Factors influencing listing of Small and Medium Enterprises to Growth Enterprise Market Segment in Kenya

Selline Okello
Strathmore Business School (SBS)
Strathmore University

Follow this and additional works at https://su-plus.strathmore.edu/handle/11071/6090

Recommended Citation
Factors Influencing Listing of Small and Medium Enterprises to Growth Enterprise Market Segment in Kenya

Selline Okello
MBA/92698

Submitted in partial fulfillment of the requirements for the award of a Master’s in Business Administration (MBA) Degree

Strathmore University
June, 2018

This dissertation is available for library use on the understanding that it is copyright material and that no quotation from the thesis may be published without proper acknowledgement
DECLARATION

I declare that this work has not been previously submitted and approved for award of a degree by this or any other University. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

© No part of this thesis may be produced without the permission of the author and Strathmore University.

Selline Okello
June, 2018

Approval
The dissertation of Selline Okello was reviewed and approved by:

Dr. John Olukuru (Supervisor)
Strathmore Business School

Dr. George Njenga
Dean, Strathmore Business School

Prof. Ruth Kiraka
Dean, School of Graduate Studies
Strathmore University
ABSTRACT

This study sought to investigate factors influencing listing of Small and Medium Enterprises (SMEs) on Growth Enterprise Market Segment (GEMS) in Kenya. The purpose of the study was to investigate whether the level of information awareness, business profile and managerial competence influence the listing of SMEs on GEMS. The study was grounded on two theories namely pecking order theory and agency cost theory which support best practices on listing at the stock exchange. The study adopted a descriptive and inferential research design in which questionnaires were used to collect primary data. In this study, factor analysis was used to express values of observed data as functions of a number of possible causes in order to find the most important. Each of the 26 parameters was looked at and placed to one of seven (7) factors depending on the percentage of variability which explained the total variability of each factor. From the factor analysis, all the variables indicated high construct validity since all exceeded the prescribed threshold of 0.40. The study recommended the need to improve managerial competence skills for SMEs through training and networking forums in order to increase the level of listing on GEMS. The study also recommended formation of an SME hub at the NSE to offer trainings and networking session for the listed and the unlisted SMEs to interact, share knowledge and experiences. The study is particularly important in guiding NSE and Capital Market Authority (CMA) decision making in future policy formulation on SMEs listing on GEMS. Further, the study will be adopted by security exchanges around the World and inform the theory and practice of strategic management field by becoming a critical reference material.

Key words: Small and Medium Enterprises, Growth Enterprise Market Segment Listing.
# TABLE OF CONTENTS

**DECLARATION**................................................................................................................................. ii

**ABSTRACT**.................................................................................................................................................. iii

**LIST OF FIGURES**....................................................................................................................................... vii

**ABBREVIATIONS AND ACRONYMS**......................................................................................................... ix

**ACKNOWLEDGEMENT**............................................................................................................................... x

**DEDICATION**................................................................................................................................................ xi

**CHAPTER ONE: INTRODUCTION**........................................................................................................... 1

1.1 Background of the Study .......................................................................................................................... 1

1.2 Problem Statement ..................................................................................................................................... 4

1.3 Research Objectives .................................................................................................................................. 4

1.3.1 General Study Objective ....................................................................................................................... 4

1.3.2 Specific Study Objectives ....................................................................................................................... 5

1.4 Research Questions ................................................................................................................................... 5

1.5 Scope of the Study ....................................................................................................................................... 5

1.6 Significance of the Study ............................................................................................................................ 6

1.7 Limitations of the Study ............................................................................................................................. 6

**CHAPTER TWO: LITERATURE REVIEW**............................................................................................. 7

2.1 Introduction ............................................................................................................................................... 7

2.2 Description of key terms ........................................................................................................................... 7

2.2.1 Small and Medium Enterprises ........................................................................................................... 7

2.2.2. Alternative Markets for SMEs ............................................................................................................. 7

2.3 Theoretical Review .................................................................................................................................... 9

2.3.1 Pecking Order Theory .......................................................................................................................... 9

2.3.2 Agency Costs Theory ........................................................................................................................... 10

2.4 Empirical Review ...................................................................................................................................... 11

2.4.1 Overview of SMEs Listing on GEMS .................................................................................................... 11

2.4.2 Level of Information Awareness and Listing of SME’s on GEMS ..................................................... 11

2.4.3 Business Profile and Listing of SME’s on GEMS .............................................................................. 13

2.4.4 Managerial Competence and Listing of SMEs on GEMS ................................................................. 15
2.5 Summary .................................................................................................................. 17
2.6 Conceptual Framework ............................................................................................ 18
2.7 Operationalization of variables .............................................................................. 20

CHAPTER THREE: RESEARCH METHODOLOGY ...................................................... 21

3.1 Introduction ............................................................................................................. 21
3.2 Research Design ...................................................................................................... 21
3.3 Population and Sampling ....................................................................................... 21
3.4 Data Collection Methods ...................................................................................... 22
3.5 Data Analysis Techniques ..................................................................................... 22
3.6 Model ..................................................................................................................... 23
3.7 Research Quality .................................................................................................... 23
3.7.1 Reliability and Validity ....................................................................................... 23
3.8 Ethical Considerations ........................................................................................... 24

CHAPTER FOUR: PRESENTATION OF RESEARCH FINDINGS ............................ 25

4.1 Introduction ............................................................................................................. 25
4.1.1 Response Rate ..................................................................................................... 25
4.2 General Characteristics of the Firm ....................................................................... 25
4.2.1 Ownership of Company/Business ...................................................................... 26
4.2.2 Number of Employees in the Business .............................................................. 26
4.2.3 Business/company annual turnover in 2017 ..................................................... 27
4.2.4 Company’s Profitability ..................................................................................... 28
4.2.5 Distribution of Respondents by ways of raising capital .................................. 29
4.3 Level of Information Awareness .......................................................................... 29
4.3.1 Information received on Listing ....................................................................... 29
4.4 Business Profile .................................................................................................... 30
4.4.1 Respondents opinion on GEMS requirements ............................................... 30
4.4.2 Business operations characteristics on SMEs listing .................................... 31
4.5 Managerial Competence ...................................................................................... 32
4.5.1 Respondents consideration to their Business on GEMS ................................ 32
4.5.2 Respondents feedback on listing their business on GEMS ............................. 33
4.5.2.1 Respondents reasons on why they would prefer to list .................................. 33
4.5.2.2 Respondents reasons on why they would not prefer to list ............................ 33
4.5.3 The respondents level of managerial competence ........................................34
4.6 Challenges facing SMEs to listing their businesses on GEMS .......................35
4.7 The impact of SMEs listing on GEMS..........................................................35
4.8 Inferential Statistics.......................................................................................36
4.8.1 Factor Analysis..........................................................................................36

CHAPTER FIVE: DISCUSSION..............................................................................41

5.1 Introduction .....................................................................................................41
5.2 Summary of the study findings .......................................................................41
5.2.1 Level of information awareness .................................................................41
5.2.2 Business Profile .........................................................................................42
5.2.3 Managerial Competence ............................................................................43

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS.................................45

6.1 Conclusions .....................................................................................................45
6.2 Recommendations ..........................................................................................46
6.3 Areas for Further Study ..................................................................................47

REFERENCES.......................................................................................................48

APPENDIX I: INTRODUCTORY LETTER ..........................................................53
APPENDIX II: FACILITATION OF RESEARCH LETTER.................................54
APPENDIX III: QUESTIONNAIRE......................................................................55
LIST OF FIGURES

Figure 2.1 Conceptual Framework ................................................................. 19
Figure 4.1 Distribution of Respondents by Ownership .................................. 26
Figure 4.2 Composition of respondents businesses by profitability ................. 28
Figure 4.3 Ways respondents raised capital for their businesses ....................... 29
Figure 4.4 Respondents opinion on NSE current GEMS requirements ............. 31
Figure 4.5 Respondents consideration on listing their businesses ................. 33
Figure 4.6 Scree Plot ..................................................................................... 39
LIST OF TABLES

Table 2.1 Operationalization of variables ................................................................. 20
Table 4.1 Response Rate ............................................................................................ 25
Table 4.2 Number of employees ................................................................................ 27
Table 4.3 Distribution of companies by 2017 annual turnover ................................ 27
Table 4.4 Information received on listing .................................................................. 30
Table 4.5 Business operations characteristics on SMEs Listing ............................. 32
Table 4.6 Respondents Level of Managerial Competence ...................................... 34
Table 4.7 Impact of SMES Listing ............................................................................ 36
Table 4.8: Communalities ......................................................................................... 37
Table 4.9: Total Variance Explained ......................................................................... 38
Table 4.10: Validity Analysis Results ....................................................................... 39
ABBREVIATIONS AND ACRONYMS

AIM: Alternative Investment Market

AIMS: Alternative Investment Markets

ALTX: Alternative Exchange

BSE: Bombay Stock Exchange

CMA: Capital Markets Authority of Kenya

ESM: Enterprise Securities Market

GDP: Gross Domestic Product

GEMS: Growth Enterprise Market Segment

ISE: Irish Stock Exchange

JSE: South Africa’s Stock Exchange

NSE: Nairobi Securities Exchange

NSX: National Stock Exchange of Australia

SEBI: Securities and Exchange Board of India

SMEs: Small and Medium Size Enterprises

SMEX: Small and Medium Enterprise Exchange
ACKNOWLEDGEMENT

First and foremost I thank the Almighty God for His unending grace and favor that has been upon me since I started my masters till the end. His grace has been sufficient.

Special thanks go to my supervisor Dr. John Olukuru for the valuable advice, support, continuous encouragement and guidance. You have been a source of inspiration. Thank you for the dedication you have shown me until the very end.

I also do appreciate the Strathmore Business School administration and faculty members of staff for the guidance, support and for the knowledge I acquired that enabled me write the thesis.

My sincere gratitude goes to all respondents who took time to take part in this study and my research assistant Raphael Kariuki who coordinated data collection.

I appreciate my family for their love, understanding, unwavering support and encouragement throughout the course period. Thank you for being there for me.

To all my classmates and new friends I made at Strathmore Business School, thank you for making my journey enjoyable and interesting.

God bless you all.
DEDICATION

This paper is dedicated to my husband Eng. Donald Wasike and my children: Branwell, Jerome and Victoria. This is because they have been a source of inspiration and support in the course of my studies.
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Most countries’ economies and governments believe that alternative markets are engines for economic development in both developed and emerging economies (Ravasi & Marchisio, 2013). According to Hussey (2015), many exchanges have introduced and launched alternative markets for the listing of startup companies to help small businesses to raise capital through initial public offerings and list their shares for trading. However there has been a significant shift by businesses searching for emerging markets for investment opportunities. The sizes of financial needs by large companies have given these companies greater importance to tradability. Large shares and bonds trading allow economies of scale and generate experience in listing practices and trading operations thereby enhancing the profitability of those commercially oriented stock exchanges (Andrianaivo & Yartey, 2015).

Globally, many economies recognize the need to create employment opportunities for their working population which is as a result of economic recovery from the global financial crisis of 2008-2009. Thus; the financial crisis intensified the debate especially in the developed world on stock exchanges to cater for the financial needs of small and medium size enterprises (Chae, 2016). Africa being one of the emerging markets has experienced commendable growth in the business space because focus has shifted from the traditional multinational corporations to growth of Small and Medium Enterprises (SMEs) (Clatwothy, 2015). The Nairobi Securities Exchange (NSE) is one of the most important securities exchanges in Africa largely due to its relative size in the continent and its unique exposure to the East African region (NSE, 2015). The NSE was established in 1954 and is the principal securities exchange of Kenya and the leading securities exchange in East Africa. The NSE offers platforms for the issuance and trading of equity debt securities. One of the functions of the NSE is to enhance improved access to finance both to new and small companies which might otherwise find it hard to access long term finance from the commercial institutions (NSE, 2014).
In order to help SMEs raise capital in Kenya, the government issued a policy proposal to the NSE in 2012 to amend the law to create a framework for Growth Enterprise Market Segment (GEMS) within the NSE targeting SMEs. The expected objective of this amendment was to provide SMEs the opportunity to access long term and cheaper capital through public listing as well as raising their profiles through trading on approved securities (NSE, 2013). In January 2013, the Director General of Kenya Vision 2030 Delivery Board launched the GEMS giving the SMEs an opportunity to access the capital markets (NSE 2014).

The NSE underwent a period of significant change following the conclusion of its demutualization and has expanded its core mandate to include the creation of wealth for its shareholders as a limited liability company and “for profit” organization (CMA, 2016). To achieve the mandate, it has planned various initiatives over the years to improve its financial performance. NSE has developed other methods in the stock markets that attract SMEs which include establishment of Alternative Investment Markets Segment (AIMS) which has fewer restrictions and GEMS a segment of Capital Market Authority (CMA) created specifically to target SMEs on the capital raising opportunities (NSE, 2016).

A company aspiring to list to the Main Investment Market Segment (MIMS), requires 1,000 shareholders, minimum authorized issued and fully paid up ordinary share capital of fifty million shillings, audited financials for five years and to have returned profit for at least three of the five years. Listing on Alternative Investment Market Segment (AIMS) requires 100 shareholders, minimum authorized issued and fully paid up ordinary share capital of twenty million shillings, three years audited financials in which the company ought to have recorded profit in at least two years or is on course to profit making (ACCA, 2013). The SMEs aspiring to list on GEMS are required to show accounts for a single year, for which they need not be profitable, need only enough working capital for a year, can list as little as 15 per cent of their company, have as few
as 25 shareholders and 100,000 shares in issue with minimum authorized and fully paid up ordinary share capital of ten million shillings (NSE, 2016).

According to the 2018 Economic Survey, the largest creator of employment in Kenya was the informal sector where most of the SMEs are based. In 2017, of the 897,000 jobs created the informal sector constituted 87.9 per cent of the total employment while in 2016 out of the 832,000 jobs created the informal sector constituted of 89.4 per cent. The SMEs are therefore the primary sources of employment in Kenya and tend to fund their operations through self-financing or bank loans. However, these two avenues are inadequate in meeting the funding needs of an SME as the company grows. While self-financing may work in the initial start-up phase, and bank financing may be preferable for an SME’s working capital needs, the long-term financing needs of SMEs are unfulfilled (Ongolo et al, 2013).

Despite NSE making the listing requirements under GEMS favorable to attract SMEs to the capital market, only five companies had listed as at March 2018. Two companies listed under Investment category; Home Afrika Ltd in 2013 and Kurwitu Ventures Ltd in 2014. Flame Tree Group Holdings Ltd was listed in 2015 under manufacturing and Allied category. Atlas African Industries Ltd listed in 2014 and Nairobi Business Venture Ltd listed in 2016 under Commercial and Services category (NSE, 2018). There are over 7.5 million SMEs in Kenya which translates to over 99.7% of SMEs who have not listed to NSE (SME-RC, 2016).

The KPMG (2016) survey report indicated that besides regulatory burdens, a range of other business environmental factors have also been attributed to slow growth of SMEs. These include lack of competent experts in financial markets (Okwiri, 2015), internal organization aspects, and low knowledge and understanding of listing issues (Ravasi and Marchisio, 2013). Appreciation of how the level of information awareness, managerial competence and business profile influence the listing of SMEs is therefore necessary to inform the various stakeholders involved with the aim of improving the SMEs listing on
GEMS. The purpose of this research was therefore to investigate the factors influencing the listing of SMEs on GEMS in Kenya.

1.2 Problem Statement

The challenge to access long term financing is considered as one of the major impediments to SMEs growth. In 2013, GEMS was launched in Kenya with the aim of giving SMEs an opportunity to access the capital markets to enable them to raise substantial initial and ongoing capital, while benefiting from increased profile and liquidity within a regulatory environment designed specifically to meet their needs. Despite the less stringent requirements provided by GEMS to encourage more SMEs to list, the SMEs have not utilized the opportunity. As a result, the NSE has not achieved its plan to increase the listing of SMEs on GEMS to 19 by 2017 in line with the Capital Markets Master Plan. The SMEs continue to be faced with inadequate long term financing for growth and expansion of their business.

In spite of the wide spread recognition of the important role played by the SMEs in Kenya, there has been little study done on their low listing on GEMS, particularly those that investigate factors influencing the SMEs listing on GEMS at NSE with specific focus on level of information awareness, managerial competence and business profile. It is therefore important to SMEs, regulators, securities exchange management at NSE, researchers and academic scholars to understand the factors influencing listing of SMEs on GEMS in Kenya.

1.3 Research Objectives

1.3.1 General Study Objective

The main objective of the study was to investigate the factors that influence the listing of SMEs on GEMS at the NSE in Kenya.
1.3.2 Specific Study Objectives

1. To investigate the influence of level of information awareness on listing of SMEs on GEMS.
2. To assess the influence of business profile on listing of SMEs on GEMS.
3. To investigate the influence of managerial competence on listing of SMEs on GEMS.

1.4 Research Questions

1. To what extent does level of information awareness influence listing of SMEs on GEMS?
2. To what extent does business profile influence listing of SMEs on GEMS?
3. To what extent does managerial competence influence listing of SMEs on GEMS?

1.5 Scope of the Study

This study was restricted to Nairobi County which is home to Nairobi town the capital city of Kenya. The county has a relatively well developed infrastructure, communication systems and is considered commercial and industrial hub for Kenya. The county contributes a significant amount of money to Kenya’s economy estimated to account for 20% of the country’s GDP (Economic survey, 2018). The County is not only considered commercial hub for Kenya but also for East and Central Africa. The county had its population at 3.14 million by 2009 (County Census 2009). Several SMEs and companies have their headquarters located in Nairobi county or its periphery because most services are concentrated in Nairobi, thus the county provided a good sample base for the study. The study focused on three key variables; level of information awareness, managerial competence and business profile. The study was limited to the senior managers and owners of SMEs.
1.6 Significance of the Study

The findings of this study will serve various stakeholders in the following ways: The NSE and the CMA will benefit from the research findings of the study by understanding the level of support that they need to provide to the SMEs to encourage them to list on GEMS. NSE and CMA will use the knowledge of the information awareness, business profile and managerial competence of this study for the formulation and implementation of policies that would be favorable to the SMEs. The study will also be adopted by security exchanges around the world and will inform the knowledge and practice of capital markets field. Researchers and academicians will find this information as a pertinent literature and a basis for further studies. The findings will contribute to new knowledge and help fill the existing gap in the area of SMEs not listing on GEMS in Kenya. The study will also provide research-based evidence that would help universities and higher institutions agencies to refine strategic management courses tailored for SMEs. The study will be beneficial to the owners of SMEs in providing an understanding of how the information awareness, managerial competence and business profile affect their chances of being listed on GEMS which will help the SMEs to work towards improving on their weakness in these areas.

1.7 Limitations of the Study

This study was restricted to the Central Business District (CBD) of Nairobi County due to constraints of resources which could not cover the entire country. The Central Business District (CBD) of Nairobi County was chosen because it is considered the business hub for Kenya, East and Central Africa and therefor acted as a good sample to represent the entire population.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review. A review of various literatures were undertaken and discussed in line with the study objectives. The chapter was organized into four sections; - description of key terms, theoretical literature review, empirical literature review and conceptual framework. The chapter concluded by discussing the research gaps and provided a presentation of conceptual framework.

2.2 Description of key terms

2.2.1 Small and Medium Enterprises

SMEs have been defined differently by various authors however; the regulatory and institutional framework for the Kenya’s SMEs has defined SMEs based on the number of employees and the company’s annual turnovers. The micro enterprises are defined as those employing less than 10 workers with annual turnovers of less than Kes 500,000 and capital formation of less than KES 5 million for services or less than KES 10 million for enterprises doing manufacturing. Small enterprises are defined as those that employ between 10 and 50 workers with annual turnovers between KES 500,000 and KES 5 million and capital formation between KES 5 million and KES 20 million for services or between KES 5 million and KES 50 million for enterprises doing manufacturing (MSMEs Act, 2012).

2.2.2. Alternative Markets for SMEs

SMEs are faced with challenges of access to long term finance for their working capital and business expansion, governments and private organizations have therefore come up with strategies to help SMEs increase access to finance. The introduction of special market segments such as the GEMS is aimed at helping the SMEs access equity financing (ACCA, 2013). In China, after the launch of Shenzhen Stock Exchange by the Chinese Government in October 2009, GEMS had 42 listed enterprises by December 2009 of which 40 were Private Enterprises and two were state holding. The phenomenon
indicated that the Chinese Public enterprises were making good use of the opportunity in equity financing in order to overcome growth barriers (Haisu et al, 2010).

In India, separate exchanges were set up but were unsuccessful including over the counter exchange set up in 1990s. However, the Prime Minister’s Task force in January 2010 recommended that a dedicated stock exchange for SMEs be set up to help SMEs raise funds. The Securities and Exchange Board India (SEBI) made the regulations for the governance of SME exchange that led to the emergence of Bombay Stock Exchange for SME (BSE SME) and National Stock Exchange Emerge Platform (NSE EMERGE) in 2012 which were successful. SEBI made various guidelines and placed the responsibility on the exchanges to ensure that the platforms would not become places for unscrupulous promoters to raise funds for unclear purposes. The NSE established third party due diligence and encouraged the listed firms to be subjected to grading by rating urgencies to protect the investors and increase confidence of the customer in the SME exchange (Thakur, 2016).

In Britain, Alternative Investment Market (AIM) was created in 1995 following a debate in the city on how best Stock Exchange could improve its services to small and medium-sized British companies. The governance and regulation of AIM were designed in a way that was clearly differentiated from the main market and were tailored towards the needs of the smaller companies. AIM survived the 2000-2001 stock market crash much better than the other markets. AIM provided exit route for private equity firms by allowing private investors to take a stake in small and high growth companies through combined portfolios by broking firms or through collective vehicles. AIM contributed to impressive growth of the investment banks, brokers and fund managers which specialize in smaller companies leading to growth of small-cap sector of the financial community (Arcot et al, 2007).
2.3 Theoretical Review

The study adopted pecking order theory and agency cost theory to build the theoretical framework for the listing of SMEs on GEMS in Kenya.

2.3.1 Pecking Order Theory

Pecking order theory was advanced by Majluf and Myers (1984) underpins that the cost of financing increases with asymmetric information. Most companies have a specific way of acquiring finances whereby they prefer using their own internal financing and if their financing needs increases, they acquire external finances where debt is preferred over equity financing. The theory further explains that in cases where the companies have debts, they still prefer the use of internal finances rather than external funding. The pecking order theory also draws the picture of the challenges that result from information between the management of the firms and its new investors. The managers tend to have more information regarding the value of the assets of the firm and the existing opportunities than the new investors (Bohnstedt, Hannig & Odendall, 2010).

In most cases the new investors tend to keep a closer watch at the managers as they have most of the information regarding finances in the company before making decisions. Managers mostly do not issue equity as they believe it’s undervalued at the expense of the old shareholders. Managers are prejudiced to earn shareholders favor ensuring that they accept equity only when it is overvalued (Abor & Biekpe, 2013). Managers are able to know when equity is more expensive and may lead to a drop if the company’s share prices are related to selection. The pecking order theory generally looks at the structure of the company’s capital and ensuring reduction in selection costs due to financial requirements rather than focusing on its debt ratio (Sott, 2014).

According to Modigliani & Miller (2015), the pecking order theory can be applied to both small and large companies but high information costs are found in the small firms as they are opaque and have problems that result from credit rationing. Zervos (2015) agrees with Majluf and Myers (1984) on the pecking order theory and elaborates that most
companies prefer using their own funds rather than external funds thus avoiding issuance costs as no shares are issued leading to the conclusion that most of the companies prefer revenue surplus, debts and equity finances rather than capital markets which they tend to avoid.

2.3.2 Agency Costs Theory

Agency cost theory was advanced by Jensen and Meckling (1976) and focuses on cost incurred as a result of conflict between the shareholders, managers and debt holders. The theory focuses on the use of debts as a means of raising investment cash and is connected to agency and bankruptcy costs (Jensen, 1986). Rising agency cost may exist when there is information asymmetry between managers and shareholders and in situations where managers are not the 100% owners of a company. Financial distress is greatly affected by agency costs and can be adopted to review listing of companies in GEMS. Standard (2012) noted that agency cost theory directs the attention of the role of agency costs in the SMEs sector when listing, which is challenged by the separation of ownership and control. De Visscher et al, (2015) posit that the conflicts incurred in companies are conflict between managers and shareholders, and conflict between shareholders and debt holders.

Bondholders are protected by some covenants against a possibility of management trying to take advantage of them. According to Andre (2016) these covenants hamper the corporations’ legitimate operations to some extent. He further puts that the costs of lost efficiency plus those incurred by monitoring the covenants are what is referred to as agency costs. Agency costs increases the costs of debt and at the same time reduce the value of equity. Jovenitti (2011) disagrees and argues that debt and equity financing bring about problems of agency costs. The amounts of debts mostly are associated with other costs due to the agreements made during the acquisition of debt. The value of every firm relies upon the managers’ actions and thus shareholders sometimes incur costs of monitoring the managers.
The pecking-order theory and agency cost theory rely on the relationship between information asymmetry between managers and shareholders. In the context of this study, the pecking order theory was applied in linking the SMEs capital structure to their listing on GEMS. The size of the company, availability of working capital, number of years in operation and transactions conducted by a company has an influence on company listing on GEMS. The agency cost theory was relevant in this study because the owners of SMEs employ managers who are expected to run the business on their behalf. The SMEs therefore require managers who are competent to run their firms in terms of decisions relating to investment; risk diversification, capital raising, information awareness and the ability to build collaborative relationships with all stakeholders for the overall growth of the firm.

2.4 Empirical Review

2.4.1 Overview of SMEs Listing on GEMS

Pagano, Panetta, and Zingales (2015) in a study done in Zimbabwe on evaluating economic empowerment through entrepreneurship and using t-test to analyze the significance of variables, it was found that the main sources of debt finance for SMEs were secured bank loans and overdrafts, while other sources such as leasing and factoring were used less frequently. This resulted to SMEs opting for listing to raise capital through initial public offer. On the same but using both descriptive and factor analysis a study by Zingales (2015) posits that there are many advantages for companies raising funds through stock exchange such as diversification of funding sources, access to broader base of potential investors’ base, access to equity capital which generally enables carrying more debt in balance sheet, brand recognition and reputation, but also creates new jobs indirectly through entrepreneurship.

2.4.2 Level of Information Awareness and Listing of SME’s on GEMS

The level of informed management was statistically significant to listing of their businesses according to Ravasi and Marchisio (2013) in a study that surveyed the strategic side of going public targeting Korean SMEs. The study further concluded that
for managers to list their companies, they needed listing knowledge and understanding of their business and the industry in which they operated. Awareness by company operators was positively related to increased levels of firms being listed in republic of Ireland (Hussey, 2015).

In China GEMS provided a forum for SMEs assessment by potential investors in a study by Yartey (2013), targeting stock officials in Hangzhou Municipal Government in China. The study further revealed that high-tech start-ups SMEs experienced financing constraints due to information irregularities. The local government therefore conveniently facilitated information transfer between the private venture capital corporations and high-tech startups at the assessment and evaluation stage through service center platform. The platform acted as third party specialists by reducing information asymmetry between insiders and outside investors and certified that the offering prices reflected all the available information.

There was a clear indication of very low level of awareness by SMEs of the existence of National Stock Exchange of Australia (NSX) which SMEs could use as a source of acquiring capital (Majluf and Stewart, 2015). In their study on bankruptcy secured debt and optimal structure a case of National Stock Exchange of Australia (NSX), they further revealed that the respondents did not know nor understand what an IPO was and believed that the only way to exit NSX was through selling their businesses through public markets. The investors were also not aware of what NSX meant and how capital could be raised through it. The respondents believed that the process of registering to NSX was long and hideous and required lots of capital. The study recommended training to SMEs on the advantages of NSX and training on the process of registering their businesses to NSX.

Access to information influenced listing of SMEs in the NSE according to Mwarari et al, (2013) in a study on factors influencing listing of Kenyan SMEs in the securities market for capital raising opportunities. The study further revealed that SME owners had never
been educated on the benefits of sourcing funds through security market and recommended training of owners of SMEs in business management. The study also recommended establishment of corporate governance policies and procedures that would encourage venture capitalist into stock markets. In a study done by Bruce et al (2015), the banks were seen as major source of business capital apart from loans from family or friends, the accountants and the legal advisors were not aware of the acronym NSX and had no idea of the procedures for listing to NSX and believed that it was an expensive process. The study concluded that for increased demand for public equity through NSX there was need for greater exposure of small business owners and advisors to the Initial Public Offer.

2.4.3 Business Profile and Listing of SME’s on GEMS

Access to equity finance to raise long term capital, credits from commercial banks and financial institutions on the basis of additional equity infusion were some of the advantages of why small companies listed according to a study done by Guo (2014) to analyze why small firms go public. The findings further asserted that listing increased the prestige, visibility, credibility and value of a company as a result of gaining public awareness through media coverage, stock coverage by investment analysts and publicly filed documents. Companies were able to diversify their risks by ensuring that their capital structures were re-balanced by provision of cheaper and long-term sources of capital that were provided by a framework of the stock markets to function (Zervos, 2014). Girma and Shortland (2012) asserted that liquidity was a means of altering of portfolios by investors with the aim of acquiring long term investments quickly, cheaply and with less risk. Functional efficiency was found to be insufficient where liquidity and effective strategies were not provided by a company. Liquids are a channel of large savings and thus they provide more opportunities to the company as it’s the main source of capital in the stock markets (Hogholm, 2015).
Girma and Shortland (2012) further established that most of the companies preferred the use of equity and debt financing to ensure its capital structure is effectively established and that it’s able to diversify its risks. Re-balancing has been a cause of many companies falling to bankruptcy due to high costs of debt finances (Masila & Onsongo, 2012). Guo (2014) supported the two studies and explained that many companies were pushed by the need to balance their debt and equity of finances especially in the banking sector as rebalancing of the capital structure was connected to the number of companies that were listed. Oteh (2015) who evaluated making capital market work for SMEs in Africa using chi-test posited that internal organizational environment contributed to a company motivation to list. The internal organizational environment comprised of resources and capabilities which a firm could use to enhance their capability of being listed. A company’s level of profitability was also found to be a factor considered by companies to list according to a study done by Majluf and Stewart (2015) which was measured by use of profit after tax.

The size of a company greatly affected its listing in a study on the link between economic growth and financial markets where the company size was measured in terms of asset base (Levine & Zervos, 2016). The period of the company’s existence was considered as a factor in listing of a company (Pandey, 2016). Yarteiny (2013) and Paolo (2015) alludes that for a company to list, it ought to have been in existence for at least three years which gave the older companies a higher chance of listing compared to the new ones. According to Clatwothy, (2014) on characteristic of new equity market for SMEs using regression analysis in Canada, business profile had a relationship with SMEs listing chances concluding that an entire organization needed to be structured with a vision for succeeding generations of workers who would contribute to company’s future.

According to Norman (2011), cultural barriers limited SMEs greater participation on public markets. The cultural barriers were referred to as lack of familiarity with securities market by entrepreneurs who resulted into biases against the option of going to the stock market. The SMEs growth after listing was constrained by change of ownership structure,
inclusivity of shareholders and insufficient infrastructure to protect firms which were active in research and development (Pandey, 2016). SMEs were more likely to become loss making than large firms and had their cumulative losses increasing at an accelerating pace over the period in a study that investigated Chinese SMEs post market viability, growth and major constraints after listing on the stock market and going public (Adjasi, 2017). The study further revealed a significant size impact on firm’s growth among the Chinese listed SMEs which was attributed to government initiatives and policies that favored the SMEs.

2.4.4 Managerial Competence and Listing of SMEs on GEMS

Ljundqvist (2014), on the decision to go public using t-test showed that functional competencies are technical skills which are necessary for the accomplishment of task-related objectives of a job. Managers with functional competencies possess work planning skills and the ability to make decisions. In listing, SMEs need to be operated by managers and individuals possessing competent experience and knowledgeable to be able to cope with various business challenges.

Gopalan and Anjan, (2015) in an investigation of the Bombay Stock Exchange (BSE) SMEs and National Stock Exchange of India (NSE) EMERGE platforms, found out that managerial competence was essential in listing of SMEs businesses. The competence included a better response to business competitive needs and more effective participation from the company employees. The study recommended that SMEs managers needed better working conditions, training and development especially with new ways of thinking about the people within the organization. The study concluded that SMEs needed to rethink their future development by focusing on individual based approach exclusively on training courses which would make individual competence become organizational competence. Clatwothy, (2014) agrees by asserting that creating a culture of competence offered a blueprint for selective recruitment and development of a superior workforce to enhance organizational performance. The investors were be attracted by
performance that would lead to SMEs being listed and the shares being traded on the stock market.

To increase the chances of being listed, the managerial role was considered key (Chae, 2016). The study which focused on stock market development and SME economic growth asserted that skills such as knowledge, experience and ability for managers to cope with the various SMEs listing requirements were required to increase their effectiveness in establishing and maintaining healthy business stands required when listing a business to the securities exchange. Andrianaivo and Yartey (2015) concurs with Chae (2016) that managerial competence was key as SMEs interaction allowed the identification of legitimization of business growth and a better articulation between guidelines and organizational levels required during listing of a firm. The study further asserted that for management to meet their stakeholders’ expectations by maintaining high standards of performance in their business transactions, they needed to adhere to strict guidelines from CMA and Government in all their dealings as they compete in a dynamic business environment that influences their performance. The study recommended that SMEs needed to consider competency development for their managers to enhance their performance.

Šestanović (2016) listed some of the challenges for SMEs listing as lack of managerial competence which included; lack of understanding of finances, shortage of equity culture, lack of strong investment bases, insensible utters and lack of support by government policymakers for development of capital markets in general. The study further asserted that there were delays in laying strong foundations for SMEs to dedicated exchanges in the developing countries and gave a recommendation for governments to design and implement unique and tailor made approaches targeting SMEs. Comparative study between South Africa and Ghana on developing African stock markets by Senbet and Otchere (2016) revealed that a link existed between managerial competences and firms that list in pursuit for investment opportunities.
2.5 Summary

From the literature review a number of studies have been conducted on SMEs and their listing on alternative markets. Mwarari et al, (2013) asserted that access to information influenced listing of SMEs on the NSE. This was supported by Ravasi and Marchisio (2013) who posited that significance level of informed management was statistically significant to listing of their business. Girma and Shortland (2012) established that most of the companies preferred the use of equity and debt financing to ensure its capital structure was effectively established and that was able to diversify risks. Re-balancing has been a cause of many companies falling to bankruptcy due to high costs of debt finances (Masila and Onsongo, 2012). Guo (2014) supported the two studies and explained that many companies were pushed by the need to balance their debt and equity of finances especially in the banking sector as rebalancing of the capital structure was connected to the number of companies that were listed. Period of the company’s existence was considered as a factor in listing of a company (Pandey, 2016). This was supported by Pyartey (2013) and Paolo (2015) who asserted that for a company to list, the company ought to have been in existence for at least three years.

The size of a company greatly affected its listing in a study on the link between economic growth and financial markets where the company size was measured in terms of asset base (Levine and Zervos, 2016) this was supported by Adjasi (2017) who asserted that after firms are listed large firms had a high chance of survival than small firms. Ljundqvist (2014) findings in Netherlands on SMEs decision to go public found that, a competent manager is one who is efficient and effective, having the capacity to perform to a given performance standard in order to ensure the company is listed. Comparative study between South Africa and Ghana on developing African stock markets by Senbet and Otchere (2016) showed that there is a link between managerial competences and firms that list in pursuit for investment opportunities.

A number of studies have been carried out as outlined in this chapter on the low listing of SME since the launch in 2013 but little has been achieved to ensure more listing of SMEs
on GEMS. The level of listing has remained relatively low in Kenya compared to other countries. SME listing for capital raising opportunities has been increasingly encouraged to bridge the financing gap for SMEs however previous studies have not focused on the factors influencing the listing of SMEs with specific focus on the level of information awareness, business profile and management competence in a single study. This therefore provided the need to investigate the factors influencing the listing of SMES on GEMS at NSE with specific focus in Nairobi County.

2.6 Conceptual Framework

A conceptual framework is an analytical tool with several variations and contexts and is used to make conceptual distinctions and organize ideas into a visible frame. The objective of the study was three-fold therefore, it was imperative to design a framework that provided guidelines for the identification of the factors influencing listing of SMEs on GEMS in Kenya. Figure 2.1 provides the conceptual framework for the dissertation.
Figure 2.1 Conceptual Framework

Managerial Competence Aspects

Business Profile Aspects

Level of awareness Aspects

Reduced Factors of High Relevance
2.7 Operationalization of variables

Operationalization of the variables is as presented in table 2.1 below.

Table 2.1 Operationalization of variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measurements</th>
<th>Questionnaire</th>
<th>Scale type</th>
<th>Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial competence</td>
<td>• Ability of the management to raise capital to fund growth</td>
<td>Question 9 and 10</td>
<td>Nominal, Ordinal</td>
<td>Descriptive</td>
</tr>
<tr>
<td></td>
<td>• Ability to diversify risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Ability to attract investors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Ability to link up with other firms to form mergers with an aim of being listed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Approaches used by the managers to list</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business profile</td>
<td>• Size of the firm</td>
<td>Question 11 and 12</td>
<td>Nominal, Interval</td>
<td>Descriptive</td>
</tr>
<tr>
<td></td>
<td>• Management structure of the firm</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Solvency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Working capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Number of years in operation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Transactions conducted by the company</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Number of employees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Number of directors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level of information awareness</td>
<td>• Through social media</td>
<td>Question 13 and 14</td>
<td>Interval</td>
<td>Descriptive</td>
</tr>
<tr>
<td></td>
<td>• Through conferences</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Through print media</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Through televised information</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• By printing newsletters and brochures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Through a friend</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• SME open forums</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Listing of SMEs</td>
<td>• Reduced employee turnover</td>
<td>Question 15</td>
<td>Interval</td>
<td>Descriptive</td>
</tr>
<tr>
<td></td>
<td>• Increase market share</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Business becomes competitive</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Increased shareholder base</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Future growth expectations</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology that was adopted to meet the research objectives of the factors influencing the listing of SMEs on GEMS in Kenya. The chapter covers research design, population and sampling, data collection method, data analysis approaches, research quality and ethical issues under consideration.

3.2 Research Design

A research design is an outline of how the objectives of a study are met and the specific problems under investigation are answered (Kothari, 2004). To achieve the proposed research objective of investigating the factors influencing the listing of SMEs on GEMS the empirical design selected for this study was descriptive research design. According to Clark and Creswell (2010), this particular research design is primarily concerned with numerical data collection. The descriptive design was therefore suitable for this study and was adopted to investigate the factors influencing the listing of SMEs on GEMS.

3.3 Population and Sampling

The study target population was the unlisted SMEs but due to SMEs being spread out in a large geographical area, only those located or with headquarters within Nairobi Central Business District were sampled. According to SME-RC (2016) survey report, there were 672 SMEs who had qualified to be listed in GEMS and thus senior managers of these SMEs acted as the study sample. The study adopted random sampling technique.

To get a representative sample Israel (2000) formula was adopted. A 95% confidence level and \( p = 0.05 \) was chosen in view of social science nature of the study. The study thus used 257 respondents. Random sampling procedure was applied where every respondent had a chance of representation.

\[
 n = \frac{N}{1 + N(e)^2}
\]
Where: \( n = \) Sample size

\( N = \) Population

\( e = \) Level of significance

\[
\frac{672}{1+672(0.05)^2} = 257
\]

3.4 Data Collection Methods

This study employed collection of primary data from 257 unlisted SMEs senior managers using questionnaire bearing both open and closed ended questions. The questionnaire was suitable tool to use for data collection because the sample size was large and the questions were structured. According to Saunders, Lewis, & Thornhill, (2009) the questionnaire method of data collection is suitable for structured questions because they can be analyzed quantitatively and interpreted for descriptive.

The questionnaire was arranged according to the study objective and used five point Likert scale approach with response ranging from no extent to very great extent that the respondent was expected to choose from. The questionnaires were physically administered to the senior managers of SMEs by the trained research assistants. According to Saunders, Lewis and Thornhill, (2016) drop and pick later method was used in order to encourage completion of the questionnaire which improved the overall response rate. Verification of completeness was done at the point of collection to ensure completeness of the questionnaires.

3.5 Data Analysis Techniques

After the questionnaires were completed, each item was analyzed separately or in some cases item responses were summed to create a score for a group of items. The questionnaires were suitably coded to facilitate data entry. Both descriptive and inferential statistics were used. Quantitative data analysis was conducted to provide frequency distribution and percentages, means, modes and standard deviation were used
to determine the proportion of respondents choosing the various responses. This was done for each group of items relating to the research questions. Data was reported in frequency tables, graphs and pie charts before interpretation and conclusions were made.

3.6 Model

The study adopted factor analysis which is a mathematical tool that can be used to examine a wide range of data sets (Saunders et al, 2016). The basic purpose of factor analysis was to explore the underlying variance structure of the set of correlation coefficient. Besides, factor analysis was used to determine how many factors underlies the set of variables, the extent to which each original variable depends upon each common factor, interpretation of the obtained factors and to find the amount of each common factor possessed by each factor. Factor analysis was used to describe the set of variables (X1, X2, ,..Xk) in terms of a smaller number of common factors and hence explain the relationship between these k variables.

3.7 Research Quality

Research quality was measured through the reliability and validity of the study as explained below.

3.7.1 Reliability and Validity

The reliability of the study was enhanced through conducting a pilot study on 10 SMEs firms in the Nairobi Central Business District. The sample was a representative of the population. This process refined the questionnaire in preparation to the roll out and helped reduce problems in answering the questions and recording data. Preliminary analysis using the piloted data was undertaken to ensure that the data collected enabled the questions to be answered. During the pilot study, elements that introduced bias and errors were identified and removed.

The reliability of an instrument is the measure of the degree to which a research instrument is able to yield constant results after repeated trials (Bowling, 2009). The reliability of the questionnaire was determined using Cronbach’s Alpha Coefficient. A
Cronbach’s Alpha Coefficient of at least 0.70 is acceptable. The results of Cronbach’s Alpha Coefficient value of 0.814 obtained indicated that the research tool was reliable. Pre-testing was done on the questionnaire to establish any irregularities and ensured accuracy of information collected. The use of open-ended questions in the tool helped in improving the validity of the questions asked since it allowed in-depth coverage of information required. To yield consistency of results, the research assistants were trained on how to administer the questionnaires and collect data from the respondents.

3.8 Ethical Considerations

The researcher familiarized herself with various ethical standards, including the code of research ethics stipulated by Strathmore University. The respondents were reminded that their participation was voluntary and that they would not be victimized in any way. The respondents were also informed of confidentiality and anonymity of the information. Further, personal details of respondents were not published in the study reports. A formal approval was obtained from Strathmore Business School to conduct research.
CHAPTER FOUR: PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

This chapter provides a presentation of the findings on the data collected during the field study. The data was collected exclusively from the questionnaires that were designed in line with the study objectives and which were administered to either SME owners or their representatives/senior managers. The chapter begins by providing a summary of the respondent’s general characteristics which is followed by a report on findings on the specific objectives.

4.1.1 Response Rate

An analysis of the response rate to establish the total number of respondents who actively participated in the study by completing and submitting the questionnaires was carried out and the results are as presented in Table 4.1. The study findings indicated that 188 out of the targeted 257 SMEs responded to the questionnaires contributing to a response rate of 73%. This response rate was sufficient and representative conforming to Mugenda & Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting, a rate of 60% is good while a response rate of 70% and above is excellent.

Table 4.1 Response Rate

<table>
<thead>
<tr>
<th>Response</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responded</td>
<td>188</td>
<td>73</td>
</tr>
<tr>
<td>Not Responded</td>
<td>69</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>257</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.2 General Characteristics of the Firm

In this section, the general characteristics of the respondents as surveyed were presented. The key characteristics were ownership of the company, number of employees on full time basis, annual turnover of the company in 2017, profitability of the company and how the company raised capital.
4.2.1 Ownership of Company/Business

The distribution of company ownership in Figure 4.1 indicated that 47% of the respondents had their companies/businesses owned by family members, 27% indicated that their companies/businesses were individual owned businesses while 26% of companies/businesses were owned through partnership. The study finding revealed that the highest number of SME businesses were owned and run by families.

4.2.2 Number of Employees in the Business

The companies were analyzed on the basis of number of workers they employed on full time basis. The results presented in Table 4.2 indicated that 46% of the companies had employed 10 to 49 employees on full time, 35% of the companies/businesses had employed 1 to 9 employees on full time, and 17% had employed 50 to 249 employees on full time whereas 2% indicated that their businesses employed more than 250 employees on full time. The findings therefore revealed that most businesses employed between 10 and 49 workers in their businesses on a full time basis.
Table 4.2 Number of employees

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 1 to 9 employees</td>
<td>66</td>
<td>35.1</td>
</tr>
<tr>
<td>From 10 to 49 employees</td>
<td>87</td>
<td>46.3</td>
</tr>
<tr>
<td>From 50 to 249 employees</td>
<td>32</td>
<td>17.0</td>
</tr>
<tr>
<td>More than 250 employees</td>
<td>3</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>188</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.2.3 Business/company annual turnover in 2017

Results of distribution of the 2017 annual turnover presented in Table 4.3 indicated that 36% of the companies had an annual turnover of KES 5 million and below; 31% of the companies had an annual turnover of between 5 million and 10 million; 19% of the companies had an annual turnover of between 10 million and 50 million and 14% had an annual turnover of between 50 million and 100 million. None had a turnover of more than 100 million.

Table 4.3 Distribution of companies by 2017 annual turnover

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>KES 5 million and below</td>
<td>68</td>
<td>36.2</td>
</tr>
<tr>
<td>More than KES 5 million and up to KES 10 million</td>
<td>58</td>
<td>30.9</td>
</tr>
<tr>
<td>More than KES 10 million and up to KES 50 million</td>
<td>36</td>
<td>19.1</td>
</tr>
<tr>
<td>More than KES 50 million and up to KES 100 million</td>
<td>26</td>
<td>13.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>188</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

The findings showed that the respondents to the questionnaire had their turnover in 2017 up to 100 million but companies with the turnover of up to 10 million were the majority with 67% affirming the nature of businesses were SMEs.
4.2.4 Company’s Profitability

The respondents’ companies profitability status as presented in Figure 4.2 showed that 99% of the companies surveyed were profit making while 1% of the companies were not profitable. This indicated that majority of the surveyed companies were profitable.

![Figure 4.2 Composition of respondents businesses by profitability](image)

Figure 4.2 Composition of respondents businesses by profitability
4.2.5 Distribution of Respondents by ways of raising capital

Figure 4.3 indicates that 53% of the respondents raised capital for their businesses through borrowing, 39% raised capital from personal savings, 5% indicated that they raised their businesses capital from partnerships while 3% indicated that they raised their businesses capital by using the retained earnings from their businesses. This showed that borrowing was the most preferred method of raising capital by the surveyed companies.

![Figure 4.3 Ways respondents raised capital for their businesses](image)

4.3 Level of Information Awareness

This section reviewed the first objective on the level of information awareness and its influence on listing of SMEs on GEMS.

4.3.1 Information received on Listing

The respondents were asked to rank the extent to which they received information on listing of firms to GEMS. The findings in Table 4.4 show that respondents received information about listing of their firms to a moderate extent with an average mean score of 3.17. The study found out that respondents received information through conferences, print media, television, printed newsletters and brochures and through open forums to a
great extent with a mode score of 4 while information received through a friend was ranked with a mode of 1 at no extent. The study indicated that respondents did not receive information through friends indicating that there were no discussions among SMEs owners and management on listing. Most respondents received information through organized forums and print media.

Table 4.4 Information received on listing

<table>
<thead>
<tr>
<th>Source of Information</th>
<th>No extent</th>
<th>Low extent</th>
<th>Moderate</th>
<th>Great extent</th>
<th>Very great extent</th>
<th>Mean</th>
<th>Mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Through social media</td>
<td>9</td>
<td>17.6</td>
<td>30.9</td>
<td>19.7</td>
<td>22.9</td>
<td>3.29</td>
<td>3</td>
</tr>
<tr>
<td>Through conferences</td>
<td>16</td>
<td>15.4</td>
<td>23.4</td>
<td>27.7</td>
<td>17.6</td>
<td>3.15</td>
<td>4</td>
</tr>
<tr>
<td>Through print media</td>
<td>11.2</td>
<td>3.7</td>
<td>21.3</td>
<td>55.3</td>
<td>8.5</td>
<td>3.46</td>
<td>4</td>
</tr>
<tr>
<td>Through televised information</td>
<td>13.3</td>
<td>6.9</td>
<td>31.9</td>
<td>33</td>
<td>14.9</td>
<td>3.29</td>
<td>4</td>
</tr>
<tr>
<td>By printed newsletters and brochures</td>
<td>3.2</td>
<td>10.1</td>
<td>34.6</td>
<td>46.8</td>
<td>5.3</td>
<td>3.4</td>
<td>4</td>
</tr>
<tr>
<td>Through a friend</td>
<td>26.1</td>
<td>11.2</td>
<td>22.3</td>
<td>22.3</td>
<td>18.1</td>
<td>2.95</td>
<td>1</td>
</tr>
<tr>
<td>SME open forums</td>
<td>7.4</td>
<td>21.8</td>
<td>15.4</td>
<td>35.1</td>
<td>20.2</td>
<td>3.38</td>
<td>4</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>3.17</strong></td>
<td></td>
</tr>
</tbody>
</table>

4.4 Business Profile

This section reviewed the second objective which was business profile and its influence on listing of SMEs on GEMS.

4.4.1 Respondents opinion on GEMS requirements

69% of respondents indicated that the NSE current GEMS requirements were not tailored towards encouraging SMEs to list their businesses while 31% indicated that NSE current GEMS requirements were tailored towards encouraging SMEs to list their businesses as seen in figure 4.4. The findings showed that majority of the respondents had the opinion that the requirements towards listing were not tailored towards encouraging the SMEs to list.
The majority of 69% of respondents who’s opinion on GEMS requirements’ not being tailored towards listing of SMEs felt that; there was minimum support given to the SMEs willing to list, there was minimal information on the listing requirements and they also felt that the cost associated with listing was not very transparent. and some cite hidden costs. However, some respondents had the opinion that the requirements to list were favorable but they were not comfortable to list for fear of the scrutiny that comes with going public giving examples of corporate governance structures compliance, prudential guidelines and tax related issues.

4.4.2 Business operations characteristics on SMEs listing

The results in Table 4.5 show that business operation’ characteristics influenced SMEs’ listing on GEMS to a moderate extent as shown by an average score of 3.39. The size of the firm, management structure of the firm, working capital, transactions conducted by the company, number of employees and number of directors were ranked to a great extent with a mode of 4. Solvency of the firm and number of years in operation was ranked at moderate extent with a mode score of 3.
Table 4.5 Business operations characteristics on SMEs Listing

<table>
<thead>
<tr>
<th></th>
<th>No extent %</th>
<th>Low extent %</th>
<th>Moderate %</th>
<th>Great extent %</th>
<th>Very great extent %</th>
<th>Mean</th>
<th>Mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of the firm</td>
<td>8.5</td>
<td>14.9</td>
<td>27.7</td>
<td>35.1</td>
<td>13.8</td>
<td>3.3</td>
<td>4</td>
</tr>
<tr>
<td>Management structure of the firm</td>
<td>-</td>
<td>14.9</td>
<td>30.3</td>
<td>32.4</td>
<td>22.3</td>
<td>3.62</td>
<td>4</td>
</tr>
<tr>
<td>Solvency</td>
<td>3.2</td>
<td>13.3</td>
<td>40.4</td>
<td>33</td>
<td>10.1</td>
<td>3.33</td>
<td>3</td>
</tr>
<tr>
<td>Working capital</td>
<td>4.8</td>
<td>9.6</td>
<td>27.1</td>
<td>33.5</td>
<td>25</td>
<td>3.64</td>
<td>4</td>
</tr>
<tr>
<td>Number of years in operation</td>
<td>3.2</td>
<td>5.9</td>
<td>39.9</td>
<td>36.2</td>
<td>14.9</td>
<td>3.53</td>
<td>3</td>
</tr>
<tr>
<td>Transactions conducted by the company</td>
<td>2.1</td>
<td>11.7</td>
<td>26.1</td>
<td>33</td>
<td>27.1</td>
<td>3.71</td>
<td>4</td>
</tr>
<tr>
<td>Number of employees</td>
<td>18.1</td>
<td>20.7</td>
<td>17.6</td>
<td>28.2</td>
<td>15.4</td>
<td>3.02</td>
<td>4</td>
</tr>
<tr>
<td>Number of directors</td>
<td>22.3</td>
<td>11.2</td>
<td>21.3</td>
<td>35.6</td>
<td>9.6</td>
<td>2.98</td>
<td>4</td>
</tr>
</tbody>
</table>

Average 3.39

The results indicate that transactions conducted by a company, management structure of the firm, working capital and the number of years in operation greatly influenced the chances of a company being listed.

4.5 Managerial Competence

This section reviewed the third objective on the managerial competence and its influence on listing of SMEs on GEMS.

4.5.1 Respondents consideration to their Business on GEMS

The respondents were asked if they would consider listing their businesses to NSE under GEMS. The results as shown in Figure 4.5 revealed that 51% of the respondents would consider listing their businesses while 49% indicated that they would not consider listing their businesses.
4.5.2 Respondents feedback on listing their business on GEMS

The respondents gave the following reasons as to why they would list or not list their businesses on GEMS.

4.5.2.1 Respondents reasons on why they would prefer to list

The results shown in figure 4.5 indicate that 51% of the respondents would consider listing to GEMS and sighted the following reasons as a motivator to their listing; access to long term financing which was not accessible from the commercial banks and financial institutions. They indicated that most of the commercial banks were offering short term loans that could not meet their long term financial needs. Company local and international visibility was the second reason that most companies indicated would make them list to GEMS. And finally company growth was sighted as a reason that would motivate the respondents to list.

4.5.2.2 Respondents reasons on why they would not prefer to list

The 49% respondents who indicated that they would not consider listing their companies on GEMS gave the following reasons:- Current listed companies under GEMS were struggling and therefore there was no motivation for them to list. Secondly most of the respondents were not willing to list because the companies belonged to family and were
not allowed to get shareholders from outside to manage the family businesses/companies. The respondents also cited high costs involved in listing which included paying the nominated advisors, getting qualified personnel to prepare the companies financials and run the business.

4.5.3 The respondents level of managerial competence

The results in table 4.6 indicate that respondents ranked their managerial competence at a moderate extent with an average mean score of 3.19. Respondents ranked the ability to build collaborative relationships with all stakeholders to a very great extent with a mode of 5 while the ability to attract investors was ranked at great extent with a mode of 4. The ability of the management to raise capital to fund growth, ability to diversify risk and approaches used by managers to list was ranked at a moderate extent with a mode of 3. The ability to link up with other firms to form mergers with an aim of being listed was ranked at low extent with a mode of 2.

Table 4.6 Respondents Level of Managerial Competence

<table>
<thead>
<tr>
<th></th>
<th>No extent</th>
<th>Low extent</th>
<th>Moderate</th>
<th>Great extent</th>
<th>Very great extent</th>
<th>Mean</th>
<th>Mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability of the management to raise capital to fund growth</td>
<td>1.6</td>
<td>28.2</td>
<td>36.7</td>
<td>22.3</td>
<td>11.2</td>
<td>3.13</td>
<td>3</td>
</tr>
<tr>
<td>Ability to diversify risk</td>
<td>4.3</td>
<td>18.1</td>
<td>41</td>
<td>31.4</td>
<td>5.3</td>
<td>3.15</td>
<td>3</td>
</tr>
<tr>
<td>Ability to attract investors</td>
<td>1.6</td>
<td>12.2</td>
<td>28.2</td>
<td>34</td>
<td>23.9</td>
<td>3.66</td>
<td>4</td>
</tr>
<tr>
<td>Ability to link up with other firms to form mergers with an aim of being listed</td>
<td>11.7</td>
<td>30.9</td>
<td>18.1</td>
<td>27.7</td>
<td>11.7</td>
<td>2.96</td>
<td>2</td>
</tr>
<tr>
<td>Approaches used by the managers to list</td>
<td>16.5</td>
<td>25</td>
<td>38.3</td>
<td>8.5</td>
<td>11.7</td>
<td>2.73</td>
<td>3</td>
</tr>
<tr>
<td>Ability to build collaborative relationships with all stakeholders</td>
<td>9</td>
<td>15.4</td>
<td>21.3</td>
<td>21.3</td>
<td>33</td>
<td>3.53</td>
<td>5</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.19</td>
<td></td>
</tr>
</tbody>
</table>

The finding indicated that the respondents ranked highly the competence to attract investors and the ability to build collaborative relationships with all their stakeholders than approaches used by managers to list and the ability of managers to raise capital to fund growth. The overall mean score of 3.19 was average which implies that most
managers had average management skills and competence. The ability to link up with other firms to form mergers with an aim of being listed was ranked to low extent indicating that most managers from the surveyed companies had low knowledge on listing.

4.6 Challenges facing SMEs to listing their businesses on GEMS

Respondents were asked to list the challenges they experienced while trying to list their business and the results indicated that; inability to attract skilled manpower to run SMEs businesses, fear of losing control of company ownership, lack of adequate training/information on GEMS and inability to have access to the funds needed as quickly as possible were some of the challenges SMEs cited.

4.7 The impact of SMEs listing on GEMS

The respondent’s opinion was sort to investigate the extent to which listing of SMEs on GEMS would impact on the employee turnover, increase market share, makes the business competitive, increase shareholder base and future growth expectations. The respondents ranked business competitiveness at very great extent with a mode of 5 while reduced employee turnover was ranked at low extent with a mode of 2. The increase in market share, increase in shareholder base and future growth expectations were ranked at great extent with a mode of 4 as shown in Table 4.7. Reduced employee turnover was ranked at low extent with a mode of 2.
Table 4.7 Impact of SMES Listing

<table>
<thead>
<tr>
<th></th>
<th>No extent %</th>
<th>Low extent %</th>
<th>Moderate extent %</th>
<th>Great extent %</th>
<th>Very great extent %</th>
<th>Mean</th>
<th>Mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduces employee turnover</td>
<td>3.7</td>
<td>30.9</td>
<td>28.7</td>
<td>20.2</td>
<td>16.5</td>
<td>3.14</td>
<td>2</td>
</tr>
<tr>
<td>Increase market share</td>
<td>6.4</td>
<td>2.7</td>
<td>22.9</td>
<td>34</td>
<td>34</td>
<td>3.86</td>
<td>4</td>
</tr>
<tr>
<td>Business becomes competitive</td>
<td>0.5</td>
<td>7.4</td>
<td>33</td>
<td>20.7</td>
<td>38.3</td>
<td>3.88</td>
<td>5</td>
</tr>
<tr>
<td>Increased shareholder base</td>
<td>5.3</td>
<td>10.1</td>
<td>17</td>
<td>41</td>
<td>26.6</td>
<td>3.73</td>
<td>4</td>
</tr>
<tr>
<td>Future growth expectations</td>
<td>0.5</td>
<td>4.8</td>
<td>21.8</td>
<td>59.6</td>
<td>13.3</td>
<td>3.80</td>
<td>4</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>3.68</strong></td>
<td></td>
</tr>
</tbody>
</table>

4.8 Inferential Statistics

Inferential statistical analysis is a mathematical method that employs probability theory for deducing (inferring) the properties of a population from the analysis of the properties of a data sample drawn from it (Saunders et al, 2016). It allows one to predict or make generalizations about a population based on analysis of data of a sample derived from the population. In this study, factor analysis was used to express values of observed data as functions of a number of possible causes in order to find the most important.

4.8.1 Factor Analysis

With factor analysis, the construct validity of a questionnaire can be tested (Lewis, 2015). It is always ideal to conduct a factor analysis on the scale data to see if the scale really is one-dimensional. Responses to the individual scale items are the variables in such a factor analysis. These variables are generally well correlated with one another. In this case, the aim is to reduce the (large) number of variables to a smaller number of factors that capture most of the variance in the observed variables. If variables correlate too highly ($r > 0.8$ or $r < -0.8$), it becomes impossible to determine the unique contribution to a factor of the variables that are highly correlated. If a variable correlate lowly with many other variables ($-0.3 < r < 0.3$), the variable probably does not measure the same underlying construct as the other variables. Both the highly and lowly correlating items should be eliminated. If a questionnaire is a construct valid, all items together represent the underlying construct well. Exploratory factor analysis detects the constructs - i.e.
factors – that underlie a dataset based on the correlations between variables (in this case, questionnaire items) (Meyers, Gamst & Guarino, 2016). The factors that explain the highest proportion of variance the variables share are expected to represent the underlying constructs.

Table 4.8: Communalities

<table>
<thead>
<tr>
<th>Variable Description</th>
<th>Initial</th>
<th>Extraction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability of the management to raise capital to fund growth</td>
<td>1.000</td>
<td>.712</td>
</tr>
<tr>
<td>Ability to diversify risk</td>
<td>1.000</td>
<td>.795</td>
</tr>
<tr>
<td>Ability to attract investors</td>
<td>1.000</td>
<td>.779</td>
</tr>
<tr>
<td>Ability to link up with other firms to form mergers with an aim of being listed</td>
<td>1.000</td>
<td>.862</td>
</tr>
<tr>
<td>Approaches used by the managers to list</td>
<td>1.000</td>
<td>.765</td>
</tr>
<tr>
<td>Ability to build collaborative relationships with all stakeholders</td>
<td>1.000</td>
<td>.776</td>
</tr>
<tr>
<td>Size of the firm</td>
<td>1.000</td>
<td>.953</td>
</tr>
<tr>
<td>Management structure of the firm</td>
<td>1.000</td>
<td>.864</td>
</tr>
<tr>
<td>Solvency</td>
<td>1.000</td>
<td>.932</td>
</tr>
<tr>
<td>Working capital</td>
<td>1.000</td>
<td>.871</td>
</tr>
<tr>
<td>Number of years in operation</td>
<td>1.000</td>
<td>.815</td>
</tr>
<tr>
<td>Transactions conducted by the company</td>
<td>1.000</td>
<td>.876</td>
</tr>
<tr>
<td>Number of employees</td>
<td>1.000</td>
<td>.958</td>
</tr>
<tr>
<td>Number of directors</td>
<td>1.000</td>
<td>.893</td>
</tr>
<tr>
<td>Through social media</td>
<td>1.000</td>
<td>.939</td>
</tr>
<tr>
<td>Through conferences</td>
<td>1.000</td>
<td>.918</td>
</tr>
<tr>
<td>Through print media</td>
<td>1.000</td>
<td>.701</td>
</tr>
<tr>
<td>Through televised information</td>
<td>1.000</td>
<td>.863</td>
</tr>
<tr>
<td>By printing newsletters and brochures</td>
<td>1.000</td>
<td>.926</td>
</tr>
<tr>
<td>Through a friend</td>
<td>1.000</td>
<td>.957</td>
</tr>
<tr>
<td>SME open forums</td>
<td>1.000</td>
<td>.973</td>
</tr>
<tr>
<td>Reduces employee turnover</td>
<td>1.000</td>
<td>.843</td>
</tr>
<tr>
<td>Increase market share</td>
<td>1.000</td>
<td>.852</td>
</tr>
<tr>
<td>Business becomes competitive</td>
<td>1.000</td>
<td>.931</td>
</tr>
<tr>
<td>Increased shareholder base</td>
<td>1.000</td>
<td>.838</td>
</tr>
<tr>
<td>Future growth expectations</td>
<td>1.000</td>
<td>.879</td>
</tr>
</tbody>
</table>

Initial communalities are estimates of the variance in each variable accounted for by all components or factors. Extraction communalities are estimates of the variance in each variable accounted for by the factors (or components) in the factor solution. Small values
(in extraction column) indicate variables that do not fit well with the factor solution and should possibly be dropped from the analysis.

Table 4.9: Total Variance Explained

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>2</td>
<td>4.420</td>
<td>17.002</td>
</tr>
<tr>
<td>5</td>
<td>2.401</td>
<td>9.235</td>
</tr>
<tr>
<td>6</td>
<td>1.573</td>
<td>6.048</td>
</tr>
<tr>
<td>7</td>
<td>1.325</td>
<td>5.097</td>
</tr>
<tr>
<td>8</td>
<td>.929</td>
<td>3.572</td>
</tr>
<tr>
<td>9</td>
<td>.878</td>
<td>3.377</td>
</tr>
<tr>
<td>10</td>
<td>.519</td>
<td>1.996</td>
</tr>
<tr>
<td>11</td>
<td>.412</td>
<td>1.583</td>
</tr>
<tr>
<td>12</td>
<td>.311</td>
<td>1.195</td>
</tr>
<tr>
<td>13</td>
<td>.225</td>
<td>.865</td>
</tr>
<tr>
<td>14</td>
<td>.142</td>
<td>.545</td>
</tr>
<tr>
<td>15</td>
<td>.084</td>
<td>.324</td>
</tr>
<tr>
<td>16</td>
<td>.021</td>
<td>.082</td>
</tr>
<tr>
<td>17</td>
<td>.010</td>
<td>.039</td>
</tr>
<tr>
<td>18</td>
<td>5.058E-16</td>
<td>1.946E-15</td>
</tr>
<tr>
<td>19</td>
<td>3.318E-16</td>
<td>1.276E-15</td>
</tr>
<tr>
<td>20</td>
<td>2.854E-16</td>
<td>1.098E-15</td>
</tr>
<tr>
<td>21</td>
<td>1.930E-16</td>
<td>7.423E-16</td>
</tr>
<tr>
<td>22</td>
<td>1.015E-16</td>
<td>3.903E-16</td>
</tr>
<tr>
<td>23</td>
<td>-7.175E-17</td>
<td>-2.760E-16</td>
</tr>
<tr>
<td>24</td>
<td>-4.225E-16</td>
<td>-1.625E-15</td>
</tr>
<tr>
<td>25</td>
<td>-6.422E-16</td>
<td>-2.470E-15</td>
</tr>
<tr>
<td>26</td>
<td>-2.321E-15</td>
<td>-8.929E-15</td>
</tr>
</tbody>
</table>

In the table above, the Kaiser Normalization Criterion is used, which allows for the extraction of components that have an Eigen value greater than 1. The principal component analysis was used and 7 factors were extracted. As the table above shows, these 26 factors explain 86.422% of the total variation. This means that the other factors can be dropped without losing much of the original variability.
Figure 4.6 Scree Plot
A scree plot shows the eigenvalues on the y-axis and the number of factors on the x-axis. The point slope of the curve clearly levels off at component 7. This indicates that factor analysis should generate 7 factors.

Table 4.10: Validity Analysis Results

<table>
<thead>
<tr>
<th>Ability of the management to raise capital to fund growth</th>
<th>Component</th>
<th>Component</th>
<th>Component</th>
<th>Component</th>
<th>Component</th>
<th>Component</th>
<th>Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability of the management to raise capital to fund growth</td>
<td>.229</td>
<td>.235</td>
<td>.261</td>
<td>.272</td>
<td><strong>.678</strong></td>
<td>.029</td>
<td>.040</td>
</tr>
<tr>
<td>Ability to diversify risk</td>
<td>.491</td>
<td>.118</td>
<td>.429</td>
<td>.271</td>
<td><strong>.506</strong></td>
<td>.004</td>
<td>.166</td>
</tr>
<tr>
<td>Ability to attract investors</td>
<td><strong>.633</strong></td>
<td>.368</td>
<td>.028</td>
<td>.360</td>
<td>.296</td>
<td>.017</td>
<td>.155</td>
</tr>
<tr>
<td>Variable</td>
<td>Component 1</td>
<td>Component 2</td>
<td>Component 3</td>
<td>Component 4</td>
<td>Component 5</td>
<td>Component 6</td>
<td>Component 7</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>-------------</td>
<td>-------------</td>
<td>-------------</td>
<td>-------------</td>
<td>-------------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Ability to link up with other firms to form mergers with an aim of being listed</td>
<td>.367</td>
<td>.036</td>
<td>.579</td>
<td><strong>.599</strong></td>
<td>.018</td>
<td>.030</td>
<td>.177</td>
</tr>
<tr>
<td>Approaches used by the managers to list</td>
<td>.399</td>
<td>.028</td>
<td>.375</td>
<td>.178</td>
<td>.288</td>
<td>.347</td>
<td><strong>.478</strong></td>
</tr>
<tr>
<td>Ability to build collaborative relationships with all stakeholders</td>
<td><strong>.496</strong></td>
<td>.163</td>
<td>.014</td>
<td>.436</td>
<td>.392</td>
<td>.392</td>
<td>.081</td>
</tr>
<tr>
<td>Size of the firm</td>
<td>.172</td>
<td><strong>.779</strong></td>
<td>.156</td>
<td>.334</td>
<td>.339</td>
<td>.153</td>
<td>.204</td>
</tr>
<tr>
<td>Management structure of the firm</td>
<td><strong>.710</strong></td>
<td>.153</td>
<td>.561</td>
<td>.058</td>
<td>.137</td>
<td>.031</td>
<td>.012</td>
</tr>
<tr>
<td>Solvency</td>
<td><strong>.639</strong></td>
<td>.158</td>
<td>.176</td>
<td>.473</td>
<td>.096</td>
<td>.399</td>
<td>.275</td>
</tr>
<tr>
<td>Working capital</td>
<td>.353</td>
<td><strong>.546</strong></td>
<td>.195</td>
<td>.370</td>
<td>.218</td>
<td>.395</td>
<td>.265</td>
</tr>
<tr>
<td>Number of years in operation</td>
<td><strong>.679</strong></td>
<td>.372</td>
<td>.105</td>
<td>.126</td>
<td>.157</td>
<td>.183</td>
<td>.362</td>
</tr>
<tr>
<td>Transactions conducted by the company</td>
<td>.356</td>
<td>.416</td>
<td><strong>.443</strong></td>
<td>.319</td>
<td>.388</td>
<td>.352</td>
<td>.058</td>
</tr>
<tr>
<td>Number of employees</td>
<td>.388</td>
<td>.342</td>
<td><strong>.605</strong></td>
<td>.427</td>
<td>.354</td>
<td>.097</td>
<td>.081</td>
</tr>
<tr>
<td>Number of directors</td>
<td>.241</td>
<td><strong>.722</strong></td>
<td>.334</td>
<td>.105</td>
<td>.182</td>
<td>.004</td>
<td>.398</td>
</tr>
<tr>
<td>Through social media</td>
<td>.191</td>
<td><strong>.629</strong></td>
<td>.359</td>
<td>.073</td>
<td>.432</td>
<td>.359</td>
<td>.239</td>
</tr>
<tr>
<td>Through conferences</td>
<td><strong>.775</strong></td>
<td>.434</td>
<td>.053</td>
<td>.281</td>
<td>.211</td>
<td>.018</td>
<td>.050</td>
</tr>
<tr>
<td>Through print media</td>
<td>.027</td>
<td>.082</td>
<td><strong>.588</strong></td>
<td>.108</td>
<td>.546</td>
<td>.133</td>
<td>.141</td>
</tr>
<tr>
<td>Through televised information</td>
<td>.129</td>
<td>.479</td>
<td><strong>.661</strong></td>
<td>.080</td>
<td>.160</td>
<td>.085</td>
<td>.375</td>
</tr>
<tr>
<td>By printing newsletters and brochures</td>
<td>.312</td>
<td>.269</td>
<td>.392</td>
<td>.462</td>
<td>.189</td>
<td><strong>.504</strong></td>
<td>.314</td>
</tr>
<tr>
<td>Through a friend</td>
<td><strong>.629</strong></td>
<td>.247</td>
<td>.003</td>
<td>.625</td>
<td>.164</td>
<td>.183</td>
<td>.223</td>
</tr>
<tr>
<td>SME open forums</td>
<td><strong>.804</strong></td>
<td>.448</td>
<td>.119</td>
<td>.085</td>
<td>.311</td>
<td>.083</td>
<td>.034</td>
</tr>
<tr>
<td>Reduces employee turnover</td>
<td><strong>.574</strong></td>
<td>.244</td>
<td>.331</td>
<td>.491</td>
<td>.045</td>
<td>.282</td>
<td>.149</td>
</tr>
<tr>
<td>Increase market share</td>
<td><strong>.613</strong></td>
<td>.096</td>
<td>.392</td>
<td>.305</td>
<td>.047</td>
<td>.388</td>
<td>.261</td>
</tr>
<tr>
<td>Business becomes competitive</td>
<td><strong>.661</strong></td>
<td>.629</td>
<td>.200</td>
<td>.061</td>
<td>.158</td>
<td>.175</td>
<td>.017</td>
</tr>
<tr>
<td>Increased shareholder base</td>
<td>.355</td>
<td>.391</td>
<td>.087</td>
<td><strong>.646</strong></td>
<td>.193</td>
<td>.269</td>
<td>.156</td>
</tr>
<tr>
<td>Future growth expectations</td>
<td>.093</td>
<td><strong>.716</strong></td>
<td>.473</td>
<td>.186</td>
<td>.240</td>
<td>.093</td>
<td>.183</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.
a. 7 components extracted.

The above results allowed for the identification of which variables fall under each of the 7 major extracted factors. Each of the 26 parameters was looked at and placed to one of the 7 factors depending on the percentage of variability it explained the total variability of each factor. From the factor analysis, all the variables indicated high construct validity since all exceeded the prescribed threshold of 0.40 (Wang, 2015).
CHAPTER FIVE: DISCUSSION

5.1 Introduction

This chapter discusses the findings in chapter four. The objectives of the study were to investigate the influence of level of information awareness on the listing of SMEs on GEMS in Kenya, to assess the influence of business profile on listing of SMEs on GEMS in Kenya and to evaluate the level of managerial competence on listing of SMEs on GEMS in Kenya.

5.2 Summary of the study findings

Study findings in relation to study objectives are itemized as follows:

5.2.1 Level of information awareness

The results revealed that companies received information through print media, printed newsletters and brochures, open forums, social media and televised information, conferences and through friends. The highest means through which the companies surveyed received information on listing was through conferences, print media, television, printed newsletters, printed brochures and SME forums with a mode of 4 while companies received less information through a friend with a mode of one. The result of the survey therefore indicated that companies received information mostly through print media and organized forums implying that there were minimal discussions among people on the listing.

According to the study, the level of information received by companies was at a great extent signifying that SMEs received information about listing on GEMS though the information received was not clear on various aspects including requirements on listing, costs associated with listing and corporate governance. The respondents were not listing as they claimed hidden costs and exposure that came with listing. This study is in line with Majluf and Stewart (2015) on bankruptcy secured debt and optimal structure a case of National Stock Exchange of Australia (NSX), where there was a clear indication of
low level of awareness by SMEs of the existence of NSX which the SMEs would use as a source of acquiring capital.

These findings are also supported by Ravasi and Marchisio (2013) who contends that most of the firms did not list as they had little information on listing. For managers to list their SMEs firms, they needed to have the listing knowledge to enable them to understand the business and industry of the firm they serve and by applying the understanding of the integrated value chain. The study is also concurs with Mwarari et al, (2013) whose study revealed that access to information influenced listing of SMEs to NSE.

5.2.2 Business Profile

The size of the firm, management structure of the firm, working capital, transactions conducted by the company, number of employees and number of directors were ranked to a great extent with a mode of 4. Solvency of the firm and number of years in operation was ranked at moderate extent with a mode score of 3. The size of the firm was ranked to a great extent with a mode of four which concur with Levine and Zervos (2016) who asserted that the size of a company greatly affected its listing in a study on the link between economic growth and financial markets where the company size was measured in terms of asset base. This study measured the size of the firm in terms of annual turnover and number of workers. Measurement in terms of annual turnover found that 67% of the respondents had their turnover less than 10 million and 33% had their annual turnover up to 100 million and there was none with a turnover of more than 100 million. In terms of the number of workers employed, the study found out that 46% of the companies’ employed between 10 and 49 workers on full time basis. This confirmed that companies surveyed were SMEs.

The results on the company ownership revealed that 47% of the businesses were family owned, 27% were individual owned with only 26% of the businesses being owned by partnerships. This would infer that most companies were not listing because they were family owned businesses and therefore had the fear of diluting ownership structure. Some
businesses had been inherited from the parents and were not keen on listing for fear of culture interference created by their forefathers therefore listing was not considered a priority when raising funds. The findings of this study concurred with Norman (2011) where he asserted that cultural barriers were referred to as lack of familiarity by entrepreneurs with securities markets which resulted into biases against the option of going to the stock market. The findings are in line with to Pandey (2016) who found out that growth of SMEs after listing on the stock market was constrained by change of ownership structure and inclusivity of shareholders.

The company’s profitability findings revealed that 99% of the companies were profitable while 1% were not profitable. This indicated that despite the companies being profitable they were not listing to GEMS. Majluf and Stewart (2015) found out that profitability was a factor considered by companies to list measured by use of profit after tax. This study contradicts with Majluf and Stewart (2015) as most respondents preferred to raise funds through debt at 53% and were profitable yet they were not listing. The study also found out that majority of the SMEs at 69% indicated that the NSE current GEMS requirements were not tailored towards encouraging SMEs to list their businesses citing minimal support and clarity of the costs involved in listing. Number of years in operation was ranked at moderate extent with a mode score of 3. This concurs with Yartey (2013) and Paolo (2015) who asserted that for a company to list, it ought to have been in existence for at least three years which gave the older companies a higher chance of being listed compared to the new once.

5.2.3 Managerial Competence

Respondents ranked the ability to build collaborative relationships with all stakeholders to a very great extent with a mode of 5 while the ability to attract investors was ranked at great extent with a mode of 4. The ability of the management to raise capital to fund growth, ability to diversify risk and approaches used by managers to list was ranked at a
moderate extent with a mode of 3. The ability to link up with other firms to form mergers with an aim of being listed was ranked at low extent with a mode of 2.

The respondent ranked the ability to build collaborative relationships with all stakeholders to a very great extent with a mode of 5. This finding is in line with Chae (2016) in China who found that managerial competencies enabled managers to enhance their productivity, establish and maintain healthy business relationships with both internal and external stakeholders with an aim of being listed. The ability of the management to raise capital to fund growth was ranked at great extent with a mode of 4. This findings concurs with Andrianaivo and Yartey (2015) on understanding the growth of African SME business markets where they found that managerial competence was key as SMEs interaction allowed the identification of legitimization of business growth and a better articulation between guidelines and organizational levels required during listing of a firm.

The management competence to attract investors was ranked at great extent with a mode of 4 implying that SMEs managerial skills to attract investors were key in their companies in order to be competitive in the market. 99% of the respondents surveyed were profit making while 53% of the respondents obtained finance through debt implying that the surveyed companies had the management competence to attract investors therefore able to borrow, pay off the debt and have some retained earnings. The ability to link up with other firms to form mergers with an aim of being listed was ranked at low extent with a mode of 2 implying that most companies did not have the capability to link up with other companies for opportunities. The findings indicate that managerial competence was rated at a moderate extent which is an average score on a rating of a scale of one to five. The average rating explains why there is low listing of SMEs implying that SMEs should be able to employ managers who are qualified and have the competence to diversify risk, attract investors and can be able to hold meaningful relationships with various stakeholders. SMEs should be able to organize for external trainings and workshops that would empower their managers to be able to perform effectively and be able to be able to help the company to raise capital.
CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

6.1 Conclusions

The SMEs level of awareness in relation to listing their firms was moderate. Most of the SMEs received information on listing through print media this shows that there is need for more trainings and sensitization to be done to SMEs to create the confidence for more SMEs to list. Despite the SMEs receiving information on listing, they were still not able to list because they were not able to get a deeper understanding of the requirements and the processes involved.

The business profile factors like size of the firm and the firm structure influenced the level of SMEs listing. Since majority of the companies were family owned, there was fear of diluting ownership of the company and therefore most of the companies would shy away from listing to maintain the family ownership structure.

The managerial competence influenced SMEs decision to list to GEMS. Collaborative relationships made by SMEs in their transactions and the extent to which SMEs are able to diversify risk influence the listing. Findings indicate that the level of managerial competence of SMEs in relation to listing was low. This thus shows that managerial competence is key when it comes to SMEs listing on GEMS.

To ensure effective competency, managers running SMEs need to be able to have the ability to attract investors, build collaborative relationships with their stakeholders and have the ability to diverse risk. There is need for SMEs to link up with other firms to form mergers with an aim of being listed. To ensure effective competency, managers running SMEs need to be able to have the ability to attract investors, build collaborative relationships with their stakeholders and have the ability to diverse risk. There is need for SMEs to link up with other firms to form mergers with an aim of being listed.
6.2 Recommendations

The study recommends an improvement in SMEs managerial competence in order to enhance their entrepreneurial skills that will increase their business performance as well as understand the importance of listing to GEMS. The owners and senior management of SMEs should invest in qualified personnel and expose them to workshops and forums that would build their skills. In its sensitization programme to unlisted companies the NSE should inform the managers on the advantages of having competent and qualified management.

NSE should invest in a special SMEs training hub to specialize in training the SMEs on the processes, benefits of listing and have a unit to help monitor the SMEs progress after listing.

The study also recommends that SMEs adopt innovative measure like risk diversification, linking up with other firms to form mergers with the aim of creating an environment to attract investors and eventually listing to the public. The family owned SMEs should open up their businesses for growth through getting qualified personnel to run the businesses as they might inject knowledge and more insights that my lead to expansion and eventually listing. The family business owners should be able to list part of their business which will still allow them to remain the major shareholders.

The government should support these firms by establishing a research and innovation hub that SMEs can be visiting at will to be enlightened on how to improve their business operations and be educated on the various ways of raising funds. The hub should also enable the listed and the unlisted companies to interact and share ideas on the importance and the challenges expected after listing.

The study finally recommends that SMEs awareness in listing be improved by; (a) networking SMEs with the listed firms, (b) effective communication channels through which every SME will have first-hand information on GEMS when venturing in their
business in order to plan appropriately in case they are interested in listing this can be adopted at the point of company registration, (c) have monthly training sessions that will be monitored and evaluated to assess their effectiveness, government intervention to help support SMEs willing to list by catering for the initial listing costs.

6.3 Areas for Further Study

The outcome of this research shows a comprehensively integrated framework to understand the vibrant relationships among several dimensions of level of information awareness, business profile and managerial competence. However, further research efforts are needed to examine these factors in all the other counties in order to have a comparison of the findings as this study put much emphasis in Nairobi central business.

Future studies should look at how business culture and cash flow influence listing of SMEs on GEMS in Kenya in order to widen the scope of study. There is further need for use of other data collection instruments like focus group discussion and interviews as respondent’s in order to capture the various groups’ arguments in relations to the listing. There is need to for a research on the pre and post viability of the companies listed under GEMS and how the performance affects the listing. There is need for further study on corporate governance and how it affects the listing of SMEs on GEMS.
REFERENCES


Arcot, S., Black, J., & Owen, G. (2007). From local to global: the rise of AIM as a stock market for growing companies: a comprehensive report analyzing the growth of AIM.


51


APPENDIX I: INTRODUCTORY LETTER

Selline N. Okello
Westlands,
Nairobi

Dear Sir/Madam,

RE: REQUEST FOR INFORMATION

My name is Selline Okello, I am a master’s student from the Strathmore Business School of Strathmore University.

I am conducting research on “Factors Influencing Listing of Small and Medium Enterprises to Growth Enterprise Market Segment in Kenya”. You have been selected as one of the respondents to assist in providing the requisite data and pertinent information for this research.

I kindly request you to spare a few minutes and answer the attached questionnaire. The information you shall offer will be used for academic purposes only. Your identity will be kept in utmost confidence. Kindly do not append your name anywhere on this questionnaire.

On this basis, I beseech you to respond to questions asked with utmost honesty. If you have any queries, kindly contact the undersigned.

Yours Sincerely,

Selline Negesa Okello
Mobile number: 0722552430

Please tick the boxes that apply to you;

**Participation in the research study**

| I AGREE to take part in this research | [ ] |
| I DO NOT AGREE to take part in this research | [ ] |
APPENDIX II: FACILITATION OF RESEARCH LETTER

Strathmore Business School

Tuesday, 13th March 2018

To whom it may concern

Dear Sir/Madam,

RE: FACILITATION OF RESEARCH – SELLINE OKELLO

This is to introduce Selline Okello, who is a Master of Business Administration student at Strathmore Business School, admission number MBA/92698/16. As part of our MBA Program, Selline is expected to do applied research and to undertake a project. This is in partial fulfilment of the requirements of the MBA course. To this effect, she would like to request for appropriate data from your organization.

Selline is undertaking a research paper on: “An Evaluation of Factors Influencing Listing of Small and Medium Enterprises to Growth Enterprise Market Segment in Kenya.” The information obtained from your organization shall be treated confidentially and shall be used for academic purposes only.

Our MBA seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research, and we trust that you will find them of great interest and of practical value to your organization.

We appreciate your support and we shall be willing to provide any further information if required.

Yours sincerely,

[Signature]

Muriithi Njogu.
Director – MBA Programs
APPENDIX III: QUESTIONNAIRE

Section 1: General Characteristics of the Firm

1. Who owns the Company/Business?
   Individual [  ], Family business [  ], Shareholders [  ], others (indicate) ……..

2. How many staff does your company currently employ in full time?
   From 1 employee to 9 employees [  ]
   From 10 employee to 49 employees [  ]
   From 50 employees to 249 employees [  ]
   More than 250 employees [  ]

3. What was the annual turnover of the company in 2017?
   KES 5 million and below [  ]
   More than KES 5 million and up to KES 10 million [  ]
   More than KES 10 million and up to KES 50 million [  ]
   More than KES 50 million and up to KES 100 million [  ]

4. Is the company profitable? Yes [  ]; No [  ]

5. How does the company raise capital?
   Borrowing [  ]
   Others specify [  ]

6. Provide indicative values in Percentages
   Borrowing %
   Others specify %

7. Is the company listed? Yes [  ] No [  ]

8. If yes for how many years has the company been listed? [  ] years
Section 2: Managerial Competence

<table>
<thead>
<tr>
<th>Key</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refer to the below as used in this questionnaire;</td>
</tr>
<tr>
<td>GEMS: Growth Enterprise Market Segment</td>
</tr>
<tr>
<td>NSE: Nairobi Securities Exchange</td>
</tr>
<tr>
<td>SMEs: Small and Medium Size Enterprises</td>
</tr>
</tbody>
</table>

9. (a) Would you consider listing your business with Nairobi Securities Exchange?  
Yes [ ] No [ ]

b) Give reasons

………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………

10. Use a scale of 1-5 to rank your managerial competence in the following areas.
(Where:  
1 No extent, 2 Low extent, 3 Moderate, 4 Great extent and 5 Very great extent)

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability of the management to raise capital to fund growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ability to diversify risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ability to attract investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ability to link up with other firms to form mergers with an aim of being listed</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approaches used by the managers to list</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ability to build collaborative relationships with all stakeholders</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Section 3: Business Profile

11. (a) Do you believe the NSE current GEMS requirements are tailored towards encouraging SMEs to list their businesses in Kenya?

Yes [ ] No [ ]

b) Briefly support your answer
12. To what extent does the following business operations characteristics influence SMEs from being listed in the GEMS? Use a scale of 1-5 where: - 1 No extent, 2 Low extent, 3 Moderate, 4 Great extent and 5 Very great extent

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of the firm</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management structure of the firm</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solvency</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of years in operation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transactions conducted by the company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Section 4: Level of Awareness

13. To what extent did you receive information on listing about your firm in the given platforms? Use a scale of 1-5 where: - 1 No extent, 2 Low extent, 3 Moderate, 4 Great extent and 5 Very great extent

<table>
<thead>
<tr>
<th>Platform</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Through social media</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Through conferences</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Through print media</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Through televised information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>By printed newsletters and brochure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Through a friend</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SME open forums</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

14. Which are some of the key challenges facing SMEs to list

1.
2.
3.
4.
Section 5: Listing of SMEs

From your experience or information received, to what extent does listing of SMEs in the GEMS ensure the following? Use a scale of 1-5 where: - 1 No extent, 2 Low extent, 3 Moderate, 4 Great extent and 5 Very great extent

<table>
<thead>
<tr>
<th>Listing of SMEs Constructs</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduces employee turnover</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase market share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business becomes competitive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased shareholder base</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Future growth expectations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**********THE END ************