment decisions of SMEs to an extent, but is not the sole influencing factor and that the other factors including cost of capital, expected return on investment, expected portfolio balance, investment risk, management's ability, and firms' liquidity also play a big role.

5.4 Limitations of the Study

The research encountered some constraints due to various limiting factors. The major one being the unavailability and in some other cases the restricted access to financial records kept by the SMEs. It was established during the research that majority of the businesses sampled kept no records of their financial transactions. Some of the respondents totally refused to show the researcher some of their financial records despite the assurance that the information being sought was purely for academic purposes. It was therefore difficult to cross check and verify the information provided in the questionnaires with records of transactions and other financial statements.

The other limiting factor was language barrier and the level of understandability of the information being sought. Majority of the respondents could not read and clearly comprehend the questions partly due to low levels of education and it therefore meant that the researcher had to interpret the questions for them in a language that they could clearly get the message. This also consumed a lot of time

This study was also limited to a single county in Kenya with a sample size of only 100 SMEs.

Majority of the enterprises sampled turned out to have been in operation for very short periods of time with some being in business for less than two years. Such short periods in

business may not be long enough to make conclusions on the impact of financial services on investments.

5.5 Recommendations

5.5.1 Policy Recommendations

The economic growth of any community will largely depend on how its members are able to secure employment and or to create sources of income. The important contributions of SMEs to the creation of wealth and general economic growth of the society cannot therefore be gain-said. With the devolution of government functions and therefore resources from the central government to the counties, it is a high time that county governments appreciate the role of SMEs in the economic empowerment of the population right from the village level all the way up. County governments should therefore create an enabling environment for the growth and development of SMEs.

From the results of the study, it is evident that financial services to an extent affect the investment decisions that SMEs make. It is also evident from the research findings that majority of the entrepreneurs in Bomet County source their finances from savings and from loans. Also from the model, credit services and training services turned out to be some of the strongest factors that influence investment decisions of SMEs. All these combine therefore provide an opportunity for financial institutions to re-package their services for this huge market.

5.5.2 Suggestions for Further Studies

The study was based on a single county in Kenya and the results were from a small sample. The results might therefore be limited and specific in context and may not be representative enough for generalization. The findings made here are good reference and future comparison points and further studies on the same topic and probably on a wider area coverage are recommended.

The study explored the influence that financial services have on the investment decisions of SMEs in Bomet County and the results showed that financial services have got a not-very-strong influence on the investment decisions made by the entrepreneurs there. The

researcher therefore recommends that similar studies be done in other counties in Kenya. This will enable comparison of the findings and allow for generalization.

There is also need to conduct a similar study but approaching it both from the angle of the financial service providers and from the SMEs so as to reduce the limitation of lack of SMEs' financial records. This will enable the researcher to verify information provided by the SMEs through records at the financial institutions.

Majority of the SMEs that were sampled and whose responses were received indicated that they had been in business for less than five years with many of those being less than two years old. Such time period may not be long enough for a business to gauge the effects of financial services on their investments. Therefore, there is a need for a similar study in future to restrict business age to above five years so as to reasonably make fair conclusions.

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APPENDICES

Appendix I: Introduction Letter


UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

Telephone: 020-2059162
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P.O. Box 30197
Nairobi, Kenya

DATE 28/09/2016

TO WHOM IT MAY CONCERN

The bearer of this letter Robert C. Makiche

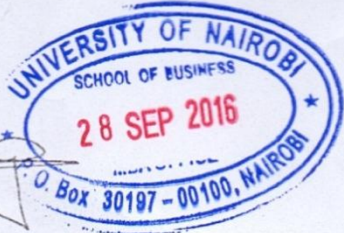
Registration No. DG1/74788/2014

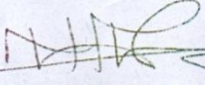
is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.


UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
28 SEP 2016
P.O. Box 30197 - 00100, NAIROBI


PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

Appendix II: Research Questionnaire

Introduction

The purpose of this questionnaire is to collect data on the effects of services provided by financial institutions on investment decisions of small and medium sized enterprises in Bomet County. Any information given by the respondents during this exercise will be treated with strict confidentiality and will solely be used for academic purposes only.

Section A

Background information

1. Name of the business (optional).....
2. Name of the respondent (optional).....
Gender: Male () Female ()
3. How long has the business been in operation? years
4. What type of business do you operate?
5. On average, what is the number of persons employed by the enterprise? (Tick appropriately)

Less than 10 employees	
Between 10 and 25 employees	
Above 25 but less than 50 employees	

6. On average, what is the range of the enterprise's total sales per year? (Tick appropriately)

Less than KSH 500,000	
Between KSH 500,000 and KSH 2,000,000	
Above KSH 2,000,000 but not more than KSH 5,000,000	

7. What type of financial institution do you receive services from?

- a) Bank (b) Micro finance
- c) Savings and Credit Cooperative (SACCO)
- d) None e) Other (please name)

8. Tick, where appropriate, on the different services you receive (or have received) from the financial institution(s) you operate with

- a) Payment services (b) Deposits and savings
- c) Loans/ credit services
- d) Insurance services e) Training and development
- f) Other (please name)

9. What is/ are your major source(s) of financing? (Tick where appropriate)

- i) Savings
- ii) Bank Loan or loans from other financial institutions
- iii) Borrowings from friends/ relatives
- iv) Other sources (please specify)

10. The list below indicates possible investments undertaken. Kindly choose appropriate investments carried out by the enterprise in the last three years and indicate their approximate costs

<u>Investment</u>	<u>Approximate cost (KSH)</u>
i) Property acquisition
ii) Plant and Equipment acquisition
iii) Acquisition of motor vehicles for business
iv) Portfolio diversification (starting new business)

- v) Acquisition of stock or shares of other companies
- vi) Expansion of business branch network
- vii) Other (specify)

Section B

Financial Services and Investment

11. Indicate your level of agreement with the following statements relating to firm's liquidity Key. Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Firm's Liquidity	1	2	3	4	5
The availability of residual funds enables the firm to choose an investment opportunity that meets their expectations in terms of returns and risks					
Liquidity allows assets to be bought and sold at stable prices					
Market makers are key contributors to the liquidity of stock market					
Market makers provide the capital needed to facilitate the stock market liquidity					
The risk of illiquidity need not apply only to individual investments: whole portfolios are subject to market risk					
Liquidity of stock market enhances the ability to trade stocks quickly, with minimum price impact.					

12. Indicate your level of agreement with the following statements relating to cost of capital Key. Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Cost of Capital	1	2	3	4	5
Cost of capital that the firm incurs is by choice of a particular source of capital.					
The optimal cost of the capital that a firm requires is the main determinant of its investment					
Credit rationing limits investment spending and thus, the availability of cheap credit promotes investment decisions					
Opportunity cost determines the cost of making a specific investment					
The overall cost of capital is derived from a weighted average of all capital sources in an enterprise					
The cost of capital depends on profitability, credit worthiness					

13. Indicate your level of agreement with the following statements relating to expected return on investment Key. Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Expected Return on Investment	1	2	3	4	5
Investments using ROI can lead one to make incorrect conclusions about their profitability					
The increase in gain from investment increases the expected return on investment					
Increased cost of the investment decreases the expected return on investment					

Investors have other opportunities to increase the expected return on investment					
Expected return on investment is influenced by decisions in the planning of allocation of capital					
Marketing decisions influences gain from investment					

14. Indicate your level of agreement with the following statements relating to expected portfolio balance Key. Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Expected Portfolio Balance	1	2	3	4	5
Portfolio balance minimize risk relative to a target asset allocation					
Portfolio's asset allocation determines portfolio's risk-and-return in the enterprise					
Investors select a rebalancing strategy that weighs their willingness to assume risk against expected returns net of the cost of rebalancing					
Investors develop a rebalancing strategy of how frequently the portfolio should be monitored					
Rebalancing strategy determines how far an asset allocation can be allowed to deviate from its target before it is rebalanced					
Investment decisions are mainly made with the objective of striking a portfolio balance					

15. Indicate your level of agreement with the following statements relating to Investment Risk Key. Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Investment Risk	1	2	3	4	5
Investors consider risks inherent while making investment decisions					
Investors are risk averse and prefer a less risky investment to a high risk investment					
The uncertainty with which cash flows from investment are expected to be generated consideration during investment decision					
Drawdown measures risk oriented to behavioral tendencies					
Businesses in the same industry have similar types of business risk					
Enterprises evade unsystematic risk through diversifying					

16. Indicate your level of agreement with the following statements management's ability to make sound investment decisions Key. Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Management's Ability to Make Sound Investment Decisions	1	2	3	4	5
The capacity of a firm's management influences the decision process					
Financial knowledge and skills are crucial investment decisions					
Improved financial education leads to an increase in financial investment behavior					
Financial management training is a major challenges					

facing the enterprise					
Investors value financial knowledge as they make decision					
Enterprises experience financial management challenges in investment decisions making					

17. Indicate your level of agreement with the following statements relating to financial services. Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Financial Services	1	2	3	4	5
Financial factors have a greater influence on the investment processes					
The enterprise has no access to capital markets and other external sources of financing					
Enterprises have an easier access to external funds because of their asset base					
Performance records of enterprise translate to lesser risk to the credit lenders					
Accessibility of formal financial services triggers investments in enterprises					
The enterprise has access to larger sums of money for investment					

18. Indicate your level of agreement with the following statements relating to investment decision. Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Investment Decision	1	2	3	4	5
Investors perform investment analysis before making investment decisions					
Investment decisions are often supported by decision tools.					
The portfolio helps the investor achieve a satisfactory return compared to the risk taken					
Decisions on investment, takes time to mature before implementation					
Decisions on investment have to be based on the returns which investment makes					

19. Credit services and Investments

i) Have you received any loan from any of the financial institutions in the last three years?

Yes No

ii) If the answer is yes, indicate the amounts of loans you have received in the last three years

	2014	2015	2016
Amount of loans received (KSH)			

iii) Rate the level of influence that you think the credit services from the financial institutions have had on your investment decisions (Use the scale of 1 to 5, where 1=no influence, and 5= very high influence)

Credit services influence

20. Deposit and Savings account services and Investment

i) Do you hold a deposit or savings account with any of the financial institutions?

Yes No

ii) If the answer is yes, please indicate the average amounts of (annual) savings made by the enterprise in the last three years

	2014	2015	2016
Amount of savings made (KSH)			

iii) Rate the level of influence that you think the deposit and savings account services from the financial institutions have had on your investment decisions (Use the scale of 1 to 5, where 1=no influence, and 5= very high influence)

Deposit and Savings account services influence

21. Customer training and development services and Investment

i) Has the management or any staff of the enterprise received any form of training from any of the financial institutions within the last two years?

Yes No

ii) If yes, briefly describe the number and type(s) of training(s)

.....

iii) Rate the level of influence that you think the customer training and development services from the financial institutions have had on your investment decisions (Use the scale of 1 to 5, where 1=no influence, and 5= very high influence)

Deposit and Savings account services influence

22. How have these financial services (credit services, deposit and savings account services, and customer training and development) helped you? (Tick appropriately)

- Improved the enterprise's relationship with the bank
- Allowed the enterprise to borrow more
- Enhanced the enterprise's investment capability
- Enabled you to build better links with your customers and
- Enhanced the enterprise operating efficiency
- Enabled the financial institution to measure and understand the enterprise operations
- Others (please specify)

THANK YOU FOR YOUR TIME AND COOPERATION!!

Appendix III: List of Sampled SMEs in Bomet County

	Business	Location
1	Center One Enterprises	Sotik Town
2	Technology Associates East Africa	Longisa Trading Center
3	Cadan Enterprises	Bomet Town
4	Gestalt Guild Crafted Enterprise Limited	Bomet Town
5	Compulynx Nyanza Limited	Silibwet Town
6	Tiltich Investments Limited	Sotik Town
7	Optima Ict Services Limited	Bomet Town
8	Starpeak Global Enterprise Limited	Bomet Town
9	Vinron Enterprises Limited	Sotik Town
10	Joytriz Enterprises	Bomet Town
11	Bingwa Agrotech Youth Group	Siongiroi Trading Center
12	Kenron General Supplies	Bomet Town
13	Rimko Office Machines And Printers	Sotik Town
14	Iwea Systems	Bomet Town
15	Prudearn Enterprises Limited	Bomet Town
16	Cenez Enterprises	Bomet Town
17	CLIQUE Kenya Group Limited	Bomet Town
18	Sot Investments	Bomet Town
19	MFI Document Solutions Limited	Bomet Town
20	Hoist Kenya Limited	Bomet Town
21	First Quality Supplies Limited	Bomet Town
22	Global Technologies Enterprises Limited	Bomet Town
23	Idealtech Ventures Limited	Bomet Town
24	Perch Limited	Bomet Town
25	Paunami Enterprises	Bomet Town
26	Pergamon Limited	Bomet Town
27	Kanuli It Solutions Limited	Bomet Town
28	Easy Lan Limited	Bomet Town
29	Toner Star Enterprises	Bomet Town
30	Define Link Enterprises	Bomet Town
31	Sigor Distributers	Bomet Town
32	Chebbs Agencies Limited	Bomet Town
33	Ags Kenya Limited	Siongiroi Trading Center
34	Petnic Limited	Sotik Town
35	Herimos Construction Limited	Bomet Town
36	Micropoint Systems	Bomet Town
37	Interlinks East Africa	Bomet Town
38	Saava Technologies Limited	Bomet Town

39	Bedary Investments Limited	Sotik Town
40	Dunia Link Limited	Bomet Town
41	Berkley Business Solutions	Bomet Town
42	Myware Technologies	Bomet Town
43	Kipepeo Solutions Company Limited	Bomet Town
44	Diamond Africa Solutions Limited	Bomet Town
45	Rhumba Base Investments	Bomet Town
46	Victory Shop	Bomet Town
47	Queens Cosmetics	Bomet Town
48	Bomet Auto Spares	Bomet Town
49	Ngungunyat Hardware	Longisa Trading Center
50	Mavuno Agrovot	Longisa Trading Center
51	Ebenezer Stage Hotel	Bomet Town
52	Phimito Hardware	Chemaner Trading Center
53	Baba June Traders	Chemaner Trading Center
54	Kimagata Shop	Chemaner Trading Center
55	Kigaru Traders	Chemaner Trading Center
56	Berurtany Agovet	Longisa Trading Center
57	Silver Hotel	Bomet Town
58	Wilsam Enterprises	Longisa Trading Center
59	Jamaica Electronics	Longisa Trading Center
60	Stage Kinyozi	Longisa Trading Center
61	Starehe Hotel	Bomet Town
62	Kongoi Harware	Longisa Trading Center
63	Samco Traders	Longisa Trading Center
64	Jelima Traders	Longisa Trading Center
65	Longisa Berur Store	Longisa Trading Center
66	Amazing Cereals Shop	Bomet Town
67	Kalya Chemist	Bomet Town
68	Sot Printers & Stationers	Bomet Town
69	Highway Enterprises	Bomet Town
70	Eye Contact Beauty Shop	Bomet Town
71	Nadab Hotel	Bomet Town
72	Twigs Hotel	Bomet Town
73	Emirates Auto Spares	Bomet Town
74	Midwest Traders	Bomet Town
75	Pamsa Traders	Longisa Trading Center
76	Roadside Hotel	Bomet Town
77	Sotik Pharmaceuticals	Bomet Town

78	Tumaini Electicals and Electronics	Bomet Town
79	Decimal Electronics	Bomet Town
80	Mali Mali Baby Shop	Bomet Town
81	By Faith Shoes	Bomet Town
82	MARKYZ Supermarket	Kembu Trading Center
83	Joycom Traders	Bomet Town
84	Olesoi Hardware	Bomet Town
85	Kipkaa Agrovet	Silibwet Town
86	Sweet Cake Pastry Bakers	Bomet Town
87	KenMakz Wholesalers	Kembu Trading Center
88	Mama Brian Millers	Chemaner Trading Center
89	The Maitu Traders	Kimuchul Trading Center
90	Classic Hotel	Bomet Town
91	Ebenezer Traders	Bomet Town
92	Wesko Electicals	Bomet Town
93	Kibune Shop	Silibwet Town
94	Robkas Welding & Hardware	Bomet Town
95	Crystal Chemists	Bomet Town
96	Starehe Butchery	Bomet Town
97	Shirji Agrovet	Bomet Town
98	Majaliwa Enterprise	Mulot Trading Center
99	Kericho Booksellers	Bomet Town
100	Mose Cyber Café'	Bomet Town