

**FACTORS DETERMINING CHOICE OF A BANKING SERVICE PROVIDER
BY SMALL SCALE BUSINESSES IN HOMA BAY TOWN, KENYA**

BY

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DECLARATION

Declaration by the Candidate

I declare that this research project report is my original work and has not been presented anywhere for award of any degree.

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DEDICATION

I dedicate my dissertation work to my wife Tabitha Osare, my eldest son Tim, and my friends. A special feeling of gratitude to my loving parent Damaris Ayuo whose words of wisdom aspired me towards the completion of this project

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.

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LIST OF ABBREVIATIONS

AMFI	: Associations of Microfinance Institutions
ATM _s	: Automatic Teller Machines
CBK	: Central Bank of Kenya
CGA	: Consultative Group to Assist the Poor
DTB	: Diamond Trust Bank
DTM _s	: Deposit Taking Microfinance Companies
ICT	: Information and Communication Technologies
KPOSB	: Kenya Post Office Savings Bank
KWFT	: Kenya Women Finance Trust
POS	: Point Of Sale
SACCOS	: Savings and Credit cooperatives
SME _s	: Small Scale Enterprises
UNDP	: United Nations Development Programme

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OPERATIONAL DEFINITIONS OF TERMS

Agency banking: refers to where commercial banks are allowed by Central bank of Kenya to contract third party retail networks as agents to carry out financial services provision on behalf of the bank.

Bank Agent: refers to someone providing banking services on behalf of commercial banks. In this study they are informants.

Provider location: This is the specific area in which the commercial bank or bank agent is situated, where it can be identified by the customers more easily and conveniently for service delivery.

Provider banking products: These are the numerous products offered to the bank customers by commercial banks and the bank agents in Homa-bay town. For instance, they accept cash deposits, cash withdrawals, payment of bills, transfers like salary payments and benefits.

Banking: refers to all the activities carried out by banks and other financial institutions involving money for instance, they accept deposits and channel those deposits into lending activities.

Provider characteristics: This simply refers to the float or money in hand that the commercial bank and bank agent have their character when dealing with the customers and the core business that they are dealing in.

Small Scale Businesses: This refers to small business operators who have small businesses in Homa Bay town and at the same time, they have bank accounts with various banks in town.

Provider operating hours: This refers to the time when commercial banks and bank agents open and closes their business.

Banking service provider: These are commercial banks and bank agents that carry out activities involving money for instance, they accept deposits and channel those deposits into lending activities at the same time they accept withdrawals.

CHAPTER ONE: INTRODUCTION

This chapter entails; the background of the study, objective of the study, research hypothesis, scope of the study, justification of the study and conceptual framework.

1.1 Background of the study

Banking service provider is a company/organization that accept deposits, withdrawals, loans globally, banking industry has been characterized by increasing competition and long queues in the banking hall since early 1980s (Blankson et al.,2007).This increased competition resulting a decade of deregulation of the financial services industry have meant that banks find themselves faced with the task of differentiating their organizations products, to help commercial banks increase their outreach to the un-banked population without incurring additional cost and to minimize long queues in the banking hall. To address these problems, banks have adopted agency as another bank service provider but contrary, the queues are on the rise. (Ndungu and Njeru, 2014). In Africa, the majority of the population have no access to banking services, with only 20% of African families having bank accounts (Efam,2008).For instance in 2007, only about 30% of household in Kenya had bank accounts ; and in Benin, with a population of 7 million had only 35 bank branches in 2006 (Ndungu,2009).The limited access to financial services in Africa stems particularly from deficient infrastructure, physical geographical isolation or inaccessibility, financial literacy, all of which culminate into exceedingly high cost of providing banking services.

Agency banking took effect in Kenya in May 2010, after the publication of prudential guidelines by the central bank of Kenya.(Central Bank of Kenya 2010). With a population of 43 million people,(Alliance for Financial Inclusion,2010), having 43 banks, but only 13 of them have adopted agency banking in Kenya to ease congestion in the banking hall but contrary the queues are on the rise.(Ndungu,2009).The available literature presents the relationship between characteristics, operating hours, location and products on performance across different firms but they lack reviews on why customers choose a particular service provider that is between commercial banks and bank agents. This study therefore seeks to examine factors determining choice of a banking service provider in Homa bay town, Kenya. Specifically, the study seeks to; establish the relationship between banking service provider characteristics, choice of a banking

service provider and to establish the influence of the service provider location and choice of a banking service provider also to establish the relationship between banking service products and choice of a banking service provider in Homa bay town.

The theory of rational choice theory postulate that small scale business operators will always make a prudent decisions whether to go and get banking service from either commercial banks or bank agents depending on which one will provide him with the greatest benefit or satisfaction. This theory would help this research in establishing the extent to which factors are used to determine choice of banking service provider. A review of the validity of this theory a cross firms has yielded the following results;

Njeru (2014), studied factors that contribute to agency banking services in Kitui using descriptive survey. His finding revealed that amount of float is positively related to agency adoption. Sharner (2011), used descriptive survey design on 5 bank agents in Kitui on characteristics of bank on performance and got a positive relationship. Lamosi (2015), also did a research in Kitui on 5 bank agents on how characteristics affects performance and got positive correlation. Niresh and Velamy (2014), did a research in Srilanka on how firm characteristics (size) affects profitability on 15 quoted firms and analyzed data using correlation .His findings revealed that firms characteristics (size) has no relationship with profitability.

From the above research findings, there is a conflicting result in characteristics on use of agency or profitability as some researchers got a positive relationship while others got a negative relationship. Hence it is not clear on how characteristics affect the choice of a banking service provider.

Ndungu and Njeru (2014) used total commission earned by agents from time to time in an interval of six Months on adoption of agency banking. They found a positive result. Ombutura and Mugambi (2013) used descriptive survey design and primary data on co-op jirani in Kibera. He used operating time as independent variable against performance and got positive results. Winnie (2015), carried out a research in Kitui on factors influencing agency banking where he used opening hours and operating days on use of agency banking. She found out that operating hours positively influence use of agency banking. Shephard (2000), did a research using panel data on 18 manufacturing industries within U.S.A economy. He got that there is no positive relationship between when hours are lengthened (operating hours) and productivity. Reham

(2008),also used convenience (time) to determine whether it affects customers choice of selected banks and found a positive results on the variable.

From the above review, it can be deduced that there is also a mixture of the results .Therefore there is confusion on the results. Hence the study of factors determining choice of a banking service provider by small scale businesses in Homa bay town.

Ndungu (2014),carried out a research on factors influencing adoption of agency banking services in Kajiado.He found out a positive result as he concluded that bringing banking closer to people (location) has a positive influence on adoption. Juliet (2013), assessed impact of agency banking in increasing accessibility to banking services. He found out that agency banking services closer to people hence a positive result. A study by Barner (2011), carried a research on 175 SMEs in South Africa on how micro-economic factors affects location. He found out that though there is result a positive result but location obtained lowest positive correlation than other factors. Mayaki (2011),on 417 bank customers in Nigeria using multi-stage sampling got a positive result that bank location has a positive result on choice of banks. Fernando (2010), used a multilevel approach to determine industry on performance to a sample of 509 companies located in the state of Sao Paulo. He found a positive result that industrial location affects performance of the firms. Sayang (2009), on Gambian bank on strategic positioning and factors. The result was that convenient location positively affects patronizing of banking services. Katir (2011), did a research on which criteria undergraduate students use to select a bank. The result shows that there is a positive relation between location and selection of a bank. Daisy (2011) carried out a research using census survey design. There was a positive relationship between location and adoption of agent bank.

The above research findings exhibit conflicting on effects of location on financial performance .They got both positive and negative results .However in practice, the longer the distance customers will tend to go for the alternative. Hence there is in adequate information on the factors that determine choice of a banking service provider by small scale businesses in Homa bay town.

Sook-Fun (2016), did a research in Malecia using 250 bank customers .He used resource based theory and found out that product affects performance. Daina (2012), studied Islamic banking products on performance and got appositive results. Ndirangu (2011), also studied 44 banks

using census design and also got a positive results between banking products and performance. Kumar (2009), on determinants of choice of a bank. The result was that there was a positive relationship between bank products and performance. Gan (2015), on 350 bank customers in Malasya using regression analysis deduced that product price has a negative relationship with performance. Ali (2009), used 233 manufacturing industries in Netherlands to analyze on impacts of product on profitability but when he used linear regression he got a negative result and when he used quadratic effect, he got a negative result.

From the literature review above, there is also a mixed result on how products affect performance. For instance Ali got both positive and negative results making the result not to be relied on since it does not show clearly how providers product affect selection of a banking service provider. At the same time, little has been done t determine factors determining choice of a banking service provider by small scale businesses in Homa bay town.

1.2 Statement of the problem

A number of studies have been undertaken to analyze factors that affect customers “Preference in choosing agency banking services. Others have also analyzed factors affecting choice of a commercial bank. Among these studies were on factors that contribute to adoption of agency banking in Kitui, factors influencing uptake of agency banking services by customers of commercial banks, factors influencing the use of agency banking by its residents and factors influencing customers’ choice when selecting a bank. Importance of an agency banking on provision of banking services in Kitui. Some studies were also done in Malasya on determinants of bank selection criterion considering undergraduate students on determinants that positively affect choice of the bank and factors that influence the customer behavior on choice of a local bank in Malasya. Although such studies have contributed substantially to the literature on bank selection, their findings gave out mixed results and sometimes may not be applicable to other countries like Kenya, due to differences in cultural, economic and legal environments. To the best of the researcher’s knowledge, there exists no previous research work in Kenya concerning why customers go for commercial banks or otherwise. Therefore, this study is particularly intended to examine factors determining choice of a banking service provider by small scale businesses in Homa bay town, Kenya.

1.3 Objectives of the study

The main objective of the research was to establish the factors determining choice of a banking service provider by small scale businesses in Homa bay town.

Specific Objectives

- i. To establish relationship between banking service provider's characteristics and choice of banking service provider by the small scale businesses in Homa-bay town.
- ii. To assess relationship between banking service provider's operating hours and choice of banking service providers by small scale businesses in Homa-bay town.
- iii. To determine influence of banking service provider's location and choice of banking service provider by the small scale retailers of Homa-bay town.
- iv. To establish relationship between banking service products and choice of a banking service provider

1.4 Research hypothesis

This study was guided by the hypothesis below.

- i. H0₁: Banking service provider characteristics do not affect choice of banking service provider.
- ii. H0₂: There is no relationship between banking service providers opening hours and the choice of banking service provider.
- iii. H0₃: banking service provider's location does not influence choice of banking service provider.
- iv. H0₄: There is no relationship between banking service products and choice of banking service provider.

1.5 Justification of the study

Although there have been numerous studies on banking and finance, the emergence and growth of agency banking have attracted my attention to this study. It is also worth noting that in per suit of cheaper deposits the percentage increase of bank branches in 2012 was higher than the percentage increase of bank agents meaning that commercial banks side stepped agency banking to open more branches despite the cost saving associated with the agency banking. On the other hand, agency banking is one of the emerging trends in banking industry thus limited research has been done on factors determining choice of a banking service provider. The findings from this study are expected to help several stake holders. This study may help the Government in formulating the banking policies concerning agency banking in rural areas. The study may help the bank managers in understanding the factors determining choice of a banking service provider hence addressing the issues geared towards improving the use of agency banking. This can improve the profitability of the banks. The study is also likely to enlighten the public on agency banking and therefore encourage them to use the agency banking outlets hence increasing their savings.

1.6 Scope of the study

The study was carried out in Homa bay town in Homa Bay County. It was carried out from January 2014 to September 2017. This study also targeted Small Scale Business Operators who have bank accounts with various banks in Homa Bay town. Variables under focus will be provider's characteristics, provider opening hours and provider's location.

1.7 Conceptual frame work

Under this the researcher demonstrated the independent and the dependent variables.

Independent variable

Dependent variable

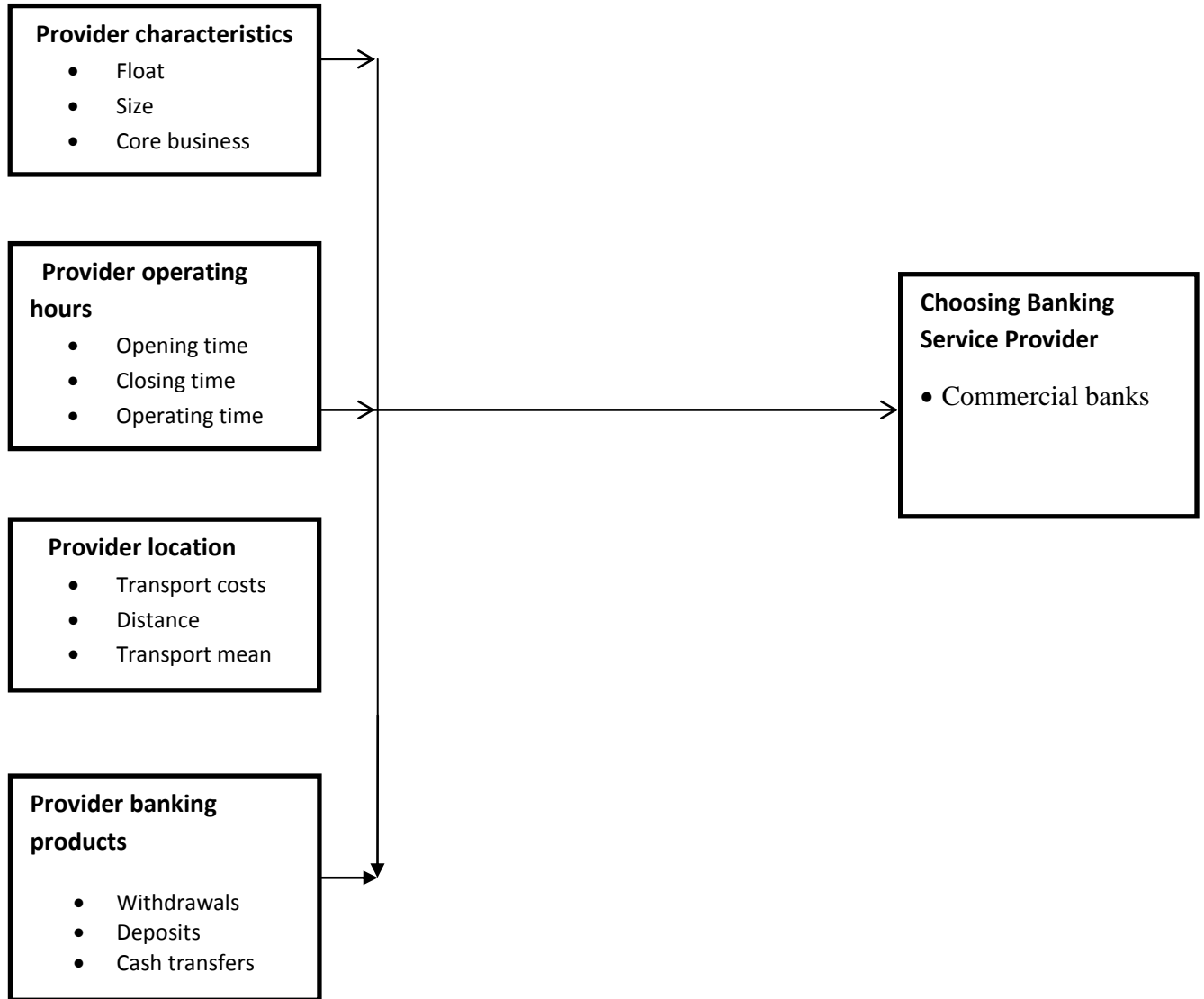


Figure 1.1: Hypothesized relationship between various factors and choice of banking service providers

Source: Adapted from Lamosi (2015)

This framework shows the relationship between independent variables and dependent variables. The independent variables include; banking service provider characteristics, banking service provider operating hours, and location of banking service provide and provider banking products. The provider characteristics which might affect choice of banking service provider include; amount of float, and core business. On the other hand, operating hours determined by opening time, closing time and days of operation while provider location determined by distance, transport cost and transport means and provider banking products includes; withdrawal, deposits and cash transfer . The framework brings into light the inter-relationship between the study variables which need to be verified by the research with a view to establish factors determining choice of a banking service provider by small scale businesses in Homa-bay town which is the gap being addressed by this study.

CHAPTER TWO: LITERATURE REVIEW

This chapter presents the existing literature and theories concerning factors determining choice of a banking service provider by small scale businesses and knowledge gaps for the study.

2.1 Theoretical framework

Under this, the researcher discusses the theory which guided this study. This study was based on rational choice theory.

2.1.1 Rational choice theory

Rational choice theory stipulates that the agent chooses the action (or outcome) they most prefer. In the case where actions (or outcomes) can be evaluated in terms of costs and benefits, a rational individual chooses the action (or outcome) that provides the maximum net benefit, i.e., the maximum benefit minus cost.

The theory applies to more general settings than those identified by costs and benefit. In general, rational decision making entails choosing among all available alternatives the alternative that the individual most prefers. The "alternatives" can be a set of actions ("what to do?") or a set of objects ("what to choose/buy"). In the case of actions, what the individual really cares about are the outcomes that results from each possible action. Actions, in this case, are only an instrument for obtaining a particular outcome.

The theory makes two technical assumptions about individuals' preferences over alternatives: Completeness – for any two alternatives a_i and a_j in the set, either a_i is preferred to a_j , or a_j is preferred to a_i , or the individual is indifferent between a_i and a_j . In other words, all pairs of alternatives can be compared with each other. Transitivity – if alternative a_1 is preferred to a_2 , and alternative a_2 is preferred to a_3 , then a_1 is preferred to a_3 .

Together these two assumptions imply that given a set of exhaustive and exclusive actions to choose from, an individual can rank the elements of this set in terms of his preferences in an internally consistent way (the ranking constitutes a partial ordering), and the set has at least one maximal element. The preference between two alternatives can be: Strict preference occurs when

an individual prefers a_1 to a_2 and does not view them as equally preferred Weak preference implies that individual either strictly prefers a_1 over a_2 or is indifferent between them. Indifference occurs when an individual neither prefers a_1 to a_2 , nor a_2 to a_1 . Since (by completeness) the individual does not refuse a comparison, they must therefore be indifferent in this case. This theory guided the study in determining relationship between the factors and choice of agency banking products

2.1.1.1 Relevance of the theory

Under this theory, small scale business operators will always make prudent decisions whether to go and get agency products from the agents or the parent bank .He will make decision from his rational out-look, available information and past experience in terms of characteristics of the agent for instance the character, agent location and float availability which forms the independent variable of the study. The decision that he will make will provide him with the greatest benefit or satisfaction whether it is the location of the bank agent or parent bank which makes him choose to go for the products either from the agents or banks. In summary, this theory will help small scale business operators to make right decision given the availability of the choices that is bank agents and parent bank.

2.3 Empirical literature

2.3.1 Relationship between banking service provider's characteristics and choice of the service provider by small scale businesses in Homa bay town

Njeru, 2014 studied factors that contribute to adoption of agency banking in Kitui County. This research used descriptive survey design. Primary data was gathered using questionnaire and interview schedule while secondary data was from commercial bank records. He used inferential statistics for data analysis, agency and diffusion of innovation as the theories. His findings indicated that the amount of float of agency determines the number of clients visiting the agent and at the same time experience of the agents attract the customers. He concluded that agent characteristics ,agent opening hours , banking products and experience of the agents influences the use of agency banking services by residents of Kitui county. He recommended that banks such as Equity, co-operative banks, National banks and Post banks should do more advertising to sensitize the public on availability and the services offered by agency banking services.

Maina and Mwangi (2014), did a research on factors influencing the uptake of agency banking services by customers in commercial banks. Their parameters were; liquidity availability and security. They used descriptive research design. Primary data was collected using questionnaire. They used prohibit and content analysis ,diffusion and innovation also theory of security They found out that security and liquidity availability influences the uptake of agency banking by customers in commercial banks in Kenya. They recommended that Kenya commercial banks should reduce the amount of information customers give to the agent bankers. He further recommended that Kenya commercial banks as well as other commercial banks in Kenya should improve their system so as to minimize failures and errors.

A study carried out by Shaher et al; (2011), evaluated the major factors that affect the commercial banks performance in the Middle East region. They used factor analysis technique .Their finding revealed that banks characteristics (bank size, loan, service charges) have a positive result in bank selection decision.

Lamosi A. (2015), carried out astudy on factors influencing the use of agency banking by residents of Kitui County,Kenya. He used characteristics, location, banking products and opening hours on influence of agency banking services. Descriptive survey design was used. Target population was 5 bank agents in Kitui. Inferal statistics was used to analyze data. He found out that there was a significant relationship between agent bank characteristics and the use of agency bank.

Niresh and Velamy,(2014),explored the effects of firm size on profitability of quoted manufacturing firmsin Srilanka using adata of 15 companies active in Colombo Stock Exchange between 2008 to 2012.He used return on assets and net profits as indicators of profitability while total sales and total assets were used as indicators for firm size.He used regression model and correlation in analysis. The findings revealed that characteristic (firm size) has no relationship with profitability of the listed firms in Srilanka.

From the empirical review above, a study was done on bank agents between using inferral statistics for analysis, on a sample of banking agents in Kitui using prohibit, content analysis and factor analysis on selected banks in Middle East. These research findings showed positive relationship between factors and performance despite using different methods of data analysis. On the contrary, research done on 15 selected firms in Srilanka using regression model and

correlation analysis, the findings revealed no relationship between characteristics and profitability. These findings lack consensus given the diversity in the results. There is also lack of information on the factors determining choice of a banking service provider by small scale businesses in Homabay town.

2.3.2 Relationship between banking service provider's operating hours and choice of banking service provider by small scale business in Homa bay town

A study carried out by Ndungu Njeru (2014), studied some of the factors that contribute to the adoption of agency banking in Kenya. The dependent variable was the total commissions earned by agents from time to time at intervals of six months .The results indicated that Agency banking increased convenience in form of extended hours of banking and thus increased adoption of agency banking.

A study carried out by Ombutura and Mugambi (2013), on the role of agency banking on the performance of banking agents' entrepreneurs at Co-op jirani in Kibera. He used cost of transactions, policies and regulations, agency commission, operation time and security as independent variable and performance as dependent variable. He used descriptive survey design. He collected primary data using questionnaires and secondary data from the records of the banks. He used descriptive statistics for analysis. He found out that transaction costs and operation time affect the performance of agents' entrepreneurs with high transaction costs lowering the performance of agents' entrepreneurs. He further found out that regulation and policies do affect the performance of agents' entrepreneurs with float restriction lowering the performance of agent entrepreneurs and extended operation time do also affects the performance. He concluded and recommended that banks should remove the deposit charges and instead come up with more elaborate way of recovering commission.

A study carried out by Winnie (2015), on factors influencing the use of agency banking by residents of Kitui County. The study used the following parameters; agent characteristics, banking products, opening flours and operation days as independent variable and agency use as dependent variable. Data was collected using questionnaires and analysis was done quantitatively using inferential statistics. The researcher used agency theory. The finding was that there was a strong relationship between the factors and the use of agency for instance extension of operation time of agents had a positive relationship with the use of agency. The recommendations of the

study were that; banks should do more advertising to sensitize the public on the availability of the services offered by their agents. Secondly banks should diversify the products they offer to their customers at the agency to include credit facilities. His last recommendation was that there should be a guideline for the opening and closing time for the agency banking so as to enhance service delivery and uniformity among similar banking agents.

Shephard (2000), on effects of manufacturing productivity when hours are lengthened in United States. He used panel data for 18 manufacturing industries within U.S.A economy. He found out that manufacturing productivity does not necessarily improve when hours are lengthened.

Rehman, (2008), studied factors influencing customers' choice when selecting a bank. He used four most important variables; customer service, convenience (Time), on-line banking facility and overall bank environment. He found out positive result on the variable.

The above research results lack cohesion given that a data of sampled bank agents using descriptive survey design and secondary data from records of the banks and inferential statistics showed positive relationship between bank provider factors and use or performance of the bank agents. While a study carried out on manufacturing firms using panel data of 18 companies gave a negative result on productivity. There is also variation in the results. However there is inadequate literature on the factors determining choice of agency banking service provider by small scale businesses in Homa bay town.

2.3.3 Influence of banking service provider's location on choice of banking service provider by small scale business in Homa bay town

Ndungu (2014), carried out a research on factors influencing adoption of agency banking services in Kajiado north Sub- County. He looked at customer services, convenience and quality of agents as the independent variable and commission earned by agents from time to time at an interval of six Months as dependent variable. He used survey research design. Primary data was collected using questionnaire. He found out that customer service, convenience and quality of agents affects the adoption of agency banking in Kenya with high service availability. He concluded that agency banking is delivering convenience to customers through increased hours of banking and bringing banking services closer to the customers and thus positively influence adoption of agency banking. He recommended that investigation of loyalty to the principal banks in case where an agent is serving more than one bank.

Another study was carried out by Juliet (2013) which focused on the role of equity bank agency banking in providing and availing the banking services to the customers. This study assessed the impact of agency banking in increasing accessibility to banking services and helping in decongestion the banking hall in Kitui central district, though the analysis of the cost and benefits raised by agency banking and how these are distributed among the stake holders. The findings of this study are: The banking agency availed banking services closer to the customers leading to more accessibility. The recommendation the banks should do more advertising to sensitize the Public and also they should increase the number of products that they offer to their customers to include credit facilities.

Mutie, Mwende, Julius and Mosoti (2013), carried out a research on importance of agency banking in provision of banking services in Kitui. He used the following parameters as the independent variable; cost of banking transactions, efficiency of agency banking availability of banking agents, and convenience of banking products through agency banking. While independent variable was importance of agency banking in provision of banking services. The study used descriptive survey design. Primary and secondary data was collected using questionnaires and records from the banks and agents respectively. Inferential statistics was used to analyze the data. He found out that banking agency availed banking services closer to people leading to more accessibility hence saving the customers transport costs. He recommended that equity bank should do more advertising to sensitize the public on the availability and service of agency banking. He further recommended that agency banking should increase the products to include credit facilities and should also have more money so that those who want to withdraw more would not be forced to go to the physical bank. He further suggested that further research should be done on factors influencing the opening of banking agencies in rural areas and also factors affecting the operation of banking agencies.

A study carried out by Barnar et al ; (2011), carried out a study to investigate the micro-environment factors that may influence location decisions and how these choices may affect business performance of SMMEs in South Africa. He used location, rental rates, employment and inflation as independent variable and performance as dependent variable. He used a positive research methodology. The target population was 175 SMEs. He used questionnaires. Cronbach Alpha coefficient were calculated to determine reliability, data analysis was done using

Pearson's correlation co-efficient. He found out that though there was appositive results, location obtained the lowest positive correlation to performance.

Maiyaki (2011), in a survey in Nigeria, obtained information about factors determining the selection and preference of banks by retail customers. He used 417 bank customers using multi-stage sampling procedure .he found out that convenient to the bank location positively influence the selection and choice of banks.

Fernando et al; (2010) on regional concentration of industries and the performance of firms: a multilevel approach analysis from a three level hierarchical linear model to a sample of 509 companies located in the state of Sao Paulo. He found out that there is no evidence that industrial location affects performance of the firm.

A study conducted by Sayang(2009), in Gambian bank on bank strategic positioning and factors for bank selection. It was discovered that customers highly regard with low service charge and availability of ATM of service, safety of funds ,speed of transaction and convenient location positively affects patronizing of banking services in Gambia.

A recent study conducted by Katir C.,(2011), on investigation of bank selection criteria of undergraduate students who are future potential customers of banks from different regions of the world in small island economy. He found out that availability of ATM and location is most important for considering banks and their services for both Turkish and non- Turkish international students in the case of University in North Cyprus.

A study carried out by Daisy Kanini (2011) on determining the factors affecting adoption of agent banking amongst commercial banks in Kenya. He used census survey design by use of questionnaires sent out to respondents. The findings of the study revealed that the main factors influencing the adoption of agent banking among commercial banks in Kenya are: The cost reduction and location of banks particularly in remote areas.

Evidence from the empirical studies reveal a diversity of findings from different countries ;as a study in South Africa on location against business performance using pear-sons correlation revealed a positive result, 417 bank customers in Nigeria also revealed a positive result of location on selection and choice of banks. The same study in Gambia bank also gave appositive results. While a study in Kenya using census survey design also showed a positive result and a

study done in State of Sao Paulo using multilevel approach analysis on 509 companies gave a negative results .Though the researchers got both positive and negative results but it is not clear whether the longer the distance the higher the number of customers visiting places. However in practice, the longer the distance people tend to go for the alternative. There is no known study of a considerable depth which addresses the factors determining choice of a banking service provider by small scale businesses in Homabay town.

2.3.4 Relationship between banking service products and choice of banking service provider by small scale businesses in Homa bay town

Sook-Fun F.(2016),carried out a research on new product development and performance in banking industry in Malecia. His population was 250 bank customers. He used resource based theory and his hypothesis was tested using partial least square .he found out that new product development has appositve relationship with performance.

Diana k., (2012), studied effects of Islamic banking products on financial performance of commercial banks in Kenya. He used correlation analysis to find strength of relationship. Multiple regression analysis was also carried out. Islamic and theory of interest, also profit –loss sharing theory was also used. Descriptive survey design was also used. He had 6 commercial banks as his target population and regression model. He found out that Islamic banking products affects bank performance.

A study carried out by Ndirangu k. (2011),on effects of agency banking on financial performance of commercial banks in Kenya. He looked at repayments, deposits, liquidity and withdrawals as independent variable and performance as dependent variable. Census was used as a research design. The target population was 44 banks. Regression analysis was used and SPSS for analysis. He found out that the number of agents operated by commercial banks and the resultant volume transactions (Deposits and Withdrawals) are not directly correlated with the bank financial performance as measured by return on equity.

A study carried out by Kumar et al, (2009) identified eight determinants that positively affects the choice of the bank for instance branding convenience (time), rate of service and variety of products. He found out that variety of banking products positively affects performance. He recommended to banks to be innovative in creating more types of channels by riding on technological advancement.

Gan T., et al; (2015), conducted a research on factors that influence the consumer behavior on choices of local commercial banks for banking products and services in Malaysia-Perak. He used convenience, service quality, price of product and services. Multiple regression model. Target population was 350 customers to the bank; Pearson's regression was used for analysis. He found out that convenience service quality and technology have a significant positive relationship with bank selection while price of products and services have negative significant with bank selection. He recommended that future research should expand the coverage of location.

Ali, (2009), studied the impact of product innovativeness on the link between development speed and new product profitability in Netherlands. A survey design was used. His target population was 233 manufacturing industries. He used linear regression and found a positive result of ($b=1.15$) and when he again used quadratic effects he got negative result of ($b=-0.21$). He concluded that there is a u-shaped relationship between new product development speed and new product profitability.

Evidence from the literature above also revealed conflicting results. A study carried out in Malaysia on 250 bank customers using partial least square found a positive relationship between product and performance. A study was also carried out in Kenya using 6 commercial banks also revealed a positive relationship using correlation and regression model. But a study done also in Kenya on 44 banks using same regression analysis revealed that bank products (deposits and withdrawals) has a negative influence on performance. At the same time a study in Netherlands on 233 manufacturing industries showed that products have the least significant relationship while a study carried on in Netherlands on the same companies using both linear regression and quadratic effects showed both positive and negative relationships respectively on products and performance. This implies that the geographical location, economy and cultural background from different countries may contribute to the diverse results. Hence the study of factors determining choice of a banking service provider by small scale businesses in Homa bay town.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter covers study area, research design, model specification, target population, sample and sampling procedures, description of research instruments, questionnaire, interview schedule, validity and reliability of instruments, data collection procedures and data analysis techniques.

3.1 Research Design

This study used a correlation research design. According to Mugenda and Mugenda (2003), correlation research involves collecting data in order to determine whether and to what degree of relationship exists between two or more quantifiable variables.

3.2 Study Area

The study was carried out in Homa bay town, Homabay County, Kenya. The town is located on the western part of Kenya along Lake Victoria. It can be accessed through Rongo- Homa bay – Kisumu road. It covers an area of approximately 259.9km² with a population of 94,660. According to 2009 population and housing census (Gok 2009). The main activity is fishing and farming.

3.3 Target population

According to Mugenda and Mugenda(1999), target population refers to the one which a researcher wants to generalize the results of the study. The target population for this study consisted of small scale traders in Homa-bay town. The target population was 988 respondents who will be small scale business traders who have bank accounts in Homa-bay town (Homa Bay Sub County Business Register, 2015).

3.4 Sample Size and Sampling Procedures

This section presents how the sample size determination and sampling techniques used to select elements from the target population.

3.4.1 Sample size

According to Mugenda and Mugenda (1999), when the population sample size is below 10,000 then the below formula is used.

$$n_f = \frac{n}{1 + \frac{n}{N}}$$

According to the above formula,

n_f - Desired sample when the population is less than 10,000

n - Desired sample when the population is more than 10,000

N - Estimate of the population size

Using the above formula

$$n_f = \frac{884}{1 + \frac{884}{988}}$$

$$= 276.45 = 276 \text{ Respondent}$$

3.4.2 Sampling procedure

Sampling is a procedure, process or technique of choosing a sub-group from a population to participate in the study (Ogula, 2005). It is the process of selecting a number of individuals for a study in such a way that the individuals selected represent the large group from which they were selected. This study used stratified and simple random sampling to select the respondents. Stratified sampling was done by subdividing the small business operators according to location and from the strata, simple random sampling was done by cutting papers bearing the names of the small scale business operators, mixing them and selecting without replacement to choose 276 respondents.

3.5 Data Type

This study used the questionnaires with closed and open ended questions to collect primary data. These questionnaires were used to collect data from small scale business operators. Questionnaire gives detailed answers to complex problems. Secondary data was gotten from the records at the small scale businesses and the commercial banks and banking agents.

Additionally, questionnaire is also popular method for data collection in deduction because of the relative ease and cost-effectiveness with which they are constructed. Questionnaires were also used simply because it can be used to reach a large number of respondents within a short time, it

gives the respondents adequate time to respond to the items, offers a sense of security (confidentiality) to the respondents and lastly it tends to be objective since there is no bias resulting from the personal characteristics (as in interview) (Ogula, 1998).

The study was concerned with views, opinions, perception, feelings and attitudes of small scale business operators regarding challenges facing banking agencies and commercial banks banking and regulations. This information is best collected through questionnaires Interview guides will be considered appropriate in this study because it enabled the researcher to yield highest cooperation and lowest refusal rates; it offers high response quality, takes advantage of interviewer presence and its multi-method data collection (Owen, 2002).

3.6 Data collection procedure

Secondary data was obtained from small business operator records while primary data was obtained from the questionnaires which will be administered by drop off and pick up later to the above sampled respondents. Data collection procedure was done by obtaining a research permit from the National Commission for Science, Technology and Innovation.

3.7 Data analysis techniques

The data was analyzed by use of correlation and multiple regression to establish the banking provider factors on choice of a banking service provider by small scale businesses and to establish banking service provider characteristics on choice of a banking service provider, providers operating hours on choice of banking service provider, providers location on choice of a banking service provider and banking service provider's on choice of banking service provider by small scale businesses in Homa bay town.

3.7.1 Model specification

This study used logistic regressions model for all the objectives in the study.

Here, choice of a commercial bank was a binary variable taking the value of one (1) in case the commercial bank is chosen and zero (0) if not chosen.

The functional relationships between the variables were:

$$Z = f(X_1, X_2, X_3, X_4)$$

Whereby:

Z - A banking service provider

X₁ - Providers characteristics

X₂ .Providers opening hours

X₃ .Providers location

X₄- providers banking products

From the above functional relationship, the model to be estimated will be as follows;

$$Z_i = \beta_0 + \beta_{1i}X_{1i} + \beta_{2i}X_{2i} + \beta_{3i}X_{3i} + \beta_{4i}X_{4i} + \epsilon_i$$

Where:

Z_i = Is a binary variable

$$Z = \log \left(\frac{p(x)=1}{1-p(x)=0} \right) = \beta_0 + \beta_{1i}X_{1i} + \beta_{2i}X_{2i} + \beta_{3i}X_{3i} + \beta_{4i}X_{4i} + \epsilon_i$$

β = Beta

ϵ = Error term

i = Respondents

3.7.1 Data presentation Technique

Data summary was done using computer packages SPSS for ease of analysis, interpretation and processing. The information obtained was presented in form of frequency tables, charts and graphs.

3.7.2 Validity of research instruments

To establish the validity of research instruments, a pilot study was carried out by the researcher for the purpose of establishing the consistency of the data collection instruments. In the pilot study, 27 respondents as suggested by Mugenda and Mugenda 2003 where 10% of the sample

size representing 27.6 respondents was picked and care was taken not to include them in the study. Data collection instruments were distributed to the pilot group and the responses were closely monitored by the researcher who in turn after completion used the data to calculate the validity of the instrument as well as to ensure that the instruments are clear, precise and comprehensive enough. Pilot testing was done among small scale businesses in Homa-bay town. At the same time small scale business traders used during piloting study were not used during actual data study.

3.7.3 Reliability of Research Instruments

The term reliability points to the level of internal consistency or stability over time of a research instrument. Therefore, for a research instrument to be reliable, it must be capable of yielding consistent results when used more than once to collect data from two samples drawn randomly from the same population (Mugenda and Mugenda, 1999). To establish the reliability of the research instruments, the researcher used test-retest method which was obtained by administering the same questionnaire twice over a period of time to the same group of respondents. The scores from Time 1 and Time 2 were then be correlated in order to evaluate the test for stability over time. Once the result was gotten then this was bench marked to get a threshold of 0.7. An overall reliability coefficient value of 0.834 was obtained thus implying that all the instruments were reliable. These along with quantitative data, formed the basis of discussion in the light of the available literature.

CHAPTER FOUR RESULTS AND DISCUSSION

This chapter covers response rate, relationship between banking service provider characteristics and choice of banking service provider by small scale business in Homa bay town, assessing relationship between banking service providers operating hours and choice of banking service provider by small scale businesses in Homa bay town, determining influence of banking service providers location and choice of banking service provider by small scale businesses in Homa bay town and establishing the relationship between banking service providers products and choice of a banking service provider.

4.1: Response Rate

The sampled response was 275. They were all the small scale business operators in Homabay town. Questionnaires were administered to them and the response return recorded as shown in Table 4.1.

Table 4.1 Response Rate

Respondent	Frequency	Percentage
Business operators	276	100
Response	275	99.6%

Source: Research Findings, 2017

From the results shown in Table 4.1, the findings indicate that there was a high response return rate of 99.6%. This implies that the research carried out proper coordination of questionnaire collection.

4.2 Demographic Characteristics of the Respondents

The respondent's characteristics were sought in terms of gender, age, education level, and operating period. The findings are presented as shown in Table 4.2 using frequency counts, percentages, means and standard deviations.

Table 4.2 Demographic Characteristics of the Respondents.

		Frequency	Percentage	Mean
Gender	Male	150	54.5	
	Female	125	45.5	
	Total	275	100.0	1.45
Age	below 18 years	44	16.0	
	18-28 years	122	44.4	
	29-39 years	67	24.4	
	past 40 years	42	15.3	
	Total	275	100.0	2.39
Education level	Primary	24	8.7	

	Secondary	65	23.6	
	Certificate	61	22.2	
	Diploma	75	27.3	
	Degree	50	18.2	
	Total	275	100.0	3.23
Operation Period	less than two years	66	24.0	
	3-4 years	108	39.3	
	more than four years	101	36.7	
	Total	275	100.0	

Source: Research Findings, 2017

From the findings, it is clear that Majority of the respondents, 150(54.5%) were male small scale business operators in terms of gender. Majority were also aged between 18-28 years old 122(44.4%) of them. It was also clear that majority of the respondents had a diploma level of education, 75(27.3%) while the least educated were primary schools certificate 24(8.7%). Majority have an operating period of 3-4 years, 108(39.3%) followed by those with a period of more than four years, 101(36.7%).

4.3 Logistic Regression Analysis Results

Logistic regression analysis was employed to establish the relationship between factors affecting the choice of banking services namely banking service provider characteristics, operating hours, location and products. A binary logistic model was used for analysis to address the four objectives of this study.

4.3.1: Relationship between banking service providers characteristics and choice of banking services

A binary logistic regression analysis was conducted to determine the relationship between banking service providers' characteristic and choice of banking services. The primary data collected was coded to give a binary data (Here, choice was a binary variable taking the value of one (1) in case the service provider is chosen and zero (0) if not chosen. The data was then analyzed using SPSS version 17.0.

As shown in Table 4.4, Cox and Snell's R-square attempts to imitate R-Squared based on 'likelihood', but its maximum can be less than 1.0 (Hosmer,2005) In this model, 2.4 % of variations in banking service provider characteristics is explained by logistic model. Nagelkerke's R squared will normally be higher than the Cox and Snell measure. In this study, it is 3.2 %, indicating a weak relationship of 3.2 % between the banking service provider characteristics and choice of the service provider showing a weak descriptive goodness of fit for the model, since it is <50%.(Hosmer, 2015) The overall fit of the model is assessed using the log likelihood statistic a value that is multiplied by -2 to give -2Log likelihood (-2LL). Under this model, Table 4.4 shows -2Log Likelihood statistics of 374.05 which is an improvement from the constant only model where it was 6.686 as indicated in Table 4.3 meaning that fitting the model will be better than the constant only model. Table 4.6 shows that 50.8 % were correctly classified for choice of banking service and 56.6 % for otherwise. Overall that 53.8 % were correctly classified. This is considerable improvement on the 52.0 % shown inTable 4.5 for classification with constant model,an indicator of a better predictor model.

Table 4.3: Block 0: Binary Logistic Regression for Variables not in the equation for predicting the likely relationship with choice of banking service

			Score	Df	Sig.
Step 0	Variables	d4	6.686	1	.010
	Overall Statistics		6.686	1	.010

Source: Research Findings, 2017

Table 4.4: Binary Logistic regression results showing likely relationship between banking service providers' characteristics and choice of banking service

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	374.050	.024	.032

a. Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

Source: Research Findings, 2017

Table 4.5: Block 0: Binary Logistic regression results for classification and prediction of choice of banking service

Observed		Predicted			Percentage Correct
		Perform-banking service providers		Bank agent	
		Commercial banks			
Step 0	perform-banking service providers	commercial banks	143	0	100.0
		bank agent	132	0	.0
Overall Percentage					52.0

a. Constant is included in the model.

b. The cut value is .500

Source: Research Findings, 2017

Table 4.6: Binary logistic regression for classification and prediction of banking service choice

Observed		Predicted			
		perform-banking service providers	Percentage Correct		
		commer cial banks	bank agent		
Step 1	perform-banking service providers	commercial banks	81	62	56.6
		bank agent	65	67	50.8
Overall Percentage					53.8

a. The cut value is .500

Source: Research Findings, 2017

Table 4.7: Binary logistic regression for the relationship between banking service provider characteristics and choice of banking services (d4:1 or otherwise)

B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)
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								Lower	Upper
Step 1 ^a	d4	-.227	.089	6.589	1	.010	.797	.670	.948
	Constant	.563	.278	4.112	1	.043	1.756		

a. Variable(s) entered on step 1: d4: Float availability, size of bank service provider and core business.

Source: Research Findings, 2017

In the significant column from Table 4.7, the p-value is $0.01 < 0.05$. This means that there is a significant relationship between the banking service provider characteristics and choice of banking service provider. The Wald statistics = 6.589, $df = 1$, $p = 0.010$, confirms the general null hypothesis that the “B” coefficients are significantly different from zero. The Exp (B) column in Table 4.7 presents the extent to which raising the corresponding measure by one unit influences the odds ratio. $Exp (B) = .797 < 1$, meaning that individuals focusing on provider characteristics are 0.797 times likely not to choose service provider with undesirable characteristics which may include inconsistent availability of float. These findings are consistent with those of Njeru, (2014). His findings indicated that the amount of float of agency determines the number of clients visiting the agent and at the same time experience of the agents attract the customers. He concluded that agent characteristics ,agent opening hours , banking products and experience of the agents influences the use of agency banking services by residents of Kitui county. The findings are further supported by Maina and Mwangi (2014) research on factors influencing the uptake of agency banking services by customers in commercial banks. They found that security and liquidity availability influence the uptake of agency banking by customers in commercial banks in Kenya. It can therefore be concluded that bank characteristics equally determine the choice of banking service providers by small scale businesses.

4.3.2: Relationship between banking service providers’ operating hours and choice of banking services

A binary logistic regression analysis was conducted to determine the relationship between banking service providers’ operating hours and choice of banking services. The primary data collected was coded to give a binary data (Here, choice was a binary variable taking the value of one (1) in case the service provider is chosen and zero (0) if not chosen. The data was then analyzed using SPSS version 17.0.

As shown in Table 4.9, Cox and Snell's R-square attempts to imitate R-Squared based on 'likelihood', but its maximum can be less than 1.0.(Hosmer, 2015). In this model, 4 % of variations in banking service provider opening hours is explained by logistic model. Nagelkerke's R squared will normally be higher than the Cox and Snell measure. In this study, it is 5.4 %, indicating a weak relationship of 5.4 % between the banking service provider operating hours and choice of the service provider. Depicting a weak goodness of fit for the model, since it is <50%. The overall fit of the model is assessed using the log likelihood statistic a value that is multiplied by -2 to give -2Log likelihood (-2LL). Under this model, Table 4.9 shows -2Log Likelihood statistics of 369.514 which is a great improvement from the constant only model where it was 11.277 in Table 4.8, meaning that fitting the model will be better than the constant only model. Table 4.11 shows that 68.2 % were correctly classified for choice of banking service and 46.2 % for otherwise. Overall that 56.7 % were correctly classified. This is a considerable improvement on the 52.0 % as shown in Table 4.10 correct classification with constant model. The predictor model was thus better.

Table 4.8: Block 0: Binary Logistic Regression for Variables not in the equation for predicting the likely relationship with choice of banking service

		Score	Df	Sig.
Step 0	Variables e4	11.277	1	.001
	Overall Statistics	11.277	1	.001

Source: Research Findings, 2017

Table 4.9: Binary Logistic regression results showing likely relationship between banking service providers' operating hours and choice of banking service

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	369.514	.040	.054

a. Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

Source: Research Findings, 2017

Table 4.10: Block 0: Binary Logistic regression results for classification and prediction of choice of banking service

Observed		Predicted			
		Perform-banking service providers	Bank agent	Percent age Correct	
Step 0	perform-banking service providers	commercial banks	143	0	100.0
		bank agent	132	0	.0
Overall Percentage					52.0

a. Constant is included in the model.

b. The cut value is .500

Source: Research Findings, 2017

Table 4.11: Binary logistic regression for classification and prediction of banking service choice

Observed		Predicted			
		perform-banking service providers	commercial banks	bank agent	Percentage Correct
Step 1	perform-banking service providers	commercial banks	66	77	46.2
		bank agent	42	90	68.2
Overall Percentage					56.7

b. The cut value is .500

Source: Research Findings, 2017

Table 4.12: Binary logistic regression for the relationship between banking service provider operating hours and choice of banking services (e4 = 1 or otherwise)

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1 ^a	e3	-.407	.124	10.766	1	.001	.665	.522	.849
	Constant	.832	.302	7.583	1	.006	2.298		

a. Variable(s) entered on step 1: e4: availability of operators, long operating hours, opens the whole day and specified schedule.

Source: Research Findings, 2017

In the significant column from Table 4.12, the p-value is $.001 < 0.05$. This means that there is a significant relationship between the banking service provider operating hours and choice of banking service provider, $Wald = 10.766$, $df = 1$, $p = .001$. This confirms the general null hypothesis that the “B” coefficients are significantly different from zero. The Exp (B) column in Table 4.12 presents the extent to which raising the corresponding measure by one unit influences the odds ratio. The $Exp(B) = .665 < 1$, meaning the probability of either not choosing of banking service provider is high before consideration of banking service provider operating hours, in other words, the odds of decrease in choice of service provider is 0.665 times more which is about 33.5 % $(= 0.665 * 100 - 100)$ after considering service provider operating hours. The findings of this study are in line with a study by Winnie (2015), on factors influencing the use of agency banking by residents of Kitui County. The finding was that there was a strong relationship between the factors and the use of agency for instance extension of operation time of agents had a positive relationship with the use of agency. It can therefore be noted that bank hours are a determinant of choice of banking service providers by small scale businesses in Homabay town.

4.3.3: Influence of baking service provider’s location and choice of banking service provider

A binary logistic regression analysis was conducted to determine the relationship between banking service providers’ location and choice of banking services. The primary data collected was coded to give a binary data (Here, choice was a binary variable taking the value of one (1) in

case the service provider is chosen and zero (0) if not chosen. The data was then analyzed using SPSS version 17.0.

As shown in Table 4.14, Cox and Snell’s R-square attempts to imitate R-Squared based on ‘likelihood’, but its maximum can be less than 1.0.(Hosmer,2015). In this model, 1.6 % of variations in banking service provider location is explained by logistic model. Nagelkerke’s R squared will normally be higher than the Cox and Snell measure. In this study, it is 2.2 %, indicating a weak influence of 2.2 % between the banking service provider location and choice of the service provider. This is weak descriptive goodness of fit for the model, since it is <50%. The overall fit of the model is assessed using the log likelihood statistic a value that is multiplied by -2 to give -2Log likelihood (-2LL). Under this model, Table 4.14 shows -2Log Likelihood statistics of 376.265 which is a great improvement from the constant only model where it was 4.526 as described in Table 4.13, meaning that fitting the model will be better than the constant only model. Table 4.16 shows that 32.7 % were correctly classified for choice of banking service and 65.7 % for otherwise. Overall that 49.8 % were correctly classified. This is considerable improvement on the 52.0 % as shown in Table 4.15 correct classification with constant model, this shows that the model with predictors is a better model.

Table 4.13: Block 0: Binary Logistic Regression for Variables not in the equation for predicting the likely relationship with choice of banking service

		Score	Df	Sig.	
Step 0	Variables	f3	4.526	1	.033
	Overall Statistics		4.526	1	.033

Source: Research Findings, 2017

Table 4.14: Binary Logistic regression results showing likely relationship between banking service providers’ location and choice of banking service

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	376.265	.016	.022

a. Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

Source: Research Findings, 2017

Table 4.15: Block 0: Binary Logistic regression results for classification and prediction of choice of banking service

Observed		Predicted			
		Perform-banking service providers		Percentage Correct	
		Commercial banks	Bank agent		
Step 0	perform-banking service providers	commercial banks	143	0	100.0
		bank agent	132	0	.0
Overall Percentage					52.0

a. Constant is included in the model.

b. The cut value is .500

Source: Research Findings, 2017

Table 4.16: Binary logistic regression for classification and prediction of banking service choice

Observed		Predicted			
		perform-banking service providers		Percentage Correct	
		commercial banks	bank agent		
Step 1	perform-banking service providers	commercial banks	94	49	65.7
		bank agent	89	43	32.7
Overall Percentage					49.8

c. The cut value is .500

Source: Research Findings, 2017

Table 4.17: Binary logistic regression for the relationship between banking service provider location and choice of banking services (f3 = 1 or otherwise)

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
								Lower	Upper
Step 1 ^a	f3	-.199	.095	4.435	1	.035	.819	.681	.986
	Constant	.393	.254	2.390	1	.122	1.481		

a. Variable(s) entered on step 1: f3: transport costs to banking service provider, distance of the

banking service provider and transport means to the banking service provider.

Source: Research Findings, 2017

In the significant column from Table 4.17, the p-value is $.035 < 0.05$. This means that there is a significant relationship between the banking service provider location and choice of banking service provider, $Wald = 4.435$, $df = 1$, $p = .035$. This confirms the general null hypothesis that the “B” coefficients are significantly different from zero. The Exp (B) column in Table 4.17 presents the extent to which raising the corresponding measure by one unit influences the odds ratio. $Exp (B) = .819 < 1$, meaning the probability of likely not to choose a banking service provider is higher than before consideration of banking service provider location, in other words, the odds of decrease in choice of service provider is 0.819 times more which is about 18.1 % ($= .819 * 100 - 100$) after considering service provider location.

The findings of this study also agree with studies carried out by Mutie, Mwendu, Julius and Mosoti (2013) on importance of agency banking in provision of banking services in Kitui. He used the following parameters as the independent variable; cost of banking transactions, efficiency of agency banking availability of banking agents, and convenience of banking products through agency banking. Both findings indicate that distance and costs related to the banking service providers determine the choice of service providers.

4.3.4: Relationship between banking service provider products and choice of banking service provider

A binary logistic regression analysis was conducted to determine the relationship between banking service providers' products and choice of banking services. The primary data collected was coded to give a binary data (Here, choice was a binary variable taking the value of one (1) in case the service provider is chosen and zero (0) if not chosen. The data was then analyzed using SPSS version 17.0.

As shown in Table 4.19, Cox and Snell's R-square attempts to imitate R-Squared based on 'likelihood', but its maximum can be less than 1.0 (Hosmer,2015). In this model, 2.2 % of variations in banking service provider products is explained by logistic model. Negelkerke's R squared will normally be higher than the Cox and Snell measure. In this study, it is 2.9 %, indicating a weak relationship of 2.9 % between the banking service provider products and choice of the service provider. This is weak descriptive goodness of fit for the model, since it is <50%. The overall fit of the model is assessed using the log likelihood statistic a value that is multiplied by -2 to give -2Log likelihood (-2LL). Under this model, Table 4.19 shows -2Log Likelihood statistics of 374.642 which is a great improvement from the constant only model where it was 6.14 in Table 4.18, meaning that fitting the model will be better than the constant only model. Table 4.21 shows that 53.0 % were correctly classified for choice of banking service and 63.6 % for otherwise. Overall that 58.0 % were correctly classified. This is considerable improvement on the 52.0 % in Table 4.20 which is a correct classification with constant model; this shows that the model with predictors is a better model.

Table 4.18: Block 0: Binary Logistic Regression for Variables not in the equation for predicting the likely relationship with choice of banking service

			Score	Df	Sig.
Step 0	Variables	f3	6.14	1	.013
	Overall Statistics		6.14	1	.013

Source: Research Findings, 2017

Table 4.19: Binary Logistic regression results showing likely relationship between banking service providers' products and choice of banking service

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	374.642	.022	.0.029

a. Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

Source: Research Findings, 2017

Table 4.20: Block 0: Binary Logistic regression results for classification and prediction of choice of banking service

	Observed	Predicted			Percentage Correct
		Perform-banking service providers		Bank agent	
		Commercial banks	Bank agent		
Step 0	perform-banking service providers	commercial banks	143	0	100.0
		bank agent	132	0	.0
	Overall Percentage				52.0

a. Constant is included in the model.

b. The cut value is .500

Source: Research Findings, 2017

Table 4.21: Binary logistic regression for classification and prediction of banking service choice

	Observed	Predicted			Percentage Correct
		perform-banking service providers		bank agent	
		commercial banks	bank agent		
Step 1	perform-banking service providers	commercial banks	91	52	63.7
		bank agent	62	70	53.0
	Overall Percentage				58.0

d. The cut value is .500

Source: Research Findings, 2017

Table 4.22: Binary logistic regression for the relationship between banking service provider products and choice of banking services (h5 = 1 or otherwise)

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1 ^a	h5	-.202	.082	6.034	1	.014	.817	.695	.960
	Constant	.616	.308	3.991	1	.046	1.851		

a. Variable(s) entered on step 1: h5: payment of bills, cash withdrawal, cash deposit, repayment of loans, salary payments and fund transfer.

Source: Research Findings, 2017

In the significant column from Table 4.22, the p-value is $.014 < 0.05$. This means that there is a significant relationship between the banking service provider products and choice of banking service provider, $Wald = 6.034$, $df = 1$, $p = .014$. This confirms the general null hypothesis that the “B” coefficients are significantly different from zero. The Exp (B) column in Table 4.22 presents the extent to which raising the corresponding measure by one unit influences the odds ratio. $Exp (B) = .817 < 1$, meaning the probability of not choosing a banking service provider is higher than before consideration of banking service provider products, in other words, the odds of decrease in choice of service provider is 0.817 times more which is about 18.3 % ($= .817 * 100 - 100$) after considering service provider products.

These studies are also supported by studies by Sook-Fun F.(2016), Diana k., (2012), Ndirangu k. (2011), and studies by Kumar et al, (2009) which identify determinants that positively affects the choice of the bank for instance branding convenience (time),rate of service and variety of products. Both studies found out that variety of banking products positively affects performance. It can therefore be concluded that banking products are significant predictors of the choice of banking service providers.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents summary of study findings based on each research question, conclusions and recommendations of the study. It also presents the limitations of the study. Finally, it suggests areas for further study.

5.1 Summary of Findings

The first objective of the study was to determine the relationship between bank characteristics and choice of banking service providers by small scale businesses in Homabay town. The findings are that the relationship between banking service providers' characteristics and banking service provider is significant (Wald = 6.589, df =1, p = 0.010) confirming the general null hypothesis that the "B" coefficients are significantly different from zero. The Exp (B) = .797 <1, meaning the probability of not choosing a banking service provider is higher than before consideration of banking service provider characteristics, in other words, the odds of decrease in choice of service provider is 0.797 times more which is about 20.3 % (= 0.797*100-100) after considering service provider characteristics.

The second objective of the study was to assess the relationship between banking service provider's operating hours and choice of banking service providers by small scale businesses in Homa-bay town. The findings are that relationship between the banking service provider operating hours and choice of banking service provider is significant (Wald = 10.766, df =1, p = .001) confirming the null hypothesis that "B" coefficients are significantly different from zero. The Exp (B) = .665 <1, meaning the probability of either or not choosing a banking service provider is higher than before consideration of banking service provider operating hours, in other words, the odds of decrease in choice of service provider is 0.665 times more which is about 33.5 % (= 0.665*100-100) after considering service provider operating hours

The third objective sought to determine whether banking service provider location could influence the choice of banking service providers among small scale businesses in Homabay town. The findings were that the relationship between the banking service provider location and choice of banking service provider is significant (Wald = 4.435, df =1, p = .035) confirming the null hypothesis that the "B" coefficients are significantly different from zero. The Exp (B) = .819 <1, meaning the probability of either choosing a banking service provider is higher than before

consideration of banking service provider location, in other words, the odds of decrease in choice of service provider is 0.819 times more which is about 18.1 % ($= .819*100-100$) after considering service provider location.

The final objective of the study was to establish the relationship between banking service provider products and choice of banking service providers by small scale businesses in Homabay County. The findings that, the relationship between the banking service provider products and choice of banking service provider is significant (Wald = 6.034, df =1, p = .014). This confirms the general null hypothesis that the “B” coefficients are significantly different from zero. The $\text{Exp (B)} = .817 < 1$, meaning the probability of poor choice of banking service provider is high when considering the banking service provider products, in other words, the odds of decrease in choice of service provider is 0.817 times more which is about 18.3 % ($= .817*100-100$) after considering service provider products.

5.2 Conclusions

Four conclusions can be drawn based on the preceding evidence. The first conclusion based on the first results is that banking characteristics in terms of size of the bank will determine the choice of banking service providers.

Based on the second results, it is concluded that, period of opening the banking services determine the choice by small scale business.

The third conclusion based on the third result is that distance to the banking service providers, transport costs and transport means significantly contributes to the choice of banking service providers by small scale businesses in Homa bay town. This could also be so because short distances eliminate many risks and is also less costly thus leading to the choice of the most accessible banking services. In this case, agent banking services are preferred due to their availability in terms of distance.

The final conclusion can be made on the relationship between bank products and choice of banking service providers. Most of the small scale business only performs two types of banking services, or products. These are cash withdrawals and cash deposits. These have a great effect on the choice of banking service providers by small scale businesses in Homabay town.

5.3 Recommendations

In view of the findings and conclusions of the study, the following recommendations were made. Based on the first conclusion, it is recommended that, in order to intensify the influence of bank characteristics of the choice of service providers by small scale businesses, agent banking service providers should increase the size of their banking and minimize cases of lack of float to attract more customers.

Based on the second conclusion that operating hours influence the choice of banking service providers, the study recommends that agent service banking providers should increase their operating hours and open their services the whole day to avoid mouthy customers. This may convince the small scale businesses to access services from them. However, commercial banks may also adopt this strategy in order to rip from the huge numbers of small scale businesses in Homabay town.

The third recommendation is that distance to the banking service providers by banking service agents should be reduced so that small businesses can easily access services by agents, otherwise they will always prefer commercial banks. Secondly, since transport costs influence the choice of banking services by small businesses, both banking service providers should adopt the advanced forms of banking such as online banking or mobile banking in order to rip much from the small scale businesses.

Finally, due to the fact that the main product accessed by small businesses is cash withdrawals and cash deposits, agent service providers should implement ways in which the small business can easily carry out this service and benefit them. This means that agent banking service providers should increase the cash at hand so that small scale businesses can easily withdraw.

5.4 Limitations of the Study

Cross-sectional nature of data will imply that conclusions are generally limited by virtue of being collected at one point in time and do not give the sequence of events. However, studies based on cross-sectional data tend to provide information for subsequent studies in the same areas of interest.

The second limitation relates to the fact that the current study focused only on the small scale businesses. There are more middle businesses and entrepreneurs that contribute to the growth of the banking sector. These have not been explored, however, due to the detailed nature of the small scale businesses, such findings can be used to conclude on the large scale businesses.

Third limitation was concerning collection of data through questionnaires administered small scale business owners who could conceal their true information for purposes of security. This may give respondents an opportunity to be biased and give responses which are not a true reflection of choice of banking service providers. However, this limitation was overcome by adoption of the high number of respondents.

5.5 Suggestions for Further Studies

Various suggestions for further studies were given concerning the shortfalls in the studies carried out. First studies should be carried out on large scale business choice of banking service providers in order to advise investors appropriately.

Secondly, studies on the influence of the internal characteristics of small scale business on choice of banking service providers can also be carried out. This is because there are other factors that determine the choice of banking service providers that are not related to the service providers but to the business operators.

Finally, studies can be carried out on the relationship between financial capability of small scale business operators and amount of transactions carried out through mobile banking. This will help the banking stakeholders to rip appropriately from the small businesses.

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APPENDICES

Appendix I: Sample letter of introduction

(Date)

Operator Small Business Enterprise,

(Name and address of the selected (SME))

Dear Sir/Madam

RE: INTENTION TO CONDUCT RESEARCH IN YOUR ENTERPRISE

I am a postgraduate student conducting a research on the Factors Determining Choice of A banking Services provider by Small Scale Businesses in Homa bay Town. The study intends to achieve this by (a) Establishing the relationship between banking service providers characteristics and choice of agency banking provider by small scale traders in Homabay town. b) To assess the relationship between banking service operating hours and choice of a banking service provider by small scale retailers in Homa bay town(c) To establish the influence of banking service provider location on the use of a banking service provider agency by the small scale retailers of Homa bay town and to establish the relationship between the banking products and choice of a banking service provider. As a key player in Kenya Banking sector, your organization has been selected to be part of the study which is also intended to enable me to complete my Masters in Business Administration degree at Maseno University. Kindly find enclosed copies of research questionnaire to be used.

I would greatly appreciate your permission to conduct the research in your organization. Confidentiality of the information provided will be guaranteed. For more information, please contact the researcher through telephone 0725 826 372 or e-mail rastusosare@gmail.com.

Thanks you in advance for your support.

Yours faithfully,

OSARE RASTUS ODHIAMBO

Postgraduate student, Department of finance and accounting

Encl.

Copy of research questionnaire

Appendix II : Questionnaires SMEs

This questionnaire is intended to collect information on Factors Determining Choice of a banking service provider by small scale businesses in Homa-bay County. The information given will be used for the purpose of this research only. The identity of the respondent will remain confidential. Use a tick (✓) to select your option among the multiple choices given. Do not write your name or the name of the banking institution on this questionnaire.

Demographic Information

1. Please indicate your Gender (tick the correct box)

Male

Female

2. Kindly indicate your age (tick the correct box)

Below 18 years

18-28

29-4

past 40

3. Please state the highest level of education attained? (tick the correct box)

Primary

Secondary

Certificate

Diploma

Degree

4 (i)For SME: how long has the business been in operation?

Less than two years

3 - 4

More than four years

Characteristics of Small business operators

5.To what extent do you consider the following factors in choosing banking service provider in the Table below on a scale of 1-5 where: 1-Moderate extent; 2- Little extent; 3-Great extent; 4-Very great extent 5-No extent

	Factor	1	2	3	4	5
1	Availability of float					
2	Size of bank service provider					
3	The core business activity					

6. Indicate the extent to which you agree with the statements given in the Table below on a scale of 1-5 where: 1-Strongly Agree; 2- Agree; 3-Not sure; 4-Disagree 5-Strongly disagree

	Factor	1	2	3	4	5
1	Bank agencies helps most people in the rural areas in saving					
2	Most people prefer using banking agencies in their transactions.					
3	Services offered via Bank agencies should be increased					
4	Banking agencies do not provide all the necessary services.					

Banking service Provider’s operating hours.

7. Indicate the extent to which you agree with the statements given in the Table below on a scale of 1-5 where: 1-Strongly Agree; 2- Agree; 3-Not sure; 4-Disagree 5-Strongly disagree

	Factor	1	2	3	4	5
1	You visit bank service provider who are always available at the work place.					
2	You visit bank service provider who opens business early.					
3	You bank service provider who opens the whole day.					
4	You visit bank service provider who operates within a specified schedule.					

Banking service provider location

8. Indicate the extent to which you agree with the statements why you go to a given bank service provider given in the Table below on a scale of 1-5 where: 1-Strongly Agree; 2-Agree; 3-Not sure; 4-Disagree 5-Strongly disagree

	1	2	3	4	5
Transport costs to banking service provider					
Distance of the banking service provider					
Transport means to banking service provider					

Banking products

9. What banking service products do you usually go for?

Payment of bills Cash withdrawals Cash deposits
 Repayment of loans Salary payments Funds transfer

10. To what extent do you consider the following banking service products in the Table below on a scale of 1-5 where: 1-Moderate extent; 2- Little extent; 3-Great extent; 4-Very great extent 5-No extent.

BBANKING PRODUCTS	1	2	3	4	5	6
Payment of bills						
Cash withdrawals						
Cash deposits						
Repayment of loans						
Salary payments						
Funds transfer						

11. What challenges do you face in the provider's banking products?.....
.....
.....
.....

Characteristics Operating hours location products offered

12. Which banking service provider do you usually go to Commercial bank Bank agent

END

Appendix III: List of Small Scale businesses in Homabay town.

REGION	NUMBER
Makongeni	30
Sofia	40
Arujo	30
Got Rabuor	10
Junction	10
Town centre	868
TOTAL	988

Appendix IV: Descriptive Statistics Results

	N	Mean	Std. Deviation
char-b1-Bank agencies helps most people in the rural areas in saving	275	2.78	.879
char-b2-Most people prefer using banking agencies in their transactions.	275	2.97	1.007
char-b3-Services offered via Bank agencies should be increased	275	2.97	1.147
char-b4-Banking agencies do not provide all the necessary services.	275	2.84	1.397
char1-availability of float	275	1.77	1.018
char2-size of bank service provider	275	2.26	1.102
char3-core business activity	275	2.61	1.300
Valid N (listwise)	275		

	N	Mean	Std. Deviation
e1-You visit bank service provider who are always available at the work place.	275	1.73	1.071
e2-You visit bank service provider who opens business early.	275	2.17	1.112
e3-You bank service provider who opens the whole day.	275	2.25	1.021
e4-You visit bank service provider who operates within a specified schedule.	275	2.93	1.333
Valid N (listwise)	275		

	N	Mean	Std. Deviation
f1-Transport costs to banking service provider	275	1.86	1.079
f2-Distance of the banking service provider	275	2.36	1.179
f3-Transport means to banking service provider	275	2.39	1.306
Valid N (listwise)	275		

	N	Mean	Std. Deviation
g1-What banking service products do you usually go for?	275	3.19	1.533
h1-Payment of bills	275	3.06	1.032
h2-Cash withdrawals	272	3.22	1.223
h3-Cash deposits	275	3.33	1.308
h4-Repayment of loans	275	3.53	1.417
h5-Salary payments	275	3.44	1.494
h6-Funds transfer	275	3.59	1.590
n-factors considered before choosing a banking product offered by a banking service provider	275	2.71	1.131
perform-banking service providers	275	.48	.501
mean bank location	275	2.2012	.77935
mean bank products	275	3.3638	.51835
mean character no 2	275	2.8891	.52010
mean characteristics	275	2.2145	.64912
mean operating hours	275	2.2709	.55883
Valid N (listwise)	272		

Appendix X: conceptual framework modified

