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Influence of Investment Groups on Creation of Small and Medium Size Enterprises in Nairobi County

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A Research Project Submitted to the School of Human Resource Development in Partial Fulfillment of the Requirements for the Award of Degree of Masters of Science in Entrepreneurship of Jomo Kenyatta University of Agriculture and Technology, Nairobi, Kenya

Abstract: ***This research project sought to establish the influence of investment groups on creation of small and medium size enterprises in Nairobi County. Investment groups are started by like-minded persons with a common vision geared towards investments. In Kenya investment groups are powerful resources mobilizer and are seen as a solution to providing SME's start-ups, with capital and human resources capacity. Large businesses have emerged from this investment groups enabling the membership acquire large assets, undertake large projects that would not have been possible individually. The study sought to determine the influence of resources mobilization, ideas generation, risk spreading and social capital on creation of small and medium size enterprises. The study adopted a descriptive study design looking at all investment groups registered by Kenya Association of Investment groups (KAIG) as at December, 2014 in Nairobi County to determine if investment groups that are involved in enterprise creation. The investment group had to be involved in business outside agricultural production. Value addition, manufacturing and service industry enterprises were considered. A sample of 96 investment groups statistically determined was stratified and randomly selected from a study population of 1500 investment groups domiciled in Nairobi County. Data was collected by administering a questionnaire to respondents. The researcher administered a total of 96 questionnaires and managed to obtain 70 filled questionnaires constituting a response rate of 72.92%. This rate was adequate to enable the researcher to carry out the analysis and draw adequate conclusions. The collected questionnaires were edited and cleaned for completeness and consistency. After the questionnaires were coded, they were keyed into the Statistical Package for Social Sciences (SPSS version 21) for analysis. From the study findings, this study concluded that investment groups highly influences the formation of small and medium enterprises in Nairobi County. This is achieved through resource mobilization, sharing of business ideas, spreading risks and taking advantage of social networks of the group members.***

Keywords: Small Size Enterprises, Medium Size Enterprises, Nairobi County

Chapter One

1. Introduction

1.1 Background of the Study

There is great interest globally on the role of Small and medium size (SME) enterprises in employment creation, income generation and economic development. According to Global Enterprise Monitor (GEM, 2009) there are over 400million individuals who are owners/managers of new firms globally. It also noted that the higher the level of entrepreneurial activity corresponds to a higher gross domestic product (GDP). Ayyagari (2011), reported that SME account for 95% of all enterprises in the world and 60% of all private sector employment. World Bank defines entrepreneurship as "the activity of an individual or a group aimed at carrying out commercial activities in a formal sector under legal form of a business." Due to the informal private sector difficulty to get data, attributed to the incompleteness and lack of data updates by several government agencies (Klapper, 2008), we will concentrate on formal SME's, where formal means registered.

According to Jonathan (2010) in a study to establish a relationship between households involved in entrepreneurship to economic growth, productivity and income growth. SME's are known to provide essential services and goods. In this role SME, provide employment to many. SME's are known to grow faster than large firms and are a source of job creation (Haltiwanger, 2009). Chen and Ravallion (2010), reported that there are 1 billion poor people in the world living on less than 1.25$ per day. SME's are hence seen as a solution to reducing poverty in the world.

New jobs are created when new enterprises are set up. The growth in employment depends on how fast a new enterprise grows on initiation. Apart from jobs there is increased competitiveness and innovation to ensure survival (Sheets & Sockin, 2012). In developing countries majority of SME are not surveyed due to their informality. As income levels increase, studies indicate decrease in number of informal firms and growth in the numbers of formal firms (Ayyagari, 2005). The ease of starting an enterprise corresponds with the increase of new enterprise being formed according to the World Bank (Klapper *et al.*, 2008). The impact of government policy determines ease of entry and exit of a firm.

Apart from access to finance, skilled labor and government policy, factors like security, infrastructure, and location of business, changes in technology, management skills and export orientation promote creation of new ventures (Fatoki & Odeyemi, 2010). Governments promoting SME need to have a global outlook in marketing, support access to information and trainings relevant to areas of SME operations (Longenecker, 2006). In South Africa, SME's constitute 56% of all private sector employment and 36% to the South African GDP according to statistics South Africa (2009). Promotion of SME's has been touted as a solution to the global unemployment problem (FinMark trust, 2006). Over 75% of new start-ups don't survive past 24 months, which is a global problem facing financiers, policy makers and governments globally (Klapper & Richmond, 2009).

There is no standard definition of an SME, it differs from country to country. The World Bank defines SME's as firms having less than 300 employees and annual turnover estimated at 300,000 $-15million$. Whereas the European Union, defines an SME as a Firm with less than 250 employees and annual turnover of less than 50million Euro. According to Elumba, 2008; Beck et al, 2008; De la Torre, 2010 and Ayyagari et al, 2011 SME are classified by number of employees less than 100 in a firm and having an annual turnover of less than 100million Kenya shillings equivalent. This definition excludes self-employment, meaning a firm must employ more than one person to qualify.

There are two primary drivers to SME creation: necessity based entrepreneurship and opportunity based entrepreneurship. In necessity based entrepreneurship, enterprise comes into force due to circumstances of life e.g. lack of jobs, retrenchment and need for survival. In opportunity based entrepreneurship the promoters, have seen an opportunity to exploit and create wealth. Creation of a new enterprise is tied to entrepreneurship (Baliamuore *et al.*, 2011 & Autio, 2007).

SME's survival has been a challenge, due to reasons like difficulty to access credit, working capital, deficiency in management skills, increased competition, inability to innovate and insufficient market information among other constraints (Bowen, 2009 & Longenecker *et al.*, 2006). SME's in Kenya created 50% new jobs in 2005. In the first year alone, there was 60% failure rate according to Kenya Economic Survey (2005). There are over 7.5million SME's contributing about 18.8% of the GDP according to the 2009 economic survey. Nairobi has an estimated 50,000 SME's registered in 2013 according to the Nairobi County business licensing department.

New firms are important to the economy; strategies need to be employed to reduce the failure rate of new enterprise, currently standing at 75% in South Africa, the major constraint being finance (Fatoki & Odeyemi, 2010). A new SME is defined as a firm that has been in existence for less than 40 months (Maas & Herrington, 2006). According to Dermirguc-Kunt et al (2006), the main sources of SME credit remains equity and debt. Investment groups have the capacity to mobilize capital for investment purposes and many lack the capacity to invest safely (FSD, 2009).

The thirst to create wealth in the past has defrauded the public in form of pyramid schemes, (Ministry of Cooperative report, 2010). The public lack information and investment skills to invest safely. Investments clubs (groups, Chama's) is a new phenomenon according to Malkamaki, (2008) in a study of informal finance groups, on financial sector inclusion studying Rotating savings and credit organizations, welfare groups, ASCAS and investment groups. The study found out that, among the informal groups 3.7% were investment groups. He reported that the informal groups collectively controlled over 60billion Kenya shillings annually (FSD, 2009).

Investment groups are known by different names all over the world. The most common is Rotating savings and credit organization (ROSCAS) in Africa and Asia, merry go rounds, "Chama", welfare groups in Kenya, Solidarity groups in Europe and south America, Christmas clubs and saving circles in the USA according to Mehta, Garguillo and Brown, (2011). Investment groups are a collection of individuals who come together to pull financial resources with a common goal of investing jointly and share inherent risks (Kamau, 2009). It has been postulated that saving in groups serves many purposes like shared risks; it's a commitment mechanism -being disciplined in saving, ability to secure credit and acquire large assets (Malkamaki, 2008 & Gugerty, 2005).

The purpose of forming investment clubs according to Malkamaki (2008) study was business orientation 72.6%, to buy assets 35%, to exchange business ideas and network 26% and to receive lump sum finance 17.2% according to the respondents in the study. The investment groups, Malkamaki reports are better organized, membership is voluntary, and they meet regularly, have elected officials, and have a constitution and a bank account (FSD, 2009). Investment groups are started to mobilize funds for investments. It differs from Sacco's which members save to borrow, in investment groups members save to invest. Problems of weak management, weak financial management skills, fraud, regulatory compliance difficulty and lack of information which affect Sacco's and SME's also affect investment groups.

Many Asian families have been successful in business in Kenya and abroad, contributing to economic development, employment creation and wealth generation. Most of the businesses are family owned and with time the management has been professionalized by their sons and daughters who are better educated Wanjiru and Majeni, (2013). The research project seeks to answer the question "Is Investment groups the Kenyan answer to Asian economic domination in wealth creation through creation of SME's?"

SME's are seen as the solution to poverty, unemployment and economic growth. Creating SME's, supporting them to enable survival and sustainability is a sure way of growing our GDP to a large extent. Survival and growth of SME's through innovation, competitiveness, and sustained competitive advantage will fill the gap of the missing middle – medium enterprises problem common in the developing countries. This will employ more people, increase productivity and capacity (McDonald, 2007).

In the pursuit of wealth creation and overcoming the difficulties in sourcing finance, a number of strategies have been employed to overcome the obstacles. Formation of credit unions and investment groups are some of the strategies employed to ease finance constraints. Mutugi, (2006) has shown that the uses of self-help groups are reliable units for education, development and poverty eradication. Financial access survey in Kenya done in 2006 by FSD showed that welfare clubs, ROSCAS, individual ASCAS, Managed ASCAS and investment groups increased access to credit.

Sacco's are formed with the objective of wealth maximization. In Kenya the credit unions have mobilized and control an estimate capital base of 200Billion (Cooperative Bank of Kenya, 2010). Investment groups like Sacco's need growth, economic and financial sustainability (Gijselinckx & Develtere, 2007). In Kenya Investment groups are reported to control an estimated 60 billion Ksh in investments (Kariuki, 2010 & CMA, 2010) with this level of capital mobilization is it possible then that Investment groups can start SME's and finance the same to solve the access to credit constraint for start-ups? The CMA estimates that 5-10% of investment groups' capital are used in early enterprise start-up finance, Muthaura report (CMA, 2010).

The purpose of this research project is to find out if SME's are created by investment groups in Nairobi County. The study will achieve this by use of a survey method by sampling from the list of investment groups, registered by the Kenya Association of Investment groups (KAIG). There are 2200 registered groups with KAIG in Kenya.

The investment groups registered in Nairobi County stand at 1500. The hope to find out the structure of investment groups characteristics that differentiate them. Namely average capital mobilization. Leadership structure, type of investments and what sectors of the economy investment groups invest.

1.2 Statement of the Problem

Investment groups are strong mobilizer of funds used in providing access (FSD, 2009), have the capacity to improve national savings currently 2.5% to levels of between10%-30% seen in Asian countries through wealth, businesses and employment creation (Kamau, 2009). Studies conducted by Malkamaki (2008) on informal financial sources in Kenya, Investment groups constitute 3% of the groups studied.

Collectively investment groups and finance intermediaries control over 60Billion (860m $) annually, equivalent to 3.7% of Kenya's GDP. These groups provide social networks and act as a source of social insurance. According to Malkamaki (2008), 72.6% of respondents in investment groups have a business orientation, 35% focused on buying assets, 20.6% aim was social networks to exchange business ideas and lastly 17.2% expected credit funds.

In another study by Mwangi and Ouma (2012) on social capital and access to credit in Kenya, the study noted that only 39.6% of Kenyan adults have access to finance (Banks, Sacco & MFI's). The study showed that social capital enhances access to finance and improving financial inclusion.

The two studies clearly showed that challenges of formal access to credit are creatively dealt with informally, through social capital which is the backbone of investment groups (FSD, 2009; Mwangi *et al.*, 2012).

There are studies on the role of Sacco's (Ondieki *et al.*,2013,) MFI's (Aleke, 2003) and Informal Groups (Atieno, 2001; Gugerty, 2007; Tanaka, 2009) in SME finance.There is limited studies that jointly links the influence of investment groups (resources mobilization, ideas generation, risk spread and social capital) and creation of SME's in Nairobi. The studies have not specifically showed the contribution of Investment groups in the creation of SME's. The Objective of this study is to analyze specifically the influence of investment groups on creation of SME's in Nairobi County. This is a unique area of study this research project is intended.

1.3 Objectives

The Study seeks to address the following objectives;

1.3.1 General Objective

To determine the influence of investment groups on creation of small and medium size enterprises in Nairobi County.

1.3.2 Specific Objectives

1. To establish the influence of resources mobilization on the creation of SME's in Nairobi County
2. To investigate the influence of ideas generation on the creation of SME's in Nairobi County
3. To determine the influence of risk spreading on the creation of SME's in Nairobi County
4. To explore the influence of social capital on the creation of SME's in Nairobi County

1.4 Research Questions

1. What influence does resources mobilizations have on the creation of SME's in Nairobi County?
2. What influence has ideas generation on the creation of SME's in Nairobi County?
3. What is the influence of risk spreading on the creation of SME's in Nairobi County?
4. What influence does social capital have on the creation of SME's in Nairobi County?

1.5 Justification of the Study

The study is expected to benefit the following stakeholders: Policy makers will get new insights on the status of investment groups in the Kenyan economy. The regulatory framework needed to specifically understand and control investment groups can be developed from the findings of this study. The study will help shade light on grey areas that contribute to pyramid schemes hence protect the public. Finance institutions such as Banks, Insurance companies, retirement benefits authority, and the capital markets authority will develop ways to tap on this capital mobilization resource among investment groups.

The government can benefit from taxes from investment groups investments and registration fees, should it be part of compliance. Regulatory processes can be developed and made enforceable. Finally the Academia will find new areas for further research beneficial to our economy from results of the study. Results of the study can help develop policies that promote enterprise and economic development, with the possibility of having economic transformation in Africa by organizing the masses and promoting enterprise culture.

1.6 The Scope of the Study

The study covered the Nairobi County geographically. It sampled formally registered investment groups in Nairobi County to establish the extend investment groups engage in Business outside agriculture. It concentrated on businesses started by investment groups or financed by investment groups. The study population was determined from members of KAIG in the register as at December, 2014. According to KAIG there are about 1500 investment groups registered by them domiciled in Nairobi County.

1.7 Limitations and Delimitation of the Study

Some of the investment groups approached was reluctant in giving some information fearing that the information sought might be used to create a negative image of their business. The researcher tackled the limitation by assuring the groups that the information would be treated with utmost confidentiality and that the information was to be used for academic purposes only.

Busy working schedules of the respondents delayed the completion of the data collection process. The researchers had to exercise utmost patience and make extra effort in reminding the contact persons and making constant follow-ups so as to acquire sufficient data.

Time constraint: This study was undertaken within a limited period of time. This meant that feedback from respondents was required within a limited period. If more time was available for the research, there could have been a higher response rate. This is the explanation why only a response rate of 72.92% was attained.

Lastly, the results of this study were largely based on the opinions of respondents' about their investment groups. The researcher had no direct control of the accuracy of the information given. The researchers countered this limitation by making calls to the respondents to clarify any ambiguous or incomplete responses.

Chapter Two

2. Literature Review

2.1 Introduction

The objective of this chapter is to review literature relevant to the subject of study. It will include theoretical review, conceptual framework, critique and summary. Due to limitation in literature on investment groups due to uniqueness of the subject the researcher will review other informal finance sources and their contribution to creation of SME's, wealth creation and economic contribution. Majority of the studies categorize investment groups under informal sources of finance.

2.2 Theoretical Review

The theory of Resource Based Theory (RBT), Theory of Entrepreneurship Intention and planned behavior (TPB), Risk Bearing Theory (RBT) best explains the independent variables.

2.2.1 The Resource Based Theory

Access to resources is an important predictor of opportunity based entrepreneurship and new venture growth or creation of new organizations (Dollinger, 1999; Alvarez & Busitinez, 2001:756). It stresses the importance of financial, social and human resources and the ability of an entrepreneur to spot and take advantage of opportunities. The investment groups help gather financial resources through savings mobilization, they share risks and management abilities (Reynolds, 2005).

The entrepreneur conceptualizes the discovery of opportunity and subsequent action on the new economic activity. With the ease of funds availability, investment groups can easily take advantage of investment opportunities that present themselves within and outside their networks. At a firm's level, sustained competitive advantage is generated by a combination of resources at the disposal of the firm according to Hayton (2005). He argues that business owners build their businesses from their own resources and their ability to acquire the same resources outside the firm.

Fletcher, (2008) defines resources broadly as anything that can be thought of as a strength or weakness of a firm. It is about how well a firm is resourced and how well it utilizes the resources compared to the competing firms that gives it the competitive advantage and hence success where others fail. Superior performance of a firm or organization is tied to how efficiently a firm acquires the resources at the best minimal cost and how uniquely they exploit the resources in the organization to create value.

The intercourse between the structural characteristics of an organization and its operating environment help bridge the gap between internal capability and external strategies on the other hand. Organizations are seen as potential creators of value capabilities. Caldeira and Ward (2003), postulates that assets and resources of a firm or organization should be viewed in terms of the knowledge based perspective.

Resources mobilization has many facets namely: savings mobilization, social capital emanating from the social networks, human capital in terms of consolidated knowledge and skills, organizational capabilities that interplay in an investment group. Being in a group assist investment group members to overcome information asymmetry, a barrier associated with many SME's and individual organizations. It also shortens the learning curve due to shared knowledge and resources (Wainaina, 2012). Using this theory the study seeks to verify if resources mobilization has a role in the creation on SME's.

2.2.2 Theory of Entrepreneurship Intention and Planned Behavior

According to Linan and Chen (2009) the intention is critical in the decision to start a firm. An intention is a representation of a planned future action or course of action to be performed. It is a proactive commitment to bring the plans into being (Bandura, 2001). Intentions and actions are separated by time. The Entrepreneurial intentions describe the degree or level of commitment directed towards the performance of an entrepreneurial endeavor of putting up a business (Kennedy & Renfrew, 2005; Souitaris *et al.*, 2007) cited in Kinyua, Mukulu and Waititu (2013) in a study of the role of foreign direct investments in promoting entrepreneurship in Kenya.

There are several models of entrepreneurship intentions, the two most common are the theory of planned behavior by Ajzen (1991) that has been developed and validated in social psychology. The second theory is Shapero's (1982) model of entrepreneurial event. Studies have shown that intentions can be used to measure efforts planned by an individual to perform the function of a firm's creation. The model of planned behavior explains how ideas evolve into new venture (Krueger & Carsud, 1993; Kruger & Brazeal, 1994). The intentions are captured in terms of behavior attitudes, subjective norms, as well as perceived behavior control.

Entrepreneurs or individuals make their decisions based on three elements: attraction to entrepreneurship, perceived social norms in regard to the venture and lastly perceived entrepreneurial self-efficacy according to Linan (2007). By using the theory of planned behavior and the element of attraction to entrepreneurship, the study sets out to verify if ideas generation have a role on the creation of new enterprise. Is the purpose for which investment groups are started? With shared skills and knowledge how can this be leveraged into innovation, new ideas, creativity and creation of new SME's.

2.2.3 Risk Bearing Theory:

The theory introduces the dimension of risk taking as a central characteristic of entrepreneurship. The theory was adapted from early economists Richard Cantillon and Jean B. Say. The theory considers uncertainty as a factor of production. It sees the main function of the entrepreneur as managing uncertainty in anticipation of future events. Profit from a firm is considered a reward to the entrepreneur for risk bearing (Nteere, 2012).

According to Praag (1999) he postulates that the entrepreneur specializes in organizing the factors of production, directs and controls the firm in dealing with uncertainty. The entrepreneur acquires resources from capitalists for rent at a fixed rate/ remuneration where as he benefits from the profit/loss of the firm. Taking into consideration that entrepreneurs take calculated risks hence they are not gamblers (Bwisa, 2011).

The study will seek to find out if risk spreading has a role on the creation of SME's in Nairobi County. The investment groups pool resources together for investment purposes meaning the investment risk is shared according to a member's contribution or shareholding portfolio. There is safety in numbers. It enables members to undertake large projects like buying expensive assets and property that would have not been possible individually or taken a longer time period to acquire (Gugerty, 2007).

2.3 Conceptual Framework

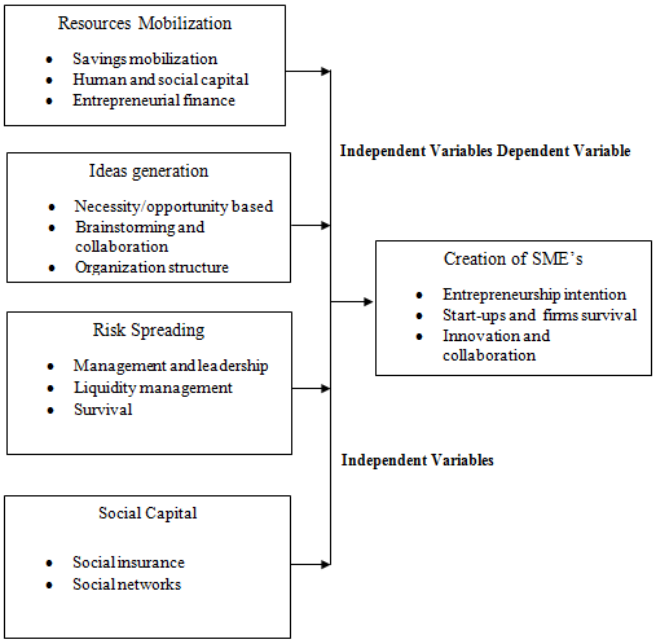

Figure 2.1: Conceptual Framework

2.3.1 Resources Mobilization

According to Gugerty, (2007) having studied savings and credit organizations in Kenya, formal and informal, she reported that ROSCAS is a feasible solution to the unbanked and has a role in deepening credit access. People join savings groups for a number of reasons namely: to purchase an indivisible good, as a commitment to saving discipline and lastly to overcome inter household conflict between consumption and saving (Gugerty, 2007 & FSD, 2009). Individually many people are unable or experience difficulty in saving (Roomi & Parrot, 2008).

Ambec and Treich (2007), in a study demonstrated that saving in a group assists persons deficient in self-control to save. This has the ability of mobilizing resources for investment or a project. The ability to save in a group especially among traders and business persons improves their ability to access credit informally, which otherwise would have been difficult using formal credit markets. Aketon, Sawada and Otsuka (2006), reported that ROSCAS may work as a substitute for formal loans. The same was reported by Tanaka and Nguyen (2009) in a study of street vendors in Vietnam.

It can be assumed that people who can access bank loans are less likely to be in ROSCAS this is a misleading school of thought, it has been reported among Zimbabwe traders 76% with bank accounts belong to ROSCAs (Charlee -Wright, 2002) cited in Gugerty (2007). Savings mobilization is a worldwide phenomenon, in the USA, ROSCAS are known as saving circles or charismas clubs run by churches. Taiwan with well-developed credit markets 80% of the adult population belong to a ROSCAS.

The ability to accumulate financial resources, reduce risk of consumption and the feeling of collaboration has endeared saving in groups Chiteji (2002). Malkamaki, (2008) in a study of informal finance in Kenya, found out that the informal groups are financial intermediaries collectively controlling over 60billion Kenya shillings, which was about 3.7% of Kenya's GDP in 2006.

Sacco's in Kenya have in the past mobilized over 200billion in Savings and assets according to the Cooperative Bank of Kenya (2010). Whereas Sacco members save to borrow in order to acquire assets, the investment groups on the other hand are geared towards saving for business (investing). Sacco's in the past favored salaried persons. Currently so long as one has guarantors he can save and borrow, many Sacco's have opened membership to non-employees in order to boost the savings kitty and expand the reach to the business community. This shows Sacco's play an important role in entrepreneurship development through delivery of affordable tailored financial products (GOK, 2010).

Sacco's in Kenya have been restricted by legislation from investing more than 30% of their capital in real estate, Sacco societies Act of 2008. Through Sacco's Authority, SASRA (Savings and Credit Societies Regulatory Authority), it ensures the levels of liquidity and capital requirements are adhered to and reports on Sacco's performance. This has forced Sacco's to form investment companies that can buy land, invest in real estate as a different business model favored by investment groups for higher returns. This allows Sacco's indirectly to leverage savings and assets with other financial institutions to deepen their investment's portfolio (Kilonzi, 2012). This is corroborated by KUSCCO (2012), with over 12000 registered cooperatives, with over 7 million registered members with 150billion accumulated savings and 180 billion in assets.

Many SME's who cannot access credit rely on retained earnings that may not be sufficient. Investment groups rely on continuous members' contribution to build a saving pool. Default among members reduces the ability to plan or invest. This forces investment groups to retain profits for further growth to enhance levels of savings (Siwan *et al.*, 2009). Many SME who qualify to get credit from formal sources, the amount is often inadequate or comes late when the opportunity is already lost. This explains why shylocks are popular sources of finance in spite of punitive interest rates. Investment groups can help fund such opportunities (FSD, 2009).

Micro- Finance institutions (MFI's) in Kenya copied the Grameen Bank model of Bangladesh. Before a group access credit some savings for a predetermined period is necessary. This helps mobilize Finance for onward lending (Kuzilwa, 2005; Stevenson & St-Onge, 2005). Some MFI's include business support products together with credit according to Faulu and K-REP.

Access to credit can help many SME's start-ups and provide working capital that is always in short / inadequate. Most start-ups are financed through MFI's based on group savings and group borrowing according to Ibru, 2009; Kuzilwa, 2005 cited in Soltane and Imen, (2013).

In a study to establish the effect of microfinance factors and opportunity on women entrepreneurship in Tunisia, Soltane and Imen (2013), established a strong correlation between savings, credit, training and social capital in regard to access to credit among the study respondents and business performance. Savings, training, access to credit and social capital has a direct bearing on SME creation. This study will establish if Investment groups have a role in mitigating the factors. In another study by Ibru, 2009 cited in Soltane and Imen (2013). They established that the key motivating factor for need of funds from MFI's was to start a business or grow their business.

Human Capital in terms of collective skills, experiences and knowledge in a group have the capacity to organize, manage and offer leadership in an investment group. There is power and efficiency in numbers. With individuals level of education and training when pooled into a group setting an organization is better resourced being able to adapt to new technologies and take advantage of opportunities presented in business and are more productive (Izushi & Huggins, 2004).

BERR (2008), cited in Ngek and Smit (2013) states that high growth firms have management teams and founders with higher levels of education and skills. This is necessary for start-ups.

In studies on Human capital and SME creation in South Africa Herrington *et al.*, (2009) reported many SME's failure was attributed to lack of human capital. Fatoki (2011) attributes lack of skills, experience and knowledge as contributing to limited entrepreneurship in South Africa compared to the developed world. In another study Fatoki and Rogerson (2008) showed that Human capital played a role in growth and performance of SME's in South Africa. Human Capital is essential for start-ups firms according to Mkpado and Arene (2007) and Lawal *et al.*, (2009).

Entrepreneurial finance: In a study to determine sources of finance and cost of finance in Kenya, it was established that a number of start-ups and SME's access their finances through Chama's (Muiru & Moronge, 2013). Up to 40% get finance from Chama and 25% from MFI's. This is consistent with OMIDYAR Network (2012) that entrepreneurs will always look for finance to achieve their objectives whether from formal sources or informal (Bowen *et al*., 2009).

2.3.2 Ideas Generation

Necessity based need to start enterprises, in the past many employees of Parastatals in Kenya were retrenched in 1980-1990 period due to World Bank and IMF structural adjustment programmes (SAP) conditionalities for aid (GOK, 2003). This was attributed to previous poor economic programmes implementation as well as poor governance. This implied that retrenchment and lack of jobs forced a number of people to start businesses as a means of economic survival. From this experience many employees start business on the side as a safeguard measure. The idea that one can lose employment and fear of having no source of income is a strong motivator to join investment groups and look for opportunities to invest while still in employment.

Opportunity based need to start new enterprise emanates from changes in technology and increase of foreign direct investment, many opportunities to do business with large firms in terms of providing non-core services has created myriad of opportunities for SME's e.g. provision of transport, catering and security (Kinyua, Mukulu & Waititu, 2013). There have been business relationships between former employer and employees in the provision of the essential non-core services. This is evident in Banking industry, State corporations, and the private sector.

The members of an investment group can pool resources and ideas to take advantage of such opportunities as an SME. Vivarelli, 2004; Stams and Schtjens cited in Ngek and Smit (2013) in a study to establish the factors favoring high growth firms showed that opportunity based entrepreneurship, access to large information sets and market orientation are factors that distinguishes high growth firms which employ more people from slow growth firms that stagnate. The investment groups with different members with varied skill sets can establish high growth SME's.

Brainstorming and collaboration: In a study to evaluate idea generation and the quality of best ideas (Ginotra *et al.*, 2009) reported that hybrid method is superior to working individually as well as working in groups from the start. The study reports that individuals who work independently initially and then worked as a group performed better in developing solution to complex problems. Innovation and creativity is enhanced in the face of complex a problem that requires creative thinking to solve the problems. In investment groups the major motivator is financial freedom in the current economic difficulties.

Brainstorming individually and then in the group can trigger joint action to solve individual or organizational problems. From many generated ideas a few possible solutions are selected with greater success in terms of quality of the proposed solution (Ginotra, Terwiesch & Ulrich, 2009).

Organization structure and ideas generation study (Fleming & Singh, 2007) Cited in Ginotra *et al.*, 2009, noted that productivity, quality and quality variance in a study architects and artists who worked individually and then in groups/teams had higher productivity. They reported that collaboration in teams leads to consensus building and convergence (Fleming and Singh, 2007). The opposite results were obtained by Taylor and Crere, (2006) examining comic books industry. They noted there was difficulty in doing an empirical study in a natural environment with many parameters.

Investment groups with different composition of expertise (talent pool) and a common goal/vision can achieve or solve problems more efficiently. They provide better management in terms of leadership, planning, coordination and compliance all necessary in an SME (Wanjohi & Obuobi, 2010). According to Hussles *et al.*, (2011), to ensure sustainability of a start-ups and improve operational efficiency there is need to have experience, skills and competence on the side of the entrepreneur or group of investors.

Entrepreneurship Intention: According to Linen and Chen (2009) there is a strong correlation between the intention (strong commitment) to start a business and new venture creation. New firms are created through entrepreneurship. There are factors that promote the entrepreneurship intention namely: Suitable operating environment ease of entry and exit, training, availability of finance and business support, globalization and availability of market, changes in technology, favorable government policy, competitive market (Bwisa, 2011).

Klapper *et al.*, (2008) reported a strong relationship between starting a business and entrepreneurial activity. Klapper and Richmond (2009) in a study to determine if there is relationship between government policy and creation of new firms found out that government policy reforms impacted positively the economic growth in terms of new ventures created.

Commercialization of innovations by SME's reported by Tumburan (2007), plays a role in creating jobs, which otherwise may not have been commercialized by large firms possibly due to assumed limited market potential. SME provide goods and services, income and employment to a number of people (Kauffman, 2006). Investment groups motivated by growing their incomes, providing essential services can create SME's as a means of achieving their goals (Muthaura, 2010). SME's have potential of growing incomes, wealth creation as well as economic transformation of a nation.

2.3.3 Risk Spreading

Management: Reducing risks by having proactive systems in an investment group enables the groups to operate better than an individual. In an investment group there is a drive towards organization and having strong governance systems. Operations are professionalized since members want to maximize returns. The group has ability to use pooled resources and retained earnings from their investments rather than borrow. Strategic planning, having an investment policy, a shareholders agreement can help the investment group operate in a more predictable environment, with its talent pool. In a study of reviewing SME's management and strategic planning (Gatukui and Katuse, 2013) established a strong correlation.

Liquidity Management: MFI's, Sacco's and Commercial banks' operating in the credit market has adopted unique strategies to limit default in loans. MFI's favors group savings and group borrowing to reduce exposure. Sacco's and credit unions use guarantors and savings as security to limit default and losses. Innovative banks targeting investment groups have developed products that offer credit to investment groups after the groups save to a certain limit with them in addition to continued members' frequent deposits to boost their liquidity. This enables investment groups to leverage their resources to acquire large assets (Mwangi & Ouma, 2012; FSD, 2009).

Survival: Investment groups are started as a safe guard against retrenchment, job losses or reorganization among the employed a factor attributed to previous structural adjustment programmes in the 1980-1990 (Kariuki & KAIG, 2011). The returns from investments are normally invested in bigger projects. The investment group members also come to members rescue in cases of difficulty. The shared investments are shared risk. There is safety in numbers. Individual entrepreneurs experience burn out by year five (Longenecker *et al.,* 2006). Operation in an investment group there is shared responsibilities in management which is sometimes outsourced.

With this level of organization the impact to the group in achieving the objectives, resources mobilization, management efficiency can have a positive impact on the creation of SME's providing seed capital, management, leadership and the necessary structures that can enable SME start-ups to survive and thrive through the growth cycle. In a study of SME's in South Africa, Verhuel and Van Mil (2008) Cited in Ngek and Smit (2013) identified individual level determinants like age, gender, and education, opportunity, perception, risk attitude, entrepreneurial self-efficacy, and start –up motivation as important to a SME start-up.

2.3.4 Social Capital

In a study by Mwangi and Ouma (2012) on Social Capital and its impact on financial inclusion, the study established that social capital has a positive impact on the success of an enterprise in terms of performance. Apart from networking and bridging the information asymmetry for an entrepreneur, Social capital increases the credit worthiness of an individual. In the study belonging to a group increased the reach and credit worthiness for the group members (Mwangi & Ouma, 2012). Social capital also forms avenue for mentorship and leadership training (Tripp, 2009). This is important in the success of investment groups both in their operations and business/investments.

Networking: Coulthard and Loos (2007), showed networking in a small firm as an activity which is entrepreneurially oriented by SME owners to build and manage personal relationships with particular individuals in an environment. The networks are used to reduce information asymmetry in debtor/creditor relationships that are powerful in business cycles. Networks give a business and business owners legitimacy which can influence one's ability to acquire credit, enter a controlled market and expand business reach. Networks are effective substitutes for ineffective business membership organization (Ngoc *et al.,* 2009). Investment groups have the capacity to build strong networks from family, friends, and work colleagues and among investment group members beneficial for business.

Group Pressure: in investment groups there are certain norms or expected behavior in terms of regular contributions, failure of which fines are levied. This reduces rates of default and maximizes committed contributions. There is contributions enforcement mechanism similar to ROSCAS as reported in studies by Gugerty, 2007; FSD, 2009; Tanaka and Nguyen, 2009. This safe guards help boast the liquidity and mobilize savings necessary for investment purposes. The sustained peer pressure adds to the commitment to the investment groups' agenda realization.

Age: length in existence of the investment group plays an important role in its survival. There have been studies on SME's not surviving more than three years from their inception. This factor is shared with most investment groups. Kenya Association of Investment groups (KAIG) in 2010, reports that most investment groups don't survive past three years. Those that survive have certain characteristics namely: strong leadership, investment policy, a constitution, a shareholders agreement, using a business model of shares in terms of contributions, returns sharing policy according to a member's investment and lastly groups that are Strategic plans and common goals. This is also corroborated by Origins group that manages investment groups as a service during the launch of Unitas (2011).

2.3.5 Creations of SME's

This is the dependent variable. There has been interest in the study of SME's owing to its perceived potential in employment creation, economic growth, income distribution as well as poverty eradication (Chodokufa, 2009). In a study in South Africa on the creation of SME start-ups and its role in employment creation Ngek and Smit (2013), established that the high growth firms played a significant role in employment creation. They showed in the study that high growth firms have the following characteristics: innovation, networking, market orientation, teamwork, human capital, organization structure, entrepreneurial growth ambition (Wells & Hungerford, 2011, BERR, 2008; Stam & Schutjens, 2005) cited in Ngek et al (2013).

In the same study by reviewing the SME sector in South Africa many firms lacked credit access, innovation, low human capital capacity, limited market orientation (Krause *et al.*, 2012; Neneh, 2011). Fatoki (2012) noted that lack of experience and lack of knowledge are some of the limiting factors in entrepreneurship development in South Africa with a direct effect on quality and number of enterprises established. The same has been reported in many other studies in African countries like Ghana, Kenya, Nigeria, Uganda and Zimbabwe among others (Fatoki, 2012).

SME's are tomorrow's large firms from the experience of South Korea. Companies like Samsung, LG, Hyundai and Daewoo were once small SME's. In IFC (2011) report comparing Kenya and South Korea the formal SME's in Kenya were 44,028 compared to South Korea's 2,974,185. The involvement of SME in value addition on agricultural production and having export orientation by investing in technology research and development is what has made South Korea successful in economic development, income distribution and poverty reduction (IFC, 2011).

Many SME's are reported to experience financial management and management capacity challenge, high interest rates, low levels of technology, lack of assets and challenges of credit access (Abor & Quartey, 2010; IFC, 2007 b; Stevenson & St- Onge, 2005). In a world Bank Group Entrepreneurship Survey (WBGES, 2008) established that the ease of starting a business and better governance is associated with greater entrepreneurial activity. This has also been corroborated by Klapper *et al.*, 2008 in a study to establish the relationship between ease of starting a business and entrepreneurial activity.

In Israel in a bid to improve entrepreneurship potential in creating SME's, the government supports the use of Incubators, sponsor innovations with global market appeal, support good commercial products and services and projects that enhance entrepreneurship skills (OECD, 2010). The success in Israel has been achieved via linkages with Academia and industry, availability of venture capital, use of technology, ICT and incubation. This level of government support to SME's development is seen in India, Chile, and China (Berry, 2009).

The success of SME's are pegged on their survival through the growth cycle from start-up, growth phase, maturity and their ability to innovate, having market orientation, enhanced management capacity, global focus and ability to attract funding from venture capital funds which are long term in nature and venture capitalists also enhance management capacity. Government support as well as facilitation as has been shown in Israel, Chile, India and Brazil and South Korea are key towards building sustainable scalable enterprises (OECD, 2010).

2.4 Empirical Review

This looks at other studies on factors affecting creation of SME's and relationships with investment groups. Resources mobilization incorporates savings mobilization, human capital, access to credit and social capital.

In a study to find out the microfinance factors and how they affect entrepreneurial performance (Soltane & Imen, 2013) established a strong correlations of savings, credit access, human capital and social capital in a study of 255 women entrepreneurs in Tunisia. This study show the ability to save provides a means to leverage the same and access formal and informal credit. In another study Mkpado and Arene (2007) showed inability to save reduced an entrepreneur's ability to access credit. The credit market to a large extent relies on savings as security and a source of funds for onward lending.

It was established that the entrepreneurs who have access to training for skills development, had management structures and could employ skilled workers and improve their human capital, had better management and entrepreneurial success, looking at business growth, increased sales and increased manpower. Soltane *et al.*, 2013; United Nations 2006, also showed that entrepreneurs who had networks were able to leverage this social capital to impact positively their businesses. The study established the role of social networks as a means of reducing information asymmetry normally a barrier to many businesses and improve access to credit.

According to Namusonge (2006), heshowed that entrepreneurship education and training stimulates entrepreneurship and self-employment. Entrepreneurship education and training enhances skills and business experience. This corroborates OECD (2010) business success requirements namely; planning skills, managerial skills, networking, strategic thinking and financial skills. Hussels (2011) in a study on factors enabling startups success, reported for new start-ups to grow and become sustainable they need experience, skills, competitiveness and human capital in a study of new firms' success factors in South Africa.

Investment groups provides a unique setting where savings are mobilized from the membership, the individual networks can to consolidated to the groups benefit. Credit markets in Kenya now offer credit against the investment group's savings. The talent pool can enhance management competence. Kamau (2009) define investment groups as a collection of individuals who come together to pull financial resources with a common goal of investing in pre agreed projects jointly and share inherent risks. Ideas generation is part and parcel of innovation and creativity of a firm.

For businesses to have competitive advantage they have to continuously innovate due to factors outside the firm like increased competition, changing customers' preferences and high demand for strong market orientation (Lin & Chen, 2007). Wanjohi and Mugure in a study on factors that determine a firm's success, reported that lack of finance being touted as a major determinant of firm's success is actually not the case, the major determinant is the ability to innovate and have competitive advantage in the market (Mugure & Wanjohi, 2008).

Mwangi and Ouma (2012) in a study on the role of social capital in credit markets established that a social group serves as a way of enhancing credit access in the informal finance sector. The groups have free flow of ideas, collective decision making and reduces information asymmetry. Soltane and Imen (2013) showed importance of social capital on access to credit in a study in Tunisia on women businesses. This corroborated by Bowen *et al.*, (2009) on a study of management of SME's in Kenya.

In a study of informal finance in Kenya FSD, 2009 reported that investment groups are formed primarily with a business orientation. They are formed to accumulate savings and as a savings commitment mechanism- self-discipline (Gugerty, 2007; FSD, 2009). Malkamaki reports in a study of 4214 informal finance groups that investment groups pool resources to buy large assets like land, property or start big businesses. They are able to do this from shared experiences and networks (FSD, 2009).

Malkamaki (2008) reported that investment groups are better organized, have structures, a constitution, bank account, elected leaders, some have investment policies. The groups meet regularly, save consistently for investment purposes. The study showed that 72.6% drive to join investment group was buy large assets, 35% to exchange business ideas, 20.6% to socialize and network while the few 17.2% expected a lump sum. This is different from many ROSCAS groups whose main objective was to receive a lump sum (Gugerty, 2007), also differs from cooperatives Sacco's that save in order to borrow major objective and receive dividends as a bonus (Mudibo, 2005).

Group saving and group borrowing has been used as a risk mitigation strategy on groups that don't have collateral especially with most MFI organizations. This model has not worked well for the youths and women groups who have diverse objectives from each other. Many don't succeed owing to the fact that the loan amounts are insufficient (Kiraka, 2009 & KWFT, 2011). Young people are driven by risk, technology/innovation as well as achievement; thereby many opt to start own businesses compared to older generation. Investment groups are voluntary membership organizations, self-help and self-reliance spirit.

In a report of capital raising opportunities for SME's in Kenya, CMA (2010), Muthaura noted that the Retirement Benefits Authority (RBA), Insurance, Nairobi Securities Exchange, GEMS, and Investment groups are potential sources for risk capital for early startup SME's in Kenya. There are over 7.5 million SME's in Kenya which contributed about 40% to the GDP in 2008, and 80% of all formal employment. SME's form the bulk of 92% of all new jobs created in 2008. This shows that SME's have large potential for employment creation. Other formal sources of finance are banks, MFI's, Venture capitalists and non-formal finance institution like investment groups (GOK, 2009).

There exists a finance gap between the demand and supply side of the credit markets to SME. This is partially attributed to information asymmetry, Human capital capabilities, market access challenges as well as technology access. According to CMA (2010), most SME's threshold 5 million a year. Kenya Association of Insurance statistics indicated the insurance sector had 28.31 billion in long term funds of which 5% (0.92billion) could be used as equity in SME's.

According to the private pension funds the fund managers have access to 287.7 Billion is available for risk funds in long term projects of which 5% constitute 14.4 billion in risk capital available to equity investments. Only about 5.9 billion was actually invested in unquoted equity (CMA, 2010).A report by FSD, states that risk capital stand at 15 billion for SME's and only 2.9 billion has been invested in SME's. Business angels contribution in Kenya is insignificant and data unavailable.

The CMA report, estimates resource mobilization of Investment groups stand at 60 billion as at December, 2009 (KAIG, 2010). Of which 5-10% are available for risk capital in early stage enterprises. This shows the potential investment groups can play in financing SME's, creating employment opportunities and growing the Kenyan economy.

Chama's also called solidarity groups or merry go round emanated from our rich shared history (Adede, 2007). Chama's in Kenya have invested in transport businesses now formalized as Sacco's, rental housing Schemes, stocks and shares. Investment groups have also financed SME's where members have interest at a more affordable interest rates and terms (Malkamaki, 2008). The investment groups many don't survive past three years a similarity they share with SME's (Kauffman, 2005). Chama's have the capacity to provide the necessary finance for SME's growth to help plug the "missing middle" the MFI's are unable to fund (McDonald, 2007). According to Ruirie (2012) SME's suffer from insufficient finance, lack of innovation, lack of business skills which can be addressed by collective pool and expertise of investment groups.

2.5 Critique of Existing Literature

In the study by Soltane and Imen (2013) he established the microfinance factors that impact entrepreneurial performance namely savings, access to credit, human capital and social capital. This factors have a possible bearing on investment groups but not specific. In the study by Mwangi and Ouma (2012) on the social capital and its role in credit access in the credit market in Kenya concentrated on informal groups who lack collateral.

The investment groups are more organized and members are reported to have higher education levels. Most members of the investment groups are reported to have already taken care of their basic needs and have surplus for savings and investments which make investment groups unique. The investment groups are better resourced in terms of talent pool, savings mobilization and social networks compared to Sacco are who majorly save to borrow.

There are limited studies on investment groups specific to their role in SME creation. Investment groups in Kenya are taken as informal organizations that are not recognized by law, some transition into companies, Sacco's or self-help groups while maintaining the core objective of saving and investing. This study specifically set to establish the influence of investment groups on the creation of SME's in Nairobi County. In essence can investment groups be the Kenya's solution to Asian economic domination in Kenya?

2.6 Summary

Investment groups are formed with the objective of pooling resources for investments, sharing risks for economic gain. With the realization that there is strength in numbers showed by the success of Equity bank, Home Afrika and Transcentury investment group's fits in the resource based theory of entrepreneurship where members pool resources to take advantage of opportunities in the market for profit. The realization that the market is distorted; the entrepreneur takes advantage of the information disparity for his gain.

The investment groups want to accumulate resources monetary and otherwise to take advantage of opportunities in acquiring assets, building businesses and creating wealth. A sure way of building wealth is creating a business this leads to creation on new enterprises which SME's belong. This is corroborated in the Entrepreneurship intention theory. The desire to start an enterprise for wealth creation, independence and being in control is every entrepreneurs dream. Thus the entrepreneur will acquire resources that he controls and those he does not to enable him take advantage of the opportunities he sees.

This study sought to examine the structures of investment groups, their formation, leadership, gender composition, average age of membership, average age of existence and their role in SME creation in Nairobi County. The findings will be beneficial to financiers, Capital markets authority (CMA), the government in terms of policy direction and regulation and Kenya association of investment groups on how to enhance the impact of these unique groups in the Kenyan economy.

2.7 Research Gaps

There have been limited documented studies on investment groups and specifically on their influence on the creation of SME's in Nairobi. Their role as source of funding in the informal sector is documented generally as rotating savings and credit an organization (ROSCAS) to which there is distinct difference that the study set to interrogate, elaborate and document. Investment groups are uniquely amorphous in their description and legal space in Kenya. Uwezo fund, Youth Enterprise Fund can be strengthened to embrace investment groups in building entrepreneurial capacity of the youth and ensure business success in terms of initiation, survival and growth.

The capacity of investment groups in resources mobilization in regards to creating SME's, supporting start-ups with seed capital and also being able to play the role of venture capitalist in Kenya that in the past been low key and not very well established. By studying specifically the influence of investment groups on the creation of SME's in relation to factors such as resources mobilization, ideas generation, Risk spreading and Social capital and their impact on SME creation is a unique area of study.

Chapter Three

3. Methodology

3.1 Introduction

This chapter outlines and describes the procedure the researcher followed in conducting the study. This research study was a descriptive study on the influence of investment groups on creation of SME's in Nairobi County. The descriptive survey design was used to gather information on a population at a single point in time (Mugenda & Mugenda 2003). Descriptive research is the most commonly used method in social research; it describes certain characteristics of an individual or group (Kothari, 2004). Research design is a procedural plan that is adapted by a researcher to answer questions validly, objectively, accurately, reliably and economically according to Kumar (2005).

3.2 Research Design

The study adopted a descriptive survey design which is a scientific research method involving observing and recording certain behavior of a subject without influencing it in any way. It was conducted using both qualitative and quantitative approaches to help determine the influence of investment groups on creation of small and medium size enterprises. Quantitative and qualitative methods were used to collect data, according to Cooper and Schindler, (2008) collection of qualitative data allows generalization from the findings of the study. Qualitative method was used to collect data on characteristics of investment groups. Qualitative method allows the researcher to probe investment groups and seek clarifications to allow the study to have accurate findings (Yin, 2009).

3.3 Population

The universe population was the total number of investment groups registered by Kenya association of investment groups in Kenya, the number is 2200. This figure includes all the investment groups registered in Nairobi County approximately 1500. This constituted about 68% of the total investment groups in Kenya. The study sought to understand the profile of investment groups involved in SME's. The target population was the investment groups registered by 31st December, 2014 domiciled in Nairobi County in the list of KAIG members.

The Study population is defined as the complete set of elements with a common characteristic observable in the study. The common elements about which the study intends to make inferences (Coopers and Schindler, 2009). Gay (1981) cited in Mugenda and Mugenda (2003) suggests that in descriptive research 10% of the accessible population is adequate to infer the characteristics to a population. Where enterprise is trading, undertaking projects for profit, buying and selling actively. (KAIG, 2012).

Table 3.1: Target Population

Category	Population
Affluent/Gold	113
Medium/Silver	1050
Low/Bronze	337
Totals	**1500**

Source: KAIG (2014).

3.4 Sample Frame

This is a complete and correct list of population members where the sample will be randomly chosen (Coopers and Schindler, 2006). In this study the list of all registered investment groups, in Nairobi County formed the sample frame. Kenya Association of Investment groups (KAIG) being an umbrella body have a complete list of all formally registered investment groups in Nairobi County. The membership currently stands at 1500.The data is according to the table 3.1.

3.5Sample size determination criteria:

In order to determine the sample size, the criterion of selecting a sample is derived from Israel (2009) and Mugenda and Mugenda (2003) summarized in the table 3.2 below:

Table 3.2 Criteria for Selecting Sample Size

	Confidence Level		
Margin of error(+/-)	90%	95%	99%
1	6765	9604	16576
2	1691	2401	4144
3	752	1067	1848
4	413	600	1036
5	217	384	663
10	68	96	166
20	17	24	41

Israel (2009)

In social science research sample size is normally determined statistically, using the formula,

$$n = pq\left(\frac{z}{d}\right)^2$$

Where;

n = sample size
z = the table value for level of confidence 90% level of confidence is 1.645 while 95% level of confidence is 1.96
d = margin of error
q = (1 - 0.5) the proportion in the target population that is estimated not to have characteristics being measured.
p = the proportion in the target population estimated to have characteristics being measured (p is estimated at 0.5)
Using the above formula: sample size n is calculated as follows:

$$n = 0.5\ (1\text{-}0.5)\left(\frac{1.96}{0.10}\right)^2 \ n = 96$$

This gives a sample size of 96 statistically. The sample size of 96 is then distributed to the different strata as shown in Table 3.3, to get the number of elements in each strata representative of the target population.

Table 3.3: Sampling Frame

Strata	Investment Group Members	% Distribution	Sample Size
Affluent/Gold	113	9	7
Medium/Silver	1050	69	67
Low/Bronze	337	22	22
Totals	**1500**	**100**	**96**

Source: KAIG (2014).

The researcher targeted to sample 96 investment groups determined at 95% level of confidence from the population of 1500 registered investment groups. A good sample is more than 10% of the accessible population, and the individual elements should not be less than 30 according to Mugenda and Mugenda (2003).

3.6Sampling Technique

In this study the research used a stratified random sampling technique to be able to achieve the most representative sample as possible. The criterion was the level of resources mobilization clustered in predetermined groups. A stratum is defined as a subset of the population that shares at least a common characteristic according to Mugenda and Mugenda (2003).

3.7Data Collection Instruments

The researcher administered questionnaires' to collect data on investment groups. The questionnaire collected both quantitative and qualitative data. According to Kothari (2004), questionnaires are the most economical in terms of time, energy and finances. Questionnaires yield primary data both qualitative and quantitative data which are systematic, easy to collect and easy to analyze. Secondary data was collected from journals, publications, books and any relevant archived materials.

3.8 Data Collection Procedure

A list of all investment groups registered in Nairobi will be obtained from KAIG as at 31st December, 2014. The investment groups were stratified into three sub-groups in a pre-determined manner with input from KAIG. From the selected strata random samples will be collected to form representative sample of the population. The sample members selected, questionnaires were administered by a trained data collection clerk trained by the researcher. The questionnaires were administered to all respondents, a register were kept and all filled questionnaires were collected for analysis. The information collected was checked for completeness, consistency and reliability. It was then coded to prevent bias, before it is analyzed.

3.9 Pilot Test

To test validity and reliability of the questionnaire instrument, a pilot study was done on 10% of the sample (10 investment groups) with similar characteristics but not part of the sample. Internal validity refers to the extent to which the studies design and data it yields allows the researcher to draw accurate conclusions (Leedy & Ormrod, 2005). Reliability refers to the extent to which the findings can be replicated by another researcher (Silverman, 2005). Use of Cronbach's alpha coefficient was used to test reliability. Cronbach alpha is a statistic coefficient value of between 0 and 1 that is used to test reliability of questionnaire as an instrument to be used in this study.

The Cronbach coefficient will be determined using the formula below:

$$KR20 = \frac{(K)(S^2 - \sum s^2)}{(S^2)(K-1)}$$

KR20 = Reliability coefficient for internal consistency
K = Number of items used to measure concept
S^2 = Variance of all scores
s^2 = Variance of individual items

A high coefficient implies a high correlation among the measured items, tending towards homogeneity of the data. The pilot study will be used to test validity, reliability and objectivity of the study. Objectivity in a study is when data collected is free from bias. Use of standard questionnaire increases objectivity of the data (Silverman, 2005).

3.10 Data Processing and Analysis

The data collected from the respondent's was cleaned, coded, recorded and analyzed using descriptive as well as inferential statistics. The descriptive statistics summarized the data and described the sample in terms of mean, standard deviation and frequency. The data collected was analyzed using SPSS software version 21. Inferential statistics used is chi square test. The relationship among variables was also established. Qualitative data was analyzed using content analysis to determine trends, patterns and relationships from the information gathered. The data was analyzed using cross-tabulation and chi squared test.

3.11 Data Presentation

The Quantitative results were presented in a descriptive form, in terms of measures of central tendency and measures of dispersion. The Mean and frequency were presented in tables. The distribution was reported graphically using pie charts, frequency tables and graphs. Qualitative results were described using prose/discourse. A detailed report was then prepared, edited and presented inform of a publication.

Chapter Four

4. Results and Discussions

4.1Introduction

This chapter presents the analysis of the primary data collected from the questionnaires administered. The collected data was edited and cleaned for completeness and consistency in preparation for coding. Once coded, the data was entered into the Statistical Package for Social Sciences (SPSS version 21) for analysis. Quantitative data was analyzed using descriptive statistics while qualitative data was analyzed using content analysis where responses were categorized into homogenous themes. The results of the study were presented in tables, bar graphs, pie charts, percentages and frequency counts.

4.2 Response Rate

A total of 96 questionnaires were administered but the researcher only managed to receive back 70questionnaires giving a response rate of 72.92% as shown in Table 4.1. This response was adequate to allow the researcher to continue with the analysis Mugenda (2003). The questionnaires contained questions that addressed the objectives of the study. The study sought to determine the influence of investment groups on creation of small and medium size enterprises in Nairobi County.

Table 4.1: Response Rate

Response Rate	Frequency	Percentage
Completed and Returned	70	72.92
Not Returned	26	27.08
Total	**241**	**100**

4.3 Pilot Test Result

4.3.1 Data Validity

To establish the technical soundness, the accuracy and meaningfulness of the data collected, the researcher conducted a pilot study by issuing ten questionnaires to respondents who met the qualifications of the target population. The response rate of the pilot was 80%. Piloting of the research instrument also helped to clarify the wording and grammar of the instrument so as to avoid misinterpretations and detect ambiguity questions and to pick out other problems in the research methodology.

4.3.2 Data Reliability

To test the internal consistency of the Likert scale used in this study, reliability analysis was done using Cronbach's Alpha as the measure. A reliability co-efficient of $\alpha \geq 0.7$ was considered adequate. A co-efficient of 0.702 was registered implying that there was a high correlation among the measured items and therefore a high level of internal consistency. This also indicated that the scale was reliable enough to determine the influence of investment groups on creation of small and medium size enterprises in Nairobi County. The results of the reliability analysis are shown in Table 4.2;

Table 4.2: Cronbach's Alpha

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items
0.702	0.708

4.4 General Demographics

4.4.1 Number of Years in Operation

The study sought to know the number of years the investment groups had been in operation. The results of the analysis indicated that 61.8% of the investment groups had been operating for 2-4 years. Investment groups operating for between 0-1 years and 4-6 years accounted for 11.8% each. Groups operating for between 7-10 years and for over 10 years accounted for 7.4% each. The results of the study are as shown in Table 4.3. This is consistent with the study by Bowen *et al*.,(2009) who showed that majority(56.1%) of micro and small businesses were less than 3 years old. Those between 3-10 years were only (31%). In the same study years in operation was a poor predictor of business performance. This shows that the number of years an investment group has been in operation cannot predict its success in creating SME's (Bowen*et al*., 2009; KAIG, 2011).

Table 4.3: Number of Years in Operation

Years	Frequency	Valid Percent
2 - 4 years	42	61.8
0 - 1 years	8	11.8
4 - 6 Years	8	11.8
7 - 10 Years	5	7.4
More than 10 Years	5	7.4
Total	**68**	**100.0**

4.4.2 Number of Members in the Investment Groups

The study also sought to know the number of members in the investment groups. The study established that most (52.9%) of the investment groups had 10-20 members followed by the groups with 20-30 members at 26.5%. Only 4.4% of the investment groups had more than 31 members. This implies that most investment groups consist of just a few members and that the researcher sought his data from investment groups consisting of diverse number of membership. The results of the study are as shown in Figure 4.1.The results from the study are consistent with Mwangi and Ouma (2012) study on social capital. Belonging to group increases ones chances in access to finance. Being in a group enables one to save and buy larger assets. The number of members is a poor predictor of the level of resources mobilization.

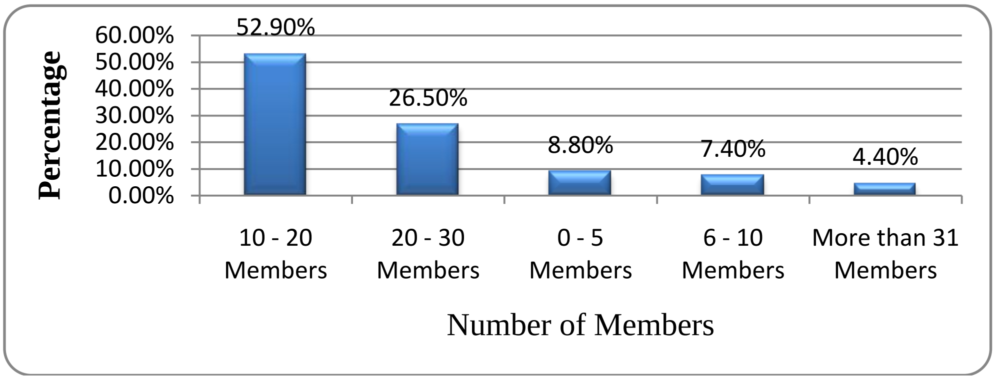

Figure 4.1: Number of Members in the Investment Groups

4.4.3 Gender Distribution of Membership

In this section, the study sought to know the distribution of the investment groups' members by gender. According to the study findings, most (43.5%) of the investment groups consisted of mixed gender (50/50) followed by male dominated groups at 36.2%. Female dominated groups accounted for only 8.7% only. Male only groups accounted for 7.2% of the investment groups while female only groups accounted for 4.3% only. This indicates that there is a need for gender balance in the formation of investment groups. The findings also indicate that the researcher sought views from investment groups consisting of different genders to avoid any bias. The findings are shown in Table 4.4. The finding of the study corroborates a study by Malkamaki (2008), where majority of the membership of investments groups were male, were better organized and members took bigger risks. Women are naturally risk averse, their ability to save increase credit access according to Soltane *et al.*, (2013).

Table 4.4: Gender Distribution of Membership

Gender Membership	Frequency	Valid Percent
Mixed 50 / 50	30	43.5
Male Dominated	25	36.2
Female dominated	6	8.7
Male only	5	7.2
Female only	3	4.3
Total	**69**	**100.0**

4.4.4 Distribution of Membership by Level of Education

The study further sought to know the level of education of the majority of investment group's members. The study found out that in majority (62.3%) of the groups, most of the members had a secondary level of education followed 31.9% of the groups whose members mostly consisted of college or university level of education. Only 5.8% of the investment groups had members who mostly consisted of primary level of education. This implies that the investment groups consist of well-educated members who are expected to be in a position to take sound investment decisions. The study findings are as shown in Figure 4.2.The study results is consistent with Bowen *et al.*, (2009), level of education alone is a poor predictor of business performance. It is important to note that increased access to education majority of people studied had post-secondary school training. Cross-tabulation on the level of education and portfolio value of the investment group was not significant.

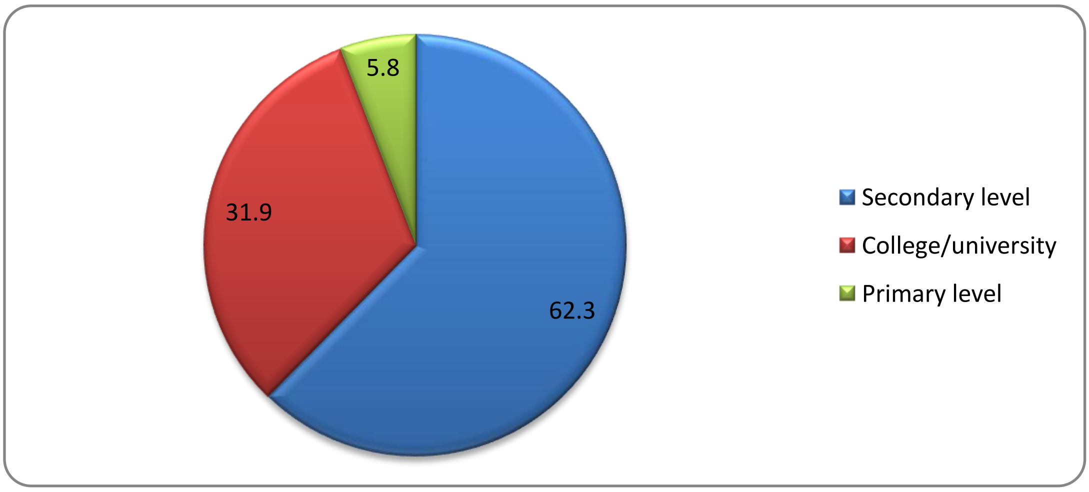

Figure 4.2: Distribution of Membership by Level of Education

4.4.5 Investment Groups Registration

The study sought to know how the investment groups were registered. The study established that majority (78.3%) of the investment groups were registered as self-help groups followed by the investment groups registered as limited liability companies at 14.5%. Only 4.3% of the groups that responded are operating informally without registration. This implies that majority of investment groups in Nairobi County are registered (95.7%) and that they are operating formally. The results are as shown in Table 4.5. The results are consistent with a previous study by Malkamaki who reported that investment groups are better organized, have a bank account, and are registered have a constitution and more formalized (Malkamaki, 2008). A cross-tabulation of registration and the level of investment groups' portfolio value was quite significant.

Table 4.5: Investment Groups Registration

Registration form	*Frequency*	*Valid Percent*
Self-help Group	54	78.3
Limited Company	10	14.5
Non-formal/ Not registered	3	4.3
Partnership	2	2.9
Total	**69**	**100.0**

4.4.6 Regulations Governing Management of Investment Groups

The respondents were requested to indicate the regulations they use to manage the affairs of their groups. The case summary indicated that there were 68 respondents. The frequency table indicated that there were a total of 70 responses to the question. Fifty seven (57) investment groups indicated that they were governed by group constitution. The 57 responses represented 81.4% of the 70 responses. Additionally, the 57 groups represented 83.8% of all respondents (Percent of Cases, where N = 68). The findings also indicated that 10investment groups were governed by company law. This represented14.3% of the responses and 14.7% of all respondents. Only 1 investment group, representing 1.4% of the responses and 1.5% of the groups, had no rules or laws to govern them. The results of the study are as shown in Table 4.6. The study results corroborates the findings by Moronge (2013) and Malkamaki (2007) where formal organizations are better managed and serve the interest of the membership. The investment groups use their constitution, Sacco by laws or company laws. This agrees with Kauffman (2005) who explained why many SME's don't survive past three years.

Table 4.6: Regulations Governing Management of Investment Groups

Frequencies		N	Percent	Percent of Cases
Regulations Governing Groups[a]	Constitution	57	81.4%	83.8%
	Company law	10	14.3%	14.7%
	Simple rules	2	2.9%	2.9%
	None	1	1.4%	1.5%
Total		**70**	**100.0%**	**102.9%**
a. Dichotomy group tabulated at value 1.				

4.5 Resources Mobilization

4.5.1 Frequency of Contributions

The respondents were further requested to indicate the frequency with which the investment groups made contributions. The consistency of contributions was measured on a Likert scale of 1-4 where: 1= consistently, 2= moderately consistent 3= satisfactory and 4= unsatisfactory. Interpretation was done as follows: 1-1.5: consistent; 1.6-2.5: moderately consistent; 2.6-3.5: satisfactory; 3.6-4.0: unsatisfactory. The results of the study indicated that 52 investment groups made their contributions monthly in a moderately consistent manner (*M*= 1.65, *SD*= 0.84). Five groups made their contributions quarterly in a moderately consistent manner (*M*= 2.0, *SD*= 1.00). Four groups made Ad hoc contribution as need arose and it was done in a consistent manner (*M*= 2.50, *SD*= 1.00). The results of the study are as shown in Table 4.7; the study results shows the frequency of contributions in groups is not uniform due to the social economic factors of the members, being democratic groupings members try to accommodate each other. A major problem reported is members who are not happy leaving the investment group due to contribution fatigue or inability to cope with contribution requirements (Malkamaki, 2008& FSD, 2009).

Table 4.7: Frequency of Contributions

Period	N	Mean	Std. Deviation
Monthly	52	1.65	0.84
Quarterly	5	2.00	1.00
Yearly	4	2.50	1.00
Ad hoc as need arises	4	1.50	0.58
Half-Yearly	3	2.33	1.15

4.5.2 Average Amount of Monthly Contributions

The study sought to know the average amount of contributions made by the investment groups monthly. The study established that majority of the groups made a monthly contribution of between 1000-5000 followed by 16.9% of the groups that contributed a monthly amount of 6000-10,000. The groups that contributed More than 51,000 monthly accounted for 7.7%. Only 3.1% of the groups made a monthly contribution 21,000-50,000. This implies that majority of investment groups in Nairobi County make a small amount of monthly contributions. The results of the study are as shown in Table 4.8; Majority of the investment group members tries to save the amount they can afford. Many groups adopt uniformity in savings. The more structured and resourced groups adopt contribution by shares that are capable of mobilizing greater resources (KAIG, 2012).

Table 4.8: Average Amount of Monthly Contributions

Amount in Ksh.	Frequency	Valid Percent
1,000-5,000	44	67.7
6,000-10,000	11	16.9
More than 51,000	5	7.7
11,000-20,000	3	4.6
21,000-50,000	2	3.1
Total	**65**	**100.0**

4.5.3 Dealing with Inconsistent Contributors

The study further sought to know how inconsistent contributions among group members were managed. The study found out that majority (82.1) of the investment groups imposed fines and penalties on the group members. The groups that imposed sanctions on investment group activities participation were at 7.5%. Three percent of the investment groups expelled non-contributing members while 7.5% of the groups took no action. The study findings are as shown in Table 4.9. The results are consistent with Malkamaki who reported that inconsistent contributors create tension in the groups. Gugerty (2007) and Malkamaki (2008) also found out that penalties are levied to enhance compliance and generate revenue for the investment groups.

Table 4.9: Dealing with Inconsistent Contributors

Action	Frequency	Valid
Fines and penalties are imposed	55	82.1
Sanctions on investment group activities participation	5	7.5
No action	5	7.5
Expulsion	2	3.0
Total	**67**	**100.0**

4.5.4 Collection of Finances

The respondents were requested to indicate how their investment groups collected their finances. The case summary indicated that there were 69 respondents. The frequency table indicated that there were a total of 86 responses to the question. Thirty nine (39) investment groups, representing 45.3% of the responses, indicated that they banked their contributions in group's account. Additionally, the 39 groups represented 56.5% of all respondents (Percent of Cases, where N = 69). The study findings further established that 34 investment groups contributed cash during meetings. This represented 39.5% of the responses and 49.3% of all respondents. The results of the study are as shown in Table 4.10. The study is consistent with studies (Kamau, 2009; Mwangi & Ouma, 2012; & Gugerty, 2007) on mobilization of financial resources and how collected funds are channeled to the group.

Table 4.10: Collection of Finances

Frequencies		N	Percent	Percent of Cases
Collection of finances	Banked in groups account	39	45.3%	56.5%
	Cash during meetings	34	39.5%	49.3%
	Cheques	5	5.8%	7.2%
	Banked in officials account	4	4.7%	5.8%
	Banked in Partnership account	2	2.3%	2.9%
	Standing order	2	2.3%	2.9%
Total		**86**	**100.0%**	**124.6%**
a. Dichotomy group tabulated at value 1.				

4.5.5 Investment Decisions Responsibility

The study sought to know who was given the responsibility of spearheading investment decisions in the groups. The study found out that in 32.8% of the investment groups, investment decisions were made by investment committee followed by 29.9% of the groups where investment decisions were made by group members. In 19.4% of the groups, investments decisions were leader driven while in 14.9% of the groups, the decisions were done by the board of directors. The results of the study are as shown in Figure 4.3. The study results are consistent with Malkamaki (2008) and FSD (2009) studies of investment groups on how they are managed, investment groups are managed in a participatory, democratic manner where all members as part of the group.

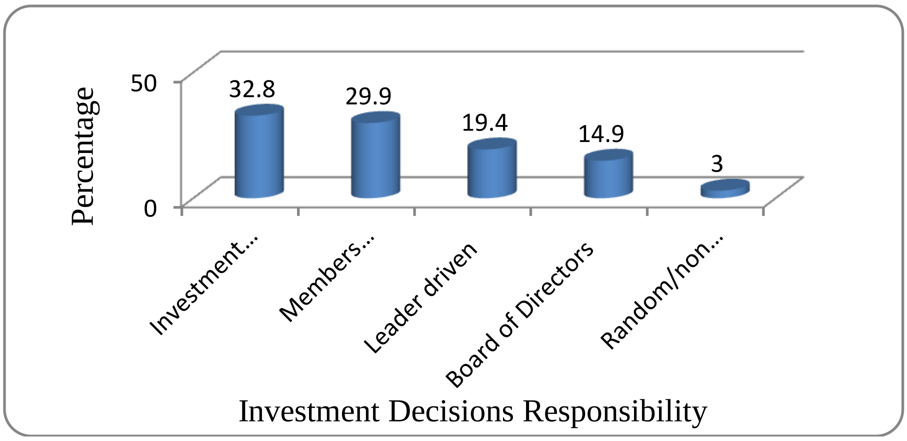

Figure 4.3: Investment Decisions Responsibility

4.5.6 Major Source of Funds

The study also sought to know the major source of funds for the investment groups in Nairobi County. The study found out that majority (81.2%) of the investment groups got their funds from members' contributions followed by 17.2% of the investment groups that got their funds from business investments. Only 1.6% of the investment groups got their funding from member loans. This implies that the major source funding for investment groups in Nairobi County is from members' contribution. The results of the study are as shown in Figure 4.4. The study is consistent with Bowen *et al*., (2009) where sources of funds are from members' economic activity (employment and business) in an investment groups setting the source is member's contributions and retained earnings.

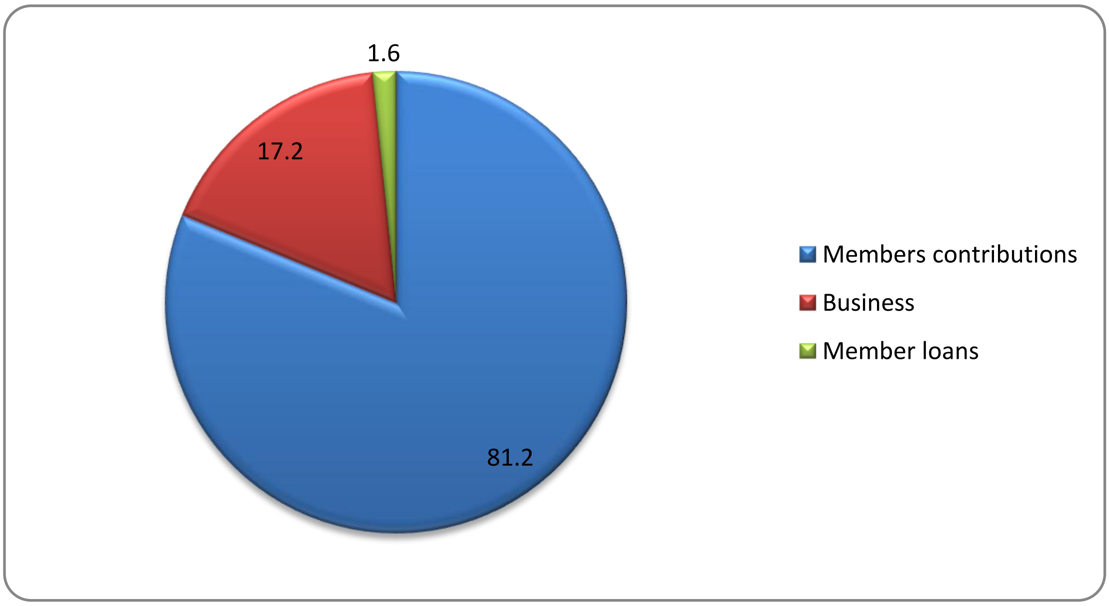

Figure 4.4: Major Source of Funds

4.5.7Main Reasons for Starting Investment Groups

The respondents were further requested to indicate the reasons why they had formed the investment groups. Multiple reasons were stated and the respondents were asked to tick all that applied. A total of 65 investment groups responded as to the question. The frequency table indicated that there were a total of 137 responses to the question. Forty one (41) investment groups, representing 29.9% of the responses and 64.1% of all the respondents, indicated that they formed the investment groups to invest in opportunities.

Thirty one (31) investment groups, representing 22.6% of the responses and 48.4% of all the respondents, indicated that they formed the investment groups to mobilize resources. Investment groups formed to socialization and sharing of knowledge were 23 representing 16.8% of the responses and 35.9% of all the respondents. The results of the study are as shown in Tables 4.11. This is consistent with the findings of Kamau (2009) on the main reason for starting investment groups is business orientation. This also agrees with findings of FSD (2009).

Table 4.11: Main Reason for Starting Investment Groups

Frequencies		N	Percent	Percent of Cases
Reason for starting investment groups[a]	To invest in opportunities	41	29.9%	64.1%
	Resources mobilization	31	22.6%	48.4%
	Socialize and share knowledge	23	16.8%	35.9%
	Financial freedom	19	13.9%	29.7%
	Diversify income	9	6.6%	14.1%
	To purchase assets	8	5.8%	12.5%
	Insurance to social problems (Death, weddings, loan)	5	3.6%	7.8%
	Retirement plan	1	.7%	1.6%
Total		**137**	**100.0%**	**214.1%**
a. Dichotomy group tabulated at value 1.				

4.5.8 Influence of Resource Mobilization in Formation of Business

The respondents were further requested to indicate the extent to which resource mobilization influenced formation of business. The study found out that 74.5% of the investment groups formed businesses as a result of resource mobilization to a very great extent. In 12.7% of the groups, formation of business was influenced by resource mobilization to a great extent. In 3.6% of the investment groups, resource mobilization never influenced the starting of business at all. The results of the study are as shown in Figure 4.5.The results confirm an earlier study by Malkamaki (2008), the main reason why investment groups are started is resources mobilization, getting business ideas to a large extent, fact supported by Kamau (2009).

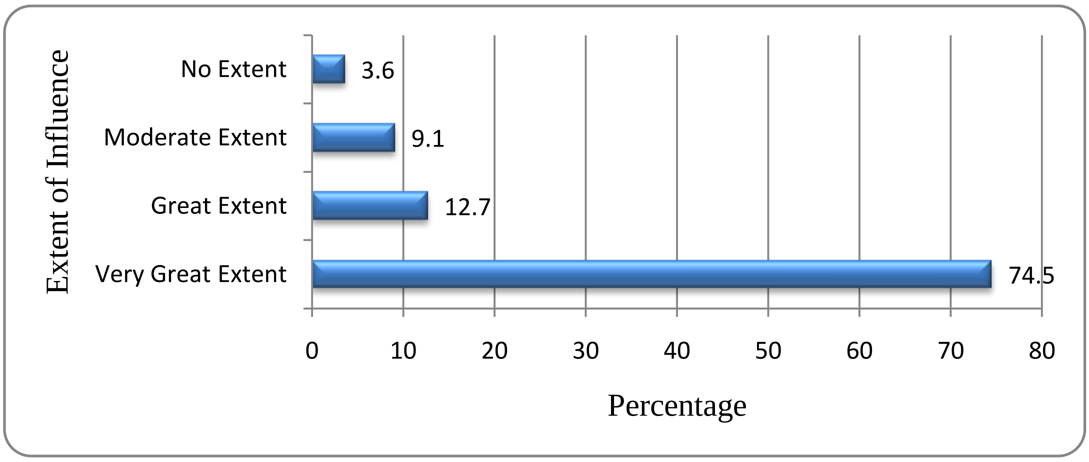

Figure 4.5: Influence of Resource Mobilization in Formation of Business

4.6 Idea Generation

4.6.1 Motivation of Starting a Business

The study further sought to know what motivated investment groups to start businesses. Multiple motivators were listed and the respondents were requested to tick all that applied. A total of 68 investment groups responded to the series of questions. The frequency table indicated that there were a total of 83 responses to the question. Twenty eight (28) investment groups, representing 33.7% of the responses and 41.2% of all the respondents, indicated that they were motivated to start a business by the necessity to get income financial freedom. Twenty three (23) of the investment groups, representing 27.7% of the responses and 33.8% of all the respondents, indicated that they were motivated by members desire to start a business. The results of the study are as shown in Tables 4.12. The results are consistent with Malkamaki (2008) on the business orientation aspect as the motive of starting investment groups to achieve financial freedom. The same is reported by Tanaka and Nguyen (2009) on street vendors study in Vietnam.

Table 4.12: Motivation of Starting a Business

Frequencies		N	Percent	Percent of Cases
Motivation of Starting a Business[a]	Necessity to get income financial freedom	28	33.7%	41.2%
	Members desire	23	27.7%	33.8%
	Taking advantage of opportunity in the market	19	22.9%	27.9%
	Drive by the groups leadership	5	6.0%	7.4%
	Original intention of starting the group	5	6.0%	7.4%
	Collaboration with other firms/outsourced services	3	3.6%	4.4%
Total		**83**	**100.0%**	**122.1%**
a. Dichotomy group tabulated at value 1.				

4.6.2 Generation of Ideas by Investment Groups

The respondents were further requested to indicate how their investment groups generated their business ideas. Multiple methods were listed and the respondents were requested to tick all that applied. A total of 67 investment groups responded to the question. The frequency table indicated that there were a total of 74 responses to the question. Thirty six (36) investment groups, representing 48.6% of the responses and 53.7% of all the respondents, indicated that they generated business ideas through brainstorming. Fifteen (15) investment groups, representing 20.3% of the responses and 22.4% of all the respondents, indicated that they generated business ideas for through use of research and experts. Investment groups that generated ideas through group leaders were 15 representing20.3% of the responses and 22.4% of all the respondents. The results of the study are as shown in Tables 4.13. The findings are consistent with Ginotra *et al.*,(2009) study on the most common sources of new ideas.

Table 4.13: Generation of Ideas by Investment Groups

Frequencies		N	Percent	Percent of Cases
Idea Generation[a]	Brain storming	36	48.6%	53.7%
	Research or experts	15	20.3%	22.4%
	Leaders take the	15	20.3%	22.4%
	Committee way	8	10.8%	11.9%
Total		**74**	**100.0%**	**110.4%**
a. Dichotomy group tabulated at value 1.				

4.6.3 Benefits of Social Networks

The study further sought to know if personal networks and knowledge of the group members benefitted the group and the extent to which it did so. The study established that 97.1% of the personal networks of the members were beneficial to the groups. On the extent to which the networks were beneficial, the study established that to 57.4% of the groups, the networks were beneficial to a moderate extent followed by 30.9% of the groups to whom the networks were highly beneficial. To 10.3% of the investment groups, the networks were slightly beneficial. The results of the study are as shown in Table 4.14. This confirms findings of the study on the benefit of social networks in enhancing financial access (Mwangi & Ouma, 2012), this is also corroborated by Coulthard and Loos, (2007) on networks assisting groups overcome information asymmetry. Soltane (2013) corroborates the findings on networks.

Table 4.14: Influence of Social Networks in Formation of Business

Level of benefit	Frequency	Valid Percent
Moderately beneficial	39	57.4
Highly beneficial	21	30.9
Slightly beneficial	7	10.3
Not beneficial	1	1.5
Total	**68**	**100.0**

4.6.4 Influence of Idea Generation in Business Formation

The study also sought to know the extent to which ideas generation influenced formation of businesses. The study established that 53.2% of the investment groups formed businesses as a result of idea generation to a very great extent. The groups that formed business to very great extent as a result of idea generation were20.4%. Further, 14.2% of the groups formed businesses through the influence of idea generation to a moderate extent. The results of the study are as shown in Figure 4.6. Malkamaki reported that one of the driving forces in starting investment groups is to exchange business ideas and socialize (2008).

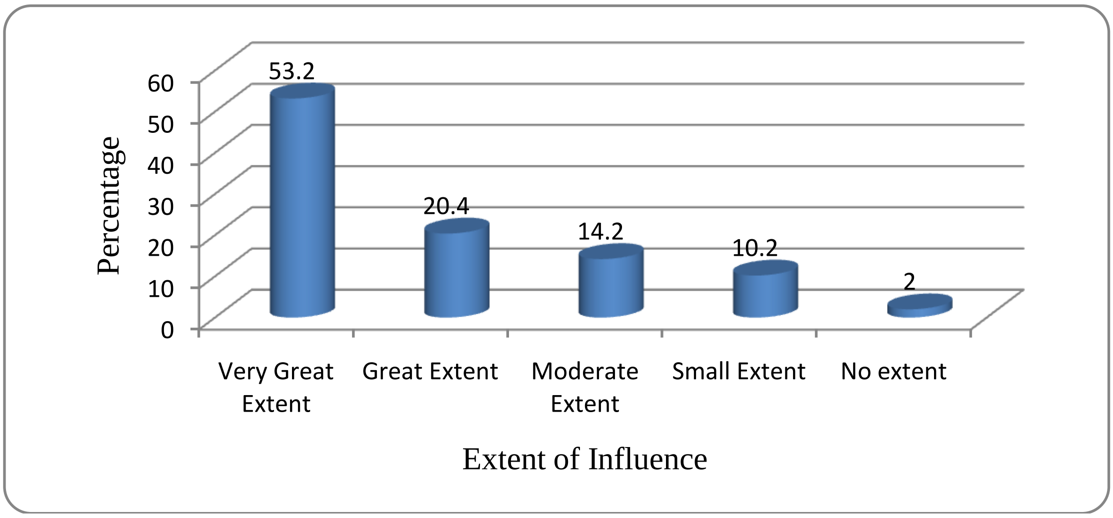

Figure 4.6: Influence of Idea Generation in Business Formation

4.7 Risk Spreading

4.7.1 Investment Group Management Style

In this section, the study sought to know the management styles used by different investment groups in Nairobi County. The study found out that 67.6% of the investment groups were managed democratically. The groups managed using authoritarian management style were 5.9% while the board driven groups accounted for 4.4%. However, 22.1% of the groups were managed using a mix of democratic, authoritarian and board management styles. This indicates that in most investment groups, democracy is the main management style being used to manage the affairs of the group. This ensures the participation of all members hence reducing chances of group disintegration. The results of the study are as shown in Figure 4.7. Wanjohi and Obuobi, 2010 reported that management is key to organizational efficiency and sustainability owing to reduced risks.

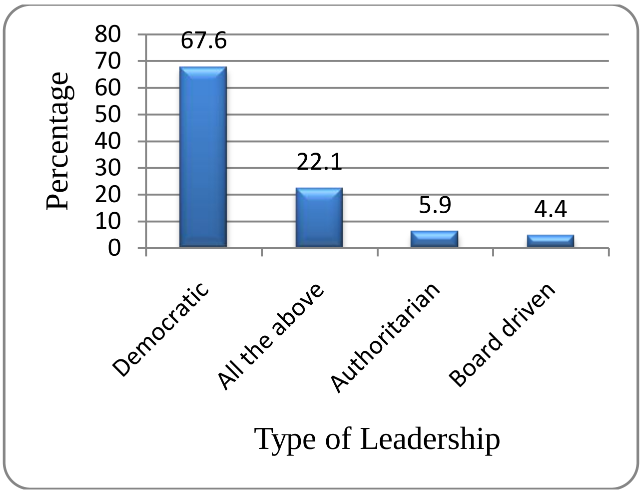

Figure 4.7: Investment Group Management Style

4.7.2 Management of Investment Group Finances

The study also sought to know how the finances of the investment groups were managed. The study findings indicated that the finances in 46.3% of the investment

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groups were well managed and audited yearly. The study further found out that in 34.3% of the investment groups, books of accounts can be freely inspected by the members. Only 7.5% of the investment groups' finances are not well managed never audited. This indicates that in majority of investment groups in Nairobi County, the risk of money misappropriation has been averted by ensuring that there are adequate controls. The results of the study are as shown in Figure 4.7. This concurs with study findings by Wanjohi and Obuobi, 2010 on leadership and integrity.

Table 4.15: Management of Investment Group Finances

Action on books of Accounts	Frequency	Valid Percent
Well managed and audited yearly	31	46.3
Books can be freely inspected by the	23	34.3
Managed by an accounts committee	7	10.4
Not well managed never audited	5	7.5
Accounting function is outsourced.	1	1.5
Total	**67**	**100.0**

4.7.3 Use of Investment Group Proceeds

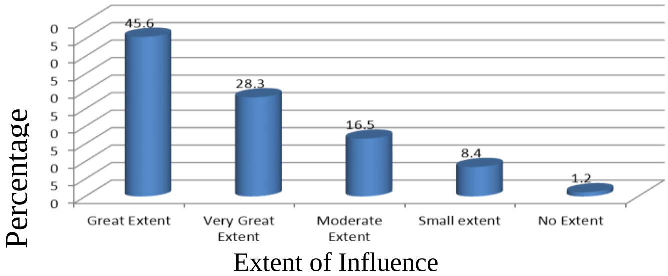
The respondents were further requested to indicate how their investment groups used their proceeds. The study found out that 33.3% of the investment groups reinvested their profits back into the business followed by 30.3% of the groups that paid interest and then 19.7% of the groups that paid dividends to members. Only 10.6% of the investment groups bought new assets. The results of the study are as shown in Table 4.16. This confirms the study finding by Mwangi and Ouma, 2012; on leveraging resources among groups in their study on social capital and financial inclusion. This is also confirmed in a study of Sacco's (Mudibo, 2005).

Table 4.16: Use of Investment Group Proceeds

Use of investment proceed	Frequency	Valid Percent
Profits are reinvested	22	33.3
Interest is paid	20	30.3
Group gives dividends	13	19.7
Group acquires new assets	7	10.6
None of the above	4	6.1
Total	**66**	**100.0**

4.7.4 Influence of Risk Spreading in Formation of Business

The study further sought to know the extent to which risk spreading influenced formation of business. The study established that 45.6% of the investment groups formed businesses as a result of risk spreading to a great extent. The groups that formed business to very great extent as a way of risk spreading were 28.3%. Further, 16.5% of the groups spread their risks by forming business to a moderate extent. Only 1.2% of the investment groups did not spread risks by starting businesses. This implies that risk spreading has a great influence in the formation of business. The results of the study are as shown in Figure 4.8. Starting a business is normally regarded as a risk, Muthaura, 2010 reported that investment groups are capable of playing a role of venture capitalist to assist start-ups, mostly regarded as very high risk enterprises, usually lack financial capital. (CMA, 2010).



igure 4.8: Influence of Risk Spreading in Formation of Business

4.8 Creation of SMEs

4.8.1 Involvement of Investment Groups in Business

The study sought to know whether the investment groups were involved in business and the motivation behind it. The study established that 80.6% of the groups were involved in business. On the motivation of getting involved in business, there were a total of 55 investment groups that responded to the question. The frequency table indicated that there were a total of 83 responses to the series of questions. Thirty three (33) investment groups, representing 39.8% of the responses and 60.0% of all the respondents, indicated that they started a business to create employment. Nineteen (19) investment groups, representing 22.9% of the responses and 34.5% of all the respondents, indicated that they started a business for financial independence. Sixteen (16) investment groups, representing 19.3% of the responses and 29.1% of all the respondents, indicated that they started a business to diversify sources of income. The results of the study are as shown in Table 4.17. The results confirm Malkamaki (2008), study on why investment groups are started primarily to invest/ start businesses. The main drivers being financial freedom and independence.

Table 4.17: Involvement of Investment Groups in Business

Frequencies		N	Percent	Percent of
Motivation of starting business[a]	Create employment	33	39.8%	60.0%
	Financial	19	22.9%	34.5%
	Diversify sources of	16	19.3%	29.1%
	To Profit	10	12.0%	18.2%
	Opportunity arose-	5	6.0%	9.1%
Total		**83**	**100.0%**	**150.9%**
a. Dichotomy group tabulated at value				

4.8.2 Business Investment Sector

The study further sought to know the sector the investment groups had invested in using a series of questions. A total of 43 investment groups responded to the questions. The frequency table indicated that there were a total of 53 responses to the question. Twenty four (24) investment groups, representing 45.3% of the responses and 55.8% of all the respondents, indicated that they have invested in the service industry. Seventeen (17) investment groups, representing 32.1% of the responses and 39.5% of all the respondents, indicated that they have invested in the real estate sector. Investment groups that have invested in the stock and shares at NSE were 9representing17.0% of the responses and 20.9% of all the respondents. The results of the study are as shown in Tables 4.18.The results corroborates Bowen (2009) showed that majority of micro and small enterprises invest majorly in the service sector.

Table 4.18: Business Investment Sector

Frequencies		*N*	*Percent*	*Percent of Cases*
Investment Sector[a]	Service industry	24	45.3%	55.8%
	Real Estate	17	32.1%	39.5%
	Stock and shares (NSE)	9	17.0%	20.9%
	Manufacturing	3	5.7%	7.0%
Total		**53**	**100.0%**	**123.3%**
a. Dichotomy group tabulated at value 1.				

4.9.3 Business Registration

The study further sought and obtained details about the registration of the businesses started by the investment groups. The study found out that 29.1% of the investment groups' businesses were registered as business names. Another 29.1% of the businesses were not registered at all. The businesses registered as limited companies accounted 16.4%. Further, 14.5% of the businesses were registered under a member's name. Only 10.9% of the investment groups' businesses were registered as partnerships. This implies that most of the businesses are operating formally although a good number is operating informally without registration. The results of the study are as shown in Figure 4.9. The results are consistent with Malkamaki (2008) and FSD (2009) that showed business that are more formal have the ability to grow faster and access funding, the same is reported by Ruirie (2012).

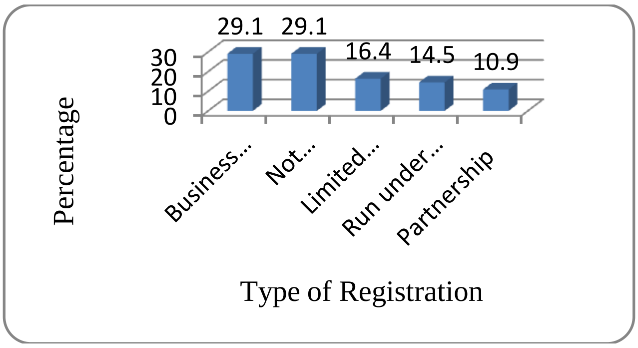


Figure 4.9: Business Registration

4.8.4 Management of the Business

The study further sought to know who was responsible for managing the business started by investment groups. The study found out that 65.5% of the businesses were managed by the members of the investment groups followed by 16.4% of the businesses that were managed by officials or volunteers. Only 3.6% of the investment groups outsourced staff for their businesses. The result of the study is as shown in Table 4.19. Bowen *et al.*, (2009) reported that many micro and small business are managed by the owners; the management is shared by investment group members until the business is solid and big enough to employ managers.

Table 4.19: Management of the Business

Management	*Frequency*	*Valid Percent*
Member/members	36	65.5
Officials/Volunteers	9	16.4
Officials-paid	4	7.3
Employees	4	7.3
Outsourced staff	2	3.6
Total	**55**	**100.0**

4.8.5 Number of Employees

The study was also interested in knowing the number of employees the investment groups businesses have employed. The study established that 42.3% of the businesses have 1-3 employees followed by 19.2% of the businesses with 4-6 employees. The businesses with 21-50 and those with more than 51 employee accounted or 1.9% each. This implies that investment groups have succeeded in creating employment opportunities. The results of the study are as shown in Table 4.20. The findings are in consistent with KAIG survey (2012), many members of the investment groups are on employment, and their involvement in business creates employment.

Table 4.20: Number of Employees

Number of Employees	*Frequency*	*Valid Percent*
1-3	22	42.3
4-6	10	19.2
0	9	17.3
7-10	7	13.5
11-20	2	3.8
21-50	1	1.9
More than 51	1	1.9
Total	**52**	**100.0**

4.8.6 Annual Turnover of the Investment Group

Further, the study sought information on the average annual turnover of the investment group businesses. The study found out that majority (83%) of the groups had an average annual turnover of less Ksh. 100,000. The groups with an annual turnover of between Ksh. 100,000- Ksh.1 million were 7.5%. Only 3.8% of the groups had an average annual turnover of more than 100 million. The results of the study are as shown in Figure 4.10. The results are consistent with Ruirie (2012) and McDonald (2007) that shows many SME's lack funds for operations and working capital, this is conformed in the self-help group's ability to mobilize funds. The more resourced investment groups are more formal and employ more persons.

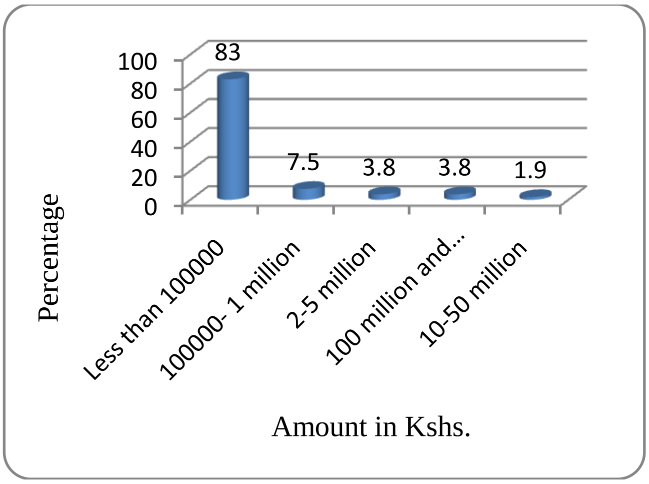


Figure 4.10: Annual Turnover of the Group

4.8.7 Portfolio Value of the Investment Groups

On the total value of the investment groups, the study established that 78% of the groups had less than Ksh. 200,000 in total value. Investment groups with Ksh. 1-5 million in portfolio value accounted for 4%. Those with Ksh. 11-50 million were at 2% while those with 51 million and above accounted for 4%. The results of the study are as shown in Table 4.21. The results confirm the study by Kiraka, (2009) and KWFT, (2011) on women entrepreneurs and their ability to attract funding depended on having collateral. With investment groups ability to mobilize own funds there are able to save on interest or negotiate better interest rates.

Table 4.21: The Total Value of the Investment Group

Ksh.	*Frequency*	*Valid Percent*
Less than 200000	39	78.0
200001-500000	4	8.0
500001-1000000	2	4.0
51 million and above	2	4.0
1-5 million	1	2.0
6-10 million	1	2.0
11-50 million	1	2.0
Total	**50**	**100.0**

4.8.8 Business Trend in the Last Three Years

The study was also interested in knowing the trend of the businesses of investment group for the last three years. The study established that 83.3% of the businesses were growing steadily followed by stagnant groups at 9.3% and then 9.3% of the businesses that were growing rapidly at 7.4%. This implies that investment groups can lead to creation of sustainable businesses. The results of the study are as shown in Figure 4.11; the results differ with findings of Bowen, 2009 that reported majority of SME's reporting decline in business. Namusonge (2006), reported that entrepreneurship education and training stimulates and enhances business experience the same is collaborated by OECD (2010) where business skills enables business success.

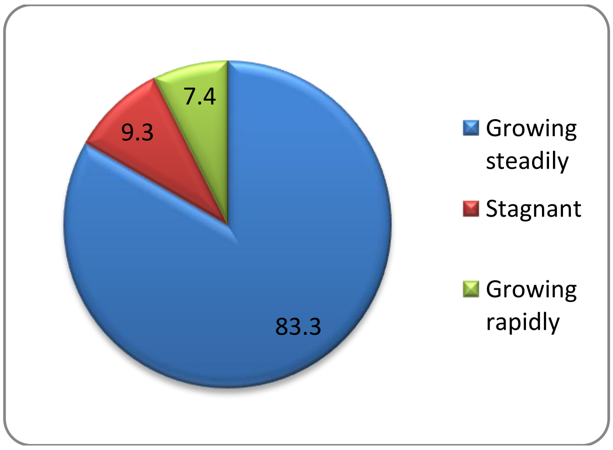


Figure 4.11: Business Trend in the Last Three Years

4.8.9 Challenges Experienced by Investment Groups in Managing Businesses

Lastly, the study was interested in knowing the main challenges experienced by investment groups in managing businesses. The study found out that 53 investment groups responded to the question with a total of 71 responses. Inadequate capital/funds was the most faced challenge as indicated by 42 investment groups representing 59.2% of the responses and 79.2% of all the respondents. Businesses facing management challenges were 10 representing 14.1% of the responses and 18.9% of all the respondents. Other challenges faced by the groups are shrinking market opportunities, debt/contributions collection and tax compliance with frequencies as shown in Tables 4.22. The same is reported by Bowen*et al.*, (2009) on difficulties experienced by SME's in their operations.

Table 4.22: Challenges Experienced by Investment Groups in Managing Businesses

Frequencies		*N*	*Percent*	*Percent of Cases*
Challenges Experienced[a]	Inadequate capital/Funds	42	59.2%	79.2%
	Management challenges	10	14.1%	18.9%
	Shrinking market opportunities	8	11.3%	15.1%
	Debt/contributions collection	6	8.5%	11.3%
	Tax compliance	5	7.0%	9.4%
Total		**71**	**100.0%**	**134.0%**
a. Dichotomy group tabulated at value 1.				

4.9 Cross-tabulation and Chi-Square Analysis

A Chi-Square analysis was further done to test the Significance of Association between various variables as shown in the contingency tables (cross-tabulations) below. A significance probability of less than 0.05 was regarded as evidence for existence of association between variables. This study has established that most investment groups are formed as a platform of mobilizing resources. This section seeks to test the association between resource mobilization by investment groups in terms of the portfolio value and the registration of the group as a business.

4.9.1 Cross-tabulation

The study findings indicate that majority (34) of the groups with less than Ksh. 200,000 are registered as self-help groups. As the total value of the investment group goes beyond the 1 million mark, the investment groups get registered as companies. This implies that the more the resources an investment group mobilizes, the more the chances it has of being registered as a formal company. The results for cross-tabulation are as shown in Table 4.23.

Table 4.23: The Total Value of the Investment Group * Investment Group Registration

		Investment Group Registration				
		Limited Company	*Partnership*	*Self-help group*	*Not registered*	*Total*
The total value of the investment group (Ksh.)	Less than 200000	3	1	34	1	39
	200001-500000	1	0	2	1	4
	500001-1000000	0	0	1	1	2
	1-5 million	1	0	0	0	1
	6-10 million	1	0	0	0	1
	11-50 million	1	0	0	0	1
	>51 million	2	0	0	0	2
Total		**9**	**1**	**37**	**3**	**50**

4.9.2 Chi-Square Tests

The Chi-Square value for the association between the total value of the investment group and the legal registration of the business was obtained as 36.741 with 18 degrees of freedom and a significance probability of .006. On the evidence of this data there is no doubt about the existence of association between the total value of the investment group and the legal registration of the business. The results of the chi-square analysis are as shown in Table 4.24. These finding are similar to that of Ayyagari (2005) who found out that as income levels increase, there is a decrease in the number of informal firms and growth in the numbers of formal firms.

Table 4.24: Chi-Square Tests

	Value	*df*	*Asymp. Sig. (2-sided)*
Pearson Chi-Square	36.741[a]	18	.006
Likelihood Ratio	27.389	18	.072
Linear-by-Linear Association	12.045	1	.001
N of Valid Cases	50		
a. 26 cells (92.9%) have expected count less than 5. The minimum expected count is .02.			

Chapter Five

5. Summary, Conclusion and Recommendations

5.1 Introduction

This chapter provides a summary of the study and the conclusions drawn thereof. The researcher discusses the findings and conclusion drawn from of the study and gives recommendations for both the research and the policy direction.

5.2 Summary of the Study

On the main reasons why investment groups are established, the study has established most groups are formed to mobilize resources which lead to investment in the available opportunities in different sectors such as service industry, real estate and stocks and shares. These investments lead to generation of income that gives group members increased resources geared towards financial freedom. The groups are also formed as a platform for socializing and sharing knowledge. The study has established that most of the investment groups make monthly payments by banking in the groups account or giving cash during meetings. The study has found out that majority of the investment groups imposed fines and penalties on the group members who default payments. The study results corroborate findings by Malkamaki, 2008; and Moronge (2013), investment groups are formed for resources mobilization.

5.2.1 Resources Mobilization

On the extent to which resource mobilization influenced formation of businesses, the study found out that majority of the investment groups formed businesses as a result of resource mobilization to a very great extent. Cross-tabulation also provided evidence most of the investment groups with a portfolio of above 1 million were registered as companies indicating that resource mobilization influences formation of SMEs in Nairobi County. Ambec and Treich (2007) in a study demonstrated that saving in a group assists persons deficient in self-control to save. This has the ability of mobilizing resources for investment or a project. The ability to save in a group especially among traders and business persons improves their ability to access credit informally that would be difficult using formal credit markets. This literature supports the findings of this study that resource mobilization influences formation of businesses.

5.2.2 Social Networks

On the extent to which social networks influenced formation of business, the study established that most of the investment groups formed businesses as a result of the social networks of members to a great extent. The study also found out that the social networks of the investment groups' members were very beneficial to the businesses formed. These findings are in line with the study Mwangi and Ouma (2012) on Social Capital and its impact on financial inclusion, where they found out that social capital has a positive impact on the success of an enterprise in terms of performance. The study also found out that apart from networking and bridging the information asymmetry for an entrepreneur, social capital increases the credit worthiness of an individual. A study by Ngoc *et al.* (2009) established that investment groups have the capacity to build strong networks from family, friends, and work colleagues and among investment group members beneficial for business.

5.2.3 Ideas Generation

In relation to the influence of idea generation towards formation of businesses by investment groups, the study found out that ideas generation influenced formation of businesses to a very great extent. The main methods of idea generation used by the investment groups are mostly brainstorming, research and use of experts. These findings support existing literature. In a study to evaluate idea generation and the quality of best ideas (Ginotra *et al.*, 2009) reported that hybrid method (use of more than one method of generating ideas) is superior to working individually as well as working in groups from the start. The study also reported that individuals who work independently initially and then worked as a group performed better in developing solution to complex problems.

5.2.4 Risk Spreading

In regard to the extent to which risk spreading influenced formation of business, the study established that most of the investment groups formed businesses as a way of risk spreading to a great extent. The study findings also indicated that the finances of the investment groups were well managed and audited yearly and that the books of accounts can be freely inspected by the members. Further, the study established that most of the groups are managed democratically. This acts as a means of averting risks of fund misappropriation and poor management. These findings are also reflected in the literature review where it was argued that proactive management and strategic planning helps in reducing risks and enabling investment group to operate better than an individual (Gatukui and Katuse, 2013).

5.3 Conclusion

The study sought to determine the influence of investment groups on creation of small and medium size enterprises in Nairobi County. From the study findings, this study concludes that investment groups highly influence the formation of small and medium enterprises in Nairobi County.

On whether resource mobilization influences the creation of SME's in Nairobi County, the study established that resource mobilization by investment groups strongly influences the creation of SME's in Nairobi County. The more financial resources the investment groups are able to mobilize evidence from the study show those with more than one million in finances, register as companies and hence form businesses.

On whether idea generation has a role in the creation of SME's in Nairobi County, the study findings show that the majority of the investment groups (53.2%) form businesses as a result of ideas generation through brainstorming, or with the help of consulting experts and investment committees.

In regard to whether risk spreading among investment group members lead to creation of SME's in Nairobi County, the findings of the study to a great extent show that risk spreading lead to creation of SME's in Nairobi County. As much as the members of investment groups know and trust each other, efforts are made to have organizational systems like a constitution, company law to guide the groups and mitigate risks. All monies are banked and records kept. Book of accounts are audited and the membership are free to inspect the books. This shows that leadership and integrity are valued to reduce risks.

Finally, on whether social networks in the investment groups influence the creation of SME's in Nairobi County, the study established that to a great extend the networks of the investment group members in terms of family, friends, work colleagues help the investment groups to overcome information asymmetry thereby being able to know when, where and how to overcome business challenges and take advantage of hidden opportunities not easily accessible to all.

The study findings have shown clearly that investment groups influence the creation of SME's in Nairobi County. The groups achieve this through resource mobilization, sharing of business ideas, spreading risks and taking advantage of social networks of the group members.

5.4 Recommendations

In view of the findings of this study, the researcher wishes to make the following recommendations in regard to the role of investment groups in forming SMEs. First, the study found out that a good number of investment groups were operating businesses without registering them. This study recommends that such groups should register their businesses formally as a means of increasing their credit access chances and reducing the likelihood of mismanagement.

Secondly, the study found out that investment groups have a role in the creation of SMEs hence leading to creation of job and investment opportunities. Therefore, people should be encouraged to form investment groups to take advantage of investment opportunities.

5.6 Areas for Further Research

Research needs to be done to find out the influence of registration of business and new venture creation.

The researcher recommends that in future, a comparison on the success of investment groups registered as limited companies and the ones registered otherwise should be done. This will enlighten other groups seeking to register their investment groups.

In future, a similar research should be done covering other Counties in Kenya as this research only covered the County of Nairobi due to time and resource constraints. This will enable greater understanding of investment groups and allow generalization of the conclusions.

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Appendices

ACRONYMS

ASCAS: Accumulating Savings and Credit Associations
BERR: Business Enterprise and Regulatory Reform
CMA: Capital Market Authority
FSD: Finance Sector Deepening
GDP: Gross Domestic Product
GEMS: Global Enterprise Monitor
GOK: Government of Kenya
IFC: International Finance Corporation
IMF: International Monetary Fund
KAIG: Kenya Association of Investment Groups
K-REP: Kenya Rural Enterprise Programme
KUSCCO: Kenya Union of Savings and Credit Organization
MFI: Micro Finance Institutions
OECD: Organization for Economic Cooperation and Development
OMIDYAR: Omidyar Network a philanthropic foundation not for profit
ROSCAS: Rotating Savings and Credit Organization
RBA: Retirement Benefits Authority
RBT: Resource Based Theory
SACCO: Savings and Credit Cooperative Society
SAP: Structural Adjustment Programme
SASRA: Savings and Credit Societies Regulatory Authority
SME: Small and Medium Enterprise
KWFT: Kenya Women Finance Trust
TPB: Theory of Entrepreneurship Intention and Planned Behavior
WBGES: World Bank Group Enterprise Survey

Definition of Terms

Human Capital this refers to the skills, knowledge, attitudes by individuals (Kyalo, Gichira, Waititu and Ragui, 2013). OECD (2001) defined Human capital as "the knowledge, skills and competencies embodied in an individual that facilitate creation of personal, social or economic well-being".

SME is defined as small and medium size enterprise which is any business with a turnover of less than 100million Kenya shillings annually (Elumba, 2008).

Investment Groups (Chama) is defined as a group of individuals with a common purpose and shared vision, who come together to save and invest. (Kaig, 2010).

Social Capital defined by Woolcock et al (2000) cited in Mwangi and Ouma (2012) as the norms and networks that enable people to act collectively.

Networking: Coulthard and Loos (2007) define networking in a small firm as an activity which is entrepreneurially oriented by SME owners to build and manage personal relationships with particular individuals in an environment.

Sample is defined as a small part obtained from accessible population. Mugenda and Mugenda (2003).

Sampling is defined as a procedure a researcher uses to gather people, places or things to study according to Kombo and Orotho (2006).

Stratified Random Sampling is defined as having a population that is heterogeneous and representative of all sub groups in the population. (Kothari, 2004).

Appendix A: Cover Letter

Vincent Ogutu,
JKUAT

Dear Respondent,

Re: Survey of Investment Groups

Hello, my name is Vincent Ogutu, a master's of science student in entrepreneurship. I am conducting a survey on investment groups and their role on creating SME as part of my research project at Jomo Kenyatta University of Agriculture and technology (JKUAT).

All information you give will be confidential and the report will not include any specific details on investment groups or their sponsors. The respondents will remain confidential. I will be willing to share the findings of the study since it is for academic discourse.

Should you have any questions concerning this survey, Kindly contact the under signed.

Signature of the interviewer.

Vincent Ogutu

Date: 20^{th} September, 2014

Declaration

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

Vincent Oduor Ogutu
HD313/C003/0432/13

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

Dr. Agnes Njeru

Dedication

This research project is dedicated to my family. My dear wife, Everlyne Oalo for her support and understanding during the long study hours. Lastly my parents (Charles and Rose) for their vision on education and humility. They have been a great motivation to pursue further education and an inspiration in the preparation of this research project.

Acknowledgement

I sincerely appreciate Dr. Agnes Njeru, my supervisor for her guidance and support during the preparation of this research project. She was always available at short notice, she was a great inspiration and her criticism modelled me to be a better student. Her guidance and commitment in this academic journey is invaluable.

I would like to thank the officials of Kenya Association of investment groups for giving permission to study the members of the organization. More special thanks to Mr. Mathenge the administrator for linking me to the KAIG members.

My deep appreciation goes to all the lecturers of JKUAT Westlands campus for their support during the entire master’s programme. The academic sessions were interactive, inspirational and memorable. I thank my colleagues Mose, Nyagah, Chege, and Gichuki for all the interactive discussion sessions.

Appendix B: Research Questionnaire

PART A: General Information

1) Name of investment group………………………………………………….
….

2) Year started………………………………………….

Dear Respondent, please circle the most applicable response

3) How many years has your investment group been in operation?
A) 0-1
B) B) 2-4
C) C) 4-6
D) D) 7-10
E) E) > 10

4) What is the number of members in the investment group?
A) 0-5 B) 6-10 C) 10-20 D)20- 30 E) > 31

5) What is the gender distribution in the investment group?
A) Male only
B) Female only
C) Mixed 50/50
D) Male dominated
E) Female dominated

6) What is the level of education of majority of members?
A) Primary level
B) Secondary level
C) College/university

7) What is the Investment group legal form?
A) Company
B) Partnership
C) Self-help group
D) Sacco
E) Non-formal

8) What by-laws that govern the management of the investment group?
A) Company law
B) Group constitution
C) Simple rules
D) Sacco/ society rules
E) None

PART B: Resources Mobilization

Please tick the most applicable response

9) How are contributions done within the investment group?

		Consistently	Moderately Consistent	Satisfactory	Unsatisfactory
A)	Monthly				
B)	Quarterly				
C)	Half-Yearly				
D)	Yearly				
E)	Ad hoc as need arises				

Please circle your response

10) What amounts are contributed monthly on average?
A) 1,000-5,000
B) 6,000-10,000
C) 11,000-20,000
D) 21,000-50,000
E) >51,000
F) Others specify____
____

11) How is inconsistent contribution among the membership addressed?
A) Fines and penalties are imposed
B) Sanctions on investment group activities participation
C) Expulsion
D) No action
E) Others please specify____
__

12) How are finances collected in the investment group? *Multi answers acceptable.*
A) Banked in groups account
B) Banked in officials account
C) Banked in Partnership account
D) Standing order
E) Cheques
F) Cash during meetings
G) Others Please specify_____________________________________

13) Investment policy is normally driven or championed by?
A) Investment Committee
B) Leader driven
C) Random/non specific
D) Board of Directors
E) Members driven/participation

14) What is the major Source of funds in the investment group?
A) Members contributions
B) Sacco loans
C) Member loans

D) Business
E) Others Kindly specify ___________________________

15) What was the main motivation(s) of starting the investment group? *Multiple answers acceptable*
  A) Resources mobilization
  B) To invest in opportunities
  C) To purchase assets
  D) Socialize and share knowledge
  E) Financial freedom
  F) Retirement plan
  G) Diversify income
  H) Influence of group members/network
  I) Others Kindly specify________________________________

16) To what extent does resource mobilization influence formation of a business?

  1= No Extent
  2= Small Extent
  3= Moderate Extent
  4= Great Extent
  5= Very Great Extent

PART C: Ideas Generation

Please circle your response

17) What is the motivation to start a business as an investment group?

  A) Members desire
  B) Taking advantage of Opportunity in the market
  C) Necessity to get income- financial freedom
  D) Collaboration with other firms/outsourced services
  E) Drive by the groups leadership
  F) Original intention of starting the group

18) How are ideas shaped within the investment group?
  A) Brain storming
  B) Committee way
  C) Research or experts invitation
  D) Leaders take the lead

19) Has your personal networks and knowledge benefitted the group?
  A) Yes
  B) No

20) If yes, how can you rate the benefits to the group?
  A) Highly beneficial
  B) Moderately beneficial
  C) Slightly beneficial
  D) Not Beneficial

21) To what extent do social networks influence formation of a business?

  1= No Extent
  2= Small Extent
  3= Moderate Extent
  4= Great Extent
  5= Very Great Extent

22) To what extent does idea generation influence formation of a business?

  1= No Extent
  2= Small Extent
  3= Moderate Extent
  4= Great Extent
  5= Very Great Extent

PART D: Risk Spreading

23) What is the management style in the investment group?
  A) Democratic
  B) Authoritarian
  C) Board driven
  D) Committee driven
  E) All the above

24) Finances in the investment group are normally?
  A) Well managed and audited yearly
  B) Managed by an accounts committee
  C) Not well managed never audited
  D) Books can be freely inspected by the membership
  E) Accounting function is outsourced.

25) How do you rate mobilized finances use in the investment group?
  A) Interest is paid
  B) Group gives dividends
  C) Profits are reinvested
  D) Group acquires new assets
  E) None of the above

26) To what extent does risk spreading influence formation of a business?

  1= No Extent 2= Small Extent 3= Moderate Extent 4= Great Extent
  5= Very Great Extent

PART E: Creation of SME's

Please circle the most appropriate response

27) Does your investment group involve in Business? If answer is yes continue *No 23 if* ***No*** *Thank you for your participation.*
  A) Yes B) No

28) What was the main motivation of starting a business?
  A) Opportunity arose- changes in technology
  B) Diversify sources of income
  C) Financial independence
  D) Create employment
  E) To Profit

F) Others please specify___________________________

29) What kind of enterprise is the investment group involved in? *Multiple response accepted*
A) Real Estate
B) Stock and shares (NSE)
C) Manufacturing
D) Service industry
E) Others please specify____________________________

30) How many people are employed by the investment group?
A) 1-3 B) 4-6 C) 7-10 D) 11-20 E) 21-50 F) >51

31) What is the enterprise type?
A) Company
B) Partnership
C) Business name
D) Run under a members name
E) Not registered

32) Who runs or manages the business?
A) Member/members
B) Officials-paid
C) Employees
D) Outsourced staff
E) Officials/Volunteers

33) What is the average annual turnover of your investment group?
A) <100,000 B) 100,000- 1 Million C) 2-5 Million
D) 6-10Million E) 10-50Million F) >100Million

34) What is the group's investment portfolio value?
A) <200,000 B) 200001-500,000 C) 500,001-1 Million
D) 1-5 Million E) 6-10MillionF) 11-50 Million
G) > 51Million and above

35) What is the business trend in the last three years?
A) Growing steadily
B) Declining
C) Growing rapidly
D) Stagnant
E) No longer in business- closed shop

36) What are the challenges experienced by the investment group in managing business?
A) Inadequate capital/Funds
B) Management challenges
C) Tax compliance
D) Shrinking market opportunities
E) Debt/contributions collection

Appendix C: Investment Groups

Group Name	*Location*	*Start*
A BETTER TOMORROW TG	MUKURU KAYABA	2010
ACL	NAIROBI	2010
AMBASADORS OF HOPE	LANG'ATA	2011
BEST FLYERS YOUTH BUNGE	UTHIRU	2011
BLAZING STARS Y.G	DANDORA	2013
BLESSED Y G	HURUMA	2002
BLOMSOM LADIES	UTAWALA	
BLUEMOON YB	DAGORETTI SOUTH	2013
CMG	NAIROBI	1996
COKAYA	LAND MAWE	2011
COMMERCIAL KAVERELA	NAIROBI	2014
DANDORA NEW CHAPTER	DANDORA PHASE 3	2012
DAVE STAR	MUKURU KWA NJENGA	2013
DECANTING COMMUNITY ORG.	MUGUMWINI	2012
DREAM TEAM	DANDORA	2013
EASTLIGH AIRBASE RESOLUTION	EASLIGH AIR BASE	2011
ELIGHT ARCHIEVERS	BANGLADESHMUGUMUNI	2010
E-TECH TECHNOLOGIES	SOUTH B	2015
FADEMA COMPANY LTD	SOUTH B	2013
FECHIM	NAIROBI	1991
FIVE STAR S H G	MATHARE NORTH	2010
FOUNDATION OF PIECE SHG	MUKURU KWA NJENGA	2014
FUNZO YOUTH GROUP	WILSON	2013
GALLERIA SHG	BOMAS OF KENYA	2012
GENESIS	NAIROBI	2015
GETO WOOD FOR ART YG	DOWNHOLM	2013
GIKOMBA YOUNG TURKS ASS.	GIKOMBA KAMKUNJI	2009
GITHEMBE YOUTH GROUTH	NGANDO KIGEMBE	2012
HAZIMA MARKEE YOUTH GROUP	FUATA NYAYO	2013
IMATEC GENERAL SUPPLIES	NAIROBI	2010
INSPIRATIONS YOUTH GROUP	EMBAKASI NORTH	2012
JIINUE SELF HELP GROUP	SOUTH B HAZINA	2014
KADOLLY INVESTMENT GROUP	KARABA-MBEERE	2010
KAREN FAMILY	KAREN	2013
KAYABA YOUTH ASS	MUKURU KAYABA	2009
KIBRA AMBASADARS FOR YOUTH	NAIROBI	2008

KISA WELFARE	NGANDO WARD	2006
MAKUPA YOUTHS SHG	NAIROBI	2013
MITHONGE	WAITHAKA	2013
MUGUMO-INN YOUTH GROUP	KASARANI	2013
MUKURU AMEZING YOUTH GROUP	MUKURU NYAYO	2011
MUKURU FUATA YOUTH ASSOCIATION	MUKURU NYAYO	2006
NAIROBI COUNTY YOUTH NETWORK	STAREHE CONSTITUENCY	2010
NAIROBI SOUTH YOUTH GROUP	SOUTH B	2002
NGANDO YOUTHS SPORTS ASSOCIATION	NGANDO	2001
NGANGO YOUTH BUNGE	NGANDO	2002
PCEA .D.	MUKURU PIPELINE ROAD	2014
PHILLIPINS CBO	DAGORETTI SOUTH	2013
PIKO SABA YOUTH GROUP	SOWETO	2010
POWERLINE DYNAMIC	DANDORA	2008
QUEST PLUMBER AND CONSTRUCTION COMPANY LTD	NAIROBI	2014
RAM LIMUS		2004
RED STONS YOUTH BUNGE	RIRUTA	2013
RESCUE ACTION AND INFORMATION NETWORK	DAGORETTI SOUTH	2011
SIAM INVESTMENTS	NAIROBI	2006
SOUTHSIDE YOUTH AGAINST CRIME ASS.	MUKURU NYAYO	2014
STEWARDS SELF HELP GROUP	NAIROBI SOUTH B	2009
TEAM SIX GROUP	NAIROBI	2012
TITOS TECHNOLOGY	NAIROBI	2014
TRUE GUNNERS YOUTH CLUB	NG'ANDO	2009
TUJENGE KWA AMANI	MUKURU KWARE WORD	2014
TUMAINI LETU YOUTH GROUP	DANDORA NAIROBI	2012
UTAWALA YOUTH GROUP	UTAWALA	2013
UTAWALA YOUTH GROUP	UTAWALA	2011
VIJANA APPRISING YOUTH BUNGE	MUKURU KAYABA	2012
WALCY Y.G	DANDORA	2012
WAZITO YOUTH GROUP	MATHARE KOSOVO	2013
YOUTH ENTREPRENEUR	MIHANGO	2007
ZION	KAREN WARD	2013