EXTERNAL ELEMENTS AND CAPITAL STRUCTURE OF SMALL AND MEDIUM ENTERPRISE IN KITUI COUNTY, KENYA

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A RESEARCH PROJECT SUBM1TTED TO THE SCHOOL OF BUSINESS 1N PART1AL FULF1LLMENT OF THE REQU1REMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMIN1STRATION (FINANCE OPTION) OF KENYATTA UNIVERSITY

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DECLARAT1ON

The research project I composed myself and therefore I declare that, this is my original work and it has never been submitted previously in part or in whole for degree award in any University.

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The research project has been submitted for examination with my approval as the University Supervisor

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DEDICAT1ON

I dedicate this work to Almighty God for the gift of life, strength and sound mind during the study period. Also, Special dedications to Mr. & Mrs. James Mwanzi family which gave me ample time, support and encouragement during my project writing. To all of you, God bless you dearly

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OPERAT1ONAL DEFIN1TION OF TERMS

Capital structure is the combination of debt and equity finance used by the company or a business entity to finance its operations.

Cost of capital is monetary value that an investor incurs to acquire either equity or debt finance.

Cost of Equity is monetary value that an investor incurs to get equity capital debt capitals are funds raised by the business by either taking a loan or borrowing from individual or lending institution.

Dividend is a distribution made by the firm to its shareholders by either issuing cash or stock issue.

Equity finance is funds sourced from the owners of the SMEs for operation business enterprise.

External elements are the influences or situations outside the business's control but affecting the choice of capital structure for a firm.

Interest Rate This is percentage charge for the money borrowed out by SMEs mostly determined by credit risk and the repayment period of the sum borrowed.

Investors Attitude these are inner drive the dictate the view and decision concerning a certain investment.

Market condition are the factors or situation within the working environment that influence the business operation in a particular area

Small and Medium-sized Enterprises they are business that engages between 1-99 employees with coverage of establishments in several economic sectors, and carry out formal or informal operations.

Tax Rate is the percentage at which a corporation or a SMEs are taxed based on the type of tax administered.

Taxation is an act of imposing a tax levy on SMEs or corporations by taxing authority based on various income categories.

ABBREVIAT1ON AND ACRONYMS

ABBREVIATION	DEFINITIONS
CAPM	Capital Asset Pricing Model
DF	Debt Finance
EF	Equity finance
GDP	Gross Domestic Product
NACOSTI	National Commission for Science, Technology and Innovation
ROI	Return on Investment
SMEs	Small and Medium-sized Enterprises
SPSS	Statistical Package for Social Science
ANOVA	Analysis of Variance

ABSTRACT

Small and medium-sized enterprises' development and execution depend majorly on the capital structure financing choice. The choice of capital structure for small medium enterprises is majorly influenced by various elements which mostly hinder their success. Small and medium-sized enterprises depend on equity and debt capital. The equity finance is sourced from the shareholders, While Debt financing is cash which is borrowed from moneylenders. Small and medium-sized enterprises have a significant contribution to the country's economy by contributing through taxes, job creation, provision of quality goods and services at comparatively reduced prices. Despite of this contribution, the operation and performance of small and medium enterprises are adversely affected by the choice of capital structure. External elements such as market conditions cost of capital and attitude of the investors adversely influence capital structure choice. In 2017, the Kenya National Bureau of Statistics surveyed Small and Medium Enterprises financing challenges. The study established that a good number of small and medium enterprises do not celebrate their second birthday while a number of them do not manage to reach fifth birthday, which raises concerns on the sustainability of those business enterprises. This calls for an investigation to establish whether these external elements have an effect on the capital structure of small and medium-sized enterprises. This study examined the effect of external elements on small and medium-sized enterprises' Capital structure in Kitui County, Kenya. Throughout the study, theories of capital structure such as Signaling, Agency and Trade-off theories were used to analyze the external elements on capital structure. The research design was descriptive to collect data from 150 small and medium enterprises in Kitui County using a structured questionnaire. Data analysis was done using multiple regression analysis in Statistical Packages for Social Sciences and findings presented by tabulation, charts and diagrams. The study found out that, external elements have negative effect on the capital structure of small and medium enterprises in Kitui County. The study recommends for the government to come up with training programs for small and medium enterprises to enable them manage challenges posed by the capital structure choice. Further, the government should provide benchmarking workshops for Kenyan small and medium enterprises with others in developed countries to enhance new ideas.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The development of every developing nation depends majorly on the private's sector of the economy. According to World Bank report 2019, developments of economies especially in countries which are developing are boosted by the SMEs. Most of the businesses and job creation are facilitated by the SMEs in such that 90% of the businesses are from formal or informal SMEs and 50% of the employment in the world is created by the SMEs. The World Bank report points out that, SMEs will have created approximately 600 million jobs by 2030 and therefore the governments should put priority in development of the SMEs. Despite of most jobs being generated by SMEs most of the SMEs operations are struggle due inadequate capital. In Morocco, SMEs developed project that has been supporting the development of women-owned SMEs to access finance inform of short-term loans. In Nigeria, Development Finance Project has been supporting the establishment of Development Bank of Nigeria, an institution that provides financial support and credit guarantees for all eligible SMEs (World Bank, 2019).

In Kenya, the available data from Kenya SMEs finance survey 2019 indicates that approximately 90% of businesses which are registered under the companies' registrar are SMEs. The reports also point out that Kenya's Gross Domestic Product (GDP) is projected at 6.1 per cent with 3 per cent being contributed by the SMEs by 2020. Moreover, SMEs have a significant contribution to the country's economy by contributing immensely to taxes, job creation, provision of quality goods and services at comparatively reduced prices. According to Kenya SME performance Index 2019 the SMEs growth rate grew from 4.8% in 2017 to 6.3% in 2018 a growth index of 1.4%. Additionally, the report points out that the SMEs created 846,000 new jobs in 2018 in the informal sector which is 83.6% of the total employment created. The report attributes 30% contribution of the SMEs to the GDP of Kenya's economy. This helps to bridge the poverty gap and normalize accessibility of goods and services to the larger public. Despite this contribution, the operation and performance of SMEs are adversely affected by the capital.

The SMEs capital structure comprises of Debt capital and Equity finance that is used to finance its operations. Debt capital is loans or bonds issued while Equity finance is expressed as the common stock. The Debt-to-Equity ratio is used to measure the capital structure. In Debt capital, investors take less risk because the first claim is business assets in the case of bankruptcy. Wehinger (2014) explains how this makes the investors accept a lower rate of returns leading to a lower cost of capital when debt finance is compared to equity finance.

On the other hand, equity investors take more risks. This is because they get the residual value after the repayment of debt investors. Due to the high risk, the return rate is also high; hence the cost of equity seems to be higher than the cost of debt (Gathogo & Ragui, 2014). There are benefits attached to the structure of the company whereby it amplifies Return-On-Equity. This measures the business's performance in terms of asset turnover, earnings, and debt. Capital structure gives greater control and flexibility to a firm. The capital structure of SMEs is greatly affected by external factor such as market condition, Cost of capital and Investor's attitude.

The environment business is operating in mostly determines it success or failure, various organization operates on environment which tend to be dynamic and being pulled up and downward by market forces, for the SMEs success in market one need to constantly learn and evaluate the conditions at any given point, some of condition that may affect capital structure choice include, competition from other firms, government policies and restriction imposed by the potential investors and lenders. Investor altitude also play great role on determination of capital structure of SMEs, how do investor see these SMEs is it a positive or a negative view, based on economic surveys which mostly indicate collapsing of SMEs in a short run most of investor flew from investing to SMEs which finally scales down the choices of capital structure of SMEs to only owner's capital.

In the other hand cost of capital greatly affect investor choice for the type of capital to employ, some of the component of cost of capital include interest charged by the lenders, interest is mostly expressed in percentages (Mac & Lucey, 2010). Interest is the cost of fund acquired from lending institutions; lending institutions earn income from funds lent out to borrowers. These interest rates are very competitive; making them varies from one financial institution to another.

A financial institution charges a high-interest rate when the chances of repayment are low. Revolving loans such as credit cards are assigned high-interest rates because the repayment chances are not certain. This makes these loan types difficult to manage (Wehinger, 2014). Financial services also tend to charge high-interest rates to firms or businesses they consider risky. This is due to the credit score of the organization or the individual. According to Mac and Lucey (2010), businesses with a high credit score are assigned a low-interest rate. Financial institutions have interest rates which can be fixed and variable. Fixed interest rates do not change throughout the repayment time of the loan. The interest rates which are variable change with the prime rate. The increase in the rate increases the payment of the loan. The return rate of any given investment is explained by the cost of equity for it to convince an investor to invest in a firm. This is a crucial component of stock valuation in a business.

This is because to convince an investor; the equity investment is expected to grow by at least the equity cost (Botosan, 1997). This calculates cost equity sensitive if there are changes to the dividends' growth rate because it does not consider the investment risk. The Capital Asset Pricing Model (CAPM) is as well sued to get the cost of equity, which is useful in that; it explicitly accounts for the investment riskiness. As Alan and Gaur (2018) documents, all companies can apply this model regardless of the growth rate of the dividends. The CAPM most rely on the past performance of the company to predict future firm values.

Moreover, taxation is one source of income that the Kenyan government applies to offer its citizens public services. Tax income in Kenya has improved significantly over the last decade, which is an average of 22% of the economy size. This has enabled the government to fund half of the national budget (Wairimu, 2015).5 Because of its benefit, debates on tax policy and decision-making are an important issue for the public, businesses and the economy because of the varied effect on each of these companies. Therefore, the strategy and effectiveness of the tax system imply some inequality, and it is government’s role to make sure that a fair system of taxation is applied to ensure equitable income allocation to citizens.

According to Deloitte Kenya Economic outlook 2016 documents, the SMEs' growth is hindered by the inadequate capital. The capital structure of any organization determines its success greatly. The issues of financial institutions and interest rates raise some questions in my mind.

Are the interest rates exorbitant among the financial institutions? What requirements are needed to acquire the services from the financial institutions? These questions put the SMEs at crossroads on whether to depend on equity funds, assistance from friends and well-wishers, family savings, support from donors or financial institutions to finance their operations. This study investigated the impact of external factors on Small and Medium-sized Enterprises' capital structure in Kitui County.

1.1.1 Small and Medium-sized Enterprises (SMEs)

SMEs Act of 2012, define SMEs as a business whose employees do not exceed 50 persons. In Kenya, the firms or enterprises are categorized based on the firm's number (Njoroge, 2012). Small enterprises are categorized by number staff which ranges from 6 to 50 while medium enterprises have 51 to 99 staff (Memba, Gakure & Karanja, 2012). The SMEs' income-generating activities include clothing and design, manufacture of household goods, and provision of services. There are also other engagements such as ceramics, Jua kali artisans and soft drinks. In Kenya, 75 per cent of the population depends on natural resources (Mac & Lucey, 2010).

In Kenya wildlife-based tourism and Agriculture are the main productive sectors. In some instances, the extractive industry has enabled the country to be empowered economically, thereby boosting Gross domestic income. Previous studies point out that, Kenya's Gross Domestic Product is projected at 6.4 per cent with 3 per cent being contributed by the SMEs. Moreover, SMEs have a significant contribution to the country's economy by contributing immensely in terms of taxes, job creation, provision of quality goods and services at comparatively reduced prices. To facilitate their operations, SMEs require capital whereby, in most cases, can be a challenge. The interest rates charged on loans, Cost of Equity, and taxation by the government form the most critical factors for SMEs' performance in Kenya. These factors affect the capital structure of SMEs.

1.2 Problem Statement

The capital structure of SMEs in Kenya comprises of Debt and equity finance, for the success of the SMEs in market the combination of two must reach optimal. An optimal capital structure is the best grouping of debt and equity financing that can be applied to maximize the market value

of the business at the same time decreasing its cost of capital (M.B.J Schauten,2010).When the combination has no optimal reach point, most of SMEs suffers losses and failure of penetration to market which may be caused by either SMEs inability to pay their debt caused by the higher interest charged by lending institution or loss of control on the operation of SMEs by real owners caused by on equity finance. One of the main conclusions of modern economics is that improvement of SMEs' capital structure depends majorly on financial status. However, the debate on which source of finance to improve the SMEs performance raises issues of concern in accounting and finance (Emadet al., 2014) SMEs make a great contribution to the creation of employment at the same time boosting Kenya's economy.

In Kenya, many small businesses are estimated to collapse each year (Wellalage & Reddy, 2020). Adebayo, Alheety, and Yusoff (2019) documents that, there is link between the type and performance of the SMEs and status of the economy in Urania. He observed that tax rates influence the capital structure at a significant level. Adebayo, Alheety, and Yusoff (2019) explain the effect of the cost of equity on SMEs' financial performance in Nigeria. His study discovered that the performance of SMEs and the capital structure are interconnected. The choice of financing in SMEs in Saudi Arabia is influenced by the interest rates as commented by Al-Tit, Omri and Euchi (2019).

Their study found out that the interest rates affect the issuance of debt of SMEs in Saudi Arabia, which influence the capital structure in the long run. In Kenya, the market condition, cost of capital and investor's attitude have been linked with SMEs' capital structure. In 2017, the Kenya National Bureau of Statistics surveyed SME financing challenges. The study found out that, nearly 400,000 SMEs fail complete their second year in operation. Few SMEs manage to reach their fifth year in operation, which raises concerns on their sustainability**.** Alper et al. 2019, state that the SMEs' performances in Kenya rely on the capital structure.

The turn over tax imposed on the SMEs is another external factor on the SMEs' capital structure in Kenya, as commented by the Musyoka (2019). The cost capital for the starting SMEs and small businesses is a major challenge (Mbuva & Wachira, 2019). Muturi and Njeru (2019), explain the relationship between lending and credit availability to SMEs in Kenya being affected

by the borrowing power. To get access to loans for the SMEs, they must provide commitment or surety of payment in terms of collateral security. Since these SMEs are not stable enough to secure loans from the lending agencies, it becomes very hard for them to survive in the competitive business without the capital to finance their operations.

Additionally, these small enterprises owners depend on them to finance other domestic expenses, directly affecting the business capital structure. The government of Kenya is working very hard to support SMEs' growth in all counties by the provision of the favorable working condition under the Ministry of Industrialization and Trade. These SMEs lack mandatory documents to proof such as registration documents, operational inventory of books of account, banking/credit history and valuable collateral security which can guarantee those loans. Similarly, tax rates affect the relative composition of debt such that, an increase in corporate tax translates to increased leverage. Such situations leave the SMEs at the verge of collapsing due inadequacy of operational capital.

The capital structure, which comprises of long-term debts, retained earnings and equity capital are significant to overall performance of SMEs. The capital structure of an SME can be under finance or over financed by either two sources of capital. SMEs' operation becomes a challenge when it is both underfinanced by both sources of capital, which is stated as over below optimal capital. The underfinanced SMEs may face great challenge by being competed out by their stable counterparts. The study will mainly concentrate its effort to unearth how the external environment affects the SMEs' capital structure, which finally affects the industry's success. In most cases, equity capital finance the business's initial operation than from their retained earnings and loans can be used to supplement the growth of the business. Suppose the business cannot access loans or extra equity funds from the shareholders. In that case, the business operations are strained because the capital structure depends on these funds, as mentioned above. Research on the previous studies shows that very little have been done on the external factors affecting SMEs' capital structure in Kenya. A study on challenges facing the financing of SMEs in Kangemi Harambee market, Nairobi County found out that high cost of loan repayment and unwilling attitude of the people to act as guarantors hindered the performance of SMEs (Gichuki

et al., 2014). Studies from other countries may not directly apply to the environment of the Kenyan business. On this basis, the researcher was propelled to investigate the impact of external Elements on the capital structure of SMEs due to the following motives:

Firstly, the previous studies do not give clear evidence on the external elements affecting capital structure of SMEs in Kenya. Secondly, according to the researcher's knowledge and access, there has been no study done to analyze the external element affecting the capital structure of small and medium enterprises in Kenya. Finally, there is no clear evidence on how market conditions, cost of capital and investors altitude influence the capital structure of Kenyan small and medium enterprises.

This research attempted to fill this noticeable gap in the literature and bring light on the key external element affecting the Capital structure of 150 SMEs in Kitui County. The study, therefore, sought to answer the research question: What are some of the external elements affecting the capital structure of SMEs in Kitui County.

1.3 Study objectives

1.3.1 General objective

To find out the effect of external elements on capital structure of small and medium-sized Enterprises in Kitui County

1.3.2 Specific objectives

This study focused on the following explicit objectives;

i. To determine the effect of cost of capital on a Capital structure of small and medium enterprises in Kitui County.

ii. To establish the effects of market condition on a capital structure of small and medium enterprises in Kitui County,

iii. To establish effect of investors attitude on a capital structure of small and medium enterprises in Kitui County

1.4 Research hypothesis

The research work was guided by the following hypothesis.

Hypothesis I

H_{01} There was no significant effect of cost of capital on the capital structure

Hypothesis 2

H_{02} There was no significant effect of market condition on the capital structure

Hypothesis 3

H_{03} There was no significant effect of investor's attitude on the capital structure

1.5 Significance of the Study

The information from this study can enable SMEs to know their economic value in GDP growth hence strengthening their operation. This research is also of significant to the Government of Kenya, policymakers, banks and potential investors in the SMEs sector. This study's findings will enable the policymakers to see areas where improvement is needed hence act upon to create a better environment for SMEs.

The research analyzed research variables that is, the market condition, cost of capital, and investor's attitude and get to know how either positively or adversely affect the choice of capital structure for SMEs'. The research has developed recommendations on what can be done to improve the SMEs sector and empower them both financially and economically. The study recommendations have highlighted the potential areas of study that require more study to improve SMEs' performance and sustainability. The researcher used study findings and the existing knowledge in SMEs to document further studies and recommendations regarding the SMEs. The study findings can be used in the improvement of SMEs, both in operation and performance. In most cases, the administrative management of SMEs has no specialized staff that can easily monitor a firm's cash flows, accounting, and tax work. Cost of capital and market

condition are some of the external elements affecting capital structure in a firm. Therefore, this study provides a recommendation on how best an organization can make concrete decisions for better operations of the organizations.

1.6 Scope of the Study

This study investigated the impact of external elements affecting the capital structure of Small and Medium-sized Enterprises in Kitui County, Kitui County is one of 47 Counties emanated from Kenyan, 2010 Constitution, Kitui County comprises of eight Sub-Counties namely; Kitui central, Kitui West, Kitui South, Kitui Rural, Kitui East, Mwingi Central, Mwingi North and Mwingi West. Kitui County is located South East of Nairobi City about 170Km with coverage of about 30,496 km2; The bordering counties include; Meru and Tharaka-Nithi to the north, Embu to the northwest, Tana River and Garisa to the east and southeast, Machakos and Makueni to the west and Taita-Taveta to the south. The investigation's conceptual scope was on the cost of capital, market condition, Investors attitude, and capital structure of SMEs in Kitui county.

The capital structure constitutes debt capital and equity finance. These variables significantly affect the growth and performance of the SMEs. The findings can be of help to the relevant stakeholder's design measures which align tax systems to the SMEs effectively. The findings have provided information to the market on the cost of equity and the associated impacts to the SMEs. The study was carried out on 150 SMEs in Kitui County. According to Kenya SME performance Index 2019, informal sector (SMEs) accounted for 83.6 per cent of employment. Kitui County is among the fast developing counties after devolution. This prompted the researcher to investigate the impact of the cost of capital, market condition, and investor's attitude on SMEs' capital structure in Kitui County. The scope of study was done between the year January, 2015 to December, 2020.

1.7 Limitations to the Study

The challenge was the respondents' unwillingness to answer specific questions being asked when collecting primary data due to fear of intimidation. An assurance was, therefore, be given to them that this is only for academic purposes. Additionally, permission to do research was sought from

NACOSTI. The permission of the respondents was required ahead of issuing the questionnaires. Also, the researcher elucidated the fundamental nature of the examination.

1.8 Organization of the study

The study is framed as outlined: chapter one comprises of study background, goals, significance, limitations and scope. Chapter two constitutes the literature evaluation both theoretically and empirically. It also encompasses the précis of literature evaluation, gaps and conceptual outline. Chapter three outlines the methodology to be utilized. It outlines the research design, target population, sampling design as well as model; Operationalization and measure of variables, and collection of data and analysis. Chapter four gives the data analysis, findings and discussions of the analyses data. A summary of study findings, conclusion of the findings, recommendations, and limitations of study are discussed in chapter five.

CHAPTER TWO: L1TERATURE REV1EW

2.1 1ntroduction

The review of literature helps researcher in generating study framework to identify capital structure issues which are of important and the relevant theories of the study. This analyzes relevant theories theoretically as well as discusses empirical review of cost of capital and capital structure; market condition and capital structure; Investor's attitude and capital structure, and finally conceptualization of the study.

2.2 Theoretical literature review

The review focuses on theories on capital structure. The three theories to be covered include Agency, signaling and Trade-off theories.

2.2.1 Agency theory

Agency theory explains two critical conflicts that arise in an organization and can influence its capital structure. There are different interests over directors and shareholders and secondly conflict between shareholders and creditors. Jensen and Meckling (1976), argue that directors sometimes may not act as per the shareholders' best interests. This is where conflicts arise in a firm and it goes down from management through shareholders to the creditors. Managers take advantage of the profit gained from the firm's they utilize for their personal gains at the expense of shareholders. Therefore, debt will provide the firms' shareholders with incentives to invest in a sub-optimal way. When their investment yields good returns which are above the debt's face value, the benefits accrue to shareholders, and if the returns are below the value of the debt, then shareholders have limited liability to walk away (Harris & Raviv, 1991).

The servicing of the debt may affect the shareholders, according to Stulz (1990). Positively, debt payments force managers to pay interests consequentially lowering any potential overinvestment problem. Furthermore, when the debt is too high, it leads to overpayment of interest, and therefore, it becomes difficult to accept profitable projects, affecting the firm negatively through underinvestment. This theory clearly shows that the trade-off between the benefits and costs of debt determines the firm's capital structure. Myers (1977) argues that when a firm is in a bankruptcy state, shareholders have no incentive to invest more equity capital. This is because the benefits that will be realized at the end of the day will be directed to pay debt holders. The choice and attitude of the investor of the firm's shareholders as explained by the Agency theory may cause conflict because the manager interest is to maximize the profit while the investors or the shareholders focus is on the return on investment (ROI). The investor's attitudes are well explained by the Agency theory because their decision may affect the capital structure of the firm positively or negatively depending on their choice.

2.2.2 The Trade-off theory

Trade-off theory states that the firm's current value of any possible financial crisis is balanced against interest tax shields' benefits. According to Chakraborty (2010), there should be an optimal capital structure to offset the cost of bankruptcy and the present value of interest tax shields. There are two categories of bankruptcy cost, which include direct expenditures and indirect expenditures. Direct cost bankruptcy is caused by a firm's price that goes bankrupt through legal and administrative expenses. In contrast, indirect cost bankruptcy occurs when a firm cannot service its debt obligation causing market value reduction (Baxter, 1967). These predictions show a firm can be in a position to secure a loan to finance its operations. Some firms have safe tangible assets, while others have risky intangible assets. Qiu and La (2010) argue that a business with safe tangible assets has high chances to borrow more because there is minimal exposure to financial distress. Contrary, a firm with unclear tangible assets is exposed to the economic crisis, and therefore it can borrow less. The third prediction of the trade-off theory talks about marginal tax rates.

The prediction associated higher the marginal tax rates, the high leverage levels. This is due to interest tax deductions. When the marginal tax rate is high, then there is a likelihood of a high debt ratio. In this situation, an organization with a low marginal tax rate will opt for more equity finance than debt capital. The theory shows how marginal tax affects the capital structure of the firm. The firm's decisions to opt for equity cost or lend funds depend on the marginal tax rates. The marginal tax is among the market conditions which will externally influence the capital structure. When the marginal cost is high the trade-off theory suggests on focusing on the equity cost to adjust the firm's leverage.

2.2.3 Signaling theory

This theory was described by Ross (1977), whereby it clarifies the choices of supervisors and shareholders. In this theory, troughs evaluate the firms' esteem to know if they can issue obligation or value. When the manager issues obligation when their firm is underestimated, but the firm is overvalued at that point, managers will favour issuing value. The signaling theory states that when supervisors have interior data on trends of the organization, the manager signals data to the Market. The issue of obligation may be a commitment to supervisors to pay the intrigued in future. This commitment signals that the firm ventures the adequate cash streams to benefit their obligation. The information signalled by the firm will determine the accessibility of capital from financial institutions and shareholders. The promised interest payments are an obligation and therefore, are given more priority over the dividends. Ferris, Javakhadze and Rajkovic (2017) argue that the shareholders are the determinants of the firm's cash flows, and the debt payment may affect the share prices.

This means the manager's choice to issue debt affects the firm since the commitment to pay the interest must be met. Failure to meet these commitments signals bankruptcy of the firm; thus, the shareholders are the last people to decide on the mechanisms of servicing the debt. According to Barclay & Smith (1999), all the capital structure theories are more important, and therefore it's not possible to choose one theory over another. For instance, signaling theory and trade-off theories have some truth when explaining financial decisions (Farma & French, 2005). When testing the signaling theory, it is impossible to measure managers' proprietary information.

2.3 Capital structure

According to Boyle and Eckhold (1997), the Capital structure comprises Debt capital and Equity finance used by the company or a business entity to finance its operations. Debt capital is loans or bonds issued, while Equity finance is expressed as the common stock (Abor & Biekpe, 2005). This review will focus on analyzing prior empirical literature, specifically on the factors which have effect on the business's capital structure. One of the underlying issues influencing the capital structure is institutional, legal and financial factors. La Porta et al. (1998) documents that, a business's financial access from external creditors is influenced by legal and economic factors. If a firm has weak financial systems, its growth will be impacted significantly, and therefore it obtains less external financing. The other factor affecting firms' capital structure is the firm size. The bigger the organizations size, the higher the chance of taking more debt than smaller firms. Capital structure is clarified utilizing three speculations. They incorporate trade-off theory, Agency theory and signaling theory. The agency theory depicts managers' idea whereby they may not act according to shareholders interest. This leads to conflict between parties.

The manner in which firms plan for their capital structure decisions has been fundamentally investigated join examines. Siriopoulos et al. (2006) discovered that trying to expand firm worth; they need to choose best option to finance the plan they have chosen. Sometimes, hypotheses, for example, compromise rely upon ordinary factors as it evaluates inspirations and liquidation expenses of obligation. In the interim, as encircled by Myers (1984), hierarchy hypothesis applies the digressed information or theoretical entertainment framework whereby commitment or worth is utilized as an instrument to convey message about the firm. The struggle will be between supervisors and shareholders conjointly between shareholders and leasers. Öztekin and Flannery (2012) signify that supervisors will endeavor to seek after benefits for the companies they oversee to their advantage at the shareholders' cost. Information costs theories of capital structure hypothesize the data difference between the financial specialists and corporate directors.

2.3.1 Cost of capital and capital structure

The interest rate in economics is the privilege of borrowed money or the price paid in exchange for borrowed funds (Nassar, 2016). According to Baas and Schrooten, (2006), the interest can be simple or compound interest; fixed or variable interest varies from one financial institution to another. According to Nassar (2016), large firms can negotiate the lenders' interest rates to reach favorable rates to acquire more debt. In addition to that, larger companies are safe compared to smaller companies, and therefore, loaning institutions are willing to give them more funds. This shows that the company size correlates positively with leverage. The growth prospect of the firm affects capital structure significantly. This is because the growth firm has high leverage compared to non-growing firms. The growth firms can get loans with minimal constraints. Nassar (2016) argue that growing firms add value to the firm, increasing its debt capacity.

The firm's debt capital can be a loan from a bank, bonds, credit card debts, or personal loans. There is a price paid as a privilege of accessing those funds when using debt-equity. The cost of debt finance is the interest the lenders charge the firm to access the funds. In some situations, the interest rates charged can be fixed or variable. This leaves the firms in a challenging situation on the favorable decision to consider the debt capital rate. These interest rates are very competitive; making them varies from one financial institution to another. A financial institution charges a high-interest rate when the chances of repayment are low. Revolving loans such as credit cards are assigned high-interest rates because the repayment chances are not certain. This makes these loan types challenging to manage (Wehinger, 2014). Financial services also tend to charge high-interest rates to firms or businesses they consider risky. This is due to the credit score of the organization or the individual. The variations in the charged interest affect the capital structure of the firm, and therefore it affects the firm's operations.

On the other hand, debt capital has some benefits for the firm. When the interest rate rises, the interest payment cost is offset partially by the reduction of the firm's taxable income. According to Bandyopadhyay and Barua (2016) the cost of equity is the return of the business investment, enabling the management to measure the requirements of the capital return. In most cases, the company uses the cost of equity as a threshold for the capital budgeting to determine the rate of return applicable (Ferris, Javakhadze & Rajkovic, 2017). The dividend policies have

insignificant effect on the firm's value or the cost of equity, according to Bandyopadhyay and Barua (2016). In this argument, Bandyopadhyay and Barua (2016) relates how dividends are valued by investors than firms' future capital gains. If the firm's capital gains are taxed below the income from dividends, then increased dividends mean the reduced after-tax return of the shareholders who may have higher expectations of the pre-tax return rate. If the cost of equity increases, the firm may issue more debt relative to equity, consequently leading to a positive correlation between dividend payout and leverage (Herciu & Ogrean, 2017).

The relevance of dividend policy subsequently changes the market value of equity, thereby affecting the capital structure. Empirically many studies have carried out to test the hypothesis of this theory on the information. Herciu and Ogrean (2017), attempts to test the change in dividends and its implications on the profits and change in prices. The change in profits of a firm implies that there will be a change in benefits, and this has a significant signal to the market. The cost of equity by shareholders to keep the company at the peak is a capital structure factor. Shareholders expect a return on investments in terms of dividends.

Conversely, the managers are looking on issuing debt to maximize the profits without considering the effect of debt on the dividends if the firm fails to honor contractual commitment to service the debt. The announcement of shares impacted stock prices as it was studied by Herciu and Ogrean, (2017). From this study, the increase in dividend increases considerably after the announcement of share prices. The study found out that the announcement of increased dividends has a positive change on the stock market prices regardless of the announcement of dividends before or after profits announcement. This implies that when announcing a change in dividends has a change in the prices of shares, the dividends' decrease has adverse effects on the returns.

2.3.2 Attitude of investor and Capital structure

The decision taken by the investors are directly linked to the firm's capital structure. There are external factors that influence the investor's attitude on purchasing shares from a firm. These factors are related to monetary policies and macroeconomic prospects in a given country.

Liquidity is also another factor which can influence the decision of the investor. The main reason for an investment is to get returns. If the future of returns on investment would be certain then an investor would go for an investment with higher returns therefore the investors have to take risk in the decision making as described by Bandyopadhyay and Barua (2016). The attitude of the investor will depend on the risk of investment involved. Capital investment is very essential for the growth of the firm since they determine its value by influencing risk and profitability. The investment decision may involve expansion, asset acquisition or replacement, change of business marketing or production strategies is also a long term investment. The investment decision causes some financial distress to many firms especially small-sized firms.

The choice of the investors and the management is put to a dilemma because they don't know if there is optimal capital structure since the main object is wealth maximization and improving the performance of the form (Bandyopadhyay & Barua, 2016). Firm Managers use the status of the capital structure to pass message to the market and convince the investors. The firm can obtain financial assistance from internal or external sources. The internal source includes the retained earnings, issuance of shares or loan stocks, while the external sources involve getting loans from the lending institutions.

Investors are very considerate about liquidity when choosing an investment decision. One of the standard investment targets is liquidity and therefore when ignored can lead to suboptimal capital allocation. According to Dang et al., (2019), the attitude of the investor to purchase shares in a firm will depend on the liquidity measurement ratio so that liquidity risk can be evaluated. The investors normally check the forms liquid assets and compare them with the short-term liabilities. The firms with high debt obligations have liquidation risk (Ghasemi, & Ab Razak, 2016).

2.3.3 Market condition and capital structure

Market condition is the situation of the market at a given time. The situation can also be as result of growth rate of the market. The business managers should always be updated of the changes in the market conditions and outside developments that have potential in affecting the business operations (Le & Phan, 2017). It is therefore very important to be ready to respond immediately

at the same time changing plans to adjust to the changes. The changes in the market condition may affect the business capital structure positively or negatively depending on the condition. The market condition has correlation with the capital structure because it will determine the manager's choice of investment decision.

The market conditions will determine the firm's capital structure because managers have the obligation to ensure that their stable adjustments to the prevailing market conditions. The manner in which business adjust or fail to adjust to their leverage due to market trends determines the sustainability of the business. The prevailing market condition such interest rates, governance and government policies influence the pattern of capital (Rani, Yadav & Tripathy, (2019). The choice of the investor to buy shares in a firm depends on the stage of the business cycle. Small and medium sized business which are not fully established and they are in dire need to for financial support may face numerous challenges to access finances because the risk of investment is high.

The readiness of the investor to buy shares in a firm depends on the sustainability of the firm to be able to repay and adjust to its leverage. The taxation on the bonds and dividends is a factor of market conditions and discourage investors consequently affecting the capital structure. The changes in the market conditions in most cases affect the adjustments of the firm's debt with less impact of equity capital of the firm. The competition from other business is very important in determining the stability and performance of the firm. The competing firms may use different technology which is more efficient and time saving and therefore the manager is required to adjust to the market condition to remain in the business. When the competition is high it translates to reduced business hence affecting the capital structure.

2.4 Summary of empirical gaps in the theories of capital

Study	Topic	Findings	Research gap/ recommendation
Kraus and Litzenberger	A State-Preference Model of Optimal Financial Leverage	The study found out that the market value of a firm is	The study does not explain how small firms without tangible assets can access debt finance.

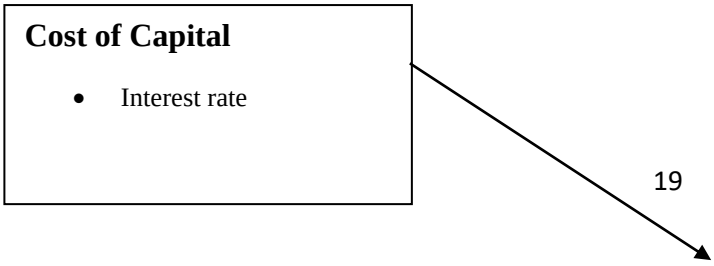
(1973: 121)		independent on its capital structure.	This study looked at possible ways to enhance access to equity finance by SMEs and recommend
Ross(1977: 23)	The Determination of Financial Structure: The Incentive-Signalling Approach	There is direct relationship between the firm value and the leverage.	Does not show reverse relationship between firm performance and leverage. This study looked at how an increase in market perception value increases leverage and recommend on it
Myers (1977: 149), Jensen and Meckling (1976: 305)	Determinants of corporate borrowing Theory of the firm: Managerial behavior, agency costs, and ownership structure Journal of Financial Economics	The studies found out that there are always conflicts between the investors and the firm principals when the firm issues risky debts	The study does not explain how agent-principal conflict and attitude of the investor affects capital structure. This study looked at how the attitude of the investor affects the capital structure of SMEs and recommend on it.

Tab1e 2. 1 Summary of empirical gaps in the theories of capital

2.5 Conceptual Framework

The structure exhibits the anticipated link between the predictor variables; (Market condition, Cost of capital and Investor's attitude) and the dependent variable (Capital structure). Figure 2.l below clearly illustrates this.

Independent variables **Dependent variable**



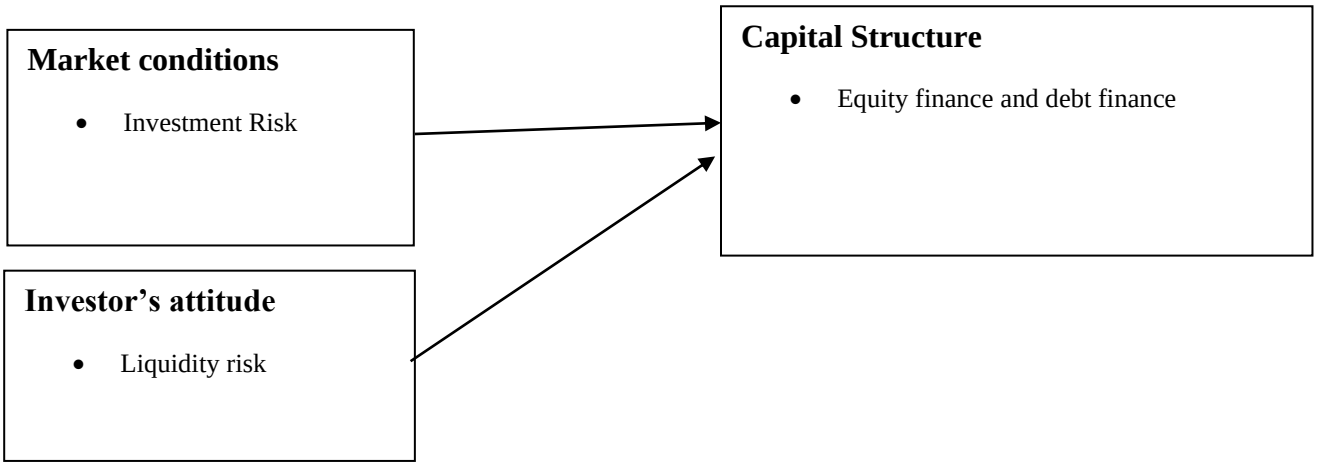


Figure 2. 1 Conceptual Frame work (Researcher, 2021)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research design, population and sample, collection of data, validity and reliability, analysis of data, presentation of findings, and ethical considerations.

3.2 Research Design

This is coherent and logical integration of the chosen strategy for different study components. The research design will provide a platform that will provide answers to research questions by incorporating all components of the study. A descriptive research method has described external factors affecting the capital structure of SMEs in Kitui County. According to Kothari (2004), a descriptive research design focuses on obtaining facts through surveying and enquiring, thus adding knowledge to the study topic.

3.3 Target population

This is the number of people the researcher anticipates to obtain information from. Cooper and Schindler (2009) explain a population as a total collection of factors that the researcher is interested in when it comes to drawing conclusions and inferences. This study, the target

population was 150 SMEs operating in Kitui County with business permits licensed by the Kitui County Government.

3.4 Sample

This is the number of participants to be used in the study. The sample size was obtained using the Krejcie and Morgan, (1970) sample size determining table. The sample size of the study in each sub-county is obtained using the following formula.

$$\frac{n}{N} X\ 150$$

Where: **n** = No. of SMEs in a Sub-county

N= Total No. of SMEs the County

	Sub county	**Number of SMEs in Kitui County**	**Sample size**
1.	Kitui West	53	32
2.	Kitui Central	88	53
3.	Kitui South	35	21
4.	Kitui East	9	6
5.	Mwingi North	11	7
6.	Mwingi West	20	13
7.	Mwingi Central	29	18
Total		**245**	**150**

Tab1e 3. 1 Sample distribution (Researcher, 2021)

3.5 Data collection

The researcher focused on the 150 SMEs in Kitui County, Kenya. The targeted respondents were SMEs managers and shareholders of the 150 SMEs. The study utilized primary data in coming up with inferences on the population of the study. The research mechanism that was adopted in collecting data is the use of a structured questionnaire, which consisted of three sections; General information, SMEs Background information, and Variable sections. The decision to use the questionnaires arises from the familiarity of usage by most people. In terms of the cost considerations, the questionnaires are relatively cheap in comparison to interviews. Primary data was gathered using structured questionnaire; this relied on the Likert scale of l to 5, the purpose of which is to assign numerical values to answers (Kothari, 2004). In the administration of questionnaires, drop and pick techniques was utilized.

3.6 Validity and Reliability

The tool used in this research was first checked for validity and reliability before embarking on the collection of data and making conclusions. Validity describes how accurate a measurement is. Validity measures the precision of the research instrument (Kothari, 2004). The questionnaire was structured appropriately and tested preceding the research study to ascertain that the results were correct and valid. Constructive validity was assured through the literature review related to cost of capital, market condition, and investors attitude to the capital structure of SMEs. Besides, content validation was assured by involving the supervisor. Reliability refers to the uniformity of measurement of a research and the extent to which it provides similar results given the same conditions.

3.7 Questionnaire Validity and Reliability Diagnostic Tests

The questionnaires' reliability will be done through diagnostic tests; the researcher conducted with research assistants' help. Fifteen respondents were considered in the pilot study and they were drawn from SMEs. These respondents were not part of central study. A pilot study's rationale was to spot any errors in the questionnaire for correction ahead of collection of data. It assures the accuracy of the questionnaires for the collection of data.

3.8 Analysis and Presentation of data

The study embarked on descriptive and inferential analysis of the collected data. Descriptive data analysis involves summarization of data by describing it in a meaningful way such as graphs and tables. The inferential analysis is a way of estimating population parameters or characteristics by use of population sample. The presentation of the essential characteristic of the variables used was done through Descriptive statistics. In contrast, the process of making inferences and conclusions was guided by inferential statistics. In carrying out an inferential analysis, the study used multiple regressions to ascertain the external factors affecting the Capital structure of SMEs in Kenya. The researcher analyzed the data using SPSS; tabulation, charts, and diagrams were used to present the result. The proposed study utilized multiple regression analyses where SMEs' capital structure was expressed as a function of the market condition, Cost of Capital, and Attitude of investor.

$$\mathbf{CS = \beta_0 + \beta_0 X_1 + \beta_2 X_2 + \beta_3 X_3 + \alpha}$$

Where:

CS = Capital structure

$\boldsymbol{\beta_0}$ = Slope of regression equation (constant)

$\mathbf{X_1}$= Cost of capital

$\mathbf{X_2}$= Market condition

$\mathbf{X_3}$= Attitude of Investor

$\boldsymbol{\alpha}$= Residual Error

3.9 Operationalizing and measuring of Variables

Variable	Description	Supporting literature	Measurement
Capital structure	The combination of Debt and Equity Finance used by the company or a business entity to	Ross et al., (2009)	Debt/Equity ratio

	finance its operations.		
Cost of capital	Is the cost of obtaining capital for business operations such as equity cost and cost of debt	Ferris, Javakhadze, & Rajkovic, (2017	Likert scale
Market condition	This is market characteristics at a particular point of time due to market availability and market growth rate.	Rani, Yadav, & Tripathy, (2019).	Likert scale
Attitude of Investor	It is the crisis in the investor's confidence where the people supporting corporate system are disillusioned with the system.	Hosseinzadeh, Fathi, & Shafiei, (2021).	Likert scale

Tab1e 3. 2 Operationalization of Variables (Researcher, 2021)

3.10 Ethical Considerations

Ethics is the critical part of the research, and it determines the type of data a researcher gets from the respondents. This study obtained the full consent of the SMEs before the study while ensuring their privacy. Confidentiality of the collected data was adequately ensured as well as the anonymity of the participating organization. Adherence to relevant ethical standards was ensured. The research permit was obtained from NACOSTI before administering questionnaires.

CHAPTER FOUR: RESEARCH F1NDINGS AND DISCUSSIONS

4.1 1ntroduction

The analyzed data is discussed in this chapter. Some of the results covered in this topic include demographic factors which are very important in this study as well as research objectives which focused at establishing external elements affecting the capital structure of small and medium-sized enterprises in Kenya.

4.2 Response Rate

Variable	Frequency	Percentage (%)
Filled and returned questionnaires	114	76
Non-Response Questionnaires	46	24
Total	**150**	**100**

Tab1e 4. 1 Response rate **(Researcher, 2021)**

The total questionnaires issued in this research were 150 and a total of 114 were filled and returned thus giving 76% response rate. The response rate of 51% is adequate for a research (Mugenda and Mugenda, 2003); while Sekaran (2003) documented that 31% response rate is acceptable for descriptive studies. The statements by mentioned authors show that the response rate was adequate for outcome analysis. The response rate was sufficient for this research as indicated above in Table 4.1

4.3 Demographic factors

The research analyzed respondents' background information and the results were presented as follows.

4.3.1 Respondents Age

The analysis of the age respondents' revealed that 56.1% aged between 29 -39 years followed by those aged between 18 – 28 years with 23.7%, while these aged over 40 years accounting for 20.2% as shown below.

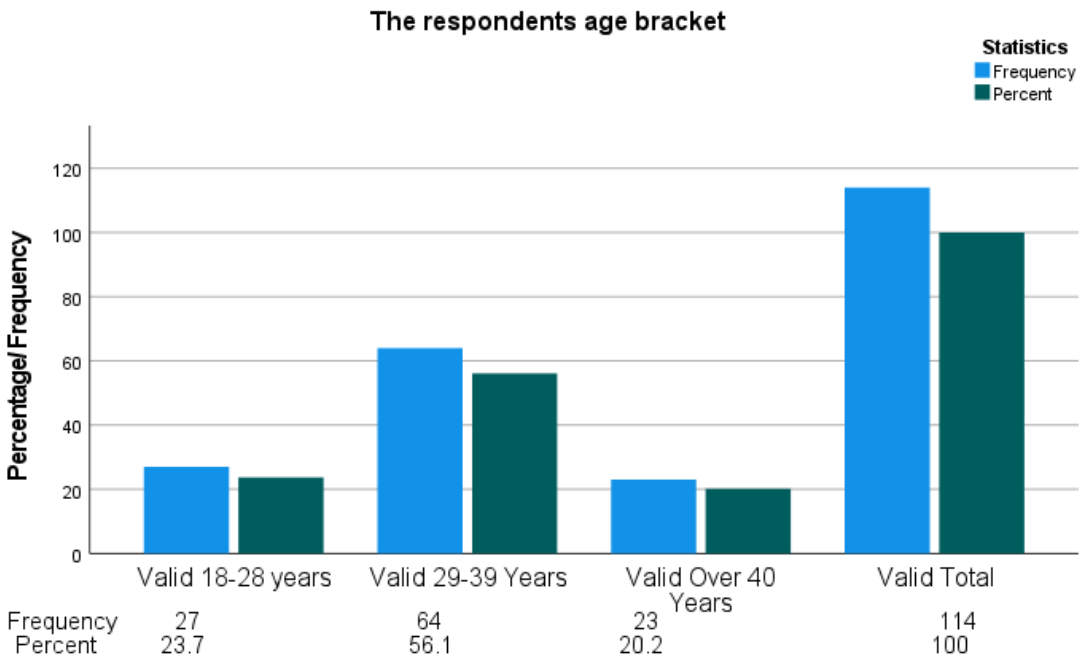
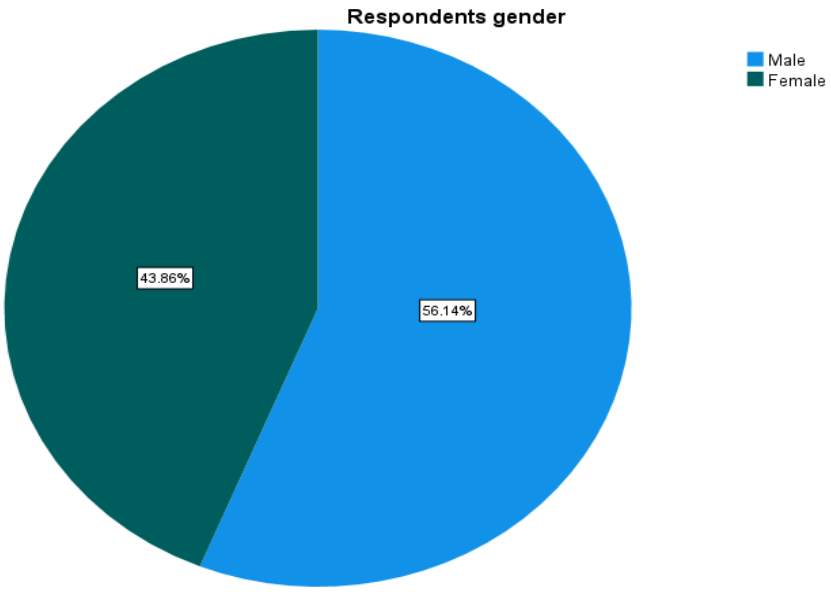


Figure 4. 1 Age of Respondents (Researcher, 2021)

4.3.2 Gender of Respondents

The analysis showed that majority were male representing 56.14% while 43.86% of the



respondents were female as shown below.

Figure 4. 2 Respondents gender (Researcher, 2021)

4.3.3 Education level

Education level of Respondents.					
	Certificate	Diploma	Undergraduate Degree	Master's Degree	Total
Frequency	16	60	35	3	114
Percent	14.0	52.6	30.7	2.6	100.0

Tab1e 4. 2 Respondents education level **(Researcher, 2021)**

The researcher wanted to know how educated the respondents were because it contributed to the way they interpreted the questions. The researcher discovered that 52.6% of the respondents had diploma followed by 30.7% undergraduate degree holders. Those with certificates represented 14.0% while Master's Degree with 2.6%. The tabulation above shows the study findings.

4.3.4 Years in operation

Respondents years of working

	Less than 1 Year	1-5 Years	6 - 10 Years	Over 10 Years	Total
Frequency	1	77	27	9	114
Percent	.9	67.5	23.7	7.9	100.0
					100.0

Tab1e 4. 3 Respondents years of working **(Researcher, 2021)**

To measure how the respondent understands the operations of SMEs and market condition, it was found out that majority of SMEs had between 1 – 5 years of working experience representing 67.5% followed by 23.7% which represented respondents with 6 – 10 years. Those who had over 10 years in SMEs business operation represented 7.9% while 0.9% represented those with less than 1 year as shown above.

4.3.5 Number of employees

Number of emoployees in the firm

	Between 1-20	Between 21-30	Between 31-50	Total
Frequency	109	3	2	114
Percent	95.6	2.6	1.8	100.0

Tab1e 4. 4 Number of employees in the firm **(Researcher, 2021)**

To determine the size of the SME, the researcher sought to know how many of employees are in each organization or business. This helped in classifying the level of enterprise either small or medium sized. It was found out that 95.6% of the firms had employees between 1 - 20 while the firms which had employees between 21 – 30 represented 2.6%. The firms which had employees Between 31 – 50 accounted for only 1.8 % as shown above.

4.3.6 Type of business operation

Business type

	Service Delivery	Wholesale and Retail	Financial Services	Petroleum	Construction Industry	Agricultural Activities	Other specify	Total
Frequency	39	37	2	4	18	10	4	114
Percent	34.2	32.5	1.8	3.5	15.8	8.8	3.5	100.0

Tab1e 4. 5 Business type (Researcher, 2021)

The business operations of the SMEs are spread to different types of ventures. To know the type of venture for the business it was found that the business which offers service delivery accounted for 34.2% followed by 32.5% representing those businesses which carry out wholesale and retail. Construction industry accounted for the 15.8% which agricultural related services accounting for 8.8%. Other business operations represented 3.5% while financial services accounting for 1.8% as shown in table above.

4.3.7 Business current source of capital

Business current source of capital

	Owners Personal savings	Borrowing from friends and family members	Bank Finance	Soft loan	Total
Frequency	54	6	48	6	114
Percent	47.4	5.3	42.1	5.3	100.0

Tab1e 4. 6 Business current source of capital **(Researcher, 2021)**

The respondents recorded the business's current source of capital with the Owners personal savings accounting for 47.4% while bank finance accounted for 42.1%. The capital borrowed from friends and family members as well as soft loans represented 5.3% each. The results are tabulated above.

4.3.8 Equity and debt capital preference

To determine the choice of capital the respondent prefer in their firms, the study found out that 49.1% accounted for those who preferred both equity and debt finance for their business operations followed by 46.5% who preferred equity finance. Only 4.4% of the respondents prefer debt finance in their business operation as presented in Figure 4.3.

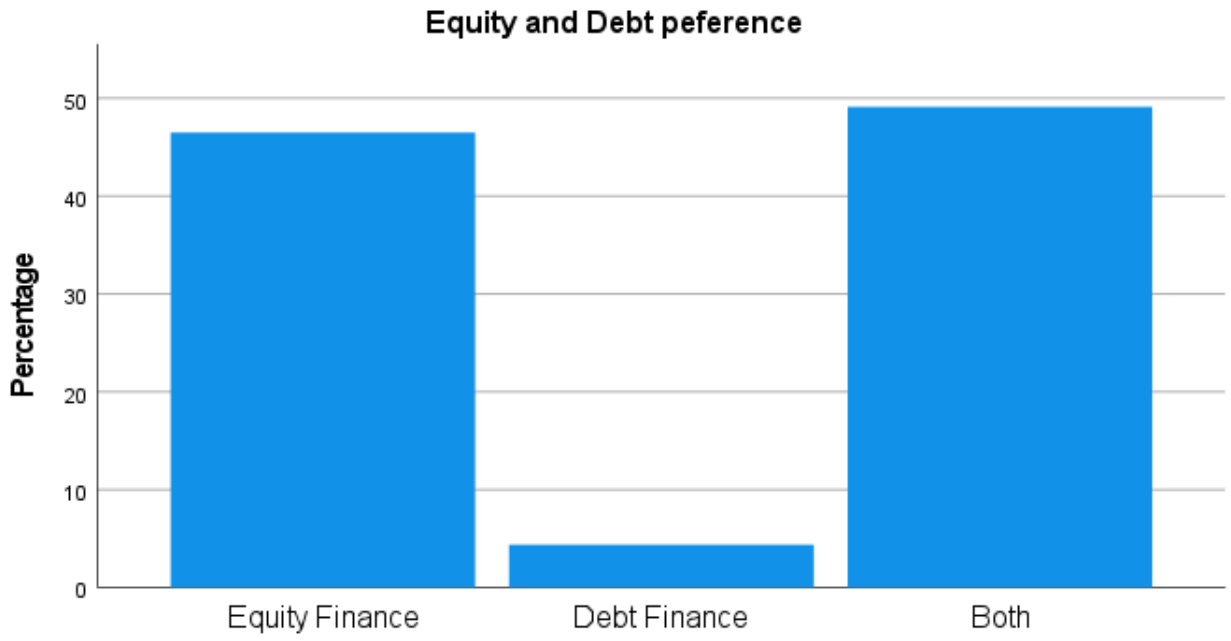


Figure 4. 3 Equity and Debt preference (Researcher, 2021)

4.4 Study variables

4.4.1 Market condition and capital structure

Market condition	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
SME industry is sensitive to economic fluctuations due to their financial status	0.0%	0.9%	0.9%	52.6%	45.6%

Government policies and practices have direct impact on the choice of financing for SMEs	0.0%	0.0%	0.9%	52.6%	46.5%
The market condition including competition for capital determines the choice of capital for investment	0.0%	0.0%	18.4%	75.4%	6.1%
The stage of the business cycle influences the business pattern of capital and a readiness of investor to purchase shares.	0.0%	1.8%	21.1%	66.7%	10.5%

Tab1e 4. 7 Analysis table of market condition (Researcher, 2021)

The study sought to know how market condition affects the capital structure of SMEs by requesting to know extent to which issues related to market condition affect their business. The extent was measured using Likert scale of 1 – 5. It was established that 52.6% of the respondents agree and 45.6% strongly agree that SMEs industry is sensitive to economic fluctuations due to their financial status while 0.9% were neutral, and 0.9% disagreed. The indication of the respondents on what extent they agreed on how government policies and practices impact on the choice of financing for SMEs, majority of respondents agreed accounting for 52.6% and 46.5% agreed strongly while 0.9% was neutral and .9% of the respondents disagreed. Majority of the respondents 75.4% agreed and 6.1% strongly agreed that the market condition including competition for capital determines the choice of capital for investment while 18.4% indicated neutral. The study also sought to know how the stage of the business cycle influences the business pattern of capital and a readiness of investor to purchase shares where 66.7% and 10.5%

agreed and strongly agreed respectively while 21.1% were neutral and 1.8% disagreed as shown above.

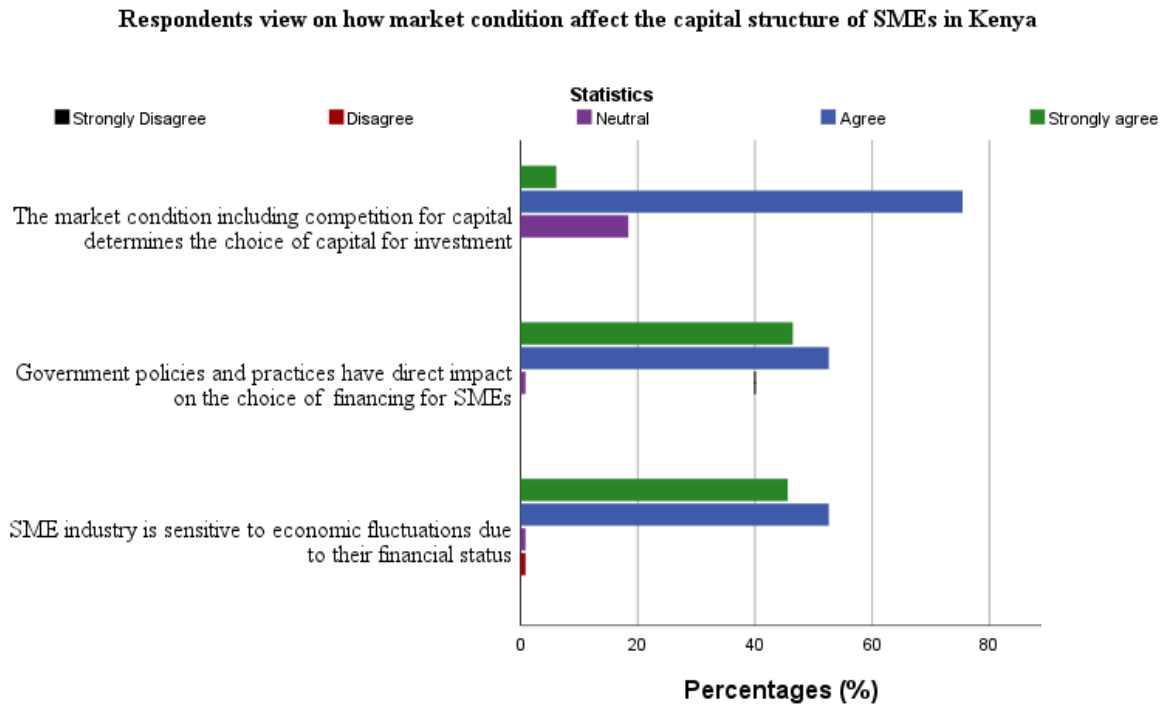


Figure 4. 4 presentation of Analysis of market condition (Researcher, 2021)

4.4.2 Cost of capital and capital structure

Cost of Capital	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
Interest rate charged on various capital affect the capital structure choice	0.0%	1.8%	8.8%	71.9%	17.5%

It is very expensive to acquire equity capital as compared to debt finance	5.3%	3.5%	6.1%	36.8%	48.2%
The rate of interest charged on loan depends on credit risk on Loan issued out.	0.0%	4.4%	22.8%	64.0%	8.8%
Investor consider various tax imposed by government on their capital decision choice.	0.0%	0.0%	30.7%	57.9%	11.4%

Tab1e 4. 8 Analysis table of cost of capital (Researcher, 2021)

To understand the extent to which cost of capital affect the capital structure of small and medium-sized enterprises in Kitui County the researcher used Likert scale of 1 – 5. The findings established that 71.9% of the respondents indicated agree, while 17.5% indicated strongly agree and 8.8% indicated neutral. The rest 1.8% indicated Disagree that Interest rate charged on various capitals affect the capital structure choice. It was also found out that 48.2% of the respondents indicated strongly agree while 36.8% indicated Agree, 6.1% Neutral, and 5.3% strongly disagree. The remaining 3.5% indicated Disagree that it is very expensive to acquire equity capital as compared to debt finance. To find out if the rate of interest charged on loan depends on credit risk on Loan issued out, it was established that 64% of the respondents indicted Agree, while 22.8% indicated Neutral and 8.8% indicated strongly agree. The remaining 4.4% of the respondents indicated Disagree. To establish respondents views on if investor consider various tax imposed by government on their capital decision choice, it was found out that 57.9% indicated Agree, while 30.7% indicated Neutral and 11.4% strongly agreed. The results were tabulated and presented in table 4.8 and Figure 4.4 respectively.

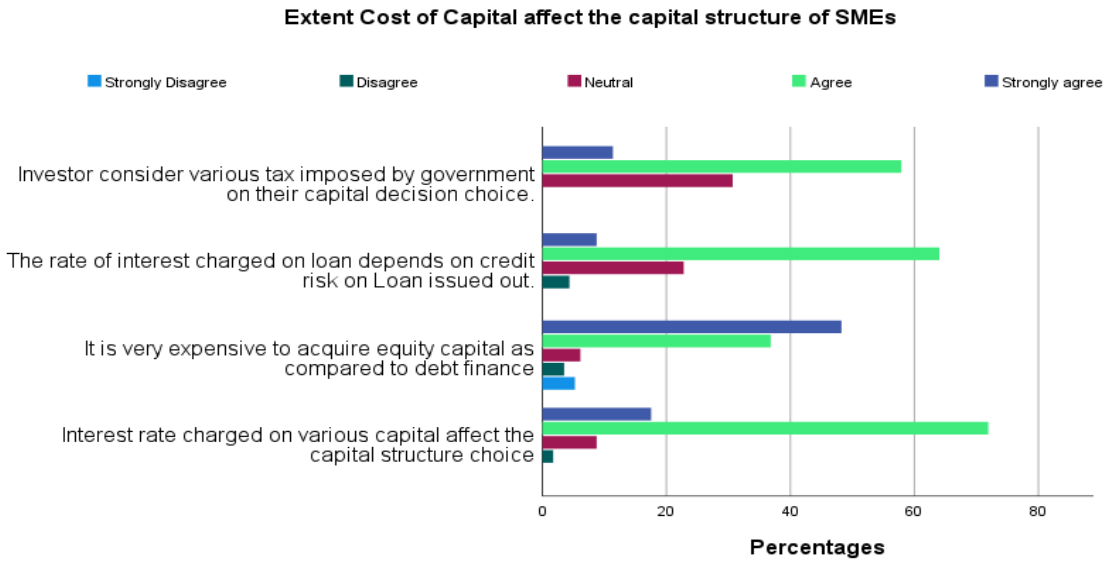


Figure 4. 5 Presentation of Analysis of cost of capital (Researcher, 2021)

4.4.3 Investor's attitude and capitals structure

Investor's attitude	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
I would go for the best possible return even if there were risk involved	4.4%	15.8%	49.1%	23.7%	7.0%
To reach my financial goal, I prefer an investment with less risk and fast growth rate.	0.0%	0.0%	4.4%	50.9%	44.7%
When looking for high investment growth, I am	0.0%	2.6%	21.1%	66.7%	9.6%

willing to accept the possibility of greater liquidity risk to achieve this					
I consider safety of my investment even if it means forgoing the whole investment process	0.0%	1.8%	3.5%	28.1%	66.7%

Tab1e 4. 9 Analysis table of investors' attitude (Researcher, 2021)

To know the extent in which investor's attitude affects the capital structure of SMEs in Kitui County, it was measured using Likert scale of 1 – 5 that is Strongly disagree, Disagree, Neutral, Agree, Strongly agree in that order respectively. The findings established that 49.1% of the respondents indicated Neutral, while 23.7% indicated Agree, 7% indicated strongly agree and the remaining 4.4% of the respondents indicated strongly disagree on that they would go for the best possible return even if there were risk involved. Furthermore, 50.9% of the respondents indicated Agree, while 44.7% indicated strongly agree, and the remaining 4.4% of the respondents indicated neutral on that to reach their financial goal, they prefer an investment with less risk and fast growth rate. The findings also established that 66.7% of the respondents indicated Agree, while 21.1% indicated Neutral, and 9.6% indicated strongly agree. The rest of the respondents (2.6%) indicated disagree on that when looking for high investment growth, they are willing to accept the possibility of greater liquidity risk to achieve this. Additionally, 66.7% and 28.1% of the respondents strongly agreed and agreed respectively, while 3.5% of the respondents indicated neutral and the remaining 1.8% indicated disagree on that they consider safety of their investment even if it means forgoing the whole investment process. The findings are as shown above.

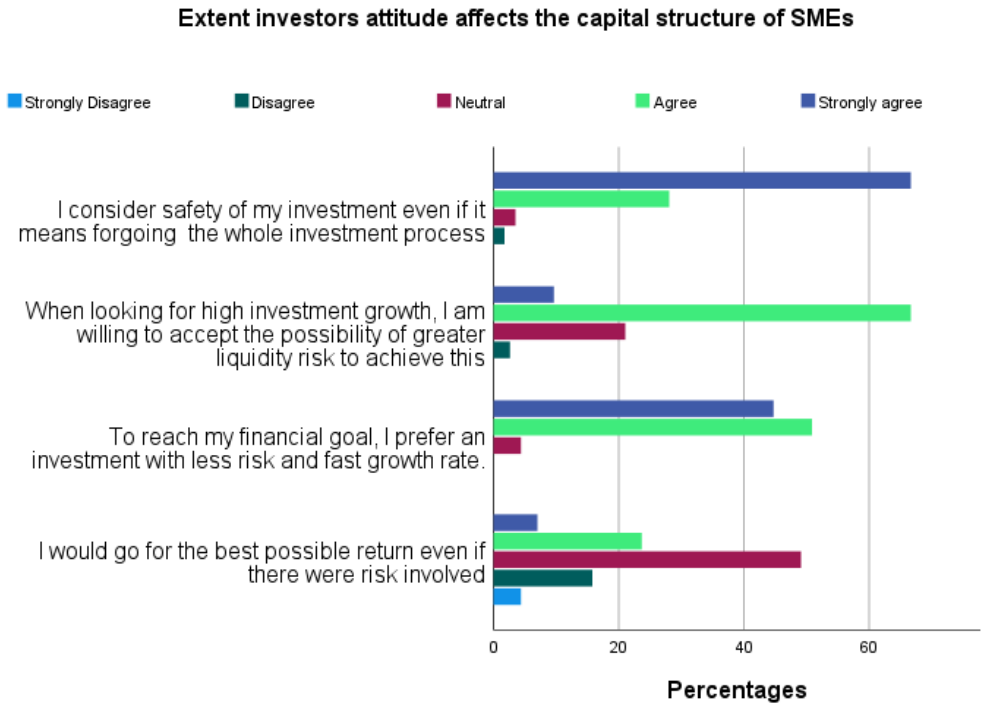


Figure 4. 6 Presentation of Analysis of investors' attitude (Researcher, 2021)

4.5 Respondents' decision on financial market performance

The researcher also wanted to know respondents decision on the financial performance of their business investment if it started performing badly. The study established that 55.26% of the respondents would monitor the investments and wait to see if it improves while the rest (44.76%) of the respondents would transfer their money to a more secure investment to minimize further loss.

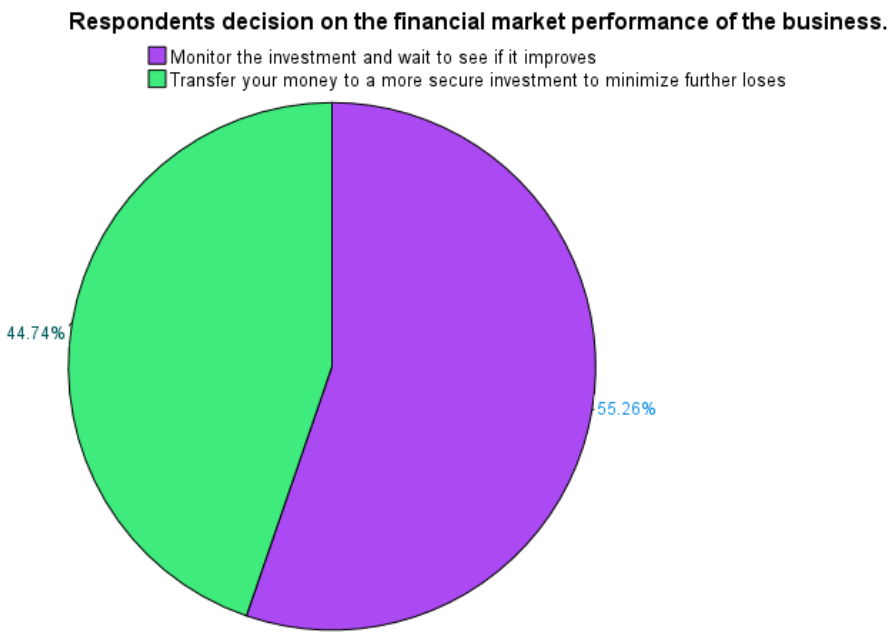


Figure 4. 7 Respondents' decision on financial market performance (Researcher, 2021)

4.6 Model fitting

4.6.1 Regression summary

Regression Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate

1	.341[a]	.116	.092	.93534
a. Predictors: (Constant), Investor's Attitude, Cost of Capital, Market Condition				

Tab1e 4. 10 Regression summary (Researcher, 2021)

This was done using multiple regression analysis to determine the significance level. It was found out that an adjusted R=0.341 and the square of R had a value of 0.116 which means 11.6% of the capital structure is attributed to market condition, cost of capital and investor's attitude. The rest (89.4%) attributed to capital structure may be due to other factors which are not covered in this study. The summary of the regression analysis is as shown below.

4.6.2 Analysis of Variance

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.686	3	4.229	4.833	.003[b]
	Residual	96.236	110	.875		
	Total	108.921	113			
a. Dependent Variable: Capital Structure						
b. Predictors: (Constant), Investors Attitude, Cost of Capital, Market Condition						

Tab1e 4. 11 Analysis of Variance (Researcher, 2021)

The regression model was also done using analysis of variance to establish significance. The generated variance table shows that the population parameter has a 0.003 significance value which is below the significant level of (0.05) hence the model is significant. The computed F value (4.833) is higher than the F-critical 3.884 thus significant. The ANOVA result findings are shown in Table 4.11.

4.6.3 Regression coefficients

The regression model has enabled linking of the independent variable with dependent variable in this equation

$$\mathbf{CS = \beta_0 + \beta_0 X_1 + \beta_2 X_2 + \beta_3 X_3 + \alpha}$$

Where:

CS = Capital structure

$\boldsymbol{\beta_0}$ = Slope of regression equation (constant)

$\mathbf{X_1}$= Cost of capital

$\mathbf{X_2}$= Market condition

$\mathbf{X_3}$= Attitude of Investor

$\boldsymbol{\alpha}$= Residual Error

Regression Coefficients[a]				
Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.

		B	Std. Error	Beta		
1	(Constant)	-1.931	1.224		-1.577	.118
	Market Condition	.857	.305	.289	2.810	.006
	Cost of Capital	-.311	.227	-.141	-1.372	.173
	Investor's Attitude	.407	.241	.170	1.690	.094
a. Dependent Variable: Capital Structure						

Tab1e 4. 12 Regression coefficients (Researcher, 2021)

The regression model which formed was

$$\mathbf{CS = -1.931 + 0.857X_1 – 0.311X_2 + 0.407\ X_3}$$

If the independent variables were rated zero according to the regression model equation formed, the capital structure of SMEs in Kitui County would be -1.931. The study shows that there is negative and significant effect on external elements of capital structure of SMEs in Kitui County. The implication of this is that increased unit on the market condition reduces the capital structure by 0.857 while a unit increase in the investors' attitude would affect the capital structure by 0.407. Market condition had a significant level of 0.006 while cost of capital had significant level of 0.173, and investor's attitude had 0.094 significant levels. This means that cost of capital and investors' attitude has a significance effect on the capital structure since significance level is more than 0.05 while market condition is insignificant since the significance level is less than 0.05. The residual error was assumed to be zero.

CHAPTER F1VE: SUMMARY, CONCLUSSIONS AND RECOMMENDAT1ONS

5.1 1ntroduction

This chapter presents the summary of key data findings and their discussion in relation each objective. The conclusion of findings from discussion was highlighted and recommendations were drawn. The recommendations for further research are presented as well as major limitations of the study.

5.2 Summary of the findings

The main objective of this study was to determine the external elements affecting the capital structure of SMEs in Kitui County. A descriptive research design was adopted to carry out the study. The study area had a population of 245 SMEs in Kitui County. The researcher used a formula by Krejcie and Morgan, (1970) to get a sample size of 150 SMEs out of 245 SMEs in study area. The study utilized primary data which was collected through questionnaires. During the data collection the researcher was able obtain 114 completed questionnaires with a response rate of 76%. Reliability and validity of data was done through pilot test using 15 questionnaires. To analyze the data (SPSS) version 24 was used.

From the findings majority 56.14% of the respondents were men while 43.86% were women. Majority of the respondents aged between 29 – 38 years accounting for 56.6% while the years of service of the respondents raged between 1 – 5 years representing 67.5%. When the study sought to know the number of the employees in the respondents' business, it was revealed that majority

of SMEs had between 1 – 20 employees accounting for 95.5%. Since small and medium-sized enterprises engage into different types of business, the study found out that 34.2% of the business so service delivery and 32.5% represents those operate wholesale and retail businesses. Additionally, the study revealed that 47.4% of business uses personal savings as current source of income while 42.1% depend on bank finance as current source of their business operation. On business operations capital preference it was found out that 49.1% of respondents prefer using both equity and debt finance while 46.5% of the respondents prefer equity finance for their business operation.

5.2.1 Cost of capital

The study results showed that the cost of capital affected the capital structure of SMEs to great extent where majority of respondents indicated that the interest rate charges by lending institutions have significant effect on the capital structure. It was also revealed that it is very expensive to acquire or obtain equity capital which becomes hard for the small businesses or the business which are starting up. Most of the SMEs have no security to guarantee their loans and this makes the interest rate charged on their loans to be high depending on the credit risk directly affecting their capital structure. The tax imposed by governments makes the cost of capital to go high thereby impacting on SMEs capital structure. The researcher's objective of determining the impact of the cost of capital on the capital structure showed that an increase in the cost of capital has a significant impact on the capital structure.

5.2.2 Market condition

The study further revealed that market conditions such as competition for capital has determines the choice of capital thus affecting the capital structure of SMEs significantly in Kitui County. Moreover, the respondents felt that the business cycle influence the pattern of capital structure. Further they reported that government policies and practices have direct impact on the choice which the business chooses to finance their business. Majority of the respondents had opinion that SME industry is sensitive to economic fluctuations because their financial status is not stable. It was revealed that market condition affected the capital structure of SMEs to a great extent.

5.2.3 Investors' attitude

From the study findings, investors' attitude affects the capital structure of SMEs to a great extent. This is because majority of the respondents to reach their financial goal they prefer doing business which are less risk but fast growth rate. It was also revealed that respondents consider the safety of their business by considering forgoing the whole investment. Furthermore, the study found out those respondents when looking for investment with high growth, they can accept the liquidity risk. This means that the choice of the investor have a great impact to the capital structure of the business. The study revealed that the respondents were undecided in doing business with best possible returns even when there are risks associated with the business. this mean that, when the business venture is risky, majority of the SMEs are not willing to pursue it because they are not financially stable therefore in case of any uncertainty their business can collapse.

5.3 Conclusion

The results of data analysis revealed that the cost of capital had negative coefficient of -0.311 and a P value > 0.05. This shows that the increase of cost of capital will have negative impact on the capital structure of SMEs in Kitui County. The analysis also showed that the market condition had a coefficient .0857 and P value < 0.05. This shows that an improve in market conditions such as government policies, competitions and taxation will definitely lead to improved levels of capital structure of SMEs significantly in Kitui County. Additionally, investor's attitude had a coefficient of 0.407 and P value > 0.05. This implies that investors' attitude has a significant effect on the capital structure because if the attitude towards a given investment is negative then the capital structure of SMEs will be affected negatively in Kitui County. This study has established that an increase in the cost of capital and investor's attitude has a negative effect on the capital structure of small and medium enterprises in Kitui County. It was also established that government policies on the expansion and growth of SMEs has positive impact on small and medium sized enterprises in Kitui County.

5.4 Recommendations

Cost of capital being one of the major external elements affecting SMEs, banks and money lending institutions should consider reviewing their security terms to accommodate and encourage SMEs access loans to boost their business operations. SMEs provide goods and services at affordable prices; create employment thus contributing gross domestic income. In this sense, this study recommends that both national and district governments ensure the full

implementation of current policies for the SME sector, such as provision of incentives, protections of local SMEs from foreign business that suppress growth to ensure sustainability of this industry.

Additionally, the market conditions such as government policies and economic fluctuations affected majority of SMEs. Small and medium-sized enterprise industry being one of the sensitive industries to economic fluctuation, the current economic hardship orchestrated by the Covid-19 pandemic has hit SMEs hard affecting their capital structure. This study also recommends that, the national and county governments should set up National agency to oversee and manage the establishments and operations of the SMEs in Kenya

Furthermore, majority of the SMEs consider the security of their business and thus they cannot undertake risky investments. The government should come up with training programs to SMEs to enable them to manage their businesses, be creative and innovative so that they can exploit the available business opportunities. This can be possible if both the County and National governments through the ministry of Trade and Social services work together to facilitate these training programs.

5.5 Recommendations for future research

This study researched on three variable; Cost of capital, Market condition, and Investors' attitude to investigate their effect on the capital structure of SMEs. There is need to do a comparative study to investigate other external factors/ elements that are not covered under this study. The researcher focused on SMEs and therefore this study recommends further study to large

enterprises because new enterprises are being registered and other upgrading to different categories.

5.6 Study Limitations

The study area was in Kitui County and thus further studies in other Counties of Kenya to determine other elements that affect the capital structure of SMEs need to be done. This study employed open and closed questionnaire in data collection and thus other data collection methods can be used to establish external elements affecting capital structure in Kitui County.

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APPENDIX I: QUESTIONNAIRE

Research Questionnaire for SMEs in Kitui County

The main aim of this survey is to find out the external factors affecting the capital structure of SMEs in Kitui County. Your feedback and reviews are highly honored because they are vital in the study process. Feel appreciated as you take time to complete the following survey. Your responses are voluntary and will be confidential.

This questionnaire consists of three sections; kindly answer all the questions by ticking in the appropriate box or filling in the spaces provided.

SECTION A: GENERAL INFORMATION

1. Gender (**tick as applicable**) Male **[ ]** Female **[ ]**

2. Your age bracket (**Tick whichever appropriate**)

   18 – 28years **[ ]** 29 - 39years **[ ]** Over 40years [**]**

3. Your highest education level? (**Tick where applicable**)

   Certificate **[ ]** Diploma **[ ]** Undergraduate degree **[ ]** Master's degree [ ] PhD. **[ ]**

4. Years of service/working period (**Tick where applicable)**

   Less than 1year **[ ]** 1-5years **[ ]** 6-10years **[ ]** Over 10years **[ ]**

5. Please indicate your designation

   Manager **[ ]** Unit Head **[ ]**

   Other (specify)……

SECTION B: BACKGROUND OF THE SME:

6. Please indicate the name of your SME? ----------

7. How long has it been operational? ----------

8. How many are you in your Firm? (**please Tick where appropriate**)

Between 1-20 **[ ]** 21-30 **[ ]** 31-50 **[ ]** Over Fifty **[ ]**

9. What type of business do you do?

Manufacturing **[ ]** Service Delivery **[ ]** Tourism Activities **[ ]** Whole sale and Retail **[ ]**

Financial Service **[ ]** Petroleum **[ ]** Construction industry **[ ]** Agricultural Activities **[ ]**

Other specify…….

10. What are current sources of capital for your Firm?

Owners Personal savings **[ ]** Borrowing from friends and family members **[ ]**

Donations [ ] Trade Credit [ ] Leasing Capital **[ ]** Bank Finance **[ ]** Soft loan **[ ]**

Any other please specify……

11. Based on above choices what makes you prefer the chosen choices over others?

Please explain …….

SECTION C: STUDY VARIABLES

CAPITAL STRUCTURE

12. Of debt finance and equity finance which one do you depend on for business operations?

(i) Equity finance **[ ]** (ii) Debt Finance [ ]. (iii) Both **[ ]**

Please state what drove you to selected choice of Capital……

13. Were you influenced by external environment on choice of capital you are using?

    Yes **[ ]** No. **[ ]**

    Please list some of external element that influenced your Choice…….

14. Do you do financial analysis to measure the level of financing in your SME?

    Yes **[ ]** No. **[ ]**

    Please state how you carry out financial analysis……

MARKET CONDITION

15. Using the preceding Likert scale, please indicate the extent you agree with impact of market condition on the capital structure of SMEs (**1.- Strongly disagree: 2. - Disagree: 3. - Neutral: 4. - Agree: 5. -Strongly agree) (please Tick)**

	1	2	3	4	5
SME industry is sensitive to economic fluctuations due to their financial status					
Government policies and practices have direct impact on the choice of financing for SMEs					
The market condition including competition for capital determines the choice of capital for investment					
The stage of the business cycle influences the business pattern of capital and a readiness of investor to purchase shares.					

COST OF CAPITAL

16. Using the preceding likert scale, please indicate the extent you agree with the impact of cost of equity on the capitals structure of SMEs (**1 – Strongly disagree: 2- Disagree: 3 - Neutral: 4 - Agree: 5-Strongly agree) (please Tick)**

	1	**2**	**3**	**4**	**5**
Interest rate charged on various capital affect the capital structure choice					
It is very expensive to acquire equity capital as compared to debt finance					
The rate of interest charged on loan depends on credit risk on Loan issued out.					
Investor consider various tax imposed by government on their capital decision choice.					

INVESTORS ATITUDE

17. Using the preceding likert scale, please indicate the extent you agree with the impact of investor's attitude on the capitals structure of SMEs (**1 – Strongly disagree: 2- Disagree: 3 – Neutral: 4 – Agree: 5-Strongly agree) (please Tick)**

	1	**2**	**3**	**4**	**5**
I would go for the best possible return even if there were risk involved					
To reach my financial goal, I prefer an investment with less risk and fast growth rate.					
When looking for high investment growth, I am willing to accept the possibility of greater liquidity risk to achieve this					
I consider safety of my investment even if it means forgoing the whole investment process					

18. Imagine that one year after making an investment, the financial markets start to perform badly; you realize that your investment has gone down significantly, which of the following action would you take? (Tick your answer)

1) Monitor the investment and wait to see if it improves [ ].

2) Transfer your money to a more secure investment to minimize further loses [ ].

3) Invest more funds to compensate the lost capital expecting future growth [ ].

Thank you So much!

APPENDIX II: LIST OF SMEs

Registered SMEs in Kitui County

	Name	**Sub-County**	**Ward**
1.	GLOBETEK SYSTEMS KENYA LIMITED	KITUI CENTRAL	Kyangwithya East
2.	NORTHGATE COMPANY LIMITED	KITUI CENTRAL	Kyangwithya East
3.	WIKWATYO ENTERPRISE	KITUI CENTRAL	Miambani
4.	JERUSALEM SHOP	KITUI CENTRAL	Mulango
5.	ALFZAAN INVESTMENT-	KITUI CENTRAL	Kyangwithya East
6.	KASHIMONI BAR & RESTAURANT	KITUI CENTRAL	Kyangwithya East
7.	BEKIMS SHOP	KITUI CENTRAL	Kyangwithya West

8.	GOODSON INVESTMENTS	KITUI CENTRAL	Kyangwithya East
9.	DAELNIMO VENTURES	KITUI CENTRAL	Kyangwithya West
10.	BELGING STORE	KITUI CENTRAL	Kyangwithya East
11.	KELMIC ENERGY	KITUI CENTRAL	Kyangwithya East
12.	SPARKS GAUGE LIMITED	KITUI CENTRAL	Kyangwithya West
13.	NEW HIGHWAY WORKSHOP LIMITED	KITUI CENTRAL	Kyangwithya West
14.	KATUNGATE CONTRACTORS LIMITED	KITUI CENTRAL	Kyangwithya West
15.	MBUSYANI CONTRACTORS LIMITED	KITUI CENTRAL	Kyangwithya West
16.	PONTY PRIDD HOLDING LTD	KITUI CENTRAL	Kyangwithya West
17.	STEHN CONTRACTORS LIMITED	KITUI CENTRAL	Kyangwithya West
18.	FAICIA CONTRACTORS LIMITED	KITUI CENTRAL	Kyangwithya East
19.	DAIMA EMERGING	KITUI CENTRAL	Kyangwithya West

	ENTERPRISES		
20.	KASUNGUNI GENERAL STORE	KITUI CENTRAL	Miambani
21.	NDUANI BAR & RESTAURANT	KITUI CENTRAL	Kyangwithya West
22.	KINGPOST VILLA BAR & RESTAURANT	KITUI CENTRAL	Kyangwithya West
23.	LEMU WINES$SPIRIT	KITUI CENTRAL	Kyangwithya West
24.	MUSOF INVESTMENTS LTD	KITUI CENTRAL	Kyangwithya West
25.	LAKE OIL PETROL STATION	KITUI CENTRAL	Mulango
26.	ROHO SAFI BAR	KITUI CENTRAL	Kyangwithya East
27.	MEKKA BOOKSHOP	KITUI EAST	Endau/Malalani
28.	ZOMBE GAS SUPPLIERS	KITUI EAST	Zombe/Mwitika
29.	MAVONDO P AND SONS LIMITED	KITUI EAST	Chuluni
30.	EDIBLE MOMBASA MAIZE MILLERS	KITUI EAST	Nzambani
31.	ROE ENTERPRISE	KITUI EAST	Chuluni

32.	BALL PURSE ENTERPRICE	KITUI EAST	Chuluni
33.	WENDANO LEISURE BAR	KITUI EAST	Mutito/ Kaliku
34.	MUMBUNI B BAR	KITUI EAST	Mutito/ Kaliku
35.	BRAIN PLUS TECHNOLOGIES LTD	KITUI MUNICIPALITY	Township
36.	KANDA SUPERMARKET	KITUI MUNICIPALITY	Township
37.	DOMIAN LOGISTICS	KITUI MUNICIPALITY	Township
38.	SEMAKA SACCO	KITUI MUNICIPALITY	Township
39.	WANDA BORA ENTERPRISES	KITUI MUNICIPALITY	Township
40.	VOO BAR & RESTAURANT	KITUI MUNICIPALITY	Township
41.	BISMILLAH FASHION CENTRE	KITUI MUNICIPALITY	Township
42.	INTERIOR SUPPLIES LTD	KITUI MUNICIPALITY	Township
43.	VIBS ENTERPRISES LTD	KITUI MUNICIPALITY	Township
44.	ESJOVIA CONTRACTORS LIMITED	KITUI MUNICIPALITY	Township
45.	AROMA &BITES	KITUI MUNICIPALITY	Township

46.	EMU HOUSE HOLDS KITUI	KITUI MUNICIPALITY	Township
47.	MAHAKALI MERCHANTS	KITUI MUNICIPALITY	Township
48.	BEMARC DISTRIBUTORS LTD	KITUI MUNICIPALITY	Township
49.	INFINITY ENTERTAINMENT	KITUI MUNICIPALITY	Township
50.	JUDMEST GAS SUPPLIERS	KITUI MUNICIPALITY	Township
51.	SLIMS BEAUTY POINT	KITUI MUNICIPALITY	Township
52.	FIDATO ENTERTAINMENT	KITUI MUNICIPALITY	Township
53.	INTERIOR SUPPLIES LTD	KITUI MUNICIPALITY	Township
54.	MBIKISA SACCO – BUSPARK	KITUI MUNICIPALITY	Township
55.	WELLS OF HOPE FASHIONS	KITUI MUNICIPALITY	Township
56.	GAMECO CONSTRUCTION & GENERAL SUPPLIES LTD	KITUI MUNICIPALITY	Township
57.	MAHAKALI MERCHANTS	KITUI MUNICIPALITY	Township
58.	MOSOF INVESTMENTS LTD	KITUI MUNICIPALITY	Township
59.	MUSTY DISTRIBUTION LIMITED	KITUI MUNICIPALITY	Township

60.	KIMBOF ENTERPRISES	KITUI MUNICIPALITY	Township
61.	LEDRIMS LIMITED	KITUI MUNICIPALITY	Township
62.	MAXI-CORP SOLUTIONS LIMITED	KITUI MUNICIPALITY	Township
63.	FARMERS CHOICE	KITUI MUNICIPALITY	Township
64.	DELFTEC ENTERPRISES LTD	KITUI MUNICIPALITY	Township
65.	GADGUN ENTERPRISES	KITUI MUNICIPALITY	Township
66.	BASCO PRODUCTS (K) LTD	KITUI MUNICIPALITY	Township
67.	HEADQUATER BAR & REST	KITUI MUNICIPALITY	Township
68.	LUMA STORES & SUPPLIES ENTERPRISES LTD	KITUI MUNICIPALITY	Township
69.	EMKA ENTERPRISES	KITUI MUNICIPALITY	Township
70.	AREA CODE WINES &SPIRIT	KITUI MUNICIPALITY	Township
71.	BETA BAKERS	KITUI MUNICIPALITY	Township
72.	VICTORY JUNIOR ACADEMY	KITUI MUNICIPALITY	Township
73.	YOUNG RAYS SOLUTIONS	KITUI MUNICIPALITY	Township

74.	YATTA FOODS COMPANY LTD	KITUI MUNICIPALITY	Township
75.	GERAR AGENCIES	KITUI MUNICIPALITY	Township
76.	MEEDIN COMPANY LIMITED	KITUI MUNICIPALITY	Township
77.	GLOGRA GENERAL SUPPLIERS AND CONTRACTORS LTD	KITUI MUNICIPALITY	Township
78.	EXCAT MEDICAL CENTRE	KITUI MUNICIPALITY	Township
79.	MWIMUKA LIMITED	KITUI MUNICIPALITY	Township
80.	MASEKI FILLING STATION	KITUI MUNICIPALITY	Township
81.	SHEIKH AHMED TAIB & SONS (A)	KITUI MUNICIPALITY	Township
82.	CORNER BAR & RESTAURANT	KITUI MUNICIPALITY	Township
83.	NAKISA SACCO SOCIETY	KITUI MUNICIPALITY	Township
84.	NGUUTI INVESTMENT COMPANY LTD	KITUI MUNICIPALITY	Township
85.	PURISA COMPANY LTD	KITUI MUNICIPALITY	Township
86.	KITUI GAS SUPPLY	KITUI MUNICIPALITY	Township

87.	DAVEJO ENGINEERING LTD	KITUI MUNICIPALITY	Township
88.	NEW BASE BAR ANDRESTAURANT	KITUI MUNICIPALITY	Township
89.	RASISI WORKS LTD	KITUI MUNICIPALITY	Township
90.	KIMZO CONSTRUCTIONS AND TRADE LTD	KITUI MUNICIPALITY	Township
91.	SYD ENTERPRISES	KITUI MUNICIPALITY	Township
92.	MUYAWAYS AGENCIES	KITUI MUNICIPALITY	Township
93.	RIMSACA TECHNOLOGIES	KITUI MUNICIPALITY	Township
94.	LOISALLA GAS DEALERS	KITUI MUNICIPALITY	Township
95.	KWITU WINES & SPIRITS	KITUI MUNICIPALITY	Township
96.	GIRO ENTERPRISES	KITUI MUNICIPALITY	Township
97.	LANGA LANGA ENTERPRISES LTD	KITUI MUNICIPALITY	Township
98.	ZAIKO GENERAL CONSTRUCTION COMPANY LTD	KITUI MUNICIPALITY	Township

99.	CLUB VILLANGE	KITUI MUNICIPALITY	Township
100.	MOONLIGHT PUB	KITUI MUNICIPALITY	Township
101.	VANILLA HARDWARE	KITUI MUNICIPALITY	Township
102.	NAXTON ENTERPRISES	KITUI RURAL-KISASI	Kisasi
103.	LEMWAL INVESTMENT	KITUI RURAL-KISASI	Kisasi
104.	KYALOS FUELS COMPANY LIMITED	KITUI RURAL-KISASI	Kisasi
105.	CO-OPERATIVE BANK OF KENYA- AGENT	KITUI RURAL-KISASI	Kisasi
106.	MUTUKYA AUTOSPARES	KITUI RURAL-KISASI	Kisasi
107.	MACKS-ELECTRICAL AND ELECTRONICS	KITUI RURAL-KISASI	Kisasi
108.	SPURTRACKS CONSTRUCTION COMPANY LIMITED	KITUI RURAL-KISASI	Kisasi
109.	BALL PURSE ENTERPRICE	KITUI RURAL-KISASI	Mbitini
110.	TEXAS GEN SHOP	KITUI RURAL-KISASI	Kisasi
111.	NEEMA YA BWANA	KITUI RURAL-KISASI	Kisasi

112.	GOSHEN HOTEL	KITUI RURAL-KISASI	Kisasi
113.	TYTAN HARDWARE	KITUI RURAL-YATTA KWA VONZA	KwaVonza/ Yatta
114.	MAKUTANO STORES	KITUI RURAL-YATTA KWA VONZA	Kwa Vonza SBP
115.	MULOLONGO BAR	KITUI RURAL-YATTA KWA VONZA	Kwa Vonza SBP
116.	UNIQUE BAR AND RESTAURANT	KITUI RURAL-YATTA KWA VONZA	Kanyangi
117.	MASHAMBANI BAR AND RESTAURANT	KITUI RURAL-YATTA KWA VONZA	KwaVonza/ Yatta
118.	MAISHA BAR & RESTAURANT	KITUI RURAL-YATTA KWA VONZA	Kanyangi
119.	KIVAA COUNTY CLUB	KITUI RURAL-YATTA KWA VONZA	KwaVonza/ Yatta
120.	GENERATION BAR&RESTAURANT	KITUI RURAL-YATTA KWA VONZA	KwaVonza/ Yatta
121.	PREMIERE BAKING SUPPLIES	KITUI RURAL-YATTA	KwaVonza/ Yatta

	SHOP	KWA VONZA	
122.	BRIDGECON HOLDING LTD	KITUI SOUTH	Ikutha
123.	KANDA PETROL STATION LTD	KITUI SOUTH	Mutomo/Kibwea
124.	COME BACK SHOP	KITUI SOUTH	Mutomo/Kibwea
125.	VOO FRALIZA ENTERPRISES	KITUI SOUTH	Mutha
126.	ROYAL ELECTRONICS	KITUI SOUTH	Mutomo/Kibwea
127.	MASAVI CEREALS AND GENERAL SUPPLIES	KITUI SOUTH	Mutomo/Kibwea
128.	SIMBA TELCOM	KITUI SOUTH	Mutomo/Kibwea
129.	NOTCH HIGHER	KITUI SOUTH	Mutha
130.	J LINK FUNERAL SERVICES	KITUI SOUTH	Mutomo/Kibwea
131.	M.K. STORES	KITUI SOUTH	Mutomo/Kibwea
132.	INDEPENDENT TRANSPORT OPERATOR VEHICLE	KITUI SOUTH	Mutomo/Kibwea
133.	KIMA-NCHI FILL-IN STATION	KITUI SOUTH	Mutomo/Kibwea
134.	SOMBA STORES	KITUI SOUTH	Kanziku/ Simisi

135.	MBIKISA SACCO – MUTOMO	KITUI SOUTH	Mutomo/Kibwea
136.	ROFFEE ENTERPRISES	KITUI SOUTH	Mutha
137.	PARADISE BAR	KITUI SOUTH	Mutomo/Kibwea
138.	FUEL LINKS ENTERPRISES LIMITED	KITUI SOUTH	Athi
139.	DIGITAL PALACE BAR & RESTAURANT	KITUI SOUTH	Mutomo/Kibwea
140.	TRICLOVER INDUSTRIES(K) LTD	KITUI SOUTH	Mutomo/Kibwea
141.	AT YOUR CHOICE PUB & RESTAURANT	KITUI SOUTH	Mutomo/Kibwea
142.	GARDEN PUB	KITUI SOUTH	Ikutha
143.	AL-SHIFEC MATRESS AND BEDDINGS CENTRE	KITUI SOUTH	Ikanga/ Kyatune
144.	BALL PURSE ENTERPRICE	KITUI SOUTH	Ikutha
145.	FRIENDS BAR & RESTAURANT	KITUI SOUTH	Ikutha
146.	BALL PURSE ENTERPRICE	KITUI SOUTH	Ikutha

147.	MICINTA LIMITED	KITUI SOUTH	Ikutha
148.	CLUB EMPIRE BAR & RESTAURANT	KITUI SOUTH	Ikutha
149.	MOZART WINES & SPIRITS	KITUI SOUTH	Ikanga/ Kyatune
150.	CLUB 4-G NETWORK	KITUI SOUTH	Mutomo/Kibwea
151.	WINES AND SPIRITS	KITUI SOUTH	Mutomo/Kibwea
152.	ALDINA PUB	KITUI SOUTH	Mutomo/Kibwea
153.	TICKLES BAR & RESTAURANT	KITUI SOUTH	Mutomo/Kibwea
154.	PASSWORD LOUNGE	KITUI SOUTH	Mutomo/Kibwea
155.	MERIC SUPPLIES LIMITED	KITUI WEST	Kauwi
156.	JUCKDAMAX ENTERPRISES	KITUI WEST	Matinyani
157.	TANGA ENTERPRISES	KITUI WEST	Kauwi
158.	TIGER JOINT BAR & RESTAURANT	KITUI WEST	Kauwi
159.	ERICOWINNER BUILDERS & CONTRACTORS LTD	KITUI WEST	Kauwi

160.	FLORIDA BAR	KITUI WEST	Mutonguni
161.	CLANICFAY INVESTMENT LIMITED	KITUI WEST	Kauwi
162.	ERDEMANN PROPERTY LIMTED	KITUI WEST	Matinyani
163.	JAKASIM	KITUI WEST	Kauwi
164.	THOME WA ATUMIA BAR	KITUI WEST	Kauwi
165.	ARID SUN CONTRACTORS LIMITED	KITUI WEST	Kauwi
166.	GRAIN INDUSTRIES LTD	KITUI WEST	Mutonguni
167.	GAS POINT KWA_MBOYA	KITUI WEST	Kauwi
168.	SATSON	KITUI WEST	Kauwi
169.	BUDUL INVESTMENT COMPANY LIMITED	KITUI WEST	Kauwi
170.	FATELIMWAFRICA CONTRACTORS AND SUPPLIES LIMITED	KITUI WEST	Kauwi

171.	MUJABACAJO CONSTRUCTION AND GENERAL SUPPLIES LIMITED	KITUI WEST	Kauwi
172.	ROMCOTECH INVESTMENT LIMITED	KITUI WEST	Matinyani
173.	NEXT CHAPTER INVESTMENTS-KCD 123V	KITUI WEST	Matinyani
174.	MAKONGENI BAR & RESTAURANT	KITUI WEST	Matinyani
175.	JACONS GAS SUPPLIERS	KITUI WEST	Kauwi
176.	KITITHINI GARDEN BAR	KITUI WEST	Kauwi
177.	RAFIKI BAR & RESTAURANT	KITUI WEST	Matinyani
178.	FRIDAY'S LOUNGE BAR	KITUI WEST	Matinyani
179.	GERMAINE GAS POINT	KITUI WEST	Mutonguni
180.	MAISHA MASHINANI	KITUI WEST	Kauwi
181.	KITUI ECO PARK RESORT	KITUI WEST	Kauwi
182.	BALL PURSE ENTERPRICE	KITUI WEST	Kauwi

183.	CLUB ZERO 15	KITUI WEST	Mutonguni
184.	MAKUUNI BASE$ RESTAURANT	KITUI WEST	Mutonguni
185.	VISION 2 CLUB- BAR&RESTAURANT	KITUI WEST	Kauwi
186.	SPICE BAR$RESTAURANT	KITUI WEST	Matinyani
187.	LABAR GARDEN BAR & RESTAURANT	KITUI WEST	Matinyani
188.	MUNDU NANDU BAR & RESTAURANT	MWINGI CENTRAL	Nguni
189.	EBENEZER CYBER	MWINGI CENTRAL	Nguni
190.	NGILUNI TRABSPORTERS	MWINGI CENTRAL	Nguni
191.	ROCK VIEW BAR	MWINGI CENTRAL	Nguni
192.	GLORIOUS INVESTMENT MAUNGU AGG	MWINGI CENTRAL	Nguni
193.	STEP ONE BAR	MWINGI CENTRAL	Mwingi
194.	GRAIN INDUSTRIES LTD	MWINGI CENTRAL	Nguni

195.	LUSAKA GUEST-HOUSE	MWINGI CENTRAL	Nguni
196.	CENTRE CABANAS	MWINGI CENTRAL	Nguni
197.	BELO DAILY PRODUCTS	MWINGI NORTH-MUUMONI	Muumoni
198.	KAMUWONGO GATEWAY SERVICE STATION	MWINGI NORTH-MUUMONI	Kyuso
199.	KENAFRIC BAKERY LIMITED	MWINGI NORTH-MUUMONI	Muumoni
200.	MUGENDI STORES	MWINGI NORTH-MUUMONI	Muumoni
201.	SUKARI MINI MARKET A	MWINGI NORTH-MUUMONI	Kyuso
202.	WIPROMAX COMPANY	MWINGI NORTH-MUUMONI	Muumoni
203.	JAMAKAWA SUPPLIES	MWINGI NORTH-MUUMONI	Muumoni
204.	KITUNGUU TRANSPORTERS	MWINGI NORTH-TSEIKURU	Tseikuru

205.	WIKA INTERSTATE TRADERS	MWINGI NORTH-TSEIKURU	Tseikuru
206.	KASABLANGA BAR & RESTAURANT	MWINGI NORTH-TSEIKURU	Tseikuru
207.	EMPIRE FEEDS LTD	MWINGI TOWN	Mwingi Central
208.	UMOJA FLOOR MILLS	MWINGI TOWN	Mwingi Central
209.	EXCEL CHEMICAL LTD	MWINGI TOWN	Mwingi Central
210.	MARS YETU LTD	MWINGI TOWN	Mwingi Central
211.	KULUNEX ELECTRICAL AND ELECTRONICS	MWINGI TOWN	Mwingi Central
212.	EDIBLE MOMBASA MAIZE MILLERS	MWINGI TOWN	Mwingi Central
213.	DIVINE SALON & COSMETICS	MWINGI TOWN	Mwingi Central
214.	NAKIM CLASSIC TRAVELLERS SACCO	MWINGI TOWN	Mwingi Central
215.	VICTORY JUNIOR ACDEMY	MWINGI TOWN	Mwingi Central
216.	MITSO ENTERPRISES &	MWINGI TOWN	Mwingi Central

	STATIONERIES		
217.	MBUSYANI HARDWARE LTD	MWINGI TOWN	Mwingi Central
218.	EASTERN FLOUR MILLS LTD-KBV266A	MWINGI TOWN	Mwingi Central
219.	GLORIOUS FILLING STATION	MWINGI TOWN	Mwingi Central
220.	BELIPAMU ENTERPRISES	MWINGI TOWN	Mwingi Central
221.	MEEDIN COMPANY LIMITED	MWINGI TOWN	Mwingi Central
222.	SEA-LINK ENTERPRISES LTD	MWINGI TOWN	Mwingi Central
223.	GOSASHE ENTERPRISE	MWINGI TOWN	Mwingi Central
224.	COUNTY GEOMETRY LIMITED	MWINGI TOWN	Mwingi Central
225.	BALL PURSE ENTERPRICE	MWINGI TOWN	Mwingi Central
226.	RELIANCE PLASTICS LTD	MWINGI WEST	Migwani
227.	ROY MILLERS LTD	MWINGI WEST	Migwani
228.	KIMUINGI MEAT DISTRIBUTORS LTD	MWINGI WEST	Migwani
229.	MWIWA INVESTMENT	MWINGI WEST	Migwani

230.	MAUNA-ANDU TIMBER	MWINGI WEST	Migwani
231.	SANA SANA TRANSPORTERS LTD	MWINGI WEST	Migwani
232.	MAKUMBINI GENERAL STORES LTD	MWINGI WEST	Migwani
233.	NDUME CHAINLINKS	MWINGI WEST	Migwani
234.	TRUFOODS LIMITED	MWINGI WEST	Migwani
235.	EUROPE STAR	MWINGI WEST	Migwani
236.	TRIPAH CYBER CAFÉ	MWINGI WEST	Nguutani
237.	SUPPLANT SOLUTIONS LIMTED	MWINGI WEST	Migwani
238.	VIKI ENERGG LIMITED	MWINGI WEST	Migwani
239.	M & NS JOAB ENTERPRISES	MWINGI WEST	Migwani
240.	JAGAB COMPANY LTD	MWINGI WEST	Kyome/Thaana
241.	SYITHANI VILLAGE INN	MWINGI WEST	Migwani
242.	CARIBEAN BAR	MWINGI WEST	Migwani

243.	MEETING POINT BAR	MWINGI WEST	Migwani
244.	ASHIM SOLUTIONS	MWINGI WEST	Migwani
245.	IKANGA INVESTMENTS	MWINGI WEST	Nguutani

Source: County Government of Kitui, Ministry of trade and cooperatives, 2019

APPENDIX III: RESEARCH BUDGET

ACTIVITY AND ITEMS	AMOUNT (KES)
Stationery Expenses	9,500.00
Report writing, Printing and Photocopying	l5,000.00
Binding Expenses	l0,500.00
Communication expenses	6,500.00
Transport related costs of Researcher	6,500.00
Miscellaneous	l2,500.00
Total	60, 500.00

APPENDIX IV: WORK PLAN

Research proposal writing and submission	March 3 2020 - 30th July,2021
Collection of Data	August 1st, 2021 – August 15th ,2021
Analysis of data /report writing	August 16th, 2021 – September 15th ,2021
Submission of the dissertation	Submission October 26th, 2021

APPENDIX V: SAMPLE SIZE, GIVEN A FINITE POPULATION

N	*S*	*N*	*S*	*N*	*S*
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Note.—*N* is population size. *S* is sample size.

Source: Krejcie & Morgan, 1970

Source: Krejcie and Morgan (1970:608)

Where N= Population size, and S= sample size required.