

## ABSTRACT

The business environment is complex and dynamic in nature. In Kenya, this is characterized by stiff competition among the players, and the banking industry is not exceptional. To address the competition attributed to long queues in the banking hall, banks have adopted agency banking through third parties under strict guidelines from the central bank in May 2010. It's also worth noting that in pursuit of cheaper deposits the percentage increase of bank branches in 2012 was higher than the percentage increase of bank agents meaning that banks side-stepped agency banking to open more branches despite the cost associated with the agency banking. This approach is to help commercial banks increase their outreach to the un-banked population without incurring additional costs and also to minimize long queues in the banking hall. But contrary, the queues are on the rise in the banking hall. The purpose of this study was to establish factors determining choice of a banking service provider by small scale businesses in Homa bay town, Kenya. Specifically, the study sought to establish relationship between banking service provider characteristics and the choice of service provider by small scale businesses in Homabay town, to assess the relationship between a banking service providers operating hours and choice of banking service providers by small scale businesses in Homa bay town, to establish influence of banking service providers location and choice of banking service products by small scale businesses in Homa-bay town and to establish relationship between banking service products and choice of a banking service provider. This study was anchored on rational choice theory. Correlation research design was also used. Reliability was established using test-retest method, which revealed an overall coefficient value of 0.834 which is above the threshold value of 0.7, while validity was established through expert judgments. Logistic regression model was used. The target population of this study was 988 of small scale business operators with bank accounts. A sample of 276 respondents was taken. Stratified random sampling technique was used to select individual respondents. Primary data was collected through semi-structured questionnaires. While Secondary data was sourced from the documents of small scale business operators. Findings of the study indicated that for bank characteristics had an influence on choice of banking services ( $\text{Exp(B)}=0.797$ ); operating hours had an effect on the choice of services for ( $\text{Exp(B)}=0.665$ ); banking service provider location ( $\text{Exp(B)}=0.819$ ) influenced choice of banking services and bank product ( $\text{Exp(B)}=0.817$ ). The three factors thus significantly determine choice of banking service provider by small scale businesses in Homa bay town. The study recommends that three factors be enhanced by the service provider to increase the chances of customers choosing them. The study may help commercial bank managers and banking agents to know the determinants of choice of banking service provider, the small scale business to know more about agency banking services, the Government to formulate the banking policies concerning agency banking and researchers will also use the findings as a source of literature for their studies.