

**COMMERCIAL BANKS LENDING STRATEGIES AND GROWTH  
OF MICRO AND SMALL ENTERPRISES IN KENYA**

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## DECLARATION

This thesis is my original work and has not been presented for a degree in any other University.

Signature..... Date.....

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This thesis has been submitted for examination with our approval as the University Supervisors.

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## **DEDICATION**

To my dear husband Amos Chacha Mwita, my dear daughters Samantha Chacha and Sherrie Chacha for their patience and support during the entire process of course work and thesis writing. I also wish to dedicate this thesis to my parents Mr. and Mrs. Eustace Kathuku who encouraged me to pursue education with all the zeal and passion. They have been my strength throughout this taxing moment in my life and their encouragement has enabled me to execute the thesis successfully. To Consolata Wanjiru Karanja God bless you for walking the journey.

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## **ABBREVIATIONS AND ACRONYMS**

<b>CBK</b>	Central Bank of Kenya
<b>CBS</b>	Central Bureau of Statistics
<b>CEG</b>	Centre for Economic Growth
<b>CEO</b>	Chief Executive Officer
<b>CRM</b>	Customer Relationship Marketing
<b>DEA</b>	Data Envelopment Analysis
<b>ERS</b>	Economic Recovery Strategy
<b>FIs</b>	Financial Institutions
<b>GDP</b>	Gross Domestic Product
<b>HKP</b>	Hayekian Knowledge Problem
<b>IFC</b>	International Finance Corporation
<b>ICT</b>	Information Communication Technology
<b>JIT</b>	Just-in-Time.
<b>KAM</b>	Kenya Association of Manufacturers
<b>KBA</b>	Kenya Bankers Association
<b>KCB</b>	Kenya Commercial Bank
<b>LDCs</b>	less Developed Countries
<b>MENA</b>	Middle East and North Africa
<b>MFI</b>	Micro finance Institution
<b>MMSEs</b>	Micro, Small and Medium Scale Enterprises
<b>MOI</b>	Ministry of Information
<b>MSEA</b>	Micro and Small Enterprises Authority

<b>NACOSTI</b>	National Commission of Science Technology and Innovation
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>R&amp;D</b>	Research & Development
<b>R-A</b>	Resource-advantage
<b>RBV</b>	Resource Based-View
<b>RoK</b>	Republic of Kenya
<b>SAP</b>	Structural Adjustment Programme
<b>SPSS</b>	Statistical Package for Social Sciences
<b>TQM</b>	Total Quality Management
<b>UK</b>	United Kingdoms
<b>USA</b>	United States of America
<b>USAID</b>	United States Agency for International Development
<b>WB</b>	World Bank

## OPERATIONAL DEFINITION OF TERMS

<b>Access to Finance</b>	Is defined as getting adequate and affordable financing over a suitable timescale (Tagoe <i>et. al.</i> , 2005).
<b>Alternative Channels</b>	Refers to channels and methods for providing banking services directly to the customers (Demiroglu, 2010)
<b>Capacity Building</b>	Process of developing and strengthening the skills, instincts, abilities, processes and resources that organizations staff need to survive, adapt, and thrive in the fast-changing world (Ferrell & Fraedrich, 2015).
<b>Collateral</b>	Specific property or other assets that a borrower offers as a way for a lender to secure a loan. (Suder, 2009).
<b>Collateral Payback Time</b>	It is the time between the date the loan was taken from the bank and the time to start paying back the loan (Cole, 2002)
<b>Collateral Type</b>	property or asset acceptable to the lender. There are infinite numbers of types of collateral as virtually anything can be used for such purpose as long as it is acceptable to the lender (Suder, 2009).
<b>Collateral Value</b>	Is the estimated fair market value of an asset that is being used as loan collateral. Collateral value is determined by appraisal from a qualified expert (Cole, 2002)
<b>Commercial Banks</b>	Financial institution that provides various financial services such as accepting deposits, making business loans, and offering basic investment products (Matthews & Human, 2000).

<b>Electronic Banking</b>	Also known as electronic funds transfer. Transfer of funds directly from one account to another rather than by cash or cheque. Involves many different types of transactions, rights, and responsibilities— and sometimes, fees ((Boston Consulting Group, 2009).
<b>Entrepreneurs</b>	People undertaking economic risk to create a new organization that will apply new technology or innovative process to generate value to others (Schramm, 2006).
<b>Financial Institutions</b>	Are businesses whose principal assets are financial assets or claims, stocks, bonds and loans instead of real assets such as buildings, equipment's and raw materials (Saunders, 1994).
<b>Job Rotations</b>	Is a management approach where employees are shifted between two or more assignments or jobs at regular intervals of time in order to expose them to all verticals of an organization (Temtime & Solomon, 2002).
<b>Legal and Regulatory Environment</b>	Regulatory environment consists of laws and regulations that has been developed by governments in order to exert control on operations (Cole, 2002)
<b>Lending Strategies</b>	These refers to positioning of products by banks so as to influence performance of MSEs
<b>Micro Enterprise</b>	A Micro Enterprise is a business that has less than Ksh.5million invested in it, or has sales of less than Ksh.500, 000 a year, or has 1–9 people working in it (Adera, 2015).

<b>Mobile Banking</b>	Is performing banking transactions through a mobile device such as a mobile phone or Personal Digital Assistant (Boston Consulting Group, 2009).
<b>MSEs Growth</b>	The MSES growth is viewed as an accumulation of assets and it is usually measured as a single phenomenon especially financial or employee growth (Matthews & Human, 2000).
<b>Product Accessibility</b>	Refers to the availability of bank products (Bothma <i>et al</i> , 2012).
<b>Product Mix</b>	A product mix is the collection of product lines within a firm's ownership and control, for example a commercial bank's product mix might comprise the deposits, withdrawals, trust, insurance, cards and loans lending (Bothma, <i>et al</i> , 2012).
<b>Product Pricing</b>	The value that is put to a product or service .it is the result of a complex set of calculations, research and understanding risk taking ability. Pricing of the products affects performance of a firm. Underpricing may lead to losses. High pricing affects the customers' choice of a bank. Price represents the value the customers attach to the benefits they expect from the product (Bothma <i>et al</i> ., 2012).
<b>Screening</b>	The evaluation or investigation of new staff as part of a methodical survey, to assess suitability for a particular role (Temtime & Solomon, 2002).

**Small Enterprises**

A firm, trade, service, industry or a business activity whose annual turnover ranges between five hundred and five million shillings; which employs between ten and fifty people (Calice, 2012).

**Technology Innovations**

Is the application of better solutions that meet new requirements, in articulated needs, or existing market needs. This is accomplished through more effective products, processes, services, technologies, or ideas that are readily available to markets, governments and society ((Boston Consulting Group, 2009).

**Training**

Is teaching, or developing in oneself or others, any skills and knowledge that relate to specific useful competencies (Ferrell & Fraedrich, 2015).

## ABSTRACT

Empirical studies show that MSEs make a significant contribution to the socio-economic and political infrastructure of developed and developing countries as well as the nations in transition from command to market economies. One of the biggest obstacles in MSEs is access to either start-up or expansion capital. Lacking sufficient credit, entrepreneurs are seldom able to take advantage of discounts on new materials, and are unable to extend credit to their customers. Credit and capital have been found to be the greatest perceived needs of small businesses. The study sought to establish how product accessibility, customer relationship marketing (CRM), collaterals, capacity building and technological innovation lending strategies by commercial banks influence growth of MSEs in Kenya. The study also investigated the moderating effect of legal and regulatory environment on the commercial bank lending strategies on the growth of MSEs in Kenya. This study was a descriptive survey design with a population of 2,571,293 registered MSEs in Kenya and the chief credit officers from the 44 commercial banks in Kenya. The bank chief credit officers and MSEs owners were targeted for information by this study because they were likely to be the decision makers. The chief credit officers who were sampled from the headquarters of the commercial banks were actively involved in making lending decisions. The researcher used purposive sampling to select respondents. The sample size which was purposively selected was comprised of 352 respondents. The study used questionnaires to collect data from the field. Both quantitative and qualitative data gathered was coded and analyzed using Statistical Package for Social Sciences (SPSS) computer software. Descriptive statistics was used to analyze the data in frequency distributions and percentages which were presented in tables and figures. Inferential statistics were used to analyze qualitative data. The study found out that commercial banks' product accessibility have a positive and significant effect on MSEs growth, commercial banks' customer relationship management have a positive and significant effect on MSEs growth, commercial banks' collateral have a negative and significant effect on MSEs growth, commercial banks' capacity building have a positive and significant effect on MSEs growth, commercial banks' technology and innovation have a positive and insignificant effect on MSEs growth and lastly the interaction between independent variables and legal regulatory environment (moderator) was negative and significantly related. Following the study results, the study concluded that a good relationship between MSEs and banks helps them to easily access finances and information. In addition, the study concluded that commercial banks' collateral and covenants adversely affect the growth of MSEs it was recommended that commercial banks should ensure that their products are accessible, commercial banks should improve on customer relationship management to enhance the growth of MSEs. Commercial banks need to make credit terms to be friendly to the creditors in this case the MSEs owners. Further the study recommends for commercial banks to train their employees on how to handle clientele needs. Commercial banks need to embark on major training programmes and address their efforts to professionalize MSEs account managers. The study also recommended that commercial banks and MSEs should put in place legal and regulatory framework management strategies.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the Study**

This study investigated commercial banks' lending strategies on the growth of micro and small enterprises (MSEs) in Kenya. This chapter provides brief background information on the MSEs, commercial banks, commercial banks' lending strategies and growth of MSEs. This section also provides statement of the problem, general and specific objectives of the study and research hypotheses to be tested in the research. A brief justification, limitations and delimitations of the study are also provided herein.

Empirical studies show that MSEs make a significant contribution to the socio-economic and political infrastructure of developed and developing countries as well as the nations in transition from command to market economies (Matlay & Westhead, 2013). They outnumber large companies by a wide margin and employ many people across all the nations. MSEs represent about 83 per cent of all the firms operating globally (Kaplinsky, McCormick & Morris, 2010). Non-farm micro and small enterprises account for over 55 per cent of total employment and approximately 40 per cent of the gross domestic product (GDP) in many emerging and developed economies worldwide (Hallberg, 2011).

According to Clarke, (2011) obtaining finance is a long journey, the success of which depends on the methodology applied during evaluation and awarding of credit by financier. This journey starts from the application for the facility and ends at the time the loan from credit process is fully paid. Like, any human journey, the credit acquisition process has got no smooth paths, there are impediments and detours before destination is reached. When in business you cannot avoid seeking for a loan when need arises, it's important to know how banks can lend or refuse to lend a business funds. First and foremost, banks trade on customer deposits. They lend at interest rates high enough to

pay their operating overheads and leave balances to pay interest (lower) to the customers whose deposits are being loaned out

### **1.1.1 Micro and Small Enterprises**

In Central Asia particularly, commercial banks have been enthusiastic in embracing this new and dynamic target customer group. Even in the larger countries with relatively more developed financial sectors such as Kazakhstan and Ukraine, banks have seen the potential in extending their reach down to smaller borrowers.

In USA Commercial banks and other formal institutions fail to cater for the credit needs of small businesses, however, mainly due to their lending terms and conditions. It is generally the rules and regulations of the formal financial institutions that have created the myth that poor are not bankable, and since they can't afford the required collateral, they are not considered creditworthy (Adera, 2015).

In developing countries like South Africa and Ghana, despite efforts to overcome the widespread lack of financial services and the expansion of credit among small business of these countries, the majority still have only limited access to bank services to support their private initiatives (Braverman & Guasch, 2006).

In Nigeria, the level of finance for entrepreneurship is one of the lowest in the world (Vision, 2020, 2009). However, while the Simoye (2013) report indicates that Nigeria's financial system is highly capitalized and vibrant, her contribution to entrepreneurship and MSMEs sector is only about 1.6% of the total loans and advances to the private sector as of 2009 (CBN, 2009). Nigeria MSMEs are estimated to contribute 10% of the employment level in Nigeria well below that of the UK 54%; USA 50.3%; Bangladesh 80%; India 80%; Belgium 66.6%; South Africa 60%; Malaysia 57.7%, Ireland 66.5% and China 58.8% (Vision, 2020, 2009).

In Kenya, Micro and Small Enterprises (MSEs) generally face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. Lack of access to credit is almost universally indicated as a key problem for MSEs. Credit constraints operate in a variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance (World Economic Forum, 2014).

There are various other financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees, lack of collateral and longtime lending procedures. Financial constraint remains a major challenge facing MSEs in Kenya (Wanjohi & Mugure, 2008). Small-scale enterprises play a major role in facilitating economic growth in Kenyan economy. The greatest hindrance to their active participation is the access to affordable credit and at reasonable terms. Republic of Kenya (2012) focused on the role of micro and small enterprises and stressed the potential of the MSE sector to function as a catalyst of growth for the country's development. In the past, the Kenyan economy has been characterized by slow growth. This has in return led to the introduction of Structural Adjustment Programme (SAP), an imposition on Kenya by the International Monetary Fund (IMF) and the World Bank (WB). The main objective of SAP is to bring the government budget down.

### **1.1.2 Growth of Micro and Small Enterprises**

A number of factors affect the growth of African MSEs, including the business environment and the quality of the labour force. However, a crucial element in the development of the MSE segment is access to finance, particularly to bank financing, given the relative importance of the banking sector across the continent. African MSEs are more financially constrained than in any other developing region (Stephanou & Rodriguez, 2010). Only 20 percent of MSEs in Sub-Saharan Africa have a line of credit

from a financial institution compared, for example, with 44 percent in Latin America and Caribbean, and only 9 percent of their investments are funded by banks versus 23 percent in Eastern Europe and Central Asia. The study found that the MSE is a strategic priority for the banks in the region. MSEs are considered a profitable business prospect and provide an important opportunity for cross-selling (Calice, 2012).

Banks consider MSE lending market to be large, not saturated and with a very positive outlook. A number of obstacles are, however, constraining further banks' engagement with the MSE segment, including MSE-related factors such as the lack of adequate information and collateral as well as their largely family-owned structures. Macroeconomic factors, business regulation, the legal and contractual environment, the lack of a more proactive government attitude towards the segment, some areas of prudential regulation are some bank-specific factors are also perceived to negatively affect the MSE lending market in East Africa. Nonetheless, banks have adapted to their environment and developed mechanism to cope with it through innovation and differentiation (Beck *et al.*, 2012).

### **1.1.3 Commercial Banks in Kenya**

The participation of Kenya government in the financial sector dates back to the late 1960s when the government aimed to make the sector more responsive to the borrowing needs of the Kenyan public. This was in order to offset the tendency of financial corporations to invest their funds abroad and hence living out the common citizen from development participation (Central Bank of Kenya Annual Report, 2009).

Kenya's commercial banking sector comprises of 3 public, 28 local (private), 11 foreign (private) and two Islamic (private) as at 31<sup>st</sup> Dec. 2013 (CBK & Kenya Bankers Association, 2013). Financial sector in most of the developing countries are characterized by fragility, volatile interest rates, high risk investment and inefficiencies in the intermediation process. The industry further differs in ownership, structure,

financial liberalization level and accounting treatment of various streams of income. Different regulations do exist for all institutions and some are standard across foreign banks, locally owned private banks and financial parastatals (RoK, 2010).

Banks are willing to consider lending to an MSE based on the relationship the MSE has with one of the Bank's large corporate customers since the bank can get more information regarding the MSE from the corporate customer (RoK, 2010). The other factor is the strategic focus on MSE that the bank attaches with most banks considering MSEs their core strategy and seeming well positioned to expand their links with MSEs. The level of competition in the other segments that the banks operate in influences their engagement with MSEs while the level of prevailing interest rates in the economy also affect this engagement. When there is very high competition in the corporate and retail segments, then banks will be forced to look for new growth areas (Omar, 2011).

In the MSE segments, the banks find lending to MSEs more costly than lending to corporate customers and tend to lend more to corporate customers than MSEs (De la Torre, 2008). Olomi (2013) established that the survival rate of MSEs was significantly low. Due to doubts about their survival and the possibility of growth, banks are inclined to tighten their requirement to approve financing to MSEs and usually require a lot of information about such investments (Omar, 2011).

Banking is undoubtedly one of the most regulated industries in the world, and the rules on capital requirements and mandatory restrictions on asset choice have been the most prominent aspects of such regulation. This prominence results from the central role that banks play in financial intermediation, the importance of bank capital for bank soundness and the efforts of the international community to adopt common bank capital standards have resulted into heavily regulated industry. However economists are divided on the question of whether there is need for banks to be regulated (Sinkey, 2002). (De la Torre, 2008). Olomi (2013) Barth (2013) Kariuki (2013), Calice, (2012)

Barth (2013) in a cross country survey examined the relationship between specific regulatory and supervisory practices with banking-sector's development, efficiency and fragility using a new data base regulations and supervision in 107 countries including Kenya. Their findings raised a cautionary flag regarding Basel II pillars 1 and 2, as they found no statistically significant relationship between capital stringency, official supervisory power and bank performance. They argued that countries reduced the likelihood of corruption in lending by adjusting bank regulation to facilitate private monitoring of banks.

#### **1.1.4 Commercial Banks Lending Strategies to MSEs**

Most banks have dedicated units serving MSEs, to which they offer largely standardized products though the degree of personalization is growing. And albeit advanced transaction technologies based scoring and risk-rating systems remain relatively underdeveloped, banks are gradually automating their risk management frameworks to achieve efficiency gains (Calice, 2012). The findings were broadly akin to those of similar studies in other geographical contexts, suggesting that banks in the region have enthusiastically embraced the MSE segment and are making substantial investments to develop their relationship with MSE clients. Kariuki (2011) studied on bank's credit access in Kenya and established that MSEs were faced with higher nominal interest rates at higher inflation rates in the latter half of the 1980s. Moreover, the explicit transaction costs of borrowing were found to be high in relation to interest costs.

According to Cowan (2007), there were about 2.4 million MMSEs in Kenya of which 88 percent were non-registered. Out of the non-registered group, only 23 percent had bank accounts, and only 10 percent had ever received credit from a formal source. Less than 20 per cent of MSEs in Kenya had ever received credit from commercial banks. Access was limited due to challenges in assessing MSE risk in a cost-effective manner. Collateral serves as important incentive acting upon borrowers to avoid defaulting on loans and a means by which borrowers can signal their credit worthiness to lenders

(Lehman & Neuberger, 2009). In Kenya, some banks do not accept collateral from some MSEs in rural areas. Even for urban-based MSEs, this condition is a severe constraint. Besides, MSEs lack collateral required by commercial banks (Ochieng, 2014).

## **1.2 Statement of the Problem**

Empirical studies show that MSEs make a significant contribution to the socio-economic and political infrastructure of developed and developing countries as well as the nations in transition from command to market economies (Matlay & Westhead, 2013). They outnumber large companies by a wide margin and employ many people across all the nations. In Kenya, up to 40% of the country's GDP is attributed to the MSEs (RoK, 2014).

Performance, growth and existence of MSEs still remains unknown. Studies on micro-enterprises suggest that most of them do not grow, although approximately 40% does actually grow (Baud & Bruijne, 2013). Micro and small enterprises have a high mortality rate. Many are started every year but very few see their third birthday (Ngugi, 2012). Micro and small enterprises do not grow at the expected rate to become medium enterprises hence the missing middle phenomena (Ngugi, 2013).

Various commercial banks like Sidian Bank, Faulu-kenya and Jamii Bora Bank have introduced products that enhance lending to MSEs (RoK, 2014). Despite the loan facilities offered by these institutions, the MSEs biggest obstacles to growth remains access to either start-up or expansion capital. Lacking sufficient credit, entrepreneurs are seldom able to take advantage of discounts on new materials, and are unable to extend credit to their customers (World Economic Forum, 2014). Credit and capital have been found to be the greatest perceived needs of small businesses (Liedholm & Mead, 2009). They require working capital to survive and buy equipment. Further, reports from Kenya Bankers Association show that 80% of lending by tier one and two commercial banks is to corporate and government clients (KBA, 2014). Worked out, this leaves only about

20% of lending by banks shared between individual borrowers and the MSEs. What contributes to this lack of MSEs growth? Could it be reversed by commercial bank lending strategies? This is the subject of the study.

Despite abundant literature on MSEs Loan, there still remains a gap in literature on the effect of the loan to the micro and small enterprises, Kombo, (2010). A critical review of past literature show that several conceptual and contextual research gaps exists in commercial bank lending strategies on the growth of MSEs in Kenya. For instance, the studies by La Torre *et al.* (2010) investigate banks' approaches to MSEs in terms of business models and risk management systems. Rocha *et al.* (2011) investigate the status of bank financing to MSEs in the Middle East and North Africa (MENA) based on a survey of 139 banks in 16 countries. Stephanou and Rodriguez (2008) analyzed both trend and structure of the MSE financing market in Colombia. All the above studies were carried out in developed and emerging countries such as USA, Italy and Israel. It is therefore possible to argue that the effect of commercial bank lending strategies on performance of MSEs of developed and emerging economies are somewhat different from those of a developing economy like Kenya. It is due to this paucity of studies that this study intends to fill the research gap on commercial bank lending strategies and the growth of MSEs in Kenya.

### **1.3 Objectives**

#### **1.3.1 General objective**

The objective of this study was to assess commercial banks' lending strategies and the growth of micro and small enterprises in Kenya.

### **1.3.2 Specific Objectives**

This study was guided by the following specific objectives:

1. To establish commercial banks' products accessibility lending strategy on growth of MSEs in Kenya
2. To determine commercial banks' customer relationship marketing (CRM) lending strategy on growth of MSEs in Kenya
3. To establish commercial banks' collaterals lending strategy on growth of MSEs in Kenya.
4. To explore commercial banks' capacity building lending strategy on growth of MSEs in Kenya.
5. To establish commercial banks' technology innovation lending strategy on growth of MSEs in Kenya.
6. To investigate the moderating effect of legal and regulatory environment on commercial banks' lending strategies and the growth of MSEs in Kenya.

### **1.4 Statistical Hypotheses**

In line with the specific objectives of the study, the following hypotheses were tested to assist the study in making conclusions and recommendations.

1.  $H_{o1}$ . There is no significant relationship between commercial banks' products accessibility lending strategy and growth of MSEs in Kenya
2.  $H_{o2}$ .: There is no significant relationship between commercial banks' customer relationship marketing (CRM) lending strategy and growth of MSEs in Kenya
3.  $H_{o3}$ . There is no significant relationship between commercial banks' collateral lending strategy and the growth of MSEs in Kenya.
4.  $H_{o4}$ . There is no significant relationship between commercial banks' capacity building lending strategy and growth of MSEs in Kenya.

5. Ho5. There is no significant relationship between commercial banks' technology innovation lending strategy and the growth of MSEs in Kenya.
6. Ho6. There is no significant moderating effect of legal and regulatory environment on commercial banks' lending strategies and the growth of MSEs in Kenya.

## **1.5 Significance of the Study**

### **1.5.1 MSEs owner-managers**

The study is important to MSE owner-managers. First, it shall help to improve their knowledge of how banks assess their credit requests. Second, such an understanding may assist them on how to take remedial actions prior to approaching banks for financing. Thirdly, with such knowledge, both commercial banks and MSE owners will be in a position to understand MSEs and bank requirements better and take remedial actions prior to approaching banks or MSEs for financing.

### **1.5.2 Commercial Banks**

The study provides an insight of the role of commercial banks' lending on the success of micro and small enterprises in Kenya. Commercial banks play a catalytic role of boosting MSEs. Normal MSEs use two sources of finance; internal or external sources of financing. The internal funds are always insufficient to undertake the required level of business hence the call is always made for external finance from relevant commercial banks to fill the financial gap. Over the years the failures of MSEs have been linked to the inability to access finance from commercial banks. This study is therefore, important on providing empirical evidence about the role of commercial banks on success of micro and small enterprises. Without such evidence no concrete strategies can be drawn regarding the development of MSEs.

### **1.5.3 Future Academicians/Researchers**

The study fills the gap in academic literature by contributing to the existing theoretical knowledge on MSE financing by commercial banks. In addition, future researchers, policy makers and knowledge seekers may use this study as a foundation for further research in the field of commercial bank lending to the MSEs growth in Kenya.

### **1.6 Scope**

The study focused on commercial banks' lending strategies to the growth of micro and small enterprises in Kenya. The study concentrated on the owners/entrepreneurs of the MSEs in Nairobi and Kiambu Counties and chief credit officers at the headquarters of the 44 commercial banks in Kenya. There are approximately 2.5 million MSEs in the country (RoK, 2013). Nairobi County has about 2,340 MSEs (NC, 2014) while Kiambu County has approximately 1,120 MSEs (Kiambu County, 2014). The two counties combined are home to about half the total number of entrepreneurs in the country. Whereas the earlier is a metropolitan county where one can find nearly all the various types of MSEs, the latter is a rural county with a wide range of business activities including the agro-based holdings. The MSEs was categorized into manufacturing, trade, services and others. The study was undertaken to research on activities within the scope of the issues to be addressed by the research objectives.

### **1.7 Limitations**

Limitation is a function of factors that impact on the outcome of the study, but which have not been taken into account (Mugenda, 2008). The limitation in this study was that most MSEs considered the information as confidential and hence they were hesitant to reveal some of it. The researcher however overcame the limitation by having a letter of introduction from the university which assured the respondents that the information provided was to be used for academic purpose and was to be treated with confidentiality.

Many of the MSEs were not permanently located at a particular place where they could be found all the time. Most of them were mobile hawking their wares and did not have ample time to respond to questionnaires or take part in physical interviews, however, phone interviews were administered for those who were highly mobile but were able to communicate at their own free time. This enabled the research to be as inclusive as possible and any data generated from the study was a true reflection of the general population under study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This section consists of the review of the related literature related in the field of commercial banks' lending strategies which include product accessibility, customer relationship marketing, collateral, capacity building and technology innovation and their effects on growth of MSEs. It also provides the theoretical orientation, empirical review, and conceptualization of the study. This chapter also provides an empirical review, an objective critique of various studies undertaken in the area of study and an outline of the research gaps to be filled by the present study.

#### **2.2 Theoretical Review**

A theory is a study of systematically interrelated concepts, definitions and propositions that are advanced to explain or predict phenomena (facts); the generalization we make about variables and the relationship among the variables (cooper & Schindler, 2008). Saunders, Lewis and Thornhill (2007) define a theory as a formulation regarding the cause and effects of relationship between two or more variables, which may or may not be tested. Cooper and Schindler (2006) define theory as a set of systematically interrelated concepts, definitions and propositions that are advanced to explain and predict phenomena (facts). This study will therefore be guided by theories that have been aligned to the objectives of the study.

### **2.2.1 Market Power Theory**

This theory was propagated by Joskow and Tirole in the year 2000. Theoretical models of market power theory predict that a firm's access to credit depend critically on bank market structure. The traditional market power was that concentrated banking markets are associated with less credit availability and a higher price of credit. However, empirical studies offered mixed results. Some studies established that higher concentration is associated with higher credit availability consistent with information hypothesis that less competitive banks had more incentives to invest in soft information. Other empirical studies, however, found support for the market power hypothesis that credit rationing was higher in less competitive bank markets (Cabro-Valverde *et al.*, 2005). However, an alternative view that emerged over the past decade argued that the impact of competition on credit may be related to the level of asymmetric information in the market (Dell'Ariccia & Garibaldi, 2005).

The weakness of market power theory is that it does not consider that transmission rights have a natural place in the competitive case but can have perverse effects in the presence of market power. The interactions with other market institutions depend on the microstructure of market design. The distinction between financial rights and physical rights may be less than meets the eye.

Olomi (2001) revealed that growth was another factor that constrained access to finance based on capital rationing. There was a wide controversy about the growth of MSEs in Kenya; and the survival rate which was established to be significantly low. Therefore due to doubts about the possibility of growth in MSEs, commercial banks were inclined to tightened requirements and information from MSEs to approve a loan to finance a viable investment. Such information was not furnished adequately leading to potentially viable business ideas falling into the credit rationing trap. This theory is relevant to this study since it informs product accessibility variable.

### **2.2.2 Porter's Model – Generic Strategies**

This theory was propagated by Michael Porter (1985). He states his thoughts, about competition and banks, in a recent banking conference. Porter thinks that banking sector is entering an era of strategic positioning. To succeed in the new era, companies have to deliver something unique, but most banks do what others do, what he calls, to compete. He stated that “The worst thing you can do is compete with your rival on the same things. If you do, the competition almost always becomes a destructive arms race. Strategy, is striving to be unique, which required choices.” The theory consists of three main strategies (cost leadership, differentiation and focus); while cost leadership and differentiation strategies address a whole industry, focus strategies address specific or small clusters of customers within an industry (Porters, 1985).

For cost leadership, the strategy requires a firm (bank) to serve at the lowest cost in the industry. Economies of scale, unique technology that is not available to other firms, using cost effective channels are some of the ways for being able to use the strategy. The strategic logic of cost leadership strategy requires a firm to be cost leader, not one of the several firms vying this position (Malburg, 2000). For differentiation, the aim of the strategy is to be unique in the industry and this uniqueness must be valuable for customers. The uniqueness can be one or a set of dimensions. Areas of differentiation can be: product service, marketing, sales, image, and delivery among others. The focus strategy involves concentration on particular buyer groups, geographic areas or product/market segments. By selecting a particular segment group or group of segments, company attempts to tailor its strategy to service the needs of its segment better than the competitors (Malburg, 2000).

For a deeper understanding, Michael Treacy and Fred Wieserma's “Value Disciplines Model” has been examined as the Porter's “Generic Strategies Framework” alone is not enough to understand the positioning strategies of banks in terms of CRM. Porter's focus on industry structure is a powerful means of analyzing competitive advantage in

itself, but it has been criticized for being too static in an increasingly fast changing world (Hyatt, 2001). This model is another important strategic framework for market positioning which has the following 3 positioning strategies: operational excellence; product leadership; and, customer intimacy.

The limitation of this theory is that it is very difficult for most companies to completely ignore cost, no matter how different their product offering is. Similarly, most companies will not admit that their product is essentially the same as that of others (Macmillan *et al.*, 2000). It is important for analysts to bear in mind that Porter's generic strategies should be considered as a part of a broader strategic analysis. The generic strategies only provide a good starting point for exploring the concepts of cost leadership and differentiation. Perhaps a major limitation of the generic strategies is that they may not provide relevant strategic routes in the case of fast growing markets (Lynch, 2003). It is important to conduct other analyses like PESTEL analysis to analyze how the generic strategy being employed by a company should change in accordance with external factors. Other useful analyses would include SWOT analysis, analysis of the key success factors etc.

This theory stated that CRM can be strategically embedded particularly in two of the three value disciplines (1) Operational Excellence, and (2) Customer Intimacy. With customer intimacy, companies can profit from establishing closer, more co-operative customer relationships (Hyatt, 2001). With operational excellence, firms aim to have economical, efficient processes whose resulting delivered values to customers are low prices and service convenience. This theory is relevant to this study since it informs customer relationship management variable.

### **2.2.3 Credit Rationing Theory**

This theory was propagated by Stiglitz in 1976. Credit Rationing Theory postulates that asymmetric information leads to credit rationing conditions by modifying the risk-return

distribution. This fact encouraged banks to refuse advancing capital for investments and produced divergence between capital demand and supply. Constrained accesses to finance derived from financial institutions' credit rationing behavior were not efficient because managers worked under conditions of asymmetric information. This resulted into less profitable investments being financed while more profitable investments were left out resulting into adverse selection and moral hazard risks. Therefore, asymmetric information explained asymmetric distribution of credit among firms with identical characteristics (Alfo & Trovato, 2006).

A firm accepted to invest only in riskier projects that produced higher income levels to be able to cover up debts. This resulted into the fact that the lender could not avoid selecting the riskier project and therefore accepted the risk of the firms as presented in the financing proposal. In the presence of excess demand, the lender had different maxima that corresponded to the rates with the lower adverse selection likelihood for credit rationing. Rationing conditions reduced access to financial resources not only for new investment, but also for employment creation and poverty alleviation. Another facet of credit rationing was that financial institutions managers accepted personal responsibilities for non-performing loans advanced to MSEs without government guarantees, hence agency problems existed. Managers had the responsibilities to protect the depositors' interest hence operated under credit rationing conditions (Stiglitz & Weiss, 1981).

Start-up MSEs are more likely to be affected by information asymmetry problems. Information asymmetries are more acute in new and technology-based propositions. At an early stage, information is limited and not always transparent and assets are often knowledge based exclusively associated with the founding entrepreneur. Especially with manufacturing or technology based firms, entrepreneurs were reluctant to provide full information about the opportunity because of concerns that disclosure could dispose

their ideas to the competitors. There were also some categories of owners of MSEs who faced additional problems due to lack of security, such as young entrepreneurs or those from deprived areas. In addition, there were asymmetries arising from location as well as sector. For example, owners of MSEs in rural environments faced difficulties with access to bank finance (Deakins, 2010).

Commercial banks approved loans to firms which provided collateral in addition to those firms that had established long term relationships with lenders. Due to the existence of asymmetric information, banks based their lending decisions on the amount of collateral available. Collateral acted as a screening device and reduced the risk of lending faced by commercial banks. By pledging an asset, a borrower signaled the quality of his project and his intention to repay the amount advanced. In the event of default, collateral taken by the bank placed it in a privileged position with regard to other creditors (Green, 2003).

Credit rationing theory has also been criticized for concentrating mainly on how banks allocate existing resources and disregarding the endogenous creation of money (Piegay, 1999). Wolfson (1996) has been one of the first to bring these two concepts together. Wolfson argues that banks will try to accommodate any demand for credit by adjusting their reserves accordingly. However, the borrowers' demand that banks try to meet is not the same as the borrowers demand term we have used throughout this paper. Banks will try to serve only the demand of those borrowers who are perceived to be creditworthy. The difference between this demand, which Wolfson calls 'effective' demand, and the original demand is interpreted as credit rationing. Any factor that affects the perception of banks about the future creditworthiness of borrowers could lead to a change in the effective demand curve and therefore to a change in credit rationing.

Small firms were disadvantaged in this regard, due to the fact that they lacked collateral security and also they lacked a proven credit track record. Therefore, start-up firms with new innovative products were constrained to access financing due to the fact that they were unlikely to furnish banks with securities. In addition, due to information asymmetries, commercial banks failed to see the profitability and viability of the proposals. This theory is relevant to this study since it informs collateral variable.

#### **2.2.4 Human Capital Theory**

Human Capital Theory was proposed by Schultz (1961) and developed extensively by Becker (1964). Schultz (1961) in an article entitled “Investment in Human Capital” introduces his theory of Human Capital. Schultz argues that both knowledge and skill are a form of capital, and that this capital is a product of deliberate enterprise growth. The concept of human capital implies an investment in people through education and training. Schultz compares the acquisition of knowledge and skills to acquiring the means of production. The difference in earnings between people relates to the differences in access to education and health. Schultz argues that investment in education and training leads to an increase in human productivity, which in turn leads to a positive rate of return and hence of growth of businesses. This theory emphasizes the value addition that people contribute to an organization. It regards people as assets and stresses that investments by organizations in people will generate worthwhile returns.

Human Capital Theory is associated with the resource based view of strategy developed by Barney 1991. The theory proposes that sustainable competitive advantage is attained when the firm has a human resource pool that cannot be imitated or substituted by its rival. For the employer, investments in training and developing people are a means of attracting and retaining people. These returns are expected to be improvements in performance, productivity, flexibility and the capacity to innovate that should results from enlarging the skills base and increasing levels of knowledge and competence. Schuler (2000) suggests that the general message in persuasive skills, knowledge and

competences are key factors in determining whether organizations and firms will prosper. According to Hessels and Terjesen (2010), entrepreneurial human capital refers to an individual's knowledge, skills and experiences related to entrepreneurial activity. Entrepreneurial human capital is important to entrepreneurial development.

Previous empirical research have emphasized that human capital is one of the key factors in explaining enterprise growth. Brüderl (1992) argues that greater entrepreneurial human capital enhances the productivity of the founder, which results in higher profits and, therefore, lower probability of early exit. Moreover highly educated entrepreneurs may also leverage their knowledge and the social contacts generated through the education system to acquire resources required to create their venture (Shane, 2003).

In addition to education, specific human capital attributes of entrepreneurs, such as capabilities that they can directly apply to the job in the firm, may be of special relevance in explaining enterprise growth. The specific human capital can be attained through precise trainings and previous experience. More focused business training can provide entrepreneur with a specific knowledge, compared to a formal education. This kind of specific human capital also includes knowledge of how to manage a firm, that is, entrepreneur-specific human capital. In particular, entrepreneurs with great industry-specific and entrepreneur-specific human capital are in an ideal position to seize neglected business opportunities and to take effective strategic decisions that are crucial for the success of the new firm (Collombo & Grilli, 2005).

A limitation of Human Capital Theory is that it assumes education increases productivity in the workplace, resulting in higher individual wages, but it provides little insight into the processes through which education and training are translated into higher wages. In statistical models, education and training account for about 30 percent of the variance in individual wages, which suggests Human Capital Theory leaves a significant percentage of wage variability unexplained.

A related limitation is that upper-level applications of Human Capital Theory (e.g., at the national or state levels) treat education as a relatively homogenous input. These applications assume that higher levels of educational attainment and quality will yield greater productivity and wages across the board. Such treatment of education is problematic because the process of human capital formation varies for individuals and groups. This theory is relevant to this study since it informs capacity building variable.

### **2.2.5 Resource Based View Theory**

Resource Based-View (RBV) was developed by Penrose (1959) who suggested that a company should be considered as a collection of physical and human resources bound together in an organizational structure. Furthermore, Hafeez (2007) classified resources as physical assets and intellectual assets. Physical assets (i.e. plant and equipment) are easily distinguishable due to their tangible existence, Hafeez (2007). Intellectual capital is relevant to the intangible aspect of human resource such as employee skill, knowledge and individual competencies, Hafeez (2007). Overall, the RBV addresses two key points (Gottschalk & Solli-Sæther, 2005). First, the RBV indicates a resource should provide economic value and must be currently scarce, difficult to imitate or copy, non-substitutable, and not readily accessible in factor markets to create competitive advantage (McIvor, 2009). Second, resources determine firm performance (Gottschalk & Solli-Sæther, 2005; McIvor, 2009).

Newbert (2007) categorized theoretical approaches into four types: resource heterogeneity, organizing approach, conceptual-level, and dynamic capabilities. The resource heterogeneity approach argues that a specific resource, capability or core competence controlled by a firm, affects its competitive advantage or performance. The organizing approach tends to indicate firm-level conditions in which the effective exploitation of resources and capabilities is implemented. Scholars utilizing the conceptual-level approach try to investigate if the attributes of a resource identified by Barney (1991) such as value, rareness, and inimitability, can effectively explain

performance. The dynamic capabilities approach emphasizes specific resource-level processes influencing on competitive advantage or performance, in which a specific resource interacts with a specific dynamic capability as an independent variable.

In order to properly explain the process of dynamic firm competition in today's market environment, Hunt and Morgan (1995) proposed the resource-advantage (R-A) theory of competition, combining the resource-based theory of the firm, heterogeneous demand theory, and theories of dynamic competition from Schumpeterian and evolutionary economics. Based on the resource-based theory of the firm, R-A theory views the firm as a seeker of unique, costly-to-copy productive assets to sustain above normal returns, emphasizing unique, heterogeneous resources and capabilities (Barney, 1991; Conner, 1991). Consistent with heterogeneous demand theory, R-A theory views that demand is heterogeneous as consumers. Tastes and preferences are significantly different and, thus, different products and services would be required to satisfy different group of consumers within the same industry (Alderson, 1957). While rejecting perfect competition theory from neoclassical economics, R-A theory shares the foundational premises of the dynamic, disequilibrating and evolutionary nature of competition with those of Schumpeterian and evolutionary economics.

Consequently, R-A theory defines firm competition as a constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage for some market segment(s) and, thereby, superior financial performance (Hunt, 2000; Hunt & Arnett, 2003; Hunt & Morgan, 1997). R-A theory views firms as combiners of heterogeneous, imperfectly mobile resources (Hunt, 2000). Firm resources are defined as the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s) (Hunt, 2000). This theory is applicable in this study as all organizations require resources to carry out their day to day operations. Hence, the MSEs get resources from the money lend to them by commercial banks.

Resource based view has a weakness. It lacks substantial managerial implications or ‘operational validity’ (Priem & Butler, 2001). It seems to tell managers to develop and obtain resources and develop an appropriate organization, but it is silent on how this should be done (Connor, 2002; Miller, 2003). A related critique is that the RBV invokes the ‘illusion of total control’, trivializing the property-rights issues, exaggerating the extent to which managers can control resources or predict their future value (McGuinness & Morgan, 2000). Along similar lines Lado *et al.* (2006) argue the RBV suffers a tension between descriptive and prescriptive theorizing. This theory is relevant to this study since it informs capacity building variable.

### **2.2.6 Innovation Diffusion Theory**

The theory was brought up by Rogers (1983). The theory argues that the factors which influence the diffusion of an innovation include; relative advantage (the extent to which a technology offers improvements over currently available tools), compatibility (its consistency with social practices and norms among its users), complexity (its ease of use or learning), trial ability (the opportunity to try an innovation before committing to use it), and observability (the extent to which the technology's outputs and its gains are clear to see). These elements are not mutually exclusive thus unable to predict either the extent or the rate of innovation diffusion.

By analyzing Rogers (2003) diffusion of innovation theory through the lens of the Dubin framework, some gaps in the theory emerge (Lundblad & Jennifer, 2003). Organizations are described as a social system, but within organizations, departments or teams can also serve as social systems. Yet the unique issues and elements of departments or teams within a larger organizational context are not addressed in terms of how these boundaries affect the adoption of innovation. In addition, boundaries are not addressed for instances when diffusion of innovation occurs across organizations, such as between schools of a school district or hospitals and clinics within a health care delivery system (Lundblad & Jennifer, 2003). For diffusion of innovation theory in organizations, the

only system state defined by the theory is what type of decision-making process is in place for adopting and implementing innovations, identified as optional, collective, authority, and contingent innovation-decisions. Rogers' theory does not tell us whether the system states of organizations need to be in normal operating mode in order for the theory to apply, or whether the theory holds in all types of organizations or only in certain types (Lundblad & Jennifer, 2003).

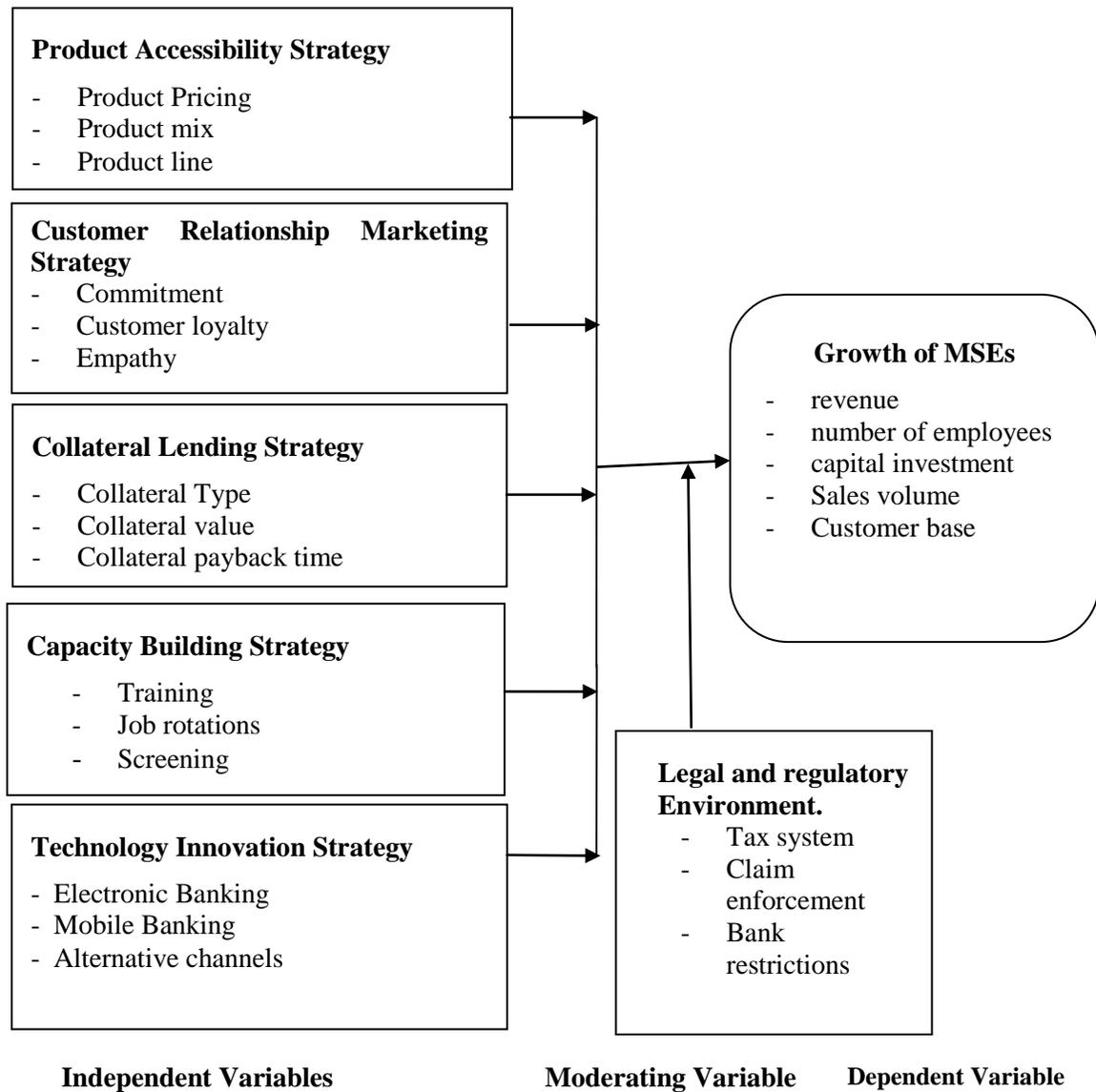
Specifically, the theory begins to describe the innovation-decision process within organizations, but not to the level of addressing whether and how the characteristics of an innovation interact to affect its adoption within organizations, or whether organizational type, size, or industry affect adoption. In addition, while there is an innovation-decision process described for individuals and within organizations, there is no description of how the variables interact when innovations are diffused across organizations (Lundblad & Jennifer, 2003). This theory is relevant to this study since it informs technological innovation variable.

### **2.3 Conceptual Framework**

A conceptual framework is a graphical or diagrammatic representation of the relationship between variables in a study (Borg, Gall & Gall, 2012). It helps the researcher to see the proposed relationship between the variables easily and quickly. A conceptual framework's proposition summarizes behavior and provides explanations and predictions for the majority number of empirical observations (Cooper & Schindler, 2011). Descriptive categories are placed in a broad structure of explicit propositions or statement of relationships between empirical properties to be tested for acceptance or rejection (Nachmias & Nachmias, 2013).

This study developed its conceptual framework based on five variables; Product accessibility, Customer relationship marketing, collateral, capacity building and technology, innovation strategies which are believed to influence the growth of MSEs under the moderating influence of legal and regulatory environment. The MSEs revenue,

number of employees, capital investment, sales volume and customer numbers was used as a measure of MSEs growth .The relationship is between these variables is shown in Figure 2.1.



**Figure 2.1: Conceptual Framework**

### **2.3.1 Product Accessibility Strategy**

Pricing of the products affects performance of a firm. Underpricing may lead to losses. High pricing affects the customers' choice of a bank. Price represents the value the customers attach to the benefits they expect from the product (Bothma, 2012). Strydom *et al.* (2012) state that, throughout most of history, price has acted as the major influence on buyer choices of outlets.

Strydom *et al.* (2012) also observe that, the price of a product has different meanings to both the consumer and the business. To the consumer, the price of a product plays various roles in marketing whereby price influences how much of the product the customers borrow, this may also coerce them to consider the price of the product relative to that of competition and price also influences whether borrowing will benefit the MSE owner/manager in terms of the features. To the business, the price rela Strydom *et al.* (2012) tes directly to the business income and profitability.

Gordon (2008) observes that the measure of importance of a business attached to pricing depends on whether the business emphasizes on 'price competition' or whether the business is a 'price taker' or 'price maker'. In "price competition", the bank emphasizes price as an issue and actively strikes to match or beat the prices of competitors.

Ghatak (2011) notes that there are several factors that affect MSMEs in India the key ones being: accessing adequate and timely financing on competitive terms, particularly longer tenure loans; accessing credit on easy terms has become difficult in the backdrop of current global financial crisis and the resultant liquidity constraints in the Indian financial sector, which has held back the growth of SMEs and impeded overall growth and development (Kinyua, 2014); the financing constraints faced by Indian SMEs are attributable to a combination of factors that include policy, legal/regulatory framework (in terms of recovery, bankruptcy and contract enforcement), institutional weaknesses (absence of good credit appraisal and risk management/ monitoring tools), and lack of

reliable credit information on SMEs; it has become difficult for lenders to be able to assess risk premiums properly, creating differences in the perceived versus real risk profiles of SMEs; access to skilled manpower, R&D facilities and marketing channels is limited; and, availability of finance at cheaper rates, skills about decision-making and good management and accounting practices, and access to modern technology (Kinyua, 2014).

The focus strategy involves concentration on particular buyer groups, geographic areas or product/market segments. By selecting a particular segment group or group of segments, company attempts to tailor its strategy to service the needs of its segment better than the competitors (Okoye & Onyekachi, 2013).

A product mix is the collection of product lines within a firm's ownership and control, for example a commercial bank's product mix might comprise the deposits, withdrawals, trust, insurance, cards and loans lending. Commercial banks' market share of loans and deposits has been in decline since the early 1980s (Boyd & Gertler, 2004). They further observe that the banks have reacted to declining shares of their most traditional business activities by increasing the production and sale of fee-based financial services. Although this shift toward fee-based activities has been more pronounced at larger institutions than at smaller banks, some bank analysts believe that fee income is the key to profitability and survival for community banks.

Commercial banks have long earned noninterest income by offering 'traditional' banking services such as checking, trust, and cash management (Omar, 2011). The recent increase in the importance of noninterest income has come from several sources. First, banks have expanded into less traditional fee-for-service products such as insurance and mutual fund sales, and (limited) investment banking activities. Second, banks now charge explicit fees for a number of financial services which traditionally had been bundled together with deposit accounts and which customers previously had paid for by accepting lower interest rates on deposits (CBK & Kenya Bankers Association,

2013). For example, retail customers might receive higher interest rates on their deposits but have to pay explicit fees for visiting bank tellers, and correspondent banking customers might now earn interest on their compensating balances but have to pay explicit fees for data processing services. Third, the growth of securitization in mortgage, credit card, and other loan markets has presented banks with opportunities to earn fee income from originating and servicing loans separate from interest income earned by holding loans on the books (CBK & Kenya Bankers Association, 2013).

Once a bank has established a lending relationship with a customer, increasing the amount of credit actually extended requires the bank to increase only its variable costs (interest expense), which reduces its operating leverage. In contrast, expanding the production of certain fee-based services can require the bank to hire additional fixed labor inputs, which increases its operating leverage. This profile has rendered earnings more volatile. The expense base has also become quite high, so that earnings could be vulnerable to revenue declines (Omar, 2011).

A product line is the sum of the related individual product items. MSEs need a steady flow of cash to keep operations running smoothly. This is due to the fact that there will be times when access to liquid funds is tight (Stephanou & Rodriguez, 2010). Therefore, commercial banks should have flexible loans, lines of credit and mortgage options that can help an MSE manage his payables, finance real estate transactions, and take advantage of expansion and growth opportunities. Commercial banks should also offer financing solutions with a variety of rates and terms to meet an MSE owner/manager specific borrowing needs (Calice, 2012).

### **2.3.2 Customer Relationship Marketing (CRM) Strategy**

Customer relationship marketing (CRM) appears to be a simple and straightforward concept, but there are many different definitions and implementations of CRM. Shahn timer (2008) defines Customer Relationship Marketing as a business strategy that

aims to understand, anticipate and manage the needs of an organisation's current and potential customers; Payne (2006) views CRM as a comprehensive approach which provides seamless integration of every area of business that touches the customer—namely marketing, sales, customer services and field support through the integration of people, process and technology; Buttle (2009) asserts that CRM is a shift from traditional marketing as it focuses on the retention of customers in addition to the acquisition of new customers.

Customer Relationship Marketing is concerned with the creation, development and enhancement of individualised customer relationships with carefully targeted customers and customer groups resulting in maximizing their total customer life-time value (Diamond & Rajan, 2008). Banks may be more efficient at collecting information due to simple economies of scale, and they can collect information once for hundreds of borrowers therefore reducing the aggregate cost of collecting information. If this information is durable (can be used as an input to the lending decision over multiple periods) and not easily replicated by competitors. A firm with close ties to commercial banks should have a lower cost of capital and greater availability of funds relative to a firm without such ties (Diamond & Rajan, 2008). Banks serves multiple purposes which include pooling assets therefore lowering transaction costs; and transform short-term liquid investments such as deposits into long-term illiquid assets such as loans. Through customer relationship marketing they economize on collecting and processing the information necessary to make investment and lending decisions.

Events based marketing is an example of focus differentiation strategy (marketing differentiation), which matches customer transactions to tailored marketing and sales pitches Priority banking is another example of focus differentiation strategy (service differentiation), which aims to give better service to more profitable customers of a bank. Today customers look for individualize service from their banks and banks highly use focus differentiation strategies to satisfy customers. Banks use "cost focus strategy" mostly for profitable customers in order to retain them by increasing their switching cost

(Gordon, 2008). It can be synthesized that, for banking sector, broad target differentiation strategies are likely to attract the potential customer, while narrow target differentiation strategies (focus strategy) are likely to retain bank's existing profitable customers and allocate the bank's resources more effectively. For example, brand, image of the bank is an important why for bank to differentiate themselves from all the other banks and attract potential customers. Launching innovative products is another why of attracting potential customers.

For an effective business relationship, Gordon (2008) asserts that there are essential ingredients which include trust and commitment; shared goals and mutual benefits; customer loyalty; and customer retention.

Trust and commitment is an important indicator when CRM strategies are potentially valuable (Fok, Chang & Lee, 2014). Trust is the willingness to rely on exchange parties in whom one has confidence in. That is, the general expectations that the word of another can be relied on while commitment is an enduring desire to maintain a valued partnership. This implies that both parties will be loyal, reliable and show stability in the relationship with one another.

Innovative manager works with his team, makes decisions by consulting his team, whilst still maintaining control of the group as well as appreciate all the feedbacks in the organization related with CRM implementation and strategies and tries to integrate people into it (Brink & Berndt, 2010). Through this interaction, the manager is able to win his team's commitment. Because CRM is the backbone of communication, manager communication and coaching skills is the important in CRM implementation any banks (Fok, Chang & Lee, 2014).

Diamond and Rajan (2008) uncovers that goal of interaction is 'to get more information directly from a customer in order to serve him in a way no competitor can who doesn't have the information' and thereby, winning his trust. The scholars further notes that,

there has to be a learning relationship between the bank employees and customers in order to turn the interaction into a collaboration in which the enterprise and customer work together to make transactions beneficial to both parties. A very important issue in the interaction is privacy. Buttle (2009) notes that individuals are willing to provide information, relationships are individualistic and they are not influenced by markets or groups of people. Imhoff, Geiger and Lofits (2010) assert that a manager/officer must be able to identify your customers individually and recognize them when interacting with them; without identification, you cannot understand who they are and what their needs are and difficult to do, can be almost impossible if channels of communication involve intermediaries.

Joyner (2012) articulates that in trust and commitment are realized through satisfaction (my basic transactional needs are met), bonding (the lending firm or the customer is acting in my best interests), personalization (the lending bank demonstrates that it understands and anticipates my needs) and empowerment (both parties feel that the relationship is on their terms and under control).

This is the objective of CRM and is more than customers' repeat purchases and being satisfied with their experiences and products or services they purchased (Harvie & Lee, 2005). Customer loyalty means that customers are committed to purchasing products and services from a specific firm and will resist the activities of competitors attempting to attract their patronage. They have a bond with the firm, and the bond is based on more than a positive feeling about the firm. Loyalty can be defined as the biased behavioral response, expressed over time by customers with respect to one supplier out of a set of suppliers, which is a function of decision making and evaluative processes resulting in brand commitment (Harvie & Lee, 2005).

The retail banking market is fiercely competitive and saturated (Joyner, 2012). Joyner (2012) further asserts that the competition is forcing banks to find new ways of satisfying customers and quick adaptation to changes. The competition among the banks

itself is also very major domestic players on the arena. Banks are aware of this fact and exploit new trends to continue their existence in the market and CRM is one of these trends that are highly adopted by many banks. The satisfaction level of customers who agree that they are treated as a valued customer is the measuring part for CRM's success in the bank. This could be attributed to the distinctive communication capabilities, which target to establish an emotional link with the customer. This is highly related with organizational learning philosophy and adaptive culture of the banks.

According to Imhoff, Geiger and Lofits (2010) Customer Empathy is important for the following reasons: acquiring new customer costs more than retaining an existing one; normally 80% of the profits of a firm are derived from 20% of the clients (Pareto principle); regular customers tend to place frequent and consistent orders thereby decreasing the costs of serving those customers; efforts to retain customers make it difficult for competitors to enter the market or to increase their share of market; improved customer retention can lead to an increased level of employee satisfaction which leads to increased employee retention and which feeds back into a greater customer longevity; long-time customers tend to be less price sensitive; and long-time customers are likely to provide free mouth-to-mouth advertising and referrals ( Imhoff, Geiger & Lofits, 2010).

The banking industry is facing an ever-increasing level of competition around the world as the dynamics of the business change (Joyner, 2012). Banks have understood the need to capitalize on the customer relationship marketing practices in order to gain advantage in the competition by exploiting their customer base, brand value and costly infrastructure investments in order to increase profits, as there's a direct link between the customer satisfaction and the profitability.

CRM is the strategy which enables the banks to analyze the customer profiles, to detect their needs and potential profitability areas and establish the necessary actions the achieve customer satisfaction, competitive advantage and thus the profitability. From the

customer's points of view, the competition brings them various choices and increases their bargaining power. Today, customers are looking for various benefits from a bank; better service, lower transaction fees, higher interest rates, a sign of prestige, new products access from different channel and etc. this scheme forces the banks to look for new ways a satisfy customers before any other bank or financial institution does (Imhoff, Geiger & Lofits, 2010).

### **2.3.3 Collateral strategy**

There are a various assets that can be used as security by commercial banks. These include equipment, accounts receivable, business inventory fixed assets like cars, houses (Wallace, 2013) and gold (Belke *et al.*, 2013). Leitner (2006) defines inside collateral as to the case where the borrowing firm pledges assets it owns, such as machines and inventories. The debt contract contains a bankruptcy clause that defines the project's assets as the inside collateral of the contract (Schafer, 2001). This clause enables the creditor to seize the firm's assets in the event of default. Elsas and Krahnén (2002) found out that inside collaterals not only define priority over future cash flows of the firm among lenders, but also providing incentives and/or valuable information for monitoring.

It has been noted that although collaterals enable borrowers to access loan, (Berger *et al.*, 2012; Elsas & Krahnén, 2002), most of the microenterprises do not possess assets of value that can be used as collaterals against loan and as such, access to finance has been an uphill task (Leitner, 2006). Financial constraint remains a major challenge facing MSEs in Kenya (Wanjohi & Mugure, 2008). Small-scale enterprises play a major role in facilitating economic growth in Kenyan economy. The greatest hindrance to their active participation is the access to affordable credit and at collateral payback time.

There is a close relationship between the restrictiveness of covenants in bank loan agreements and subsequent operating performance of borrowing firms. Realized future

operating performance is used as a proxy for the borrower's private information concerning credit quality (Cole, 2002). The restrictiveness of financial covenants may be related to future operating performance because restrictive covenants act as a signaling device that permits high quality firms (e.g., firms with positive private information about their future performance) to distinguish themselves from observationally similar but lower quality firms. We measure the restrictiveness of financial covenants by how close the covenant is set relative to the level of covenant variable at the inception of the loan (covenant tightness) and also by number of covenants in the loan contract (covenant intensity) (Demiroglu, 2010).

We also measure the restrictiveness of covenants by the number of covenants in the loan contract. Following Bradley and Roberts (2004) we define covenant intensity by the number of covenants included in the loan contract (hereafter we refer to this as the *covenant intensity index*). More specifically, the covenant intensity index equals the sum of six covenant indicators (collateral, dividend restriction, more than 2 financial covenants, asset sales sweep, equity issuance sweep, and debt issuance sweep). The index consists primarily of covenants that restrict borrower actions or provide lenders rights that are conditioned on adverse future events. This suggests that if covenant intensity serves as a signal of borrower credit quality then it is likely to provide information concerning the likelihood or cost of adverse events.

#### **2.3.4 Capacity Building strategy**

One of the key lessons learnt by International Finance Corporation (IFC) from existing and past initiatives targeting MSEs in Africa is the importance of capacity building and skills development to the long-term growth and survival of SMEs through training to enhance their management structures, policies and practices for the sustainable development of their businesses (King, 1996). Capacity building and enhancement consist of training and education, participation in decision-making, suggestion systems, incentive mechanisms and work autonomy (Temtime & Solomon, 2002).

Over the past one decade, there have been lot of changes in attitude and mind-set of the employees due to the ever-increasing challenges to survival of the organization (Cole, 2002). Availability of skilled labour is critical for firm competitiveness. Therefore, the policies of governments with regard to education and training have a great contribution to make with regard to labour force development and assembly of relevant skills. Apart from skills development however, the regulations of labour markets also have a bearing on firm competitiveness.

Kenya ranks lower than some of the countries with whom she competes for business (Ferrell & Fraedrich, 2015). In that case, Kenyan firms are not as competitive as some firms from comparable countries. In order to safeguard interest of Kenyan firms, these identified bottlenecks will need to be addressed. Employees are more willing to discuss ethics issues and to support the quality initiatives of their company if the organization communicates a commitment to ethical conduct. Indeed, those who work in an ethical organizational climate are likely to believe that they must treat all their business partners' respectfully, regardless of whether they operate inside or outside the organization. It becomes essential for them to provide the best possible value to all customers and stakeholders (Ferrell, & Fraedrich, 2015).

Employee empowerment is effective in MSEs where most frequently the customer's perception of quality stands or falls based on the action of the employee in one-on-one relationship with customer (Temtime & Solomon, 2002). In recent years, the emphases on human issues and involvement of employees have increased within the field of quality (Cruickshank, 2003). Many commentators argue that in order to be fully successful and self-sustaining, quality requires an extensive refashioning of "softer" practices (Schonberger, 1994; Dale, Boarden, & Lascelles, 1994), whose elements consist of essentially dimensions of human resource management (Wilkinson, Redman, Snape & Marchington, 1998; Dale *et. al.*, 1994). Since employees' commitment to quality has a positive effect on a firm's competitive position, an ethical work climate should have a positive effect on the financial bottom l

ine. Because the quality of customer service affects customer satisfaction, improvement in the quality of service will have a direct impact on a company's image, as well as on its ability to attract new customer loyalty (Ferrell & Fraedrich, 2015).

Investment in staff is very important for any firm. Formal commitments to long-term contracts with a fine for early termination might keep trained staff in the institution, but also raises fixed costs (Cole, 2002). Capacity effectively translates into the knowledge of what to do and how to do it, and the capability to transform that knowledge into effective decisions and actions to solve development problems for both the short and long-term. Capacity enhancement has been defined in multiple ways; its ultimate purpose is to leave behind better skilled and oriented individuals, more responsive and effective institutions, and a better policy environment for pursuing development goals (Slack & Lewis, 2002).

Capacity enhancement can be implemented by adopting a variety of strategies; including the provision of technical assistance and training, fostering of field-to-field support networks, enhancement of strategic partnerships, development of innovative programming approaches and methodologies, documentation and dissemination of best practices (Slack & Lewis, 2002). Areas of technical concentration will include best practices, maximizing the effectiveness of behavior change programming through the development and dissemination of centered approach guidelines and tools; improving capacity to implement high impact programs like adoption of quality (Slack & Lewis, 2002).

Development of a work force with positive work attitudes, including loyalty to the firm, pride in work, a focus on common organizational goals and the ability to work with employees from other departments, facilitates teamwork and flexibility (Hutton, 2000). Knowledge of common organizational goals is essential in ensuring that teams will progress in a direction that is not inconsistent with the organization's common goals (Ryan, Deane & Ellington, 2001).

Brown and Van der Wiele (1996) developed a typology that highlights different ways companies adopt quality in terms of ISO 9000 and TQM based on the motivates for pursuing quality. One approach they discovered is called converts. Firms in this group are initially skeptical about certification, do not have any quality practices like TQM and feel driven to become certified by external factors, but in the process of doing so discover beneficial outcomes.

The goal of the organization is to develop a useful quality system and employees are involved in developing the procedures and work instructions that can prepare the way for further progress down the quality maturity path. When employees are loyal to the firm and have pride in being part of it, they will be more willing to take individual risks in order to better the firm. Micro and small and enterprises put only average emphasis on the importance of employee empowerment and involvement in quality implementation (Temtime & Solomon, 2002).

### **2.3.5 Technology Innovation Strategy**

Technology is a broad concept that deals with a species' usage and knowledge of tools and crafts, and how it affects a species' ability to control and adapt to its environment. In human society, it is a consequence of science and engineering, although several technological advances predate the two concepts (Stoneman & Diederer, 1994).

The internet offers a potential competitive advantage for banks and this advantage lies in the areas of cost reduction and more satisfaction of customer needs (Bradley & Stewart, 2003; Jaru, Wachira, thanakul & Fink, 2005). Encouraging customers to use the Internet for banking transactions can result in considerable operating costs savings (Sathye, 1999). The internet is the cheapest distribution channel for standardized bank operations, such as account management and funds transfer (Polasik & Wisniewski, 2009). Customer dissatisfaction with branch banking because of long queuing and poor customer service is an important reason for the rapid movement to electronic delivery

(Karjaluoto, Mattila & Pentto, 2002). The commitment of senior management is a driving force in the adoption and exploitation of technology (Shiels, McIvor & O'Reilly, 2003).

Today, information and communication technology has become the heart of banking sector, while banking industry is the heart of every robust economy. Electronic banking system has become the main technology driven revolution in conducting financial transactions. However, banks have made huge investments in telecommunication and electronic systems, users have also been validated to accept electronic banking system as 56 useful and easy to use (Adesina & Ayo, 2010). According to Loonam and O'Loughlin (2008), ICT advancements, globalization, competition and changing social trends such as heightened customer proactiveness and increased preferences for convenience have caused intense restructuring of the banking industry.

Malhotra and Singh (2009) in their study on the impact of internet banking on bank performance and risk found out that on average internet banks are larger, more profitable and are more operationally efficient. They also found that internet banks have higher asset quality and are better managed to lower the expenses for building and equipment and that internet banks in India rely substantially on deposits. They further found out that smaller banks that adopt internet banking have been negatively impacted on profitability.

Mabrouk and Mamoghli (2010) in their study on Dynamics of Financial Innovation and Performance of Banking Firms: Context of an Emerging Banking Industry, analyzed the effect of the adoption of two types of financial innovations namely; product innovation (telephone banking and SMS banking etc) and process innovation (Magnetic strip card (debit, ATM and credit card), Automatic cash dispenser; (Automatic teller machine; Electronic payment terminal etc) on the performance of banks. Their analysis included two adoption behaviours, first mover in adoption of the financial innovation and imitator of the first movers. They found out that first mover initiative in product innovation

improves profitability while process initiative has a positive effect on profitability and efficiency. Banks that imitate are less profitable and less efficient than first movers.

Larger banking groups are better placed to go online with an internet bank. Although internet banks can pursue an aggressive strategy to position them in the market, and quickly attract new clients with high yielding deposits, this seems less important for traditional banks, which have already reached a stable position in the market. Instead, large banks can better reap the benefits of scale effects and obtain larger productivity gains via cost reductions in branches and personnel. They so receive a more stable flow of income and so obtain a strategic advantage over other banks (Nickerson & Sullivan, 2003).

### **2.3.6 Legal and Regulatory Environment**

The World Bank researchers argued that constraints that are facing the growth of MSEs are complex tax systems (Ishengoma & Kappel, 2011). Also another shortcoming in South Eastern Europe is low level of trust in the court system to enforce claims, and the need to pay significant bribes for access to basic public services. For MSEs to close the gap with their larger counterparts in the world of technology, further action by regional governments will be required. Actions need to be done in improved infrastructure, costs and IT training and in information relating to the business opportunities that e.g. e-commerce can generate (Harvie & Lee, 2005).

The case for bank regulation rests on the argument that unregulated private actions create outcomes whereby social marginal costs are greater than private marginal costs. The social marginal costs occur because a bank failure has effects throughout the economy as banks are used to make payments and as a store for savings. In contrast, the private marginal costs are borne by the shareholders and the employees of the firm, and these are likely to be smaller than the social costs. Nevertheless, bank regulation involves real resource costs of a direct nature plus the compliance costs borne by the

banks regulated banks. Further, a hidden cost of excessive regulation is a potential loss of innovation dynamism (Mathews & Thompson, 2008). To sum, the justification for any bank regulation usually stems from a market failure such as externalities, market power or asymmetry of information between buyers and sellers.

However in the case of banking, there is still no consensus on whether banks need to be regulated and, if so, how they should be regulated in terms of bank tax system. This partly reflects the lack of consensus on the nature of the market failure that makes free banking not optimal. Nonetheless, there are two justifications that are often presented for regulating banks: the risk of a systematic and the inability of depositors to monitor bank. Basel II Pillar 2 contains the “supervisory review process”, which outlines the demands on banks’ management of risks and capital and defines the roles and powers of the supervisors. To quote the text on Basel II on Pillar 2, “The supervisory review process of the framework is intended not only to ensure that banks to develop and use better risk management techniques in monitoring and managing their risks.” Thus the responsibilities of supervisors under Pillar 2 are not restricted to ensuring the mechanical compliance by the financial firms with levels of minimum required capital for credit and operational risks but also entail assessment and thus understanding of major parts of their governance and systems for internal reporting and control (BCBS, 2008).

Rated by Barth *et al.* (2013) survey, the Kenya banking sector was among the highly regulated sector in the world. Unfortunately, an increase in supervisory power was not found to be helpful in bank development, performance and stability, particularly in countries with a weak institutional environment. Barth *et al.* (2013) did not support a hurried adoption of the first two pillars of Basel II by developing countries, but rather stressed the value of first developing the legal information and incentive systems in which financial systems flourish to the benefit of everyone.

Using frontier analysis in investigating regulatory practices and banking efficiency, Parsiouras *et al.* (2006) investigated the link between bank regulations and cost and

profit efficiency. The analysis was based on a sample of 615 publicly quoted commercial banks from 74 countries covering the period 2000 – 2004. Their findings were in favour of supervisory power and market discipline mechanism, indicating that enhanced market discipline and supervisory power increase both the profit and cost efficiency. On the other hand the results on capital requirements and restrictions on bank activities provided mixed results. Using DEA frontier analysis, in other study Pasiouras (2008) in a cross country analysis, investigated the impact of several regulations on banks' technical efficiency. The study results provided evidence in favour of all three pillars of Basel II that strict capital adequacy, powerful supervision and market discipline power promote technical efficiency. However, only the latter one was significant in the estimated specifications.

Theory has shown that one of the surest ways of making certain that banks and other financial institutions are on solid foundations is via effective regulation and supervision of these institutions. However, evidence conflict as to whether strengthening the power of supervisory authority, regulating bank activities and the imposition of a minimum capital requirement actually reduces risk taking incentives in banks, increase bank efficiency and decrease risk of bank failure. Studies that investigate the impact of bank regulations, market structure, and national institutions on efficiency give evidence indicating that tighter regulation on banking services and activities lead to inefficiency and boost the cost of financial intermediation resulting to reduction in economic activity. For instance, Calem and Rob (2006), evidence showed excessive regulations, on the stability of the banking system and subsequent accompanying macroeconomic results.

In accordance with the 'activity restrictions approach', Barth *et al.* (2013) put forward various reasons for and against restricting bank activities. However, overall their results indicate that restricting bank activities may not only lower banking efficiency but also increase probability of a banking crisis. According to Barth *et al.* (2013) by intensifying regulatory restriction on bank activities many countries increased banking system

fragility. For instance, according to stimulations analysis, Argentina and Russia imposed additional restrictions on bank activities and these reforms increased the probability of a systematic crisis between 20 and 40 percent. Mexico's reduction in regulatory impediments to banks engaging in non-lending services was to have a large stabilizing effect on Mexico's banking system. On a much smaller level, Japan, the U.K. and the U.S. also reduced activities restrictions, with corresponding boosts to stability. The stimulations analysis suggested that some countries increased the likelihood of corruption of bank officials by increasing official supervisory power and reducing private monitoring. Olson 2012). K-Rep, 1999 Calem and Rob (2006) Pasiouras (2008) Parsiouras *et al.* (2006)

### **2.3.7 Growth of MSEs**

The enterprise growth is used to describe a development process of enterprise from small to big and from weak to strong (Calice, 2012). The meanings of development exceeds the meanings of growth, and it includes not only the growth process of things, but the generation stage growing out of noting before growth and the periodic process of the stage. More so, Enterprise growth is concerned with how the enterprise plans are executing the fundamental changes whether the enterprises are small or large and private or public. These changes may involve new or changed relationships to markets/customers or constituencies or different/new product and service offerings, and competitive pressures to reduce prices, increase quality, and improve services (Stephanou & Rodriguez, 2010).

The achievements in enterprise growth can range from greater cost efficiencies, improved market perceptions, fundamental changes to markets, to new product and service offerings (Stephanou & Rodriguez, 2010). There may also be significant upgrades in skills, technology, and in business strategies. The scope of enterprise growth can also range from operations activities, to business functions, to overall organization, to the enterprise as a whole. For example, IBM's business concentration moved from

computers and servers to providing integrated technology services, Honda's business from motorcycles and automobiles to commuter planes (Beck *et al.*, 2012).

Growth can be conventionally measured as an increase in capital investment, increase in revenue or cash flow turnover, increase in number of employees or increase in number of outlets, branches or sister firms (K-Rep, 1999). An enterprise growth is the development process that the enterprise keeps the tendencies of balanced and stable growth of total performance level (including output, sales volume, profit and asset gross) or keeps realizing the large enhancement of total performance and the stage spanning of development quality and level (Olson, 2012).

Enterprises with growth plans, apply for loans from banks, for activities that will create and sustain new jobs. This financial assistance supports investment in capital equipment, site and building infrastructure; enterprises to become investment ready to successfully be able to access risk capital funding; workforce development; and working capital. The most common non-financial measures adopted by the SMEs are number of employees (Olson 2012). There are two views that prevail growth in terms of number of employees. In one, employment often fluctuates from year to year owing. Revenue is discussed in terms of initial investment and current investment.

## **2.4 Empirical Literature Reviewed**

This section presents a review of empirical studies conducted in the past on bank product accessibility, bank customer relationship marketing (CRM), collateral, capacity building, technology lending strategies and legal and regulatory environment and growth of MSEs. Various researchers have conducted a number of studies concerning various aspects of commercial banks lending strategies and MSEs access to capital. It is important to review some of those studies at this particular point to place the present study in its rightful context. This section focused on who undertook the study, when the

study was done, where the study was undertaken, the findings and ultimately the gaps that were identified.

#### **2.4.1 Product Accessibility Strategy**

Okoye and Onyekachi (2013) undertook a study on the impact of bank lending rate on the performance of Nigerian Deposit Taking Money Banks between 2000 and 2010. It specifically determined the effects of lending rate and monetary policy rate on the performance of Nigerian Deposit Money Banks and analyzed how bank lending rate policy affects the performance of Nigerian deposit money banks. The study utilized secondary data econometrics in a regression, where time-series and quantitative design were combined and estimated.

The result confirmed that the lending rate and monetary policy rate has significant and positive effects on the performance of Nigerian deposit money banks. The implication of these is that lending rate and monetary policy rate are true parameter of measuring bank performance. The study recommended that the government should adopt policies that will help Nigerian Deposit Money Banks to improve on their performance. It also recommended that there is need to strengthen bank lending rate policy through effective and efficient regulation and supervisory framework.

Kinyua (2014) researching on factors affecting the performance of small and medium enterprises in the Jua Kali Sector in Nakuru town, Kenya with objectives to investigate the role of finance, management skills, macro-environment factors and infrastructure on performance of small and medium-sized enterprises in the Jua Kali sector in Nakuru town. The findings indicated that; access to finance had the potential to positively affect performance of SMEs, management skills were found to positively and significantly affect performance of SMEs, macro environment factors were found to significantly affect performance and infrastructure did not significantly affect performance of SMEs in the study area. The study results also indicated that as number of years in operations

increased the performance in SMEs increased. The study recommended that banks should improve access to finance through offering better lending terms and conditions and collateral requirements; focus on acquiring appropriate management skills such as financial, marketing and entrepreneurial skills and effectively strengthen the macro environment in order to increase SMEs performance.

#### **2.4.2 Customer Relationship Marketing Strategy**

Fok, Chang and Lee (2014) conducted a study on bank relationships and their effects on firm performance around the Asian financial crisis with a focus on Taiwan between 2012-13. The authors treated bank relationships as an exogenous variable to test the influence of a close bank-borrower relationship on credit availability and the terms of lending. The study established that the impact of the banking arrangement on firm performance is being looked at as a two-way correspondence between the number of banking relationships and firm profitability, examining the determinants of both variables. The descriptive statistics of the various data sets show that small firms tend to maintain fewer banking relationships than large firms. However, there is a large variation in the average number of bank relationships which cannot only be explained by the size of firms within a country, but also by differences in legal protection of creditors and the enforcement of contracts.

Ozkan and Ozkan (2011) maintain that building relationships with financial institutions improves firms' ability to access external financing. This suggests that firms with a higher proportion of bank debt will be able to access external financing more easily. Establishing MFI relationships with MSEs reduces information asymmetry and agency problems, since valuable information about MSE quality can be disclosed. Thus, establishing stable links with financial institutions can improve both the availability and the conditions of financing. Various works have empirically demonstrated that keeping banking relationships can be beneficial to firms, insofar as contact between the MFI and MSE can improve the availability of funds and lower their costs.

In a study by Beckmann and Stix (2015). about banks and MSEs in emerging market, it was established that there is a lot of uncertainty about the risks involved in lending. The study used a unique unbalanced panel of 700 short-term loans made to MSEs in Slovakia between January 2005 and June 2010. It was found out that of the loans granted, on average 6.0 per cent of the firms defaulted. This affected the relationship between the banks and MSEs hence deflecting the possibilities of accessing finances in future because the terms would change and become more stringent against the borrowers for fear of more defaults.

Kinyua (2014) agree with Beckmann and Stix (2015). that a good relationship between MSEs and MFIs helps them to easily access finances and information. They add on that capacity building of staff for preparedness is perhaps the most important task. MFIs are unique in their way of operation as the staff has rapport with even the most remote clients. Their argument was that in the event of an emergency, MFI personals are often the first to reach affected communities. Hence they should be trained on disaster risk reduction before disaster strikes as to their responsibilities and the extent of their decision making authority. Client preparedness is another area where any MFI can play a constructive role in strengthening their relationship with MSEs because they serve the marginalized groups, their clients often live in highly vulnerable physical locations. Encouraging clients through education on disaster risk reduction and designing loan products to develop disaster-proofing shelters.

### **2.4.3 Collateral Strategy**

Collateral is typically an obligatory condition for granting a loan. However, small businesses often have difficulty in providing sufficient and good-quality collateral to banks. The banks typically agree to accept collateral in the following form: real property, products or valuable assets. They are less inclined to accept the balance of a checking account, finished commodity, guarantees of another company or a bank and securities as collateral (Suder, 2009).

Demirogiu and Christopher (2010) undertook a study in Florida, USA between 2008-09 to examine the relationship between covenant tightness and the broad performance. Overall, the study found no systematic relationship between covenant tightness and declines in overall performance. In particular, no significant difference in the frequency of credit rating downgrades or in changes in-scores between the firms in the loose and tight covenant samples were established. However, they found that the frequency of a delisting in the three years following the loan agreement is higher for firms in the tight covenant sample.

The Bankers Roundtable (2010) conducted a survey directed towards its members in the 125 largest banking companies in the U.S. The focus of the survey was broad, inquiring about members' general experiences with environmental liability and the impact on lending policies and fiduciary policies. In general, the survey found that concerns regarding environmental liability continue to affect lending policies and fiduciary practices across the country. More specifically, 100 percent of banks responding indicated that they had environmental policies in place to guide their lending practices.

The survey also showed that, after environmental site assessments and screening criteria, contractual covenants were the tool most widely used by the respondents for managing and controlling environmental risk. Fifty-five percent of the respondents stated that they included specific environmental covenants and conditions within their basic contractual agreements that directly assessed a borrower's environmental performance and activities. However, there is need to critically examine such an option vis-à-vis the capacity of firms to implement environmental management policies. Otherwise such a covenant may be a deterrent in accessing bank loans for micro and small enterprises which may lack the capacity to implement sound environmental policies. In any case, one needs to ask the question; how many MSEs are able to go green sustainably?

Organization for Economic Co-operation and Development (OECD, 2011) indicates that MFIs are the main source of external finance for MSEs. Therefore, it is essential that the

banking system be prepared to extend credit to the MSE sector. However, there are number of rigidities of a macroeconomic, institutional and regulatory nature that may bias the entire banking system against lending to MSEs. Macroeconomic policies may lead to excess demand for available domestic savings, while government policy may favour industrialization and/or import substitution, which effectively gives large domestic firms privileged access to finance. On the contrary, these terms frustrate the MSE sector firm accessing credit because all the efforts and policies favour large borrowers at the cost of the small operators.

In a study by Chowdhury (2012), it was argued that local market competition among MFIs in Bangladesh is driven by credit terms especially in terms of loan amounts, interest rates and repayment time and that some borrowers and MFIs opt for a package of low interest rates tied with low amount of loan disbursed. Some other borrowers and MFIs settle for a package of high interest rates tied with high amount of loan disbursed. However, when assessing comparatively small and straightforward business credit applications, MFIs may largely rely on standardized credit scoring techniques (quantifying such things as the characteristics, assets, and cash flows of businesses/owners). This coupled with the terms and conditions that are perceived to protect their loans at times appear as burdens to the borrowers and because MSEs do not have adequate or no collateral as indicated by Katto (2008) their performance ends up being affected.

Mwania (2011) concluded that infant businesses need support in their early years when their motivation is high and innovation is low and that collateral requirements at KCB Ruiru should be made a bit flexible and repayment period should be increased to at least a year because MSEs only manage to access a small amount of loan due to short repayment periods. 53% of BBL customers interviewed felt the process was cumbersome. Some felt that after availing all the required documentation, the turnaround time was not acceptable. 52% of the entrepreneurs utilized the loan advanced 100% for working capital and their revenue increased from previous thus boosting the business

performance. 11.9% diverted the amounts advanced and they confessed as having difficulties in meeting their repayments on time. They also saw their sales turnover decrease from the previous due to the increase in operating costs brought about by the interest rates on the loans advanced. The study also found a positive correlation between BBL and entrepreneurs business performance and concluded that young businesses require more support financially to supplement their working capital. The study recommended that Kenya Commercial bank had a few issues to address such as lending procedures, collateral requirements and repayment period to ensure better customer satisfaction and that further research should be done on entrepreneur's competencies, competition, government regulations etc.

According to a study done by Atieno (2001), Commercial banks and other formal institutions fail to cater for the credit needs of smallholders, however, mainly due to their lending terms and conditions. It is generally the rules and regulations of the formal financial institutions that have created the myth that the poor are not bankable, and since they can't afford the required collateral, they are considered un-credit worthy. The results showed that the limited use of credit reflects lack of supply, from the rationing behavior of both formal and informal lending institutions. The study concluded that given the established network of formal credit institutions, improving lending terms and conditions in favour of small-scale enterprises would provide an important avenue for facilitating their access to credit.

Carolyne (2013) conducted a study on Factors influencing credit rationing by commercial banks in Kenya. The target population from which the sample was drawn is Commercial banks within Nairobi region. A representative sample was drawn using the Proportionate Stratified random sampling. Both primary and secondary data was used in the study. Data collected was validated, edited and coded then analyzed using descriptive statistics with the aid of Statistical Package for Social Sciences (SPSS). Data presentation methods used were tables, charts and diagrams. The study established that the key factors that influenced credit rationing by commercial banks in Kenya are loan

characteristics, firm characteristics and observable characteristics. Some of the recommendations that the study made were that that it is beneficial for banks to ration credit but it should be done with professionalism and with no biasness, the factors that influence rationing of credit should be evaluated thoroughly by the person in charge and given priority before issuing credit. And the Banks should find out more about credit rationing and how it can contribute to their business growth.

#### **2.4.4 Capacity Building Strategy**

Eshetu and Zeleke (2012) conducted a longitudinal study to assess the impact of influential factors that affect the long-term survival and viability of small enterprises by using a random sample of 500 MMSEs from 5 major cities in Ethiopia. According to this research, that lasted from 2006-2011, the factors that affect the long term survival of MMSEs in Ethiopia are found to be adequacy of finance, level of education, level of managerial skills, level of technical skills, and ability to convert part of their profit to investment.

The findings of the study revealed that businesses that failed, during the study period were characterized by inadequate finance (61%), low level of education (55%), poor managerial skills (54%), shortage of technical skills (49%), and inability to convert part of their profit to investment (46%). The study further indicated that participation in social capital and networking schemes such as *Iqub* was critically helpful for long-term survival of the enterprises. Businesses that did not participate in *Iqub* schemes regularly were found to be 3.25 times more likely to fail in comparison with businesses that did, according to the study.

Kuzilwa (2012) examined the role of credit in generating entrepreneurial activities. He used qualitative case studies with a sample survey of businesses that gained access to credit from a Tanzanian government financial source. The findings reveal that the output of enterprises increased following the access to the credit. It was further observed that

the enterprises whose owners received business training and advice, performed better than those who did not receive training. He recommended that an environment should be created where informal and quasi-informal financial institutions can continue to be easily accessed by micro and small businesses.

A study by Mwanja (2011) on the effect of Biashara Boresha Loan (BBL) on Performance of Micro and Small enterprises owned by Kenya Commercial Bank (KCB) Ruiru branch customers with objectives to review the lending procedures of Biashara Boresha loan, to assess the effect of BBL on MSEs performance and to find out the challenges faced in lending to MSEs, found out that besides BBL, there are other influences believed to have an effect on business performance. It also found no conclusive results on the relationship between entrepreneurs' level of education and business performance. Of the 51% respondents who received training in their areas of business, 49.5% reported that their businesses were doing well, concluding that relevant training can produce positive results in the running of businesses.

According to a study done by Wagemba (2006), which sought to identify critical factors that influence access to bank credit by MSEs is indicated that entrepreneurial orientation is a direct determinant of access to credit by MSEs. Further, knowledge-based resources gained from maturation (age), training, previous startup experience and vicariously through entrepreneurial parents were found to be associated with greater levels of entrepreneurial orientation. Overall, these findings support the literature that underscores the primacy of entrepreneurial factors, over operating environment in facilitating small enterprises' access to bank credit.

Beck and Demirguc-Kunt (2006) argued that banks that lend to SMEs recognize that the competence and experience of their staff are crucial in competing effectively for SMEs' business and for managing the credit risk inherent in SME banking. For this reason, some banks have embarked on major training programmes and addressed their efforts to professionalize SME account managers. In fact, bank staff dealing with SMEs need a

sound knowledge of entrepreneurs and their businesses in order to develop an affinity with their clients and offer them solutions adapted to their needs. The actions taken by banks include, a better selection of new account managers for SMEs. They look for candidates with an adequate background and experience in small business or with entrepreneurial skills, who can be flexible and sensitive to SMEs issues.

#### **2.4.5 Technology innovation Strategy**

A cross country survey of the impact of ICT on MSE production and innovativeness conducted by (Esiebugie, Ekeh & Diaka, 2016). in eight Sub-Saharan countries found that in most African countries, small and medium enterprise (MSEs) account for a significant share of production and employment and is therefore directly connected to poverty alleviation. MSEs were found to be challenged by the globalization of production and the shift in the importance of various determinants of competitiveness. ICTs were found to be necessary in improving efficiency and increasing productivity in different ways including, improving efficiency in resource allocation, reducing transaction costs, and technical improvement, leading to the outward shifting of the production function.

Another study by Mahmood *et al.* (2010) on the challenges facing MSEs in South Africa found that MSEs in that country faces similar problems as in other African countries with respect to poor management practices, limited access to technology, and limited access to credit facilities education, unemployment, ICT infrastructure and role of the MSE sector leading to slow pace of internet services. According to this study, the main challenge facing MSEs is how to move them to go beyond these first few basic steps, and to eventually move towards integrating ICTs in more sophisticated business applications. This would be a major step for MSEs, especially in developing countries, because these would require management and technical skills and investments (as well as organizational changes) that they may not be able to afford or for which they may not have ready access.

Malhotra and Singh (2009) in their study on the impact of internet banking on bank performance and risk found out that on average internet banks are larger, more profitable and are more operationally efficient. They also found that internet banks have higher asset quality and are better managed to lower the expenses for building and equipment and that internet banks in India rely substantially on deposits. They further found out that smaller banks that adopt internet banking have been negatively impacted on profitability.

Hernando and Nieto (2006) while studying whether internet delivery channels change bank's performance, found out that adoption of internet as a delivery channel involved gradual reduction in overhead expenses (particularly, staff, marketing and IT) which translates to an improvement in banks' profitability. The study also indicates that internet is used as a complement to, rather than a substitute for, physical branches. The profitability gains associated with the adoption of a transactional web site are mainly explained by a significant reduction in overhead expenses. This effect is gradual, becoming significant eighteen months after adoption and reaching a maximum generally two and a half years after adoption. Their study showed that multichannel banks present statistically significant evidence of efficiency gains, that is, reduction in general expenses per unit of output. Banks would further profit from cost reductions to the extent that the Internet delivery channel functions as a substitute for traditional distribution channels. Their analysis shows that this effect varies over time and explains, in terms of cost and income structure, the main drivers of better performance.

Berger and Udell (2011) conducted a study on Bank size, lending technologies, and small business finance. results suggest that large banks do not have equal advantages in all of these hard lending technologies and these advantages are not all increasing monotonically in firm size, contrary to the predictions of the current paradigm. We also analyze lines of credit without fixed-asset collateral to focus on relationship lending. We confirm that small banks have a comparative advantage in relationship lending, but this appears to be strongest for lending to the largest firms.

Ngumi (2014) conducted a study on the effect of bank innovations on financial performance of commercial banks in Kenya. The findings revealed that bank innovations had statistically significant influence on income, return on assets, profitability and customer deposits of commercial banks in Kenya and tests for significance also showed that the influence was statistically significant. The findings also revealed that mobile phones had a higher moderating effect than internet services on the bank innovations when influencing financial performance of commercial banks in Kenya. Based on the findings of the study, it can be concluded that bank innovations influence financial performance of commercial banks in Kenya positively.

Onay, Ozsoz and Helvacioğlu (2008) in their study on the impact of internet banking on bank profitability in Turkey analyzed the effects of online banking activities on the performance of the banking sector using panel data from 14 commercial and savings banks in the country that had adopted internet banking between 1996 and 2005. They estimated the effect of online banking activities on the three common determinants of bank performance, namely the return on assets, return on equity and return on the financial intermediation margin. They found out that besides investment in e-banking being a gradual process, internet banking variable has had a positive effect on the performance of the banking system in Turkey in terms of returns to equity only with a lag of two years.

#### **2.4.6 Legal and Regulatory Environment**

Barth *et al.* (2013) in a cross country survey examined the relationship between specific regulatory and supervisory practices with banking-sector's development, efficiency and fragility using a new data base regulations and supervision in 107 countries including Kenya. Their findings raised a cautionary flag regarding Basel II pillars 1 and 2, as they found no statistically significant relationship between capital stringency, official supervisory power and bank performance. They argued that countries reduced the

likelihood of corruption in lending by adjusting bank regulation to facilitate private monitoring of banks.

The authors further examined if the changes in bank regulation contribute positively to financial sector development and to the stability of banking systems around the world. They estimated the relationships between bank regulations and banking system fragility, development, efficiency and corruption in lending. Their finding showed intensified restrictions on non-lending activities, hurts banking system stability, lowers bank development and reduces the efficiency of financial intermediation, or reduced corruption in lending. An increase in supervisory power was not found to be helpful in bank development, performance and stability particularly in countries with a weak institutional environment and actually was associated with increased corruption in the lending process.

A study by Payne (2010) on the effect of banks credit policies on customer borrowing conducted in Canada between 2008-09 established that banks have credit policies that guide them in the process of awarding credit. It was further established that credit control policy is the general guideline governing the process of giving credit to bank customers. According to the researcher, the policy sets the rules on who should access credit, when and why one should obtain the credit including repayment arrangements and necessary collaterals. The method of assessment and evaluation of risk of each prospective applicant were found to be part of a credit control policy.

According to Simonson *et al.* (2009), sound credit policy would help improve prudential oversight of asset quality, establish a set of minimum standards, and to apply a common language and methodology (assessment of risk, pricing, documentation, securities, authorization, and ethics), for measurement and reporting of non-performing assets, loan classification and provisioning. The credit policy should set out the bank's lending philosophy and specific procedures and means of monitoring the lending activity. The guiding principle in credit appraisal is to ensure that only those borrowers who require

credit and are able to meet repayment obligations can access credit. Lenders may refuse to make loans even though borrowers are willing to pay a higher interest rate, or, make loans but restrict the size of loans to less than the borrowers would like to borrow (Mishkin, 2010). Financial institutions engage in the second form of credit rationing to reduce their risks.

Benedikt, Marsh, Vall and Wagner (2013), examined credit risk management policies for ten banks in the United States using a multivariate model and found that banks that adopt advanced credit risk management techniques (proxies by the issuance of at least one collateralized loan obligation) experience a permanent increase in their target loan level of around 50%. Partial adjustment to this target, however, means that the impact on actual loan levels is spread over several years. The findings confirm the general efficiency-enhancing implications of new risk management techniques in a world with frictions suggested in the theoretical literature.

The Macaulay (2009) investigated the adoption of credit risk management best practices in the United States and reported that over 90% of the banks in that country have adopted the best practices. Effective credit risk management has gained an increased focus in recent years, largely due to the fact that inadequate credit risk policies are still the main source of serious problems within the banking industry. The chief goal of an effective credit risk management policy must be to maximize a bank's risk adjusted rate of return by maintaining credit exposure within acceptable limits. Moreover, banks need to manage credit risk in the entire portfolio as well as the risk in individual credits transactions.

Sudhir *et al.* (2010) on Credit risk management provide directional guidelines to the banking sector that will improve the risk management culture, establish minimum standards for segregation of duties and responsibilities, and assist in the ongoing improvement of the banking sector in Bangladesh. Credit risk management is of utmost importance to Banks, and as such, policies and procedures should be endorsed and

strictly enforced by the CEO and the board of the Bank. Numerous approaches have been developed for incorporating risk into decision-making process by lending organizations. They range from relatively simple methods, such as the use of subjective or informal approaches, to fairly complex ones such as the use of computerized simulation models.

According to Saunders (2011), banks need to gather adequate information about potential customers to be able to calibrate the credit risk exposure. The information gathered will guide the bank in assessing the probability of borrower default and price the loan accordingly. Much of this information is gathered during loan documentation. The bank should however go beyond information provided by the borrower and seek additional information from third parties like credit rating agencies and credit reference bureaus.

Credit extended to borrowers may be at the risk of default such that whereas banks extend credit on the understanding that borrowers will repay their loans, some borrowers usually default and as a result, banks income decrease due to the need to provision for the loans. Where commercial banks do not have an indication of what proportion of their borrowers will default, earnings will vary thus exposing the banks to an additional risk of variability of their profits. Every financial institution bears a degree of risk when the institution lends to business and consumers and hence experiences some loan losses when certain borrowers fail to repay their loans as agreed. Principally, the credit risk of a bank is the possibility of loss arising from non-repayment of interest and the principle, or both, or non-realization of securities on the loans.

Risks exposed to commercial banks threaten a crisis not only in the banks but to the financial market as a whole and credit risk is one of the threats to soundness of commercial banks. To minimize credit risk, banks are encouraged to use the “know your customer” principle as expounded by the Basel Committee on Banking Supervision (Kane & Rice, 2008). Subjective decision-making by the management of banks may

lead to extending credit to business enterprises they own or with which they are affiliated, to personal friends, to persons with a reputation for non-financial acumen or to meet a personal agenda, such as cultivating special relationship with celebrities or well-connected individuals. A solution to this may be the use of tested lending techniques and especially quantitative ones, which filter out subjectivity (Griffith & Persuad, 2012).

Bridgeforce (2008) did a study on comprehensive Management of Profitability and Credit Risk. The researcher basically analyzed the documents to arrive at the conclusion that managing credit relationships that are based upon all available customer information and consistent throughout the credit life cycle greatly increases profitability and reduces surprises. It also requires a greater investment of management focus, analytical skills, and technology. Olufunso, Herbst and Lombard (2010) did an investigation into the impact of the usage of debt on the profitability of micro and small enterprises in the Buffalo City Municipality, South Africa and concluded that the usage of debt has a significantly negative impact on the profitability of MSEs. The study however did not link debt collection practices and profitability of commercial banks.

Rocha, Farazi, Khouri and Pearce (2011) conducted a study on the status of bank lending to SMES in the Middle East and North Africa region: the results of a joint survey of the Union of Arab Bank and the World Bank. Governments play a critical role in promoting an enabling environment in which private banks can fulfill their SME finance targets prudently and responsibly. In the interim, state banks would be well advised to place a higher emphasis on risk management, so that the greater risks they are currently taking in extending SME finance arise from well informed decisions and are better monitored. Likewise, credit guarantee schemes can play an important role and can even be expanded in some countries, but most schemes can be improved in design and should start conducting comprehensive reviews that include evaluations of impact.

According to Kigguddu (2010) the current constitutional framework and the new Micro and Small Enterprise Act 2012 (MSE Act 2012) provide a window of opportunity

through which the evolution of SMEs can be realized through the devolution framework. However, the impact of devolution of SMEs development depends on the architecture of the regulatory and institutional framework inclined to support SMEs in an economy.

## **2.5 Critique of Existing Literature Reviewed**

A review of empirical studies conducted in the past on bank product accessibility, bank customer relationship marketing (CRM), collateral, capacity building, technology and legal and regulatory environment and growth of MSEs has been conducted in the present study. Analysis of what other researchers have done in the area of commercial banks' lending strategies and the MSEs' access to capital has revealed weaknesses and gaps in the existing literature which should be outlined to assist present and future research in the area of study.

Firstly, most of the literature reviewed herein are foreign and may not accurately depict the local context on bank product accessibility, bank customer relationship marketing (CRM), collateral, capacity building, technology and legal and regulatory environment and growth of MSEs (La Torre *et al.*, 2010; Stephanou & Rodriguez, 2008; Rocha *et al.*, 2011). For example, out of the over 70 sources of information which have been dully acknowledged in this section, only about 10 are from studies conducted regionally or locally (Kombo, 2010; Ndung'u, 2010). This informational asymmetry may result in the validation or otherwise of data that may be in variance with the actual situation in the less studied areas. Most of the literature reviewed herein arises from studies conducted in the USA and other western countries creating a gap that needs to filled.

For example, literature reviewed from Simonson *et al.* (2009) indicate that sound credit policy would help improve prudential oversight of asset quality, establish a set of minimum standards, and to apply a common language and methodology (assessment of risk, pricing, documentation, securities, authorization, and ethics), for measurement and reporting of non-performing assets, loan classification and provisioning (Barth *et al.*,

2013) . However, it is not known whether any other study has proved beyond any reasonable doubt that such policies can apply across board, for example, in a country like Zimbabwe or Somalia with different dynamics of policy and regulatory control (Payne, 2010).

Literature on banks tying their lending policies to environmental regulatory frameworks as in the case of US banks, may be at variance with the regional and local context (Mishkin, 2010). For example, how many MSEs are able to sustainably go green to attract funding from banks in third world countries? The answer may be very few if not close to nil in some countries. That means such literature are locational biased and may not objectively inform the present study.

Again, most of the literature found on the topic of research arises from studies which were conducted in the late 2000s. Some of them are more than five years old and may not accurately depict current industry trends in the banking sector (Suder, 2009; Katto, 2008; Atieno, 2001; Hernando & Nieto, 2006). A lot of changes have since taken place in the banking and MSE sectors in the recent past. Positions have shifted, dynamics have changed and the regulatory and policy environment is different in most countries from what they were ten years ago. That means that some of this information may be irrelevant in the wake of the fluidity and dynamism in the banking sector. Stale information is as dangerous as no information because it can steer the study in the wrong direction.

## **2.6 Summary**

The above chapter reviewed the various theories that explain the independent and dependent variables. These theories have been used to lay the ground for better understanding of the problem under investigation and have been aligned to independent, dependent and intervening variables. The reviewed theories were critiqued for relevance to specific variables. The chapter also explored the conceptualization of the independent

and the dependent variables by analyzing the relationships between the two set of variables. In addition, an empirical review was conducted where past studies both global and local were reviewed in line with the following criteria, title, scope, methodology resulting into a critique. The critiques provided the research gaps which the present study seeks to fill.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter provides details about the methodology adopted to assist in achieving the research objectives. According to Newing (2011), a research methodology is concerned with what is actually done in order to address the specific objectives and research questions developed. This chapter covered research design, target population, sampling frame, sample size determination, sampling technique, data collection instruments, procedures and analysis as well as pilot testing. It also discussed type of data collected, data collection techniques and methods of data analysis. The statistical measurement model used in the analysis and the tests for hypotheses were also given.

#### **3.2 The Research Philosophy**

According to Remenyi, Williams, Money and Swartz (2005), the research methodology and philosophy must be stated in order to convince others of the credibility of the research. Based on the above concept and nature of different research philosophies, the study will opt for a positivistic epistemology. According to Bryman and Bell (2007), positivism is an epistemological position which studies social reality and beyond by employing natural sciences' methods. The principles of positivism include; an observable social reality is preferred to be studied and only observable phenomena produce credible data (Saunders, Lewis & Thornhill, 2009; Remenyi *et al.*, 2005).

According to Guba (1990), paradigms are belief systems or theories that guide as we make decisions and carry out research. The different approaches to research are guided disciplines that are governed by paradigms such as; the paradigm of positivism, post positivism, critical theory and constructivism.

This guide on how decisions are made during research. Consequently, the strategies for this research were discussed with the supervisors and settled on experimental testing characteristic of positivism belief/philosophy used to guide in the explanations of the variables under study. Under the positivistic philosophical approach, the study set up the hypotheses on the basis of the existing relevant theories. Then these hypotheses were tested and confirmed or disproved by use of quantitative and statistical methods.

### **3.3 Research Design**

According to Mathew *et al.* (2012) research design is a set of decision that makes up the master plan specifying the methods and procedures for collecting and analyzing the needed information. The main aim of descriptive research is to provide an accurate and valid representation of (encapsulate) the factors or variables that pertain/are relevant to the research question.

This study employed descriptive survey research design. Borg and Gall (2013) observes that descriptive design is more rigid, helps to well understand the problem, its tests specific hypotheses, is formal and structured, is best with large representative samples and provides a snapshot of the market environment. The study explored the relationship between commercial banks' lending strategies and growth of MSEs in Kenya.

The study used descriptive research design in nature since the study intended to gather quantitative data. Descriptive deemed appropriate for this study because it enhances uniform data collection and comparison across many respondents. Further, the design offered the researcher an opportunity to capture population characteristics and test hypotheses quantitatively. This was consistent with Olusola *et al.* (2013) who explained that a descriptive design is described as a method of collecting information by interviewing or administering a questionnaire to a sample of individuals and is appropriate as it answers research questions who, what, where, when and how is the problem. Whenever there is a problem, it is important to completely understand it before

solving it and the use of descriptive research design to address such a problem is recommended. Some of the studies that used descriptive studies include Olusola *et al.* (2013), Johnson (2006) and Saunders *et al.* (2009). The design is appropriate where the overall objective is to establish whether significant association among variables exists at same time (Mugenda & Mugenda, 2010). The research used the questionnaire and interview guide to collect primary data.

### **3.4 The Population**

A population refers to an entire group of objects/individuals having common observable characteristics (cooper & schindler, 2014). It is also a complete set of units to be studied (Kothari, 2014). According to Mugenda (2011), population often tends to have a wide geographical spread and in most cases the researcher is not necessarily interested in the total or universal population. The population of interest to the study comprised of all individuals, objects or things that can reasonably be generalized in research findings (Mugenda, 2011). The population was all registered MSEs and the commercial banks in Kenya.

The population for this study comprised of owner-managers of all registered MSEs in Kenya estimated to be 2,571,293 (KNBS, 2016) and chief credit officers from the 44 commercial banks operating in the country (CBK, 2015).

The target population was 6 chief credit officers of commercial banks which control 70% lending in MSEs in Kenya and 3,460 registered MSEs who are account holders in these commercial banks in Nairobi and Kiambu County. These banks are; Kenya commercial bank (KCB), Cooperative Bank, Equity bank, Family Bank, Bank of Africa and Sidian Bank, (RoK, 2016).

### **3.5 Sampling Frame**

This is a set of source materials from which the sample is selected (Mugenda & Mugenda, 2010). The definition also encompasses the purpose of sampling frames, which is to provide a means for choosing the particular members of the target population that are to be interviewed in the survey (Bailey, 2008). The sampling frame of this survey was six chief credit officers of commercial banks which control 70% of lending to MSEs and a list of owner-managers of all registered MSEs in the country who are account holders in these banks. Interview guide administered to the 6 chief credit officers of these commercial banks was used for identification of MSEs.

### **3.6 Sample Size and Sampling Technique**

The study used stratified random sampling method to select the owner/managers of the registered MSEs from Nairobi and Kiambu Counties who are account holders in the six commercial banks which control 70% MSEs lending in Kenya. Kombo and Tromp (2014) advocates for the use of stratified/cluster random sampling whenever a population is dispersed across a wide geographical region. This method of sampling allows for the division of the study population into clusters (usually counties, regions, provinces or other boundaries) and random sampling of everyone in those clusters. The MSEs were categorized into manufacturing, trade, services and others.

Stratified random sampling was used to group respondents into four strata of owner-managers of MSEs in manufacturing, trading, services and others. Within each of the four strata, simple random sampling were done to identify individual respondents who were to be issued with a questionnaire. Stratified random sampling was used because it ensures a greater statistical efficiency, and reduce sampling error. Kothari (2014) supports random sampling as it satisfies the law of statistical regularity. If a sample is chosen at random, on average it has the same characteristics and composition as the population.

Nairobi County had the largest number of registered MSEs in the country at about 2,340 (Nairobi County Licensing Office, 2015) while Kiambu County has the second largest number of MSEs at about 1,120 (Kiambu County Licensing Office, 2015). Nairobi and Kiambu Counties combined are home to about 50% or half of the entire MSEs Population in the country (MoI, 2013). Further, Nairobi is a metropolitan county where one can easily find nearly all the different types of MSEs Save for a few like agro-based MSEs which can be accessed from a rural county like Kiambu. The results from the two counties are, therefore, fairly representative and was generalized to represent the entire MSEs Population in Kenya.

The study used 10% of the target population to obtain the sample size. This is according to Mugenda and Mugenda (2003) and Kothari (2004) who argued that a 10% or more of a target population is adequate for a descriptive study. In this study, 346 Owner managers of MSEs Banking with the 6 commercial banks in 4 Sub counties Nairobi and 2 sub counties in Kiambu were subjected to the research instruments.

**Table 3.1: Combined Sampling Table**

<b>Bank</b>	<b>County</b>	<b>Sub-county</b>	<b>Target Population</b>	<b>10% (Sample)</b>
KCB	Nairobi	CBD	174	18
	Nairobi	Kamukunji	137	14
	Nairobi	Starehe	121	12
	Nairobi	Makadara	89	9
	Kiambu	Kiambu	123	12
	Kiambu	Thika	129	13
	<b>Total</b>		<b>773</b>	<b>78</b>
Equity	Nairobi	CBD	145	15
	Nairobi	Kamukunji	120	12
	Nairobi	Starehe	104	10
	Nairobi	Makadara	76	8
	Kiambu	Kiambu	190	19
	Kiambu	Thika	200	20
	<b>Total</b>		<b>835</b>	<b>84</b>
Cop Bank	Nairobi	CBD	213	21
	Nairobi	Kamukunji	153	16
	Nairobi	Starehe	133	13
	Nairobi	Makadara	98	10
	Kiambu	Kiambu	151	15
	Kiambu	Thika	150	15
	<b>Total</b>		<b>898</b>	<b>90</b>
Family Bank	Nairobi	CBD	75	8
	Nairobi	Kamukunji	59	6
	Nairobi	Starehe	53	5
	Nairobi	Makadara	49	5
	Kiambu	Kiambu	7	2
	Kiambu	Thika	30	3
	<b>Total</b>		<b>273</b>	<b>29</b>
BoA	Nairobi	CBD	120	12
	Nairobi	Kamukunji	74	7
	Nairobi	Starehe	53	5
	Nairobi	Makadara	46	5
	Kiambu	Kiambu	46	5
	Kiambu	Thika	40	4
	<b>Total</b>		<b>379</b>	<b>38</b>
Sidian	Nairobi	CBD	83	9
	Nairobi	Kamukunji	67	7
	Nairobi	Starehe	46	5
	Nairobi	Makadara	52	6
	Kiambu	Kiambu	13	2
	Kiambu	Thika	41	4
<b>Total</b>		<b>302</b>	<b>33</b>	
<b>Grand Total</b>			<b>3460</b>	<b>346</b>

An estimated 47% of the entire MSEs population are engaged in trade activities, 23% are in the services industry, 19% are in manufacturing line while 11% are in other sectors (MOI, 2013). If we take Nairobi County with an estimated MSEs population of 2,340, then 1050 (47%) are in the trade sector, 720 (23%) are in services sector, 380 (19%) are in manufacturing and an estimated 190 (11%) are in other sectors.

**Table 3.2: Sampling Table Business Type Nairobi County**

<b>Category</b>	<b>Target Population</b>	<b>Sample Frequency</b>	<b>Percentage (%)</b>
Trade	1050	105	10%
Services	720	72	10%
Manufacturing	380	38	10%
Others	190	19	10%
<b>Total</b>	<b>2,340</b>	<b>234</b>	<b>10%</b>

Nairobi County with an estimated owner-managers of MSEs' population of 2, 340, had the study conducted in the Central Business District (CBD) which is home to about 810 (35%) MSEs, Kamukunji Sub-County with about 610 (26%), Starehe Sub-County with about 510 (22%) MSEs and Makadara Sub-County with 410 (17%) (MSEA, 2014). The four sub-counties were chosen because they host half of the total number of MSEs in Nairobi County. The 234 respondents were distributed proportionately according to the owner-managers of MSEs' population banking with the 6 commercial bank in each sub-county.

**Table 3.3: Sub-County Sample Distribution for Nairobi County**

<b>Study Location</b>	<b>Target Population</b>	<b>Sample Frequency</b>	<b>Percentage (%)</b>
CBD	810	81	10%
Kamukunji	610	61	10%
Starehe	510	51	10%
Makadara	410	41	10%
<b>Total</b>	<b>2340</b>	<b>234</b>	<b>10%</b>

Kiambu County with an estimated owner-managers of MSEs' population of 1,120 has about 540 (47%) in the trade sector; 350 (23%) in the services sector; 150 (19%) in the manufacturing sector and 80 (11%) in other sectors. Kiambu County population sample was selected as follows:

**Table 3.4: Sampling Table for Business Type Kiambu County**

<b>Category</b>	<b>Target Population</b>	<b>Sample Frequency</b>	<b>Percentage (%)</b>
Trade	540	54	10%
Services	350	35	10%
Manufacturing	150	15	10%
Others	80	8	10%
<b>Total</b>	<b>1120</b>	<b>112</b>	<b>10%</b>

Target areas in Kiambu County were Thika and Kiambu sub-counties with an estimated MSEs populations of 590(52.7%) and 530 (47.3%) respectively (MSEA, 2014). Again, the two sub-counties were chosen because they contain the highest and the second highest populations of MSEs in Kiambu County and the two combined comprise of almost half the total number of MSEs in the County. The sub-county sample distribution for Kiambu County was done proportionately as shown below:

**Table 3.5: Sub-County Sample Distribution for Kiambu County**

<b>Study Location</b>	<b>Target Population</b>	<b>Sample Frequency</b>	<b>Percentage (%)</b>
Thika Sub-County	590	59	10%
Kiambu Sub-County	530	53	10%
<b>Total</b>	<b>1,120</b>	<b>112</b>	<b>10%</b>

**Table 3.6: Summary of the total sample**

<b>Strata</b>	<b>Sample frequency</b>
Nairobi MSEs owners	234
Kiambu MSEs owners	112
<b>Total Respondents</b>	<b>346</b>

Purposive sampling was used to select the chief credit officers from the headquarters of the 44 commercial banks in the country. The study used a sample of 6 commercial banks that control 70% of MSE lending (CBK, 2015). Hence, a total of 6 chief credit officers

participated in the study - one each from the six selected banks. There are 44 commercial banks in Kenya (CBK, 2015).

**Table 3.7: Summary of the Commercial Bank Sample**

<b>Strata</b>	<b>Sample frequency</b>
Chief Credit officers	6
<b>Total Respondents</b>	<b>6</b>

### **3.7 Data collection Instruments**

Creswell, (2012) defines data collection as means by which information is obtained from the selected subjects of an investigation. In data collection, questionnaire and interview guide were used to collect information from the respondents. The questionnaire had both structured and open ended questions. The questionnaire was used because it enabled the researcher to collect huge amounts of information within a reasonable time. Personal contact with the respondents enabled the researcher to interact with the respondents and clarify any difficulties the respondents encountered in the process of filling in the questionnaires (Mugenda & Mugenda, 2010). In this study interview guides and questionnaires were used.

Primary data was collected from 4 sub counties in Nairobi County and 2 sub counties in Kiambu County using questionnaires. The questionnaires were distributed and collected same day to increase the return rate. Interview guides were used to collect data from 6 chief credit officers of commercial banks.

Approval from the university was obtained to conduct the study; permission was obtained from the National Commission of Science Technology and Innovation

(NACOSTI). The researcher then paid a courtesy call to the MSEs and banks. Thereafter a letter to each of the managers written requesting for permission to carry the study in their organizations.

### **3.7.1 Interview Guide**

An interview was conducted on the bank chief credit officers using the questionnaire as an interview guide. An interview gives the study more insights into the problem in question (Ngugi, 2012) was done to get responses from 6 chief credit officers of commercial that control 70% lending to MSEs in Kenya. The study had a set of questions to enable the respondents be triggered, along the thought of product accessibility strategy, customer relationship marketing strategy, collateral strategy, capacity building strategy, technology innovations strategy and the legal and regulatory environment. Interviewer administered questionnaire method involves interviewer physically meeting the respondents and asking questions face to face. This method usually has a higher response rate than a self-administered questionnaire (Saunders, Lewis & Thornhill, 2003).

### **3.7.2 Questionnaires**

The main research instrument that was used in this study was the set of questionnaires. In developing the questionnaire items, both closed-ended and open-ended formats of the item were used. This format was used in all sections of the questionnaires. To avoid respondents choosing the easiest alternative and providing fewer opportunities for self-expression, it was necessary to combine closed and open-ended response items to attract qualitative responses which gave the study in-depth feelings and perceptions of the respondents. The closed-ended items adopted a Likert scale (e.g. 1-strongly disagree, 2-disagree, 3-undecided, 4-agree, 5-strongly agree).

### **3.8 Validity of the Research Instrument**

Validity refers to whether a questionnaire is measuring what it purports to measure (Bryman & Cramer, 1997). McMillan and Schumacher (2006) describe validity as the degree of congruence between the explanations of the phenomena and the realities of the world. While absolute validity is difficult to establish, demonstrating the validity of a developing measure is very important in research (Bowling, 2007). This study used both construct validity and content validity. For construct validity, the questionnaire is divided into several sections to ensure that each section assessed information for a specific objective, and also ensured that the same closely ties to the conceptual framework for this study. To ensure content validity, the questionnaire was subjected to thorough examination by supervisor's two randomly selected managers (experts). They were asked to evaluate the statements in the questionnaire for relevance and whether they were meaningful, clear and loaded of offensive. On the basis of the evaluation, the instrument was adjusted appropriately before subjecting it to the final data collection exercise. Their review comments were used to ensure that content validity is enhanced.

### **3.9 The Administration of Research Instrument**

Research assistants were thoroughly trained both in interpretation of responses from respondents and also in procedure of administration. They then accompanied the researcher in piloting and modifying the research instruments so that they could comprehend fully the purpose and methods of data collection. The research assistants administered the questionnaires to the respondents.

### **3.10 Pilot Testing**

Marczyk, DeMatteo and Festinger (2005) observe that pilot test is the start phase in data gathering of the research process. Pilot test is conducted to detect weakness in design and instrumentation and to provide alternative data for selection of a probability sample. Muus and Baker-Demaray (2007) note that a pilot test should draw subjects from the

target population and simulate the procedures and protocols that have been designated for data collection. In summary pilot test measures the reliability and validity of the instruments.

To check the validity and reliability of the questionnaires in gathering the data required for purposes of the study, pilot study was carried out in Nakuru Municipality within Nakuru County. The purpose of pilot testing was to establish the accuracy and appropriateness of the research design and instrumentation (Saunders, Lewis & Thornhill, 2007). Newing (2011) states that the importance of pilot testing cannot be overemphasized; you will almost always find that there are questions that people fail to understand or interpret in different ways, places in the questionnaire where they are not sure where to go next, and questions that turn out simply not to elicit useful information. Cooper and Schindler (2008) concur that the purpose of pilot test is to detect weaknesses in design and implementation and to provide proxy for data collection of a probability sample. Sekaran (2008) reinforces that pilot test is necessary for testing the reliability of instruments and the validity of a study.

Kothari (2004) states that the size of a sample to be used for piloting testing varies depending on time, costs and practicality, but the same would tend to be 5- 10 per cent of the sample. According to Cooper and Schindler (2006) the respondents in a pilot test do not have to be statistically selected when testing the validity and reliability of the instruments.

Reliability refers to the repeatability, stability or internal consistency of a questionnaire (Jack & Clarke, 1998). Cronbach's alpha was used to test the reliability of the measures in the questionnaire (Cronbach, 1951). According to Sekaran (2003); Cooper and Schindler (2003), Cronbach's alpha has the most utility for multi-item scales at the interval level of measurement, requires only a single administration and provides a unique, quantitative estimate of the internal consistency of a scale.

The Kuder-Richardson Cronbach (K-R) 20 formula is as below:

$$KR_{20} = \frac{(K)(S^2 - \Sigma s^2)}{(S^2)(K - 1)}$$

Where  $KR_{20}$  *Reliability Coefficient of internal Consistency*

$K$  *Number of items used to measure the concept*

$S^2$  *Variance of all scores*

$s^2$  *Variance of individual items*

Cronbach's alpha is an index of reliability associated with the variation accounted for by the true score of the "underlying construct." Alpha coefficient ranges in value from 0 to 1 and was used to describe the reliability of factors extracted from dichotomous (that is, questions with two possible answers) and/or multi-point formatted questionnaires or scales (rating scale: 1 = poor, 5 = excellent) (Kumar, 2005). The higher the score, the more reliable the generated scale was. Stevens (2002) indicated 0.7 to be an acceptable reliability coefficient but lower thresholds were sometimes used in the literature. This study used a cut mark of 0.7.

In this study, data collection instruments were tested on 10% of the sample and thus 35 respondents (10% 346) was used to ensure that it is relevant and effective. Reliability was tested using questionnaire duly completed by the 35 randomly selected respondents. These respondents were not included in the final study sample in order to control response biasness.

Table 3.8 shows the reliability results. All the statements were reliable since the Cronbach Alpha was above 0.7 which was used as a cut-off of reliability for the study. Therefore the internal consistency reliability of the measure was excellent. This

indicates that the data was reliable since an alpha coefficient higher than 0.70 signifies that the gathered data has a relatively high internal consistency and could be generalized to reflect the respondent's opinions on the study problem.

**Table 3.8: Reliability Coefficient**

Variable	Cronbach's Alpha	Comment
Product accessibility strategy	0.734	Accepted
Customer Relationship management strategy	0.706	Accepted
Collateral strategy	0.701	Accepted
Capacity Building strategy	0.813	Accepted
Technology innovation strategy	0.723	Accepted
Legal and regulatory environment	0.820	Accepted
Growth	0.739	Accepted

Validity refers to whether a questionnaire is measuring what it purports to measure (Bryman & Cramer, 1997). McMillan and Schumacher (2006) describe validity as the degree of congruence between the explanations of the phenomena and the realities of the world. While absolute validity is difficult to establish, demonstrating the validity of a developing measure is very important in research (Bowling, 2007). The size of the pilot group may range from 20 to 100 subjects depending on the method to be tested. This study used 10% of target population as shown in table 3.9.

**Table 3.9: Pilot Test**

Area	Target population	Pilot Test 10%
Nakuru county	346	35

### **3.11 Tests of Hypotheses**

The hypothesis testing involved running multivariate regression for independent variables against the growth of MSEs. The sub constructs of each independent variable was combined by getting their average. The overall growth was also calculated by getting the average of the three measures of performance. The rejection or acceptance criteria was , if the calculated F statistic is greater than critical F statistic; and also P – value obtained is less than 0.05 at 5% level of significance, the null hypothesis was rejected, but if the P-value was greater than 0.05, the null hypothesis was accepted.

#### **3.11.1 Diagnostics tests**

It was essential to ensure non-violations of the assumptions of the classical linear regression model (CLRM) before attempting to estimate the regression models. Estimating these equations when the assumptions of the linear regression are violated runs the risk of obtaining biased, inefficient, and inconsistent parameter estimates (Brooks, 2008). Consequently, the normality, multicollinearity, autocorrelation, and heteroscedasticity tests, were conducted to ensure proper specification of the models.

#### **Normality Tests**

The normality assumption ( $ut \sim N(0, \sigma^2)$ ) is required in order to conduct single or joint hypothesis tests about the model parameters (Brooks, 2008). The test for normality was examined using the graphical method approach.

#### **Multicollinearity**

Multicollinearity was tested in the study using correlation matrix whereby the cut-off point for severe multicollinearity is 0.8 (Gujarati, 2003; Cooper & Schindler, 2008). Failure to account for perfect multicollinearity results into indeterminate regression coefficients and infinite standard errors while existence of imperfect multicollinearity

results into large standard errors. Large standard errors affect the precision and accuracy of rejection or failure to reject the null hypothesis. During estimation, the problem is not the presence of multicollinearity but rather its severity. A correlation coefficient greater than 0.8, thus, indicates the presence of multicollinearity.

### **Autocorrelation**

Since the data involves both cross section and time-series, it raises the suspicion of the existence of serial correlation. The presence of serial correlation indicates that the variables in the model violate the assumptions of the regression (Anderson *et al.*, 2007). To cater for serial correlation, the Woodridge test for autocorrelation was employed.

### **Heteroscedasticity**

Since the data for this research is a cross-section of firms, this raises concerns about the existence of heteroscedasticity. The CLRM assumes that the error term is homoscedastic, that is, it has constant variance. If the error variance is not constant, then there is heteroscedasticity in the data. Running a regression model without accounting for heteroscedasticity would lead to unbiased parameter estimates. To test for heteroscedasticity, the Breusch-Pagan/Godfrey test was used.

### **3.12 Data management**

Before analysis, the data was checked for completeness and consistency. The study took care of missing cases by eliminating it throughout the entire raw. Information was sorted, coded and input into the statistical package for social sciences (SPSS).

### **3.13 Data Processing and Analysis**

According to Zikmund *et al.* (2010), data analysis refers to the application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarizing the relevant details revealed in the investigation. To determine

the patterns revealed in the data collected regarding the selected variables, data analysis was guided by the aims and objectives of the research and the measurement of the data collected.

The data was analyzed quantitatively. Information was sorted, coded and input into the statistical package for social sciences (SPSS) version 21 for production of graphs, tables, descriptive statistics and inferential statistics. In arriving at the inferential statistics simple linear regression model was used to analyze the data using statistical package for the social sciences (SPSS). Multiple regressions followed to test the combined influence of the variables using the following model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Y = Growth of MSEs

$X_1$  = Product accessibility strategy

$X_2$  = Customer relationship marketing

$X_3$  = Collateral strategy

$X_4$  = Capacity building strategy

$X_5$  = Technology innovation strategy

$e$  = the error term which is assumed to be normally distributed with mean zero and constant variance.

$\{\beta_i; i=1,2,3,4,5\}$  = The coefficients representing the various independent variables.

$\beta_0$  = Constant.

Analysis of data using regression model has been used previously by Aduda (2011) in a study which investigated the relationship between executive compensation and firm performance in the Kenyan banking sector. Also Ngugi (2001) used regression analysis in a study on the empirical analysis of interest rates spread in Kenya while Khawaja and Mulesh (2007) used regression analysis to identify the determinants of interest rates spread in Pakistan. These studies are similar to the current study in that the study variables exhibit a linear relationship which is also expected in the current study. Before running the multiple linear regression model for all the study variables, classical or univariate regressions were conducted to test the effect of each predictor variable on the dependent variable as follows.

Objective 1: To establish commercial banks' products accessibility lending strategy on growth of MSEs in Kenya

$$Y = \beta_0 + \beta_1 X_1 + e$$

Objective 2: To establish the commercial banks' Customer relationship marketing lending strategy on growth of MSEs in Kenya

$$Y = \beta_0 + \beta_2 X_2 + e$$

Objective 3: To establish commercial banks' Collateral lending strategy on growth of MSEs in Kenya

$$Y = \beta_0 + \beta_3 X_3 + e$$

Objective 4: To establish commercial banks' capacity building lending strategy on growth of MSEs in Kenya

$$Y = \beta_0 + \beta_4 X_4 + e$$

Objective 5: To establish commercial banks' technology innovation lending strategy on growth of MSEs in Kenya

$$Y = \beta_0 + \beta_5 X_5 + e$$

Where;

$X_1$  = Product accessibility strategy

$X_2$  = Customer relationship marketing strategy

$X_3$  = Collateral strategy

$X_4$  = Capacity building strategy

$X_5$  = Technology innovation strategy

### **Testing for the moderating effect of legal and regulatory environment**

Step one: Run the multivariate regression without moderating

$$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Step 2: Run the multivariate regression with interaction term

$$\text{MSEs Growth} = \alpha + \beta_1 X + \beta_2 M + \beta_3 X.M$$

Where;

X = Composite of Independent variables

M = Legal and Regulatory environment

X\*M = Interaction term (Interaction between independent variables and legal regulatory environment (moderator))

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSIONS**

#### **4.1 Introduction**

This chapter comprised of data analysis, interpretation and discussion of the findings. The analysis presented include, response rate, reliability analysis, diagnostic tests, correlation and regression analysis. Hypothesis test was conducted using a multiple regression model. The results were presented in tables, charts and diagrams. The analyzed data was arranged under themes that reflected on the research objectives. The dependent variable of this study was growth of MSEs. Though majority of the respondents filled the questionnaire, some of them left some spaces. The unfilled sections were cleaned by deleting the empty spaces. Data from banks were used to run descriptive statistics only while the data from MSEs were used to model the relationship between the variables.

#### **4.2 Response Rate**

The return rate provides a profile of respondents who participated in this study. A total of three hundred and forty six (346) questionnaires were distributed to the respondent's MSEs owners/managers. A total of three hundred and thirty one (331) questionnaires were returned giving a return rate of 95.7% as shown in Table 4.1. All the six (6) chief credit officers interviewed were responsive.

The average return rate was 95.7% which was considered appropriate for the research findings of the study. According to Mugenda (2011) and also Kothari (2014) a response rate of above 50 percent is adequate for a descriptive study. Babbie (2004) also asserted that return rates of above 50 percent are acceptable to analyze and publish, 60 percent is good and 70 percent is very good. Therefore 95.7% was adequate for analysis.

**Table 4.1: Response rate**

<b>Respondents</b>	<b>Sample</b>	<b>Response</b>	<b>Percent (%)</b>
MSE s' owners	346	331	95.7
Credit officers	6	6	100
<b>Total</b>	<b>352</b>	<b>337</b>	<b>95.73</b>

### **4.3 Pilot Study Results**

A total of 35 questionnaires were distributed to respondents who were not part of the main study. They were then subjected to pilot study where tests of reliability and validity were carried out. The results of the same are as shown in the results as follows:

#### **4.3.1 Reliability.**

The reliability of an instrument refers to its ability to produce consistent and stable measurements. Bagozzi (1994) explains that reliability can be seen from two sides: reliability (the extent of accuracy) and unreliability (the extent of inaccuracy). The most common reliability coefficient is Cronbach's alpha which estimates internal consistency by determining how all items on a test relate to all other items and to the total test-internal coherence of data. The reliability is expressed as a coefficient between 0.00 and 1.00. The higher the coefficient, the more reliable is the test.

In this study, data collection instrument which is a questionnaire was tested on 10% of the sample of the questionnaires to ensure that it is relevant and effective. Reliability was tested using questionnaire duly completed by 35 randomly selected respondents. These respondents were not included in the final study sample in order to control for response biasness. The questionnaire responses were input into statistical package for social sciences (SPSS) and Cronbach's Alpha coefficient generated to assess reliability.

The Cronbach Alpha was calculated in a bid to measure the reliability of the questionnaire. Results are presented in Table 4.2.

Table 4.2 shows the reliability results. All the statements were reliable since the Cronbach Alpha was above 0.7 which was used as a cut-off of reliability for the study. Therefore the internal consistency reliability of the measure was excellent. This indicates that the data was reliable since an alpha coefficient higher than 0.70 signifies that the gathered data has a relatively high internal consistency and could be generalized to reflect the respondent's opinions on the study problem.

**Table 4.2: Reliability coefficient**

<b>Variable</b>	<b>Cronbach's Alpha</b>	<b>Comment</b>
Product accessibility strategy	0.734	Accepted
Customer Relationship management strategy	0.706	Accepted
Collateral strategy	0.701	Accepted
Capacity Building strategy	0.813	Accepted
Technology innovation strategy	0.723	Accepted
Legal and regulatory environment	0.820	Accepted
Growth	0.739	Accepted

#### **4.3.2 Test for Validity**

Kaiser-Meyer-Olkin (KMO) test was performed to test for validity. Interpretive adjectives for the KMO Measure of Sampling Adequacy are: in the 0.90 as marvelous, in the 0.80's as meritorious, in the 0.70's as middling, in the 0.60's as mediocre, in the 0.50's as miserable, and below 0.50 as unacceptable. The value of the KMO Measure of Sampling Adequacy for this set of variables was 0.771, which would be labeled as 'middling'. Since the KMO Measure of Sampling Adequacy met the minimum criteria,

and therefore I did not have a problem that requires the study to examine the Anti-Image Correlation Matrix.

Bartlett's test of sphericity tests the hypothesis that the correlation matrix is an identity matrix; i.e. all diagonal elements are 1 and all off-diagonal elements are 0, implying that all of the variables are uncorrelated. If the Sig value for this test is less than our alpha level, we reject the null hypothesis that the population matrix is an identity matrix. The Sig. value for this analysis led to rejection of the null hypothesis and concluded that there were correlations in the data set that are appropriate for factor analysis. This analysis met this requirement.

**Table 4.3: Kaiser-Meyer-Olkin Measure of Sampling Adequacy**

<b>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</b>		<b>0.771</b>
Bartlett's Test of Sphericity	Approx. Chi-Square	107.242
	df	15
	Sig.	<b>0.000</b>

### **4.3.3 Test for Multicollinearity**

According to William *et al.* (2013), multicollinearity refers to the presence of correlations between the predictor variables. In severe cases of perfect correlations between predictor variables, multicollinearity can imply that a unique least squares solution to a regression analysis cannot be computed (Field, 2009). Multicollinearity inflates the standard errors and confidence intervals leading to unstable estimates of the coefficients for individual predictors (Belsley *et al.*, 1980). Multicollinearity was assessed in this study using the variance inflation factors (VIF). According to Field (2009) VIF values in excess of 10 is an indication of the presence of Multicollinearity. The results in Table 4.4 present variance inflation factors results and were established to be 1.13 which is less than 10 and thus according to Field (2009) indicates that there is no Multicollinearity.

**Table 4.4: Multicollinearity results using VIF**

<b>Variable</b>	<b>VIF</b>	<b>1/VIF</b>
Product accessibility strategy	1.31	0.764558
Customer Relationship Marketing strategy	1.23	0.812079
Collateral strategy	1.14	0.880611
Capacity Building strategy	1.08	0.926855
Technological innovation strategy	1.03	0.974148
Legal and Regulatory framework	1.03	0.975046
<b>Mean VIF</b>	<b>1.13</b>	

#### **4.4 Demographic information**

The study sought to establish the characteristics of the respondents such as gender, level of education, type of business and number of employees working.

##### **4.4.1 Gender of the respondents**

The study also sought to establish the gender of the respondents. This aimed at establishing whether the view of all gender was accommodated in the study. The results on gender of the MSEs is as in table 4.5.

Table 4.5 shows that the respondents for this study were predominantly male MSEs Owners. Out of 331 respondents, 55.6% were male while 44.4 were female. It was noted that most MSEs were managed/owned by male entrepreneurs. The above results may be attributed to the strong male domineering culture in Kenya where until recently women were relegated to domestic chores. This culture is dying off and a large population of women population is now strongly competing with their male counterparts in most jobs (RoK, 2008; 2010).

This agrees with a study by Ellis, Cutura, Dione, Gillson, Manuel and Thongori (2007) that in spite of women being major actors in Kenya's economy, and notably in

agriculture and the informal business sector, men dominate in the formal sector citing the ratio of men to women in formal sector as 74%:26%. Other studies that have identified male domination in the formal and informal sectors include Gakure (2001; 2003).

**Table 4.5: Distribution of Mses Owners by gender**

<b>Gender</b>	<b>MSEs owners</b>	<b>%</b>
Male	184	55.6
Female	147	44.4
<b>Total</b>	<b>331</b>	<b>100</b>

Further, the chief credit officers were requested to indicate their gender. The results on gender of the credit officers is as in Table 4.6. Table 4.6 shows that the respondents for this study were equal in number (50%). This disagrees with a study by Ellis, Cutura, Dione, Gillson, Manuel and Thongori (2007) that in spite of women being major actors in Kenya's economy, and notably in agriculture and the informal business sector, men dominate in the formal sector citing the ratio of men to women in formal sector as 74%:26%. Other studies that have identified male domination in the formal and informal sectors include Gakure (2001; 2003).

**Table 4.6: Distribution of Chief Credit Officer by Gender**

<b>Gender</b>	<b>Credit officers</b>	<b>%</b>
Male	3	50
Female	3	50
<b>Total</b>	<b>6</b>	<b>100</b>

#### 4.4.2 Level of Education of the Respondents

The respondents were requested to indicate their level of education. The results are presented in Table 4.7. Table 4.7 shows the level of education of the MSEs owners. Majority of the MSEs owners 174 (52.6%) had a college level as their highest level of education, 122(36.9%) had university level as their highest level while only 35 (10.5%) had secondary level to be the highest level of education. Ngugi (2008) observes that the level of education influences the impartation of both managerial and entrepreneurial skills of most entrepreneurs. The role of education as a change agent is indisputable and has always been a central mechanism for transmission of skills and values for the sustenance of societies and promotion of social change (Lebaking & Phalare, 2001). Therefore, the sustainability of MSES can be attributed to the level of education of the entrepreneurs.

This finding is consistent with that of Kimemia (1990) who argued that employees need technical skills to apply skills and use techniques from education, training and experience, human professional experience is necessary to work effectively with the people and conceptualize and analyze complexities.

**Table 4.7: Distribution of MSEs Owners by Academic Qualification**

<b>Education level</b>	<b>MSEs owners</b>	<b>%</b>
Primary	-	-
Secondary	35	10.5
College	174	52.6
University	122	36.9
<b>Total</b>	<b>331</b>	<b>100</b>

Further, the chief credit officers were requested to indicate their level of education. Results are presented in table 4.8. Table 4.8 shows the level of education of the credit officers. 50% of the credit officers had a college level as their highest level of education,

while another 50% had university level as their highest level. Attracting highly qualified personnel by commercial banks has ensured professionasation of MSEs accounts in Kenya. This finding is consistent with that of Kimemia (1990) who argued that employees need technical skills to apply skills and use techniques from education, training and experience, human professional experience is necessary to work effectively with the people and conceptualize and analyze complexities.

**Table 4.8: Distribution of Chief Credit Officers by Academic Qualification**

<b>Education</b>	<b>Credit officers</b>	<b>%</b>
Primary	-	-
Secondary	-	-
College	3	50
University	3	50
<b>Total</b>	<b>6</b>	<b>100</b>

4.4.3 Type of Business Babbie (2004) Bagozzi (1994) William *et al.* (2013) Field, 2009 Belsley *et al.*, 1980 by Ellis, Cutura, Dione, Gillson, Manuel & Thongori (2007) Gakure (2001; 2003). Kimemia (1990) Lebaking & Phalare, 2001 Moore *et al.*, 2008

The respondents were requested to indicate on the type of business they operated in. The results are presented in Table 4.9 Results in Table 4.9 shows 47% of the respondents who were the majority were operating in the service industry, 24% were in trade industry, 19% of the respondents were in manufacturing industry while only 10% of the respondents were in others. This may be attributed to the fact that manufacturing require specialized skills while service and trade may accommodate diverse general skills and lower start-up capital than the other strata thereby reducing barriers to entry as depicted in Porter's Model (Moore *et al.*, 2008).

**Table 4.9: Type of Business**

<b>Business</b>	<b>Frequency</b>	<b>Percent</b>
Manufacturing	62	19
Trade	78	24
Service	155	47
others	36	10
<b>Total</b>	<b>331</b>	<b>100</b>

**4.4.4 Length of Business operation**

The respondents were requested to indicate the length of business operation. The results are presented in table 4.10. Results in Table 4.10 shows that majority (44.7%) of businesses had been in operation for between 1-3 years, 28.4% had been operation for 3 to 5 years, and 19.3% had been operation for less than one year while 7.6% had been in operation for 5 to 10 years. This finding is consistent with that of Ngugi (2012) most MSEs do not live to see their third birth day.

**Table 4.10 Length of Business Operation**

<b>Length of operation</b>	<b>Frequency</b>	<b>Percent</b>
Less than 1 year	64	19.3
1 to 3 years	148	44.7
3 to 5 years	94	28.4
5 to 10 years	25	7.6
<b>Total</b>	<b>331</b>	<b>100</b>

#### 4.4.5 Number of Employees

The respondents were requested to indicate on the number of employees in their enterprises. Results in Table 4.11 shows that 78.1% of the MSEs had between 1-5 employees, 17.2% had between 6-10 employees, 3.6% had 11-50 employees.

**Table 4.11: Number of Employees**

<b>Employees</b>	<b>Frequency</b>	<b>Percent</b>
1- 5 employees	262	78.1
6-10 employees	57	17.2
11-50 employees	12	3.6
Over 50 employees	4	1.2

#### 4.4.6 Years Worked in the Bank

The chief credit officers were requested to indicate on the number of years they had worked in the bank. The results are presented in table 4.12. Results in table 4.12 revealed that 50% of the respondents who were the majority had worked for over 5 years, 33% had worked for 3 to 5 years while 16.7% had worked for less than 2 years. This implies that majority of the respondents had worked in the organization for a long period. This finding is consistent with that of Ngui (2014) who found out that 65% of the respondents have worked in the sector for over five years, a period considered long enough for an employee to understand the operations of their respective duties.

This finding is consistent with that of Randoy *et al.* (2006) who found out that one's experience depends on the number of years of service in the sector involved. It is assumed that the longer one worked in an organization, the more they understand the organization and hence the higher the ability to articulate issues pertaining to the organization (Afande, 2013).

**Table 4.12: Years Worked in the Bank**

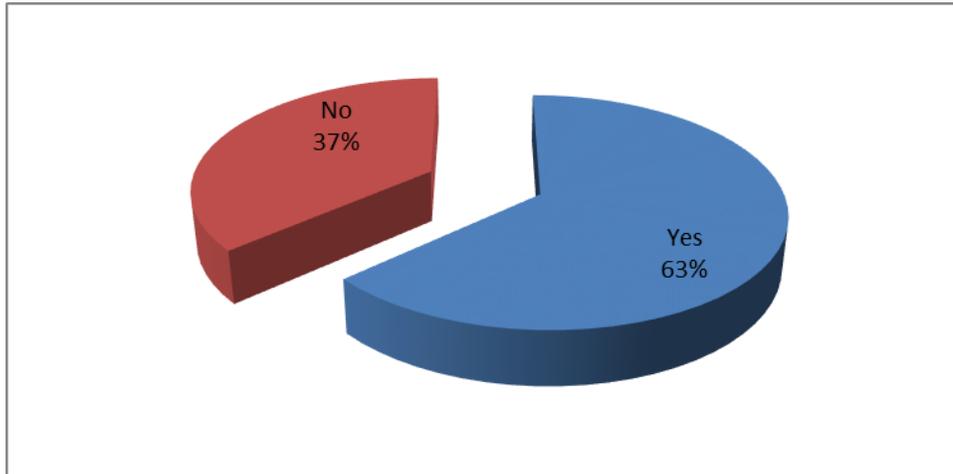
<b>Duration</b>	<b>Frequency</b>	<b>Percent</b>
Less than 2 years	1	16.7
3 to 5 years	2	33.3
Over 5 years	3	50
<b>Total</b>	<b>6</b>	<b>100</b>

#### **4.5 Descriptive Analysis of Study Variables and Growth of MSEs**

Descriptive Analysis were performed per objective; Commercial banks' products accessibility strategy, Commercial banks' Customer relationship strategy, commercial banks' collateral strategy, Commercial banks' capacity building strategy, Commercial banks' technological innovation strategy and lastly Legal and regulatory environment

##### **4.5.1 Products Accessibility Strategy**

The first objective of the study was to establish commercial banks' products accessibility strategy on growth of MSEs. The MSEs owners were asked to indicate if they have borrowed a loan from bank. Results in Figure 4.2 shows that 63% of the MSEs Owners have borrowed loan from bank while 37% have not. This implies that majority of MSEs owners borrow loans from the banks. Gordon (2008) observes that the measure of importance of a business attached to pricing depends on whether the business emphasizes on 'price competition' or whether the business is a 'price taker' or 'price maker'. In "price competition", the bank emphasizes price as an issue and actively strikes to match or beat the prices of competitors.



**Figure 4.2: Loan Borrowing**

Further, the respondents were requested to indicate the rate of the accessibility. Results in Table 4.13 showed that 52% of the MSEs owners who were also the majority indicated that the loans are accessible, 24.8% indicated that they were neutral on accessibility, 15.7% indicated that it was not accessible while 5% and 2.5% of the respondents indicated that the loans were strongly accessible and strongly inaccessible respectively. This implies that majority of the bank loans were accessible.

**Table 4.13: Rate of Accessibility**

	<b>Strongly not accessible</b>	<b>Not accessible</b>	<b>Neutral</b>	<b>Accessible</b>	<b>Strongly accessible</b>
If yes, how do you rate the accessibility?	2.50%	15.70%	24.80%	52.00%	5.00%

Chief credit officers were asked to indicate the number of products which were priced using different product pricing methodologies. Results in Table 4.14 showed that the average mean of number of products which was priced using competitive pricing between the years 2011 to 2015 was 3 products. Another 3 products was priced using

premium pricing over the same period while only two products were priced using tailor made pricing. The ability to influence the price is different among banks. This often depends on firm bargaining power and competition (both horizontal and vertical) (Paul & Ivo, 2013). In order to enhance their capability to decide the price, banks focus mostly on marketing, as price setting strategy is a significant component of the marketing mix.

**Table 4.14: Product Pricing Methods**

<b>Pricing methods</b>	<b>Mean</b>	<b>Std. Deviation</b>
Competitive pricing 2011	2.33	0.82
Competitive pricing 2012	2.83	1.17
Competitive pricing 2013	3.17	0.41
Competitive pricing 2014	3.50	0.55
Competitive pricing 2015	3.67	0.82
<b>Average</b>	<b>3.10</b>	<b>0.75</b>
Premium pricing 2011	4.00	1.41
Premium pricing 2012	4.17	1.17
Premium pricing 2013	3.00	1.10
Premium pricing 2014	3.33	1.51
Premium pricing 2015	3.00	0.89
<b>Average</b>	<b>3.50</b>	<b>1.22</b>
Tailored made pricing 2011	3.33	1.75
Tailored made pricing 2012	2.83	1.17
Tailored made pricing 2013	2.17	0.75
Tailored made pricing 2014	2.33	0.52
Tailored made pricing 2015	3.33	1.51
<b>Average</b>	<b>2.80</b>	<b>1.14</b>
<b>Grand mean</b>	<b>3.10</b>	

Further, they were asked to indicate the number of products provided under product mix to the MSEs clients over the last five years. Results in table 4.15 showed that 66.7% of the respondents provided 2-5 products using product mix in 2011. 51% provided 5 products under product mix in the year 2012. In the year 2013, 83.3% provided over 5 products, while in the year 2015 100% provided over 5 products under product mix.

Strydom *et al.* (2012) also observe that, the price of a product has different meanings to both the consumer and the business. To the consumer, the price of a product plays various roles in marketing whereby price influences how much of the product the customers borrow, this may also coerce them to consider the price of the product relative to that of competition and price also influences whether borrowing will benefit the MSE owner/manager in terms of the features. To the business, the price relates directly to the business income and profitability. Commercial banks' market share of loans and deposits has been in decline since the early 1980s (Boyd & Gertler, 2004). They further observe that the banks have reacted to declining shares of their most traditional business activities by increasing the production and sale of fee-based financial services. Although this shift toward fee-based activities has been more pronounced at larger institutions than at smaller banks, some bank analysts believe that fee income is the key to profitability and survival for commercial banks.

**Table 4.15: Product Mix**

<b>Product mix</b>	<b>less than 2 products</b>	<b>2-5 products</b>	<b>over 5 products</b>	<b>Mean</b>
2011	0.00%	66.70%	33.30%	2.33
2012	0.00%	49.00%	51.00%	2.5
2013	0.00%	16.70%	83.30%	2.83
2014	0.00%	33.30%	66.70%	2.67
2015	0.00%	0.00%	100.00%	3
<b>Average mean</b>				<b>2.66</b>

Lastly, the respondents were asked to indicate the number of products provided under one line over the last five years. Results are presented in table 4.16. Results in table 4.16 showed that 100% of the respondents provided between 2-5 products under one product line in 2011. 83.3% also provided between 2-5 products under one product line in the year 2012 and 2013. In the year 2014, 51% provided over 5 products, while in the year 2015, 66.7% provided between 2-5 products under one product line. MSEs need a steady flow of cash to keep operations running smoothly. This is due to the fact that there will be times when access to liquid funds is tight (Strydom *et al.*, 2012). Therefore, commercial banks should have flexible loans, lines of credit and mortgage options that can help an MSE manage his payables, finance real estate transactions, and take advantage of expansion and growth opportunities. Commercial banks should also offer financing solutions with a variety of rates and terms to meet an MSE owner/manager specific borrowing needs.

**Table 4.16: Product line**

<b>One line product</b>	<b>less than 2 products</b>	<b>2-5 products</b>	<b>over 5 products</b>	<b>Mean</b>
2011	0.00%	100.00%	0.00%	2.00
2012	0.00%	83.30%	16.70%	2.17
2013	16.70%	83.30%	0.00%	1.83
2014	0.00%	49.00%	51.00%	2.5
2015	0.00%	66.70%	33.30%	2.33
<b>Mean</b>				<b>2.16</b>

The summary mean for each sub variable is provided in Table 4. 17. The results show that product pricing has the highest mean of 3.10, meaning that it has a greater influence on growth of MSEs. Product mix was the second in rank (mean of 2.66) then finally product line with a mean of 2.16.

**Table 4.17: Summary of Product Accessibility Strategy**

Sub-variable	Mean
Product pricing	3.10
Product mix	2.66
Product line	2.16

#### **4.5.2 Customer Relationship Marketing (CRM) Strategy**

The second objective of the study was customer relationship marketing (CRM) strategy and growth of MSEs in Kenya. The respondents were requested to indicate their level of agreement on the statements on customer relationship marketing.

Results in Table 4.18 revealed that majority of the respondents who were 83.3% (77.6%+ 5.70%) agreed that the bank quickly rectify problems with customers. 89.4% agreed that the bank employees do follow-ups to find out if they need some assistance. 58.9% disagreed that the bank solve all my financial problems. The results also revealed that majority of the respondents who were 58.3% disagreed that they change ways of dealing with them over time while 94.5% also agreed that the bank appreciates their deals with them. Payne (2006) views CRM as a comprehensive approach which provides seamless integration of every area of business that touches the customer- namely marketing, sales, customer services and field support through the integration of people, process and technology; Buttle (2009) asserts that CRM is a shift from traditional marketing as it focuses on the retention of customers in addition to the acquisition of new customers;

**Table 4.18: Customer Relationship Marketing Strategy**

<b>Statement</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>	<b>Mean</b>	<b>Std. Dev.</b>
The bank quickly rectify problems with customers	4.20%	0.00%	12.40%	77.60%	5.70%	3.81	0.73
The bank employees do follow-ups to find out if I need some assistance.	4.20%	0.00%	6.30%	75.80%	13.60%	3.95	0.76
The bank solve all my financial problems.	26.00%	32.90%	32.30%	8.80%	0.00%	2.24	0.94
They change ways of dealing with me over time.	23.90%	34.40%	32.60%	9.10%	0.00%	2.27	0.93
The bank appreciates my deals with them.	2.70%	1.20%	1.50%	74.30%	20.20%	4.08	0.71
<b>Average</b>						<b>3.27</b>	<b>0.81</b>

Chief credit officers were requested to indicate their level of agreement on the statements on customer relationship management-customer commitment, customer loyalty and empathy. Results in Table 4.19 showed that majority if the respondents agreed with majority of the statements under customer commitment, customer loyalty and empathy as indicated by the mean scores of 4.61, 5.00 and 4.67 respectively. Ozkan

and Ozkan (2011) maintain that building relationships with commercial banks improves firms' ability to access external financing. This suggests that firms with a higher proportion of bank debt will be able to access external financing more easily. Establishing commercial banks relationships with MSEs reduces information asymmetry and agency problems, since valuable information about MSE quality can be disclosed. Thus, establishing stable links with financial institutions can improve both the availability and the conditions of financing. Various works have empirically demonstrated that keeping banking relationships can be beneficial to firms, in so far as contact between the commercial banks and MSEs can improve the availability of funds and lower their costs.

Diamond and Rajan (2008) uncovers that goal of interaction is 'to get more information directly from a customer in order to serve him in a way no competitor can who doesn't have the information' and thereby, winning his trust. The scholars further notes that, there has to be a learning relationship between the bank employees and customers in order to turn the interaction into a collaboration in which the enterprise and customer work together to make transactions beneficial to both parties. A very important issue in the interaction is privacy. Buttle (2009) notes that individuals are willing to provide information if privacy is guaranteed

**Table 4.19: Customer Relationship Management Strategy**

<b>Statement</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>	<b>Mean</b>	<b>Std Dev</b>
<b>Customer commitment</b>							
The MSEs are willing to invest more in our products	0.00%	0.00%	0.00%	50.00%	50.00%	4.50	0.55
Majority of the MSEs are desire to remain as our customers since we take care of their needs	0.00%	0.00%	0.00%	16.70%	83.30%	4.83	0.41
There is a presence of reciprocity in our MSE-bank relationship	0.00%	0.00%	0.00%	50.00%	50.00%	4.50	0.55
<b>Average</b>						<b>4.61</b>	<b>0.50</b>
<b>Customer Loyalty</b>							
Majority of MSEs intend to continue doing business with our bank over the next few years	0.00%	0.00%	0.00%	0.00%	100.00%	5.00	0.00
As long as the present service continues, majority of the MSEs are not willing to switch to other service providers	0.00%	0.00%	0.00%	0.00%	100.00%	5.00	0.00
Majority of MSEs are very likely to recommend this bank to a friend.	0.00%	0.00%	0.00%	0.00%	100.00%	5.00	0.00
<b>Average</b>						<b>5.00</b>	<b>0.00</b>
<b>Empathy</b>							
Our employees give personal attention to the clients	0.00%	0.00%	0.00%	0.00%	100.00%	5.00	0.00
Our bank has best interests in promoting MSEs at heart.	0.00%	0.00%	0.00%	0.00%	100.00%	5.00	0.00
Our bank has operating hours convenient to all their customers.	0.00%	33.30%	0.00%	0.00%	66.70%	4.00	1.55
<b>Average</b>						<b>4.67</b>	<b>0.52</b>

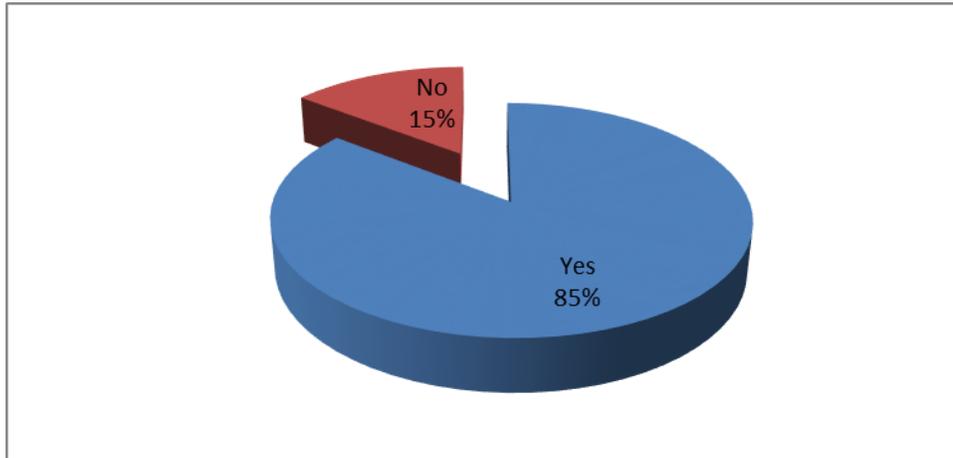
The summary mean for each sub variable is provided in Table 4.20. The results show that customer loyalty has the highest mean of 5.00, meaning that it has a greater influence on growth of MSEs. Customer empathy was ranked second with mean of 4.67 then finally customer commitment with a mean of 4.61.

**Table 4.20: Summary of CRM lending Strategy**

Sub-variable	Mean
Customer Loyalty	5.00
Customer Empathy	4.67
Customer commitment	4.61

### **4.7.3 Collateral Strategy**

The third objective of the study was to establish commercial banks' collateral strategy and growth of MSEs in Kenya. The MSEs owners were asked if they have been asked for collateral from bank when they wanted loan. Figure 4.3 shows that 85% of the MSEs' owners have been asked for a collateral when they wanted a loan while 15% were not asked for. According to a study done by Atieno (2001), Commercial banks and other formal institutions fail to cater for the credit needs of smallholders, however, mainly due to their lending terms and conditions. It is generally the rules and regulations of the formal financial institutions that have created the myth that the poor are not bankable, and since they can't afford the required collateral, they are considered un creditworthy.



**Figure 4.3: Collateral**

For those who answered that they have been asked for collateral, they were further asked to indicate on the extent they agree on the affordability of the collateral. Results in table 4.21 indicates that 75.8% of the MSEs’ owners agreed that the collateral was affordable while 24.4% were neutral. In a study by Chowdhury (2012), it was argued that local market competition among commercial banks in Bangladesh is driven by credit terms especially in terms of loan amounts, interest rates and repayment time and that some borrowers and commercial banks opt for a package of low interest rates tied with low amount of loan disbursed. Some other borrowers and commercial banks settle for a package of high interest rates tied with high amount of loan disbursed.

**Table 4.21: Affordability of Collateral**

	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>
Affordability	75.80%	24.20%	0.00%

Chief credit officers were requested to indicate their level of agreement on the statements on collateral type and covenants payback period. Results in Table 4.22

showed that majority of the respondents agreed with majority of the statements under collateral type and payback period as indicated by the mean scores of 3.78 and 3.89 respectively. According to a study done by Atieno (2001), Commercial banks and other formal institutions fail to cater for the credit needs of smallholders, however, mainly due to their lending terms and conditions. It is generally the rules and regulations of the formal financial institutions that have created the myth that the poor are not bankable, and since they can't afford the required collateral, they are considered creditworthy.

**Table 4.22: Collateral Strategy**

<b>Statement</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>	<b>Mean</b>	<b>Std Dev</b>
<b>Collateral type</b>							
The bank controls what other stakeholders charge the borrower e.g. valuers, advocates among others	0.00%	0.00%	0.00%	100.00%	0.00%	4.00	0.00
The bank relies only on its details about the MSE customer	0.00%	50.00%	33.30%	16.70%	0.00%	2.67	0.82
The bank goes ahead to also monitor the MSE borrower	0.00%	0.00%	0.00%	33.30%	66.70%	4.67	0.52
<b>Average</b>						<b>3.78</b>	<b>0.44</b>
<b>Payback time</b>							
The bank asks for additional collateral when a customer violates any covenant.	0.00%	16.70%	33.30%	50.00%	0.00%	3.33	0.82
The banks adjusts covenants to suit MSE borrower activities	0.00%	0.00%	0.00%	66.70%	33.30%	4.33	0.52
The bank maintains the same covenant through all its customers	0.00%	16.70%	16.70%	16.70%	50.00%	4.00	1.27
<b>Average</b>						<b>3.89</b>	<b>0.87</b>

Chief credit officers were further asked to indicate the range of the value of collateral. Results in Table 4.23 shows that for the class of loan less than 100,000, 100% of the respondents indicated that the collateral value was less than 200,000. For the loan between 100,000-1,000,000, 66.7% of the respondents indicated the collateral value being 200,000-1,500,000 while 83.3% of the respondents indicated a collateral value of 200,000-1,500,000 for a class of loan of above 1,000,000. These results imply that most banks charge high collateral which may not be affordable to MSEs.

**Table 4.23: Value of Collaterals**

	<b>Less than 200,000</b>	<b>200,000-1,500,000</b>	<b>Above 1,500,000</b>	<b>Mean</b>
<b>Loan</b>	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	
Less than 100,000	100.00%	0.00%	0.00%	1.000
100,000-1,000,000	33.30%	66.70%	0.00%	1.670
Above 1,000,000	0.00%	83.30%	16.70%	2.170
<b>Average</b>				<b>1.613</b>

The summary mean for each sub variable is provided in Table 4.24. The results show that covenant payback period has the highest mean of 3.89, meaning that it has a greater influence on growth of MSEs. Collateral type was ranked second with mean of 3.78 then finally collateral value with a mean of 1.61.

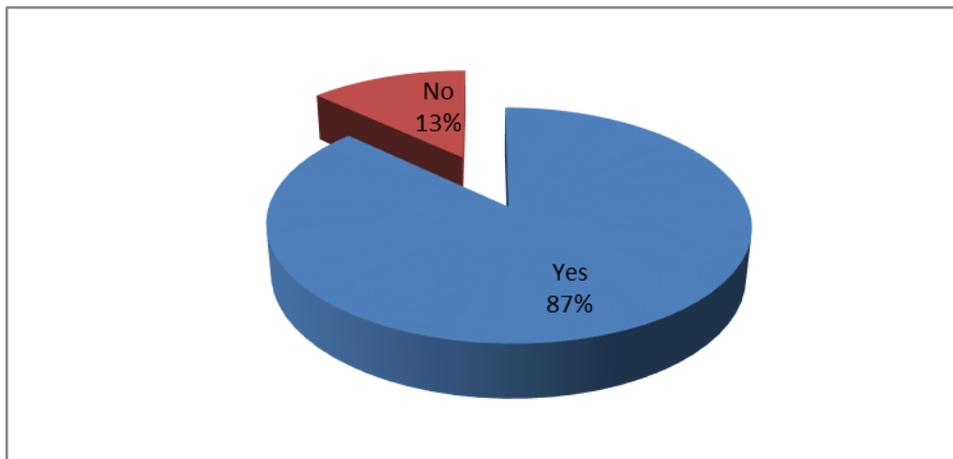
**Table 4.24: Summary of Collateral Strategy**

Sub-variable	Mean
Collateral payback period	3.89
Collateral type	3.78
Collateral Value	1.61

#### **4.7.4 Capacity Building Strategy**

The forth objective of the study was to explore commercial banks' capacity building strategy and growth of MSEs in Kenya. The MSEs owners were asked to indicate if bank officials visit their premises to train their staff on the available bank services.

Figure 4.4 shows that 87% of the MSEs' owners receive bank officials who come to train them on the available bank services while 13% did not. According to a study done by Wagemma (2006), which sought to identify critical factors that influence access to bank credit by MSEs is indicated that entrepreneurial orientation is a direct determinant of access to credit by MSEs. Further, knowledge-based resources gained from maturation (age), training, previous startup experience and vicariously through entrepreneurial parents were found to be associated with greater levels of entrepreneurial orientation.



**Figure 4.4: Bank Officials Visits.**

For those who answered that they receive bank officials who come to train them on the available bank services, they were further asked to indicate on the frequency of visit. Results in table 4.25 indicates that 40.8% of the MSEs' owners responded that they are visited by bank officials two times a year, 40.5% indicated three times a year, 8.1% indicated 4 times and year, 6.3% indicated once a year while only 4.2% of the respondents indicated 5 times a year. This imply that majority of MSEs receive fewer number of trainings in a year.

**Table 4.25: Frequency of Visit**

	<b>Once a year</b>	<b>2 times a year</b>	<b>3 times a year</b>	<b>4 times a year</b>	<b>5 times a year</b>
Frequency of visits	6.30%	40.80%	40.50%	8.10%	4.20%

Credit officers were requested to indicate number of trainings, number of job rotations and number of interviews they conducted over the last five years (2011-2015). Results in

Table 4.26 showed that majority of the respondents indicated that they have conducted between 2-3 trainings, 2-3 job rotations and 2-3 interviews over the last five years, as showed by the mean scores of 1.83, 2.13 and 1.70 respectively. Beck and Demirguc-Kunt, (2006) argued that banks that lend to MSEs recognize that the competence and experience of their staff are crucial in competing effectively for MSEs' business and for managing the credit risk inherent in MSE banking.

For this reason, some banks have embarked on major training programmes and addressed their efforts to professionalize MSE account managers. In fact, bank staff's dealing with MSEs need a sound knowledge of entrepreneurs and their businesses in order to develop an affinity with their clients and offer them solutions adapted to their needs. The actions taken by banks include a better selection of new account managers for MSEs. They look for candidates with an adequate background and experience in small business or with entrepreneurial skills, who can be flexible and sensitive to MSEs issues.

**Table 4.26: Number of Trainings**

<b>Year</b>	<b>less than 2 trainings</b>	<b>2-3 trainings</b>	<b>more than 3 trainings</b>	<b>Mean</b>	<b>Std. Dev</b>
2011	50.0%	33.3%	16.7%	1.67	0.82
2012	50.0%	50.0%	0.0%	1.50	0.55
2013	33.3%	50.0%	16.7%	1.83	0.75
2014	16.7%	66.7%	16.7%	2.00	0.63
2015	16.7%	50.0%	33.3%	2.17	0.75
<b>Average</b>				<b>1.83</b>	<b>0.70</b>

<b>Year</b>	<b>less than 2 job rotations</b>	<b>2-3 job rotations</b>	<b>more than 3 job rotations</b>	<b>Mean</b>	<b>Std. Dev</b>
2011	50.0%	16.7%	33.3%	1.83	0.98
2012	16.7%	50.0%	33.3%	2.17	0.75
2013	33.3%	33.3%	33.3%	2.00	0.89
2014	16.7%	50.0%	33.3%	2.17	0.75
2015	0.0%	50.0%	50.0%	2.50	0.55
<b>Average</b>				<b>2.13</b>	<b>0.79</b>

<b>Year</b>	<b>less than 2 interviews</b>	<b>2-3 interviews</b>	<b>more than 3 interviews</b>	<b>Mean</b>	<b>Std. Dev</b>
2011	16.7%	83.3%	0.0%	1.83	0.41
2012	33.3%	50.0%	16.7%	1.83	0.75
2013	50.0%	50.0%	0.0%	1.50	0.55
2014	66.7%	33.3%	0.0%	1.33	0.52
2015	33.3%	33.3%	33.3%	2.00	0.89
<b>Average</b>				<b>1.70</b>	<b>0.62</b>

The summary mean for each sub variable is provided in Table 4.27. The results show that number of job rotations has the highest mean of 2.13, meaning that it has a greater influence on growth of MSEs. Number of trainings was ranked second with mean of 1.83 then finally number of interviews with a mean of 1.70.

**Table 4.27: Summary of Capacity Building Strategy**

Sub-variable	Mean
Number of job rotations	2.13
Number of trainings	1.83
Number of interviews	1.70

#### **4.7.5 Technology Innovation Strategy**

The fifth objective of the study was to establish commercial banks' technology innovation strategy and growth of MSEs in Kenya. MSEs Owners were requested to indicate if they utilize E banking, M banking and Alternative channels (ATM, POS). Results are presented in Table 4.28.

Results in table 4.28 shows that the MSEs Owners who utilize E banking, M banking and Alternative channels are 56%, 97% and 100% respectively while those who do not utilize E banking are 44% and M banking are 2.9%. This implies that majority of the MSEs are utilizing digital banking services. Most banks have dedicated innovations department targeting MSEs, to which they offer largely standardized digital products though the degree of personalization is growing. And albeit advanced transaction technologies based scoring and risk-rating systems remain relatively underdeveloped, banks are gradually automating their risk management frameworks to achieve efficiency gains (Calice, 2012).

**Table 4.28: Utilization of banking services**

<b>Banking services</b>	<b>Yes</b>	<b>No</b>
E banking	56.00%	44.00%
M banking	97.10%	2.90%
Alternative channels	100.00%	0.00%

For those who answered yes, they were further asked to state the extent of utilization. Results in Table 4.29 indicates that 46.3% of the respondents utilizes E-banking to a moderate extent, 78% utilizes M banking to a large extent and 62.5% utilized alternative channels to a large extent. The average mean is 3.68 implying that majority of the respondents utilize digital banking services to a large extent.

**Table 4.29: Utilization of Banking Services**

<b>Banking services</b>	<b>Very small extent</b>	<b>Small extent</b>	<b>Moderate</b>	<b>Large extent</b>	<b>Very large extent</b>	<b>Mean</b>	<b>Std. Dev</b>
			46.30%				
E banking	9.20%	19.00%		25.50%	0.00%	2.88	0.90
			19.00%				
M banking	0.00%	0.00%		78.00%	3.00%	3.84	0.44
Alternative channels	0.00%	0.00%	3.20%	62.90%	33.90%	4.31	0.53
<b>Average</b>						<b>3.68</b>	<b>0.62</b>

Chief credit officers were requested to indicate the budget set aside by the bank for adoption, maintaining and upgrading E banking, M banking and Alternative channels. Results are presented in Table 4.30.

Results in Table 4.30 showed that majority of the respondents indicated that they had set aside a budget of between Ksh.501, 000-1,000,000 for adoption, maintaining and upgrading E-banking, M-banking and Alternative channels as indicated by a mean of 2.43, 2.44 and 2.36 respectively. Commercial banks should continuously digitize their product for greater efficiency. Malhotra and Singh (2009) in their study on the impact of internet banking on bank performance and risk found out that on average internet banks are larger, more profitable and are more operationally efficient. They also found that internet banks have higher asset quality and are better managed to lower the expenses for building and equipment and that internet banks in India rely substantially on deposits. They further found out that smaller banks that adopt internet banking have been negatively impacted on profitability.

**Table 4.30: Budget set for Banking Services**

<b>Banking services</b>	<b>less than 500,000</b>	<b>501,000-1,000,000</b>	<b>more than 1,000,000</b>	<b>Mean</b>	<b>Std. Dev</b>
<b>E banking</b>					
2011	16.7%	33.3%	50.0%	2.33	0.82
2012	0.0%	66.7%	33.3%	2.33	0.52
2013	0.0%	50.0%	50.0%	2.50	0.55
2014	0.0%	50.0%	50.0%	2.50	0.55
2015	0.0%	50.0%	50.0%	2.50	0.55
<b>Average</b>				<b>2.43</b>	<b>0.60</b>
<b>M banking</b>					
2011	0.0%	33.3%	66.7%	2.67	0.52
2012	33.3%	16.7%	50.0%	2.17	0.98
2013	16.7%	0.0%	83.3%	2.67	0.82
2014	33.3%	16.7%	50.0%	2.17	0.98
2015	0.0%	50.0%	50.0%	2.50	0.55
<b>Average</b>				<b>2.44</b>	<b>0.77</b>
<b>Alternative banking</b>					
2011	0.0%	66.7%	33.3%	2.33	0.52
2012	16.7%	33.3%	50.0%	2.33	0.82
2013	33.3%	0.0%	66.7%	2.33	1.03
2014	16.7%	16.7%	66.7%	2.50	0.84
2015	16.7%	33.3%	50.0%	2.33	0.82
<b>Average</b>				<b>2.36</b>	<b>0.80</b>

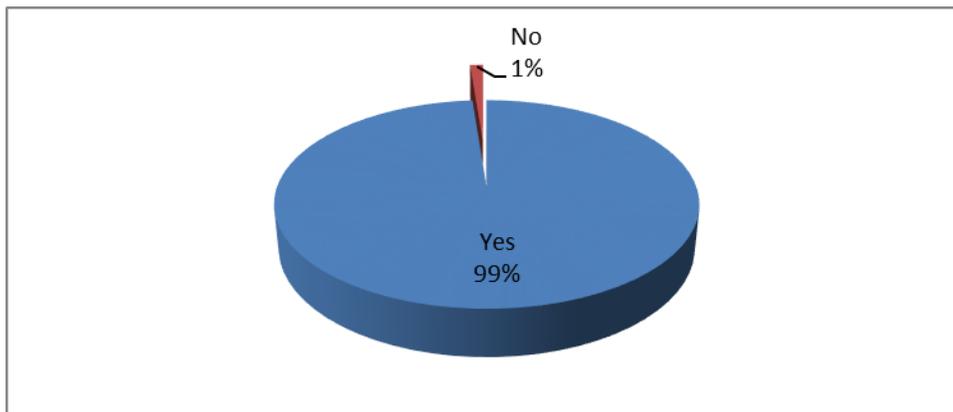
The summary mean for each sub variable is provided in Table 4.31. The results show that alternative channels have the highest mean of 4.31, meaning that it has a greater influence on growth of MSEs. M banking was ranked second with mean of 3.84 then finally E banking with a mean of 2.88.

**Table 4.31: Summary of Technological Innovation Strategy**

<b>Banking services</b>	<b>Mean</b>
Alternative channels	4.31
M banking	3.84
E banking	2.88

#### **4.7.6 Legal and Regulatory Environment**

The sixth objective of the study was to investigate the moderating effect of legal and regulatory environment on the growth of MSEs in Kenya. MSEs Owners were requested to indicate if legal and regulatory rules have an effect on their enterprises. Results in Figure 4.5 shows that 99% of the respondents indicated that legal and regulatory environment influence the growth of MSEs while only 1% indicated that it did not.



**Figure 4.5: Effect of Legal and Regulatory Rules**

For those who answered yes, they were further asked to indicate to what extent they agree that legal and regulatory environment influences the growth of MSEs. Results in table 4.32 shows that 57.6% of the respondents who were the majority agreed that legal

and regulatory environment influence MSEs growth, 23.5% were strongly agreeing, 17.6% were neutral while only 1.2% disagreed. According to Kigguddu (2010) the current constitutional framework and the new Micro and Small Enterprise Act 2012 (MSE Act 2012) provide a window of opportunity through which the evolution of MSEs can be realized through the devolution framework. However, the impact of devolution of MSEs development depends on the architecture of the regulatory and institutional framework inclined to support MSEs in an economy.

**Table 4.32: Legal and Regulatory Environment**

	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
Extent	0.00%	1.20%	17.60%	57.60%	23.50%

Chief credit officers were requested to indicate if their banks have bank tax system, claim enforcement system and bank restriction system in place that guide the management to handle regulatory changes. Results in table 4.33 shows that majority of the respondents indicated their banks have complex tax system(83.3%), claim enforcement system (66.7%) and bank restrictions (83.3%) in place that guide the management to handle regulatory changes. This concurs with a study by Kinoti, Arasa and Guyo (2013) that bank ethics entails ethical principles that ensures that the individuals entrusted in running of the bank activities' perform their tasks within the stipulated legal framework which ensures best practices are upheld.

**Table 4.33: Legal and Regulatory Environment**

<b>Legal and regulatory environment</b>	<b>Yes</b>	<b>No</b>
Bank tax system	83.30%	16.70%
Claim enforcement system	66.70%	33.30%
Bank restrictions	83.30%	16.70%

For those who answered yes, they were further asked to indicate the extent bank tax system, claim enforcement and bank restrictions influence the growth of MSEs in Kenya. Results in Table 4.34 showed that majority of the respondents indicated that bank tax system; claim enforcement system and bank restrictions influence the growth of MSEs to a large extent as revealed by the average mean of 3.93, 4.03 and 4.20 respectively.

A study by Payne (2010) on the effect of banks credit policies on customer borrowing conducted in Canada between 2008-09 established that banks have credit policies that guide them in the process of awarding credit. It was further established that credit control policy is the general guideline governing the process of giving credit to bank customers. According to the researcher, the policy sets the rules on who should access credit, when and why one should obtain the credit including repayment arrangements and necessary collateral. The method of assessment and evaluation of risk of each prospective applicant were found to be part of a credit control policy.

**Table 4.34: Legal and Regulatory Environment**

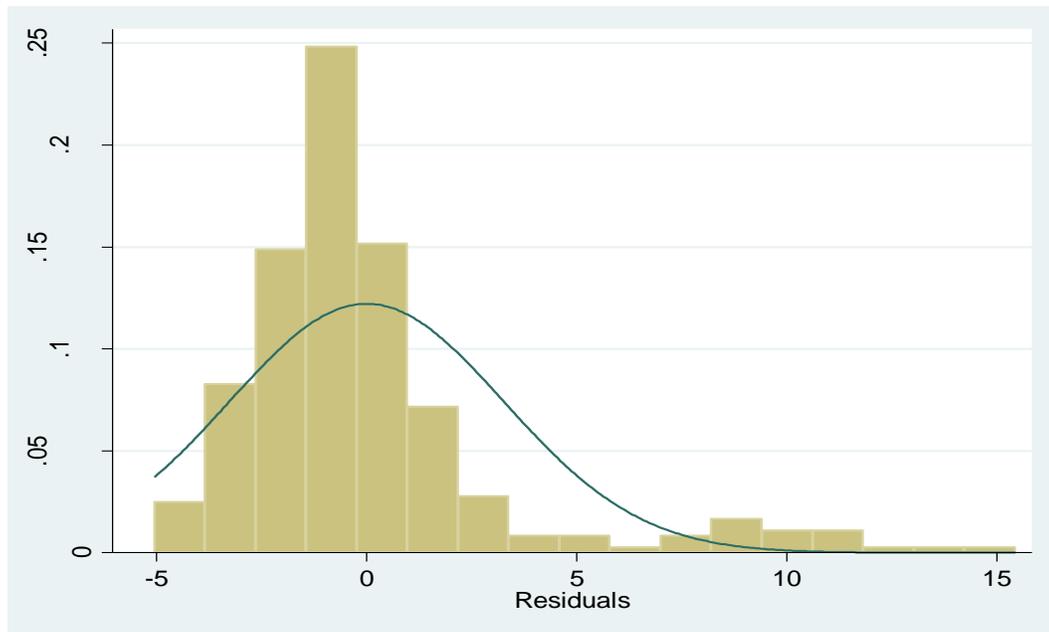
<b>Legal and regulatory environment</b>	<b>very small extent</b>	<b>small extent</b>	<b>moderate extent</b>	<b>large extent</b>	<b>very large extent</b>	<b>Mean</b>	<b>Std. Dev</b>
<b>Bank tax system</b>							
2011	0.0%	16.7%	16.7%	50.0%	16.7%	3.67	1.03
2012	0.0%	16.7%	33.3%	50.0%	0.0%	3.33	0.82
2013	0.0%	0.0%	0.0%	66.7%	33.3%	4.33	0.52
2014	0.0%	0.0%	16.7%	50.0%	33.3%	4.17	0.75
2015	0.0%	0.0%	16.7%	50.0%	33.3%	4.17	0.75
<b>Average</b>						<b>3.93</b>	<b>0.77</b>
<b>Claim enforcement system</b>							
2011	0.0%	16.7%	0.0%	50.0%	33.3%	4.00	1.10
2012	0.0%	0.0%	16.7%	66.7%	16.7%	4.00	0.63
2013	0.0%	0.0%	16.7%	50.0%	33.3%	4.17	0.75
2014	0.0%	0.0%	16.7%	66.7%	16.7%	4.00	0.63
2015	0.0%	16.7%	0.0%	50.0%	33.3%	4.00	1.10
<b>Average</b>						<b>4.03</b>	<b>0.84</b>
<b>Bank restrictions</b>							
2011	0.0%	16.7%	16.7%	33.3%	33.3%	3.83	1.17
2012	0.0%	0.0%	16.7%	66.7%	16.7%	4.00	0.63
2013	0.0%	0.0%	16.7%	33.3%	50.0%	4.33	0.82
2014	0.0%	0.0%	16.7%	16.7%	66.7%	4.50	0.84
2015	0.0%	0.0%	16.7%	33.3%	50.0%	4.33	0.82
<b>Average</b>						<b>4.20</b>	<b>0.85</b>

#### 4.8. Diagnostic Tests

Prior to running a regression model pre-estimation and post estimation tests were conducted. The pre-estimation tests conducted in this case were the multicollinearity test while the post estimation tests were normality test, test for heteroskedasticity and test for autocorrelation. This is usually performed to avoid spurious regression results from being obtained.

##### 4.8.1 Test for Normality

The test for normality was examined using the graphical method approach as shown in the Figure 4.6 below. The results in the figure indicate that the residuals are normally distributed.



**Figure 4.6: Test for Normality**

### 4.8.2 Heteroskedasticity test

The error process may be Homoskedastic within cross-sectional units, but its variance may differ across units: a condition known as group wise Heteroscedasticity. The hettest command calculates Breuch Pagan for group wise Heteroscedasticity in the residuals. The null hypothesis specifies that  $\sigma^2_i = \sigma^2$  for  $i = 1 \dots Ng$ , where Ng is the number of cross-sectional units. The results in Table 4.35 indicate that the null hypothesis of Homoskedastic error terms is not rejected as supported by a p-value of 0.0710.

**Table 4.35: Heteroskedasticity Results**

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**Breuch-Pagan / Cook-Weisberg test for heteroskedasticity**

---

Ho: Constant variance  
Variables: fitted values of Growth  
chi2(1) = 83.66  
Prob > chi2 = 0.0710

---

### 4.8.3 Autocorrelation Test

Because serial correlation in models biases the standard errors and causes the results to be less efficient, the study adopted the Breusch-Godfrey test for autocorrelation which identifies serial correlation in the idiosyncratic error term in a model. From the Table 4.36 the null hypothesis of no serial correlation is not rejected given that the p-value is significant (p-value = 0.823).

**Table 4.36: Test of Autocorrelation**

---

<b>Breusch-Godfrey</b>	<b>LM</b>	<b>test for autocorrelation</b>		
lags(p)		chi2	df	Prob > chi2
1		17.433	1	0.823

---

H0: no serial correlation

---

## 4.9 Statistical Modeling

### Hypotheses testing

The hypotheses were tested using multiple linear regression. Table 4.37 shows multiple regression results. The results presented in the table 4.37 indicated that commercial banks' product accessibility, customer relationship management, collateral, technology and innovation and capacity building strategy explained 82.8% of the variances in MSEs growth as indicated by squared multiple correlation ( $R^2$ ) of 0.828. The results indicate that the overall model was statistically significant. Further, the results imply commercial banks' product accessibility strategy, customer relationship management strategy, collateral strategy, technology and innovation strategy and capacity building strategy are good predictors of MSEs' growth. This was supported by an F statistic of 287.050 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level.

Results further indicate that commercial banks' product accessibility strategy have a positive and significant effect on MSEs growth. ( $r=1.083$ ,  $p=0.000$ ), commercial banks' customer relationship management strategy have a positive and significant effect on MSEs growth. ( $r=0.931$ ,  $p=0.000$ ), commercial banks' collateral strategy have a positive and significant effect on MSEs growth. ( $r=-1.179$ ,  $p=0.000$ ), commercial banks' capacity building strategy have a positive and significant effect on MSEs growth. ( $r=0.653$ ,  $p=0.001$ ) and lastly commercial banks' technology and innovation strategy have a positive and insignificant effect on MSEs growth. ( $r=0.358$ ,  $p=0.188$ ),

Thus the specific model was;

$$\text{MSEs Growth} = 1.07 + 1.083X_1 + 0.931X_2 - 1.179X_3 + 0.653X_4 + 0.358X_5$$

Where;

X<sub>1</sub>= Product accessibility strategy

X<sub>2</sub>= Customer relationship management strategy

X<sub>3</sub>= Collateral strategy

X<sub>4</sub>= Capacity Building strategy

X<sub>5</sub>= Technology and innovation strategy

This finding is consistent with that of Wanjohi and Mugure (2008) who argued that there are various other financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees, lack of collateral and longtime lending procedures. Financial constraint remains a major challenge facing MSEs in Kenya. Small-scale enterprises play a major role in facilitating economic growth in Kenyan economy. The greatest hindrance to their active participation is the access to affordable credit and at reasonable terms.

Kumar and Jeyanth (2013) agree with Fidrmuc that a good relationship between MSEs and commercial banks helps them to easily access finances and information. They add on that capacity building of staff for preparedness is perhaps the most important task. Commercial banks are unique in their way of operation as the staff has rapport with even the most remote clients.

This finding is also consistent with that of Kinyua (2014) researching on factors affecting the performance of small and medium enterprises in the Jua Kali Sector in Nakuru town, Kenya and found out that; access to finance had the potential to positively affect performance of SMEs, The study recommended that banks should improve access to finance through offering better lending terms and conditions and collateral requirements; focus on acquiring appropriate management skills such as financial,

marketing and entrepreneurial skills and effectively strengthen the macro environment in order to increase MSEs performance.

**Table 4.37: Multiple regression results**

<b>Variable</b>	<b>B</b>	<b>Std. Error</b>	<b>t</b>	<b>sig</b>
(Constant)	1.07	1.913	0.559	0.576
Product accessibility strategy	1.083	0.172	6.315	<b>0.000</b>
Customer relationship management strategy	0.931	0.229	4.061	<b>0.000</b>
Collateral strategy	-1.179	0.275	-4.285	<b>0.000</b>
capacity Building strategy	0.653	0.188	3.473	<b>0.001</b>
Technology and innovation strategy	0.358	0.271	1.32	0.188
F statistics(p value)	287.050(0.000)			
R squared	0.828			

#### **4.9.1 Product Accessibility Strategy**

The hypothesis was tested by using multiple linear regression (table 4.37 above). The acceptance/rejection criteria was that, if the p value is greater than 0.05, the  $H_{01}$  is not rejected but if it's less than 0.05, the  $H_{01}$  fails to be accepted. The null hypothesis was that there is no significant relationship between commercial banks' products accessibility strategy and growth of MSEs in Kenya. Results in Table 4.37 above show that the p-value was  $0.000 < 0.05$ . This indicated that the null hypothesis was rejected hence there is a significant relationship between commercial banks' products accessibility strategy and growth of MSEs in Kenya.

This finding is consistent with that of Kinyua (2014) who found out that access to finance had the potential to positively affect performance of SMEs, management skills were found to positively and significantly affect performance of SMEs, macro

environment factors were found to significantly affect performance and infrastructure did not significantly affect performance of SMEs in the study area.

#### **4.9.2 Customer Relationship Marketing Strategy**

The hypothesis was tested by using multiple linear regression (table 4.37, above). The acceptance/rejection criteria was that, if the p value is greater than 0.05, the  $H_{02}$  is not rejected but if it's less than 0.05, the  $H_{02}$  fails to be accepted.

The null hypothesis was that there is no significant relationship between Customer relationship management strategy and growth of MSEs in Kenya. Results in Table 4.37 above show that the p-value was  $0.000 < 0.05$ . This indicated that the null hypothesis was rejected hence there is a significant relationship between Customer relationship management strategy and growth of MSEs in Kenya.

This finding is consistent with that of Ozkan and Ozkan (2011) who maintain that building relationships with financial institutions improves firms' ability to access external financing. This suggests that firms with a higher proportion of bank debt will be able to access external financing more easily. Establishing commercial banks relationships with MSEs reduces information asymmetry and agency problems, since valuable information about MSE quality can be disclosed. Thus, establishing stable links with financial institutions can improve both the availability and the conditions of financing. Keeping banking relationships can be beneficial to firms, in so far as contact between the commercial banks and MSE can improve the availability of funds and lower their costs.

#### **4.9.3 Collateral Strategy**

The hypothesis was tested by using multiple linear regression (table 4.37, above). The acceptance/rejection criteria was that, if the p value is greater than 0.05, the  $H_{03}$  is not rejected but if it's less than 0.05, the  $H_{03}$  fails to be accepted.

The null hypothesis was that there is no significant relationship between collateral and growth of MSEs in Kenya. Results in Table 4.37 above show that the p-value was  $0.000 < 0.05$ . This indicated that the null hypothesis was rejected hence there is a significant relationship between collateral and covenants and growth of MSEs in Kenya.

This finding is consistent with that of Chowdhury (2012) who argued that local market competition among commercial banks in Bangladesh is driven by credit terms especially in terms of loan amounts, interest rates and repayment time and that some borrowers and commercial banks opt for a package of low interest rates tied with low amount of loan disbursed. Some other borrowers and commercial banks settle for a package of high interest rates tied with high amount of loan disbursed. However, when assessing comparatively small and straightforward business credit applications, MFIs may largely rely on standardized credit scoring techniques (quantifying such things as the characteristics, assets, and cash flows of businesses/owners). This coupled with the terms and conditions that are perceived to protect their loans at times appear as burdens to the borrowers and because MSEs do not have adequate or no collateral as indicated by Katto (2008) their performance ends up being affected.

#### **4.9.4 Capacity Building Strategy**

The hypothesis was tested by using multiple linear regression (table 4.37, above). The acceptance/rejection criteria was that, if the p value is greater than 0.05, the  $H_{04}$  is not rejected but if it's less than 0.05, the  $H_{04}$  fails to be accepted.

The null hypothesis was that there is no significant relationship between capacity building strategy and growth of MSEs in Kenya. Results in Table 4.37 above show that the p-value was  $0.001 < 0.05$ . This indicated that the null hypothesis was rejected hence there is a significant relationship between capacity building strategy and growth of MSEs in Kenya.

This finding is consistent with that of Wageman (2006), who found out that, knowledge-based resources gained from maturation (age), training, previous startup experience and vicariously through entrepreneurial parents were found to be associated with greater levels of entrepreneurial orientation. Overall, these findings support the literature that underscores the primacy of entrepreneurial factors, over operating environment in facilitating small enterprises' access to bank credit.

#### **4.9.5 Technology Innovation Strategy**

The hypothesis was tested by using multiple linear regression (table 4.37 above). The acceptance/rejection criteria was that, if the p value is greater than 0.05, the  $H_0$  is not rejected but if it's less than 0.05, the  $H_0$  fails to be accepted.

The null hypothesis was that there is no significant relationship between commercial banks' technology and innovation strategy and growth of MSEs in Kenya. Results in Table 4.37 above show that the p-value was  $0.188 > 0.05$ . This indicated that the null hypothesis was not rejected hence there is no significant relationship between commercial banks' technology and innovation and growth of MSEs in Kenya.

A cross country survey of the impact of ICT on MSE production and innovativeness conducted (Esiebugie, Ekeh & Diaka, 2016) in eight Sub-Saharan countries found that in most African countries, small and medium enterprise (MSEs) account for a significant share of production and employment and is therefore directly connected to poverty alleviation. MSEs were found to be challenged by the globalization of production and the shift in the importance of various determinants of competitiveness. ICTs were found to be necessary in improving efficiency and increasing productivity in different ways including, improving efficiency in resource allocation, reducing transaction costs, and technical improvement, leading to the outward shifting of the production function.

#### 4.9.6 Moderating Effect Test

Before hypothesis testing for the moderating effect was done, all the independent variables were collapsed to obtain one composite. Thereafter, a multiple regression model was run with the composite of all the independent variables, legal and regulatory environment and interaction term (Interaction of both Composite of Independent variables and legal and Regulatory environment) as predictors and growth in MSE as the dependent variables. The rejection criterion is that if the p value of the interacting term is less than 0.05 (p value<0.05), do not reject the null hypothesis, therefore meaning moderation is supported. Results are presented in table 4.38.

Thus the optimal model was;

$$\text{MSEs Growth} = \alpha + X + M + X.M$$

Where;

X= Composite of Independent variables

M= Legal and Regulatory environment

X\*M= Interaction term (Interaction between independent variables and legal regulatory environment (moderator))

The null hypothesis was that there is no significant moderating effect of legal and regulatory environment on the growth of MSEs in Kenya. Results in Table 4.38 above show that the p value of the interacting term is statistically significant (0.017), therefore legal and regulatory environment moderate MSEs growth in Kenya and thus moderation is supported. Since the calculated p value of the interaction is 0.017<0.05, the null hypothesis is rejected and thus legal and regulatory environment have a significant moderating effect on the growth of MSEs in Kenya.

According to Simonson *et al.* (2009), sound credit policy would help improve prudential oversight of asset quality, establish a set of minimum standards, and to apply a common language and methodology (assessment of risk, pricing, documentation, securities, authorization, and ethics), for measurement and reporting of non-performing assets, loan classification and provisioning. The credit policy should set out the bank's lending philosophy and specific procedures and means of monitoring the lending activity. The guiding principle in credit appraisal is to ensure that only those borrowers who require credit and are able to meet repayment obligations can access credit.

**Table 4.38: Moderating Effect Test**

<b>Variables</b>	<b>B</b>	<b>Std. Error</b>	<b>t</b>	<b>sig</b>
(Constant)	8.37	1.258	6.655	0.000
Composite of Independent variables	0.019	0.006	3.297	0.001
legal and Regulatory environment	-0.568	0.325	-1.747	0.082
Interaction term	-0.004	0.001	-2.399	<b>0.017</b>

#### **4.9.7 Summary of the Hypothesis**

Table 4.39 below presents a summary of the objectives and hypothesis results. The rules for rejecting the hypothesis and the critical p values presented. The actual /calculated p values were then evaluated against the critical p values and the comment on whether the hypothesis was rejected, or not rejected

**Table 4.39: Summary of the Results**

<b>Objective No</b>	<b>Objective</b>	<b>Hypothesis</b>	<b>Rule</b>	<b>p-value</b>	<b>Comment</b>
Objective 1	To establish commercial banks' products accessibility strategy on growth of MSEs in Kenya	Ho: There is no significant relationship between commercial banks' products accessibility strategy and growth of MSEs in Kenya	Reject Ho if p value <0.05	p<0.05	The null hypothesis was rejected, therefore there is a significant relationship between commercial banks' products accessibility strategy and growth of MSEs in Kenya
Objective 2	To determine commercial banks' customer relationship marketing (CRM) strategy and growth of MSEs in Kenya	Ho: There is no significant relationship between commercial banks' customer relationship marketing (CRM) strategy and growth of MSEs in Kenya	Reject Ho if p value <0.05	p<0.05	The null hypothesis was rejected, therefore there is a significant relationship between commercial banks' customer relationship marketing (CRM) strategy and growth of MSEs in Kenya
Objective 3	To establish commercial banks' collateral strategy and growth of MSEs in Kenya.	Ho: There is no significant relationship between commercial banks' collateral strategy and the growth of MSEs in Kenya.	Reject Ho if p value <0.05	p<0.05	The null hypothesis was rejected, therefore there is a significant relationship between commercial banks' collateral strategy and the growth of MSEs in Kenya.
Objective 4	To explore commercial banks' capacity	Ho: There is no significant relationship between commercial banks' capacity	Reject Ho if p value <0.05	p<0.05	The null hypothesis was rejected; therefore there is significant relationship between commercial

<b>Objective No</b>	<b>Objective</b>	<b>Hypothesis</b>	<b>Rule</b>	<b>p-value</b>	<b>Comment</b>
	building strategy and growth of MSEs in Kenya.	building a strategy and growth of MSEs in Kenya.			banks' capacity building strategy and growth of MSEs in Kenya.
Objective 5	To establish the commercial banks' technological innovation strategy on the growth of MSEs in Kenya.	Ho: There is no significant relationship between commercial banks' technological innovation strategy and the growth of MSEs in Kenya.	Reject Ho if p value <0.05	p>0.05	The null hypothesis was not rejected therefore there is no significant relationship between commercial banks' Technological innovation strategy and growth of MSEs in Kenya
Objective 6	To investigate the moderating effect of legal and regulatory environment on the growth of MSEs in Kenya.	H0: There is no significant moderating effect of legal and regulatory environment on the growth of MSEs in Kenya.	Reject Ho if p value of interaction term <0.05	The p value of interaction term <0.05	The null hypothesis was rejected; therefore there is a significant moderating effect of legal and regulatory environment on the growth of MSEs in Kenya.

#### **4.10 Correlation Analysis**

For the purposes of correlation analysis, all the statements for each variable were collapsed to give a mean score. The mean scores were then used to check on the strength of association between the independent and the dependent variables. Correlation analysis was conducted so as to establish the association between independent variables and growth in MSEs. Results in Table 4.40 showed that product accessibility strategy and growth in MSEs are positively and significantly associated ( $r=0.24$ ,  $p=0.000$ ). Customer relationship management strategy and growth in MSEs are positively and significantly associated ( $r=0.218$ ,  $p=0.000$ ). Collateral strategy and growth in MSEs are negatively and significantly associated ( $r=-0.200$ ,  $p=0.000$ ). Capacity building strategy and growth in MSEs are positively and significantly associated ( $r=0.182$ ,  $p=0.001$ ). Results in table 4.38 showed that technology and innovation strategy and growth in MSEs are positively and insignificantly associated ( $r=0.066$ ,  $p=0.231$ ).

Berger and Black (2011) conducted a study on Bank size, lending technologies, and small business finance. results suggest that large banks do not have equal advantages in all of these hard lending technologies and these advantages are not all increasing monotonically in firm size, contrary to the predictions of the current paradigm. Eshetu & Zeleke (2012) argue that the factors that affect the long term survival of MSEs in Ethiopia are found to be adequacy of finance, level of education, level of managerial skills, level of technical skills, and ability to convert part of their profit to investment.

Demirogiu and Christopher (2010) undertook a study in Florida, USA between 2008-09 to examine the relationship between covenant tightness and the broad performance. Overall, the study found no systematic relationship between covenant tightness and declines in overall performance. This finding is inconsistent with the current study. Kumar and Jeyanth (2013) agree with Fidrmuc that a good relationship between MSEs and commercial banks helps them to easily access finances and information. They add on that capacity building of staff for preparedness is perhaps the most important task.

Commercial banks are unique in their way of operation as the staff has rapport with even the most remote clients.

Okoye and Onyekachi (2013) undertook a study on the impact of bank lending rate on the performance of Nigerian Deposit Taking Money Banks between 2000 and 2010. The result confirmed that the lending rate and monetary policy rate has significant and positive effects on the performance of Nigerian deposit money banks.

**Table 4.40: Correlation Coefficients Matrix**

		<b>Growth in MSEs</b>	<b>Product accessibi lity</b>	<b>CRM</b>	<b>Collate rals</b>	<b>Capacit y Buildin g</b>	<b>Techno logy</b>	<b>Legal and Regulator y</b>
<b>Growth in MSEs</b>	Pearson Correlat ion 1.000 Sig. (2-tailed)							
<b>Product accessibility</b>	Pearson Correlat ion .240** Sig. (2- tailed) 0.000		1.000					
<b>CRM</b>	Pearson Correlat ion .218** Sig. (2- tailed) 0.000		-.117*	1.000				
<b>Collateral</b>	Pearson Correlat ion -.200** Sig. (2- tailed) 0.000		.365**	-	.341** 1.000			
<b>Capacity Building</b>	Pearson Correlat ion .182** Sig. (2- tailed) 0.001		0.037	0.042	-0.008	1.000		
<b>Technology and innovation</b>	Pearson Correlat ion 0.066 Sig. (2- tailed) 0.231		0.005	0.051	0.000	0.108	1.000	
<b>Legal and Regulatory</b>	Pearson Correlat ion -.310** Sig. (2- tailed) 0.000		-.213**	-0.035	0.087	-0.092	0.009	1.000
			0.000	0.526	0.129	0.096	0.868	

\*\* Correlation is significant at the 0.01 level (2-tailed).  
\* Correlation is significant at the 0.05 level (2-tailed).

## **4.11 Regression Analysis**

For the purposes of regression analysis, all the statements for each variable were collapsed to give a mean score. The mean scores were then used to model the relationship between the independent and the dependent variables.

### **4.11.1 Products Accessibility Strategy**

The results presented in table 4.41 present the fitness of model used of the regression model in explaining the study phenomena. Commercial banks product accessibility strategy explained 5.8% of growth in MSEs.

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant.

Table 4.41 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that the product accessibility is a good predictors of MSEs' growth. This was supported by an F statistic of 19.907 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level.

Regression of coefficients results is shown in table 4.41. Commercial banks' product accessibility strategy have a positive and significant effect on the growth of MSEs ( $r=0.74$ ,  $p=0.000$ ). This means that a unitary increase in Commercial banks' product accessibility strategy will lead to a growth of MSEs by 0.74 units. This finding is consistent with that of Kinyua (2014) researching on factors affecting the performance of small and medium enterprises in the Jua Kali Sector in Nakuru town, Kenya and found out that; access to finance had the potential to positively affect performance of

SMEs, The study recommended that banks should improve access to finance through offering better lending terms and conditions and collateral requirements; focus on acquiring appropriate management skills such as financial, marketing and entrepreneurial skills and effectively strengthen the macro environment in order to increase SMEs performance.

The specific model was;

$$\text{MSE growth} = 4.93 + 0.74X$$

Where X is Commercial banks' product accessibility strategy

**Table 4.41: Model Fitness Products Accessibility Strategy**

<b>Indicator</b>	<b>Coefficient</b>				
R	0.240				
R Square	<b>0.058</b>				
Adjusted R Square	0.055				
Std. Error of the Estimate	3.55566				

<b>Analysis of Variance</b>					
	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	251.679	1	251.679	19.907	<b>.000</b>
Residual	4108.887	325	12.643		
Total	4360.567	326			

<b>Coefficients</b>				
<b>Variable</b>	<b>B</b>	<b>Std. Error</b>	<b>t</b>	<b>Sig.</b>
(Constant)	4.93	0.521	9.461	0.000
Commercial banks' product accessibility	0.74	0.166	4.462	<b>0.000</b>

#### **4.11.2 Customer Relationship Marketing (CRM) Strategy**

The results presented in table 4.42 present the fitness of model used of the regression model in explaining the study phenomena. Customer relationship management explained 4.8% of growth in MSEs.

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant.

Table 4.42 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that the customer relationship management is good predictors of MSEs' growth. This was supported by an F statistic of 16.454 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level.

Regression of coefficients results is shown in Table 4.42 Customer relationship management strategy have a positive and significant effect on the growth of MSEs ( $r=0.998$ ,  $p=0.000$ ). This means that a unitary increase in Customer relationship management will lead to a growth of MSEs by 0.998 units. Ozkan & Ozkan (2011) maintain that building relationships with financial institutions improves firms' ability to access external financing. This suggests that firms with a higher proportion of bank debt will be able to access external financing more easily. Establishing commercial banks relationships with MSEs reduces information asymmetry and agency problems, since valuable information about MSE quality can be disclosed. Thus, establishing stable links with financial institutions can improve both the availability and the conditions of financing.

The specific model was;

$$\text{MSE growth} = 3.963 + 0.998X$$

Where X is Customer relationship management strategy

**Table 4.42: Model Fitness Customer Relationship Marketing (CRM) Strategy**

Indicator	Coefficient
R	0.218
R Square	<b>0.048</b>
Adjusted R Square	0.045
Std. Error of the Estimate	3.55844

**Analysis of Variance**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	208.35	1	208.35	16.454	<b>.000</b>
Residual	4165.959	329	12.662		
Total	4374.309	330			

**Coefficients**

Variable	B	Std. Error	t	sig
(Constant)	3.963	0.793	5	0.000
Customer relationship management	0.998	0.246	4.056	<b>0.000</b>

### 4.11.3 Collateral Strategy

The results presented in table 4.43 present the fitness of model used of the regression model in explaining the study phenomena. Collateral strategy explained 4% of growth in MSEs.

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant.

Table 4.43 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that Collateral is good predictors of MSEs' growth. This was supported by an F statistic of 12.752 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level.

Regression of coefficients results is shown in table 4.43. Results in table 4.43 shows that Collateral have a negative and significant effect on the growth of MSEs ( $r=-0.96$ ,  $p=0.000$ ). This means that a unitary increase in collateral will lead to a decline in the growth of MSEs by 0.96 units. Mwanja (2011) in his study concluded that infant businesses need support in their early years when their motivation is high and innovation is low and that collateral requirements at KCB Ruiru should be made a bit flexible and repayment period should be increased to at least a year because MSEs only manage to access a small amount of loan due to short repayment periods. He also saw that their sales turnover decrease from the previous due to the increase in operating costs brought about by the interest rates on the loans advanced.

The specific model was;

$$\text{MSE growth} = 8.764 + 0.96X$$

Where X is Collateral strategy

**Table 4.43 Model Fitness Collateral Strategy**

<b>Indicator</b>	<b>Coefficient</b>
R	0.200
R Square	<b>0.040</b>
Adjusted R Square	0.037
Std. Error of the Estimate	3.65438

**Analysis of Variance**

	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	170.345	1	170.345	12.752	<b>.000</b>
Residual	4087.484	306	13.358		
Total	4257.829	307			

**Coefficients**

<b>Variable</b>	<b>B</b>	<b>Std. Error</b>	<b>t</b>	<b>sig</b>
(Constant)	8.764	0.502	17.471	0.000
Collateral	-0.96	0.269	-3.571	<b>0.000</b>

#### **4.11.4 Capacity Building Strategy**

The results presented in table 4.44 present the fitness of model used of the regression model in explaining the study phenomena. Capacity building explained 4% of growth in MSEs.

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant.

Table 4.44 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that capacity building is good predictors of MSEs' growth. This was supported by an F statistic of 11.322 and the reported p value (0.001) which was less than the conventional probability of 0.05 significance level.

Regression of coefficients results is shown in table 4.44. Results in table 4.44 shows that capacity building have a positive and significant effect on the growth of MSEs ( $r=0.656$ ,  $p=0.001$ ). This means that a unitary increase in capacity building will lead to a decline in the growth of MSEs by 0.656 units. Demirguc-Kunt (2006) argued that banks that lend to MSEs recognize that the competence and experience of their staff are crucial in competing effectively for MSEs' business and for managing the credit risk inherent in MSE banking. For this reason, some banks have embarked on major training programmes and addressed their efforts to professionalize MSE account managers. In fact, bank staff's dealing with MSEs need a sound knowledge of entrepreneurs and their businesses in order to develop an affinity with their clients and offer them solutions adapted to their needs. The actions taken by banks include a better selection of new account managers for MSEs. They look for candidates with an adequate background and

experience in small business or with entrepreneurial skills, who can be flexible and sensitive to MSEs issues

The specific model was;

$$\text{MSE growth} = 5.388 + 0.656X$$

Where X is Capacity building strategy.

**Table 4.44: Model Fitness Capacity Building Strategy**

<b>Indicator</b>	<b>Coefficient</b>				
R	0.182				
R Square	<b>0.033</b>				
Adjusted R Square	0.030				
Std. Error of the Estimate	3.58517				
<b>Analysis of Variance</b>					
	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	145.531	1	145.531	11.322	<b>.001</b>
Residual	4228.777	329	12.853		
Total	4374.309	330			
<b>Coefficients</b>					
<b>Variable</b>	<b>B</b>	<b>Std. Error</b>	<b>t</b>	<b>sig</b>	
(Constant)	5.388	0.54	9.979	0.000	
Capacity building	0.656	0.195	3.365	<b>0.001</b>	

#### **4.11.5 Technology Innovation Strategy**

The results presented in table 4.45 present the fitness of model used of the regression model in explaining the study phenomena. Technology and innovation strategy explained 0.4% of growth in MSEs.

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant. Table 4.45 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically insignificant (F statistic=1.443, p=0.231).

Regression of coefficients results is shown in table 4.45. Results in table 4.45 shows that technology and innovation have a positive and insignificant effect on the growth of MSEs ( $r=0.505$ ,  $p=0.231$ ). This finding is inconsistent with that of Ngumi (2014) who conducted a study on the effect of bank innovations on financial performance of commercial banks in Kenya and found out that bank innovations had statistically significant influence on income, return on assets, profitability and customer deposits of commercial banks in Kenya and tests for significance also showed that the influence was statistically significant.

The specific model was;

$$\text{MSE growth} = 0.5.227 + 0.505X$$

Where X is Technology and innovation strategy

**Table 4.45: Model Fitness Technology Innovation Strategy**

<b>Indicator</b>	<b>Coefficient</b>				
R	0.066				
R Square	<b>0.004</b>				
Adjusted R Square	0.037				
Std. Error of the Estimate	3.65438				
<b>Analysis of Variance</b>					
	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	19.101	1	19.101	1.443	.231
Residual	4355.207	329	13.238		
Total	4374.309	330			
<b>Coefficients</b>					
<b>Variable</b>	<b>B</b>	<b>Std. Error</b>	<b>t</b>	<b>sig</b>	
(Constant)	5.227	1.555	3.363	0.001	
Technology and innovation	0.505	0.42	1.201	0.231	

#### 4.12 Multiple Linear Regression model

The general purpose of multiple linear regression (the term was first used by Pearson, 1908) is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable (Borg, Gall & Gall, 2008). Multiple regression allows the researcher to ask (and hopefully answer) the general question “what is the best predictor of ...” (Doane & Seward, 2008).

The regression analysis in table 4.46 shows a strong linear relationship.  $R = 0.828$  and adjusted  $R^2 = 0.825$  which means that there is 82.5% of corresponding change in growth

of MSEs for every change in all the predictor variables jointly. A further test on the beta coefficients of the resulting model, the Technological innovation ( $\beta_4 = 0.358$ ) is not significantly different from 0, as the p value  $p = 0.188$  is greater than  $p = 0.05$ . The coefficients  $\beta_1 = 1.083$ ,  $\beta_2 = 0.931$  and  $\beta_3 = -1.179$  are however significantly different from 0, with p values 0.000, 0.000 and 0.001, respectively which are all less than  $p = 0.05$ .

**Table 4.46: Model Summary**

<b>R</b>	<b>R Square<sup>b</sup></b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>		
.910a	0.828	0.825	3.37352		
	Sum of Squares	df	Mean Square	F	Sig.
Regression	16334.09	5	3266.818	287.05	.000c
Residual	3402.812	299	11.381		
Total	19736.900d	304			
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Product accessibility	1.083	0.172	0.428	6.315	0.000
CRM	0.931	0.229	0.374	4.061	0.000
Collateral	-1.179	0.275	-0.271	-4.285	0.000
Capacity Building	0.653	0.188	0.224	3.473	0.001
Technology innovation	0.358	0.271	0.165	1.32	0.188

#### 4.13 Model Optimization

Based on the results in Table 4.46 a model optimization was conducted. The aim of model optimization was to guide in derivation of the final model (revised conceptual

framework) where only the significant variables are included for objectivity. Thus the specific model was;

$$Y = -1.179X_1 + 1.083X_2 + 0.931X_3 + 0.653X_4 + e$$

Where;

$Y$  = MSEs Growth

$X_1$  = Collateral strategy

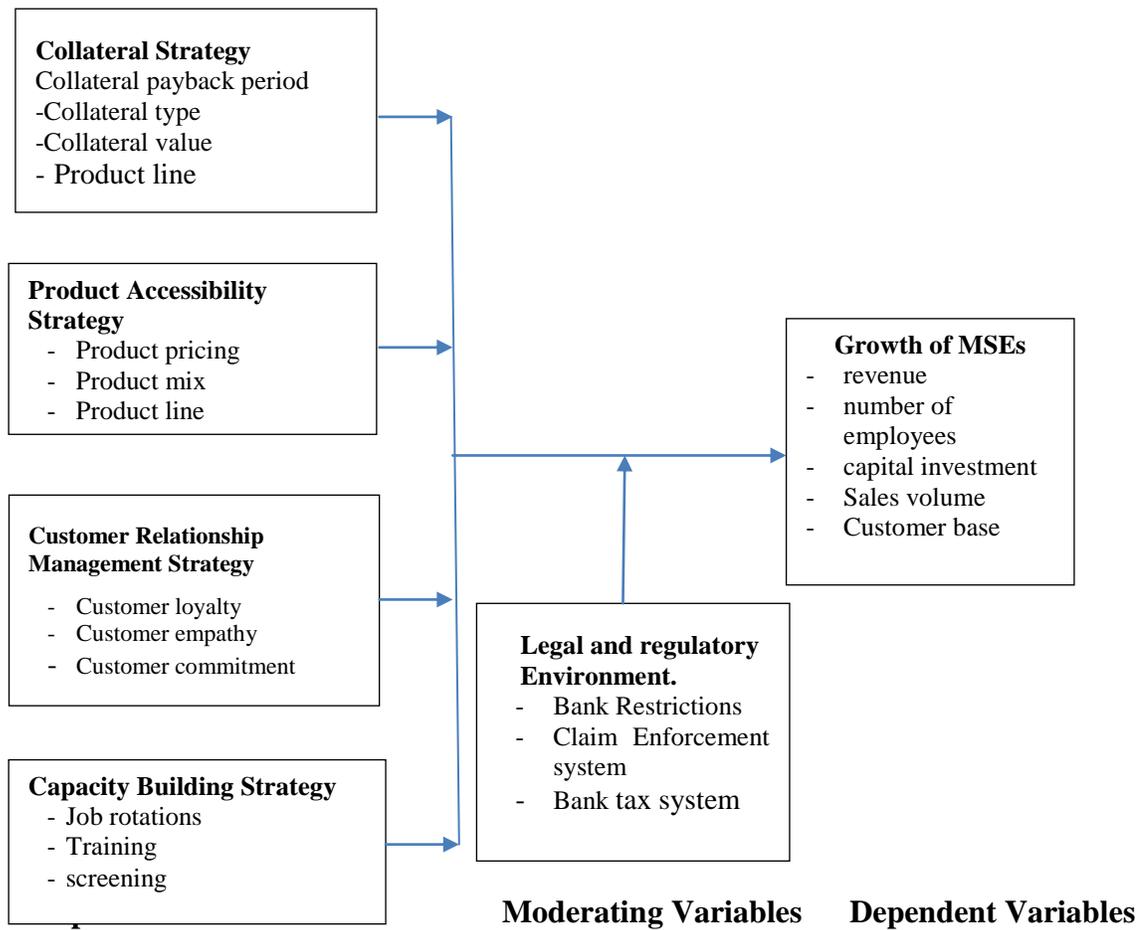
$X_2$  = Product accessibility

$X_3$  = Customer relationship management strategy

$X_4$  = Capacity Building strategy

$e$  = Error term

Technology and innovation variable was dropped since it was insignificant at p- value of 0.188, which is > than 0.05, this study's significance level.



**Figure 4.7: Revised conceptual framework**

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The purpose of the study was to investigate commercial banks' lending strategies and growth of MSEs in Kenya. In particular, the study was designed to explore commercial banks product accessibility strategy, Customer relationship management strategy, collateral strategy, capacity building strategy and technology and innovations strategy moderated by legal and regulatory environment and growth of MSEs in Kenya. The section presents the findings from the study and compares to what other scholars have said.

#### **5.2 Summary of Findings**

This section confirms that the study was able to come up with the intended findings of the research .The conclusions and recommendations were extracted out of the overall findings.

##### **5.2.1 Products Accessibility Strategy**

The first objective of the study was to establish commercial banks' products accessibility strategy and growth of MSEs in Kenya. It was found out that for every change in MSEs growth 5.5% can be attributed to product accessibility. The majority of the MSEs Owners borrow loans from the banks and majority of the bank loans were accessible. Further, the study found out that the ability to influence the price was different among banks. This often depends on firm bargaining power and competition. In order to enhance their capability to decide the price, banks focused mostly on marketing, as price setting strategy as a significant component of the marketing mix..

### **5.2.2 Customer Relationship Marketing Strategy**

The second objective of the study was to determine commercial banks' customer relationship marketing (CRM) strategy and growth of MSEs in Kenya. It was found out that for every change in MSEs growth 4.8% can be attributed to customer relationship marketing. Majority of the respondents agreed that the bank quickly rectify problems with customers and that the bank employees do follow-ups to find out if they need some assistance,

### **5.2.3 Collateral Strategy**

The third objective of the study was to establish commercial banks' collateral strategy and growth of MSEs in Kenya. The study found out that collateral was an impediment to growth with an overall negative coefficient of -1.179 implying that for every increase in collateral requirement there will be a negative growth of 4%. Results revealed that Majority of MSEe owners have been asked for collateral when they wanted a loan and that the collateral was not affordable. These results imply that most banks charge high collateral which may not be affordable to MSEs. Collateral strategy explains 4% growth of MSEs in Kenya.

### **5.2.4 Capacity Building Strategy**

The fourth objective of the study was to explore commercial banks' capacity building strategy and growth of MSEs in Kenya. Results revealed that majority of the MSEs' owners receive bank officials who come to train them on the available bank services .In addition the results showed that majority of MSEs are visited by bank officials two times a year. Further, the results showed that majority of the MSEs have conducted between 2-3 trainings, 2-3 job rotations and 2-3 interviews over the last five years. According to the study, 3.3% of MSEs growth is explained by capacity building strategy.

### **5.2.5 Technology Innovation Strategy**

The fifth objective of the study was to establish commercial banks' technology innovation strategy and growth of MSEs in Kenya. Results revealed that majority of MSEs Owners who utilize E banking, M banking and Alternative channels to a moderate extent. Further, Results showed that majority of the banks had set aside a moderate budget for adoption, maintaining and upgrading E banking, M banking and Alternative channels. Technology innovation explained 0.4% of MSEs Growth and not significant.

### **5.2.6 Legal and Regulatory Environment**

The sixth objective of the study was to investigate the moderating effect of legal and regulatory environment on the growth of MSEs in Kenya. Results revealed that legal and regulatory environment influence the growth of MSEs. Further, results indicated that majority of banks have tax system, claim enforcement, bank restrictions that influence the growth of MSEs to a large extent. The interaction between the independent variables and moderating variable (legal and regulatory environment) is statistically significant therefore legal and regulatory environment moderate MSEs growth in Kenya and thus moderation is supported.

## **5.3 Conclusion of the Study**

Based on the regression results the study concluded that commercial banks products' accessibility strategy have a positive and significant effect on the growth of MSEs. The study concluded that that a good relationship between MSEs and banks helps them to easily access finances and information. Banks quickly rectify problems with customers and that the bank employees do follow-ups to find out if their customers which in this case are the MSEs need some assistance. Customer commitment, loyalty and empathy are key items that boast a good relationship between the banks and the MSEs. From the regression results the study concluded that commercial banks customer relationship management has a positive and significant effect on the growth of MSEs.

Based on the study findings, the study concluded that commercial banks' collateral adversely affect the growth of MSEs. MSEs often have difficulty in providing sufficient and good-quality collateral to banks. The banks typically agree to accept collateral in different forms. They are less inclined to accept the balance of a checking account, finished commodity, guarantees of another company or a bank and securities as collateral. MSEs only manage to access a small amount of loan due to short repayment periods.

Further, the study concluded that capacity building has a positive and significant effect on the growth of MSEs. Capacity building of staff for preparedness is perhaps the most important task. Banks that lend to MSEs recognize that the competence and experience of their staff are crucial in competing effectively for MSEs' business and for managing the credit risk inherent in MSEs banking.

Lastly the study concluded that most of the companies had legal and regulatory framework in place. This conclusion was arrived from the observation that most banks had a policy on how to handle regulatory changes. The study concluded that legal and regulatory environment has a moderating effect on the relationship between Commercial Banks Lending Strategies and Growth of Micro and Small Enterprises in Kenya.

#### **5.4 Recommendations of the Study**

The study recommendations are in line with the objectives, findings and conclusions of the study. Following the study results, it was recommended that commercial banks should ensure that their products are accessible since it leads to MSEs Growth. In particular, the commercial banks should provide all types of loans which should include short term loans which are more affordable to all MSEs. This will go into boosting the performance of MSEs.

The study recommended that banks should improve access to finance through offering better lending terms and conditions and collateral requirements; focus on acquiring

appropriate management skills such as financial, marketing and entrepreneurial skills and effectively strengthen the macro environment in order to increase MSEs Performance. It was recommended that commercial banks should improve on customer relationship management strategy to enhance the growth of MSEs. This study demonstrated that keeping banking relationships can be beneficial to firms, in so far as contact between the commercial banks and MSE can improve the availability of funds and lower their costs.

The study also recommended that commercial banks to flex terms and conditions for credits for the MSEs. The study found out that an increase in collateral leads to a decline in performance of MSEs. Therefore commercial banks need to make credit terms to be friendly to the creditors in this case the MSEs owners. Small businesses often have difficulty in providing sufficient and good-quality collateral to banks. The banks should typically agree to accept collateral in any term and also should be more inclined to accept the balance of a checking account, finished commodity, guarantees of another company or a bank and securities as collateral.

The study recommends for commercial banks to train their employees on how to handle clientele needs. Commercial banks need to embark on major training programmes and address their efforts to professionalize MSEs account managers. In fact, bank staffs dealing with MSEs need a sound knowledge of entrepreneurs and their businesses in order to develop an affinity with their clients and offer them solutions adapted to their needs. The actions which banks need to take include a better selection of new account managers for MSEs. They need to look for candidates with an adequate background and experience in small business or with entrepreneurial skills, who can be flexible and sensitive to MSEs issues.

The study also recommended that commercial banks and MSEs should put in place legal and regulatory framework management strategies. The banks and MSEs should practice effective regulatory risk management practices such as development of appropriate

regulatory framework for current and potential operations and legal status. This would significantly improve the growth of MSEs.

### **5.5 Contribution of the Study to the body of Knowledge**

The study made contributions to theory building. First, the study developed a conceptual framework for underpinning future research work on the relationship between Commercial Banks Lending Strategies and Growth of Micro and Small Enterprises in Kenya. The study successfully tested hypothesis related to the original conceptual framework developed in chapter two. Based on research findings, it was found that future conceptual frameworks and theories should focus on particular aspects of Banks Lending Strategies. The study was able to come up with a revised conceptual framework.

The study also added value to theory building by itemizing the most important aspects of Banks Lending Strategies in MSEs Growth. In particular, this study was able to pinpoint particular aspects of commercial banks' product accessibility strategy, customer relationship management strategy, collateral strategy, technology and innovation strategy and capacity building strategy which are relevant to certain aspects of MSEs growth.

A critical review of past literature show that several conceptual and contextual research gaps exists in the influence of commercial bank lending strategies and growth of MSEs in Kenya. For instance, the studies by La Torre et al (2010) investigate banks' approaches to MSEs in terms of business models and risk management systems. Rocha *et al.* (2011) investigate the status of bank financing to MSEs in the Middle East and North Africa (MENA) based on a survey of 139 banks in 16 countries. Stephanou and Rodriguez (2008) analyzed both trend and structure of the MSE financing market in Colombia. All the above studies were carried out in developed and emerging countries

such as USA, Italy and Israel. It is therefore possible to argue that the effect of commercial bank lending on performance of MSEs of developed and emerging economies are somewhat different from those of a developing economy like Kenya. The study was therefore able to field the knowledge gap through the investigation on the relationship between commercial bank lending strategies and growth of MSEs in Kenya.

### **5.6 Suggested Areas for Further Study**

The study sought to assess the Commercial Banks Lending Strategies on the Growth of Micro and Small Enterprises in Kenya and therefore an area for further studies could consider the effect of Commercial Banks Lending Strategies on Savings and Credit Cooperative Societies (SACCOS) or on larger firms like manufacturing firms for the purpose of making a comparison of the findings with those of the current study.

Future researchers could also consider introducing different variables other than legal and regulatory environment in testing for moderation effect of such variables on the relationship between Commercial Banks Lending Strategies and the Growth of Micro and Small Enterprises. This is because as much as this study used this variable; there are other variables which may influence the growth of MSEs for example organizational learning, employee competencies and quality decisions.

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## APPENDICES

### Appendix 1: Interview Guide for Commercial Banks (Chief Credit Officers)

This questionnaire is divided into eight sections that should take only a few moments of your time to complete. Please respond by ticking the appropriate box or filling in your answers in the blank spaces provided. This is an academic exercise and all information collected from respondents will be treated with at strict confidentiality.

#### CONFIDENTIALITY CLAUSE:

The responses you provide will be used for academic purposes and will be strictly confidential.

#### SECTION 1: BACKGROUND INFORMATION/ DEMOGRAPHIC DATA

1. Gender:

- a) Male [    ]
- b) Female [    ]

2. What is your highest level of formal education?

- a) No formal education [    ]
- b) Primary level [    ]
- c) Secondary level [    ]
- d) College/University level [    ]

3. How long have you worked in the bank?

- a) Less than 2 years
- b) 3 to 5 years
- c) Over 5 years

4. What is your Bank's total portfolio versus Banks MSEs portfolio in the last five years?

	2011	2012	2013	2014	2015
Total Banks portfolio in Kes '000''					
MSEs Portfolio					

## **SECTION 2: PRODUCT ACCESSIBILITY STRATEGY**

Kindly indicate the number of products which have been **priced** using the following product pricing methods in the 5 years

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Competitive pricing					
Premium pricing					
Tailor made pricing					

Kindly indicate the number of products provided under **products mix** to the SME clients over the last five years

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<2 products					
2-5 products					
>over 5 products					

Kindly indicate the number of **products provided under one line** to the SME clients over the last five years

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<2 products					
2-5 products					
>over 5 products					

In your opinion, how does product accessibility influence growth of MSEs in Kenya?

- a) Reduces Growth of MSEs
- b) No change
- c) Increases growth of MSEs

### **SECTION 3: CUSTOMER RELATIONSHIP MANAGEMENT STRATEGY**

This section is concerned with assessing on how customer relationship marketing (CRM) by commercial banks influence growth of MSEs in Kenya

Kindly tick appropriately on the following statements on **customer commitment**

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
The MSEs are willing to invest more in our products					
Majority of the MSEs are desire to remain as our customers since we take care of their needs					
There is a presence of reciprocity in our SME-bank relationship					

Kindly tick appropriately on the following statements on **customer loyalty**

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
Majority of MSEs intend to continue doing business with our bank over the next few years					
As long as the present service continues, majority of the MSEs are not willing to switch to other service providers					
Majority of MSEs are very likely to recommend this bank to a friend.					

Kindly tick appropriately on the following statements on **empathy**

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
Our employees give personal attention to the clients					
Our bank has best interests in promoting MSEs at heart.					
Our bank has operating hours convenient to all their customers.					

In your opinion, how does CRM influence growth of MSEs in Kenya?

- a) Reduces Growth of MSEs
- b) No change
- c) Increases growth of MSEs

#### SECTION 4: COLLATERAL STRATEGY

Kindly tick appropriately on the following statements on **collateral type**

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
The bank controls what other stakeholders charge the borrower e.g. values, advocates among others					
The bank relies only on its details about the MSE customer					
The bank goes ahead to also monitor the MSE borrower					

Kindly tick appropriately on the following statements on **collateral payback period**

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Disagree</b>
The bank asks for additional collateral when a customer violates any covenant.					
The banks adjusts covenants to suit MSE borrower activities					
The bank maintains the same covenant through all its customers					

Kindly indicate the range of the **value of collaterals** for the following classes of loans

<b>Loan</b>	<b>Less than 200,000</b>	<b>200,000-1,500,000</b>	<b>&gt;Above 1,500,000</b>
Less than 100,000			
100,000-1,000,000			
Above 1,000,000			

In your opinion, how does collateral influence growth of MSEs in Kenya?

- a) Reduces Growth of MSEs
- b) No change
- c) Increases growth of MSEs

**SECTION 5: CAPACITY BUILDING STRATEGY**

Kindly indicate the **number of trainings sessions** you conducted for the following years

	2011	2012	2013	2014	2015
< 2					
2-3					
>4					

Kindly indicate the **number of job rotations** for the following years

	2011	2012	2013	2014	2015
< 2					
2-3					
>4					

Kindly indicate the **number of interviews** you conducted before the staff was employed (**screening process of applicants**) for the following years

	2011	2012	2013	2014	2015
<2					
2-3					
> 4					

In your opinion, how does capacity building influence growth of MSEs in Kenya?

- a) Reduces Growth of MSEs
- b) No change
- c) Increases growth of MSEs

**SECTION 6: TECHNOLOGY INNOVATION STRATEGY**

Kindly indicate the budget set aside by the bank for adoption, maintaining and upgrading of **E-banking** in the last five years

	2011	2012	2013	2014	2015
<500,000					
501,000-1,000,000					
> 1,000,000					

Kindly indicate the budget set aside by the bank for adoption, maintaining and upgrading of **M-banking** in the last five years

	2011	2012	2013	2014	2015
<500,000					
501,000-1,000,000					
>1,000,000					

Kindly indicate the budget set aside by the bank for adoption, maintaining and upgrading of **alternative channels** in the last five years

	2011	2012	2013	2014	2015
<500,000					
501,000-1,000,000					
>1,000,000					

In your opinion, how does technology influence growth of MSEs in Kenya?

- a) Reduces Growth of MSEs
- b) No change
- c) Increases growth of MSEs

**SECTION 7: LEGAL AND REGULATORY ENVIRONMENT**

Does your bank have a **tax system** in place on how to handle regulatory changes?

Yes { } No { }

If yes, to what extent has tax system affected the growth of MSEs in Kenya in the last five years

Year	Very small extent	Small extent	Moderate extent	Large extent	Very large extent
2011					
2012					
2013					
2014					
2015					

Does your bank have a claim enforcement system?

Yes { } No { }

If yes, to what extent has **claim enforcement system** affected the growth of MSEs in Kenya in the last three years.

Year	Very small extent	Small extent	Moderate extent	Large extent	Very large extent
2011					
2012					
2013					
2014					
2015					

Does your bank have bank restrictions?

Yes { } No { }

If yes, to what extent have **bank restrictions** affected the growth of MSEs in Kenya in the last three years.

	Very small extent	Small extent	Moderate extent	Large extent	Very large extent
2011					
2012					
2013					
2014					
2015					

In your opinion, how does legal and regulatory environment influence growth of MSEs in Kenya?

- a) Reduces Growth of MSEs
- b) No change
- c) Increases growth of MSEs

**SECTION 8: GROWTH OF MSEs**

Kindly indicate the percentage growth in **revenue** for the last five years ?

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<5%					
5%-10%					
>10%					

Kindly indicate the **number of employees** for the last five years ?

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
1-5 employees					
5-10 employees					
10-20 employees					
20-50 employees					
>50 employees					
Others					

Kindly indicate the percentage growth in **capital investment** for the last five years ?

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<5%					
5%-10%					
>10%					

## **Appendix 2: Questionnaire for MSEs Owners**

This questionnaire is divided into eight sections that should take only a few moments of your time to complete. Please respond by ticking the appropriate box or filling in your answers in the blank spaces provided. This is an academic exercise and all information collected from respondents will be treated with at strict confidentiality.

### **Section 1. DEMOGRAPHIC INFORMATION**

1. What is your gender?

Male

Female

3. What is your level of education?

Primary

Secondary

College

University

3. What type of business do you operate?

Manufacturing

Trade

Service

5. How long has the business been in operation?

less than 1 year

1 to 3 years

3 to 5 years

5 to 10 years

more than 10 years

Please indicate the number of employees

1-5:

6-10:

11-50

Over 50:



**SECTION 3: CUSTOMER RELATIONSHIP MANAGEMENT STRATEGY**

Using the following scale, please tick the one that best describes your bank customer relationship marketing

(1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agrees, 5=Strongly Agree)

	5	4	3	2	1
The bank quickly rectify problems with customers					
The bank employees do follow-ups to find out if I need some assistance.					
The bank solve all my financial problems.					
They change ways of dealing with me over time.					
The bank appreciates my deals with them.					

**SECTION 4: COLLATERAL STRATEGY**

Have you ever being asked for collateral from bank when you wanted loan?

Yes  No

To what extent do you agree that the loan rates are affordable?

- i. Disagree
- ii. Neutral
- iii. Agree

**SECTION 5: CAPACITY BUILDING STRATEGY**

Do the bank officials visit your premises to train your staff on the available bank services?

Yes  No

If yes, how often?

Once a year	2 times a year	3 times a year	4 times a year	5 times a year

**SECTION 6: TECHNOLOGY INNOVATION STRATEGY**

This section is concerned with assessing the influence of technological innovation by commercial banks on the growth of MSEs in Kenya.

Do you utilize these banking services?

E-banking; Yes  No   
M-banking; Yes  No   
Alternative channels (ATM, POS) Yes  No

If yes, to what extent do you utilize

Banking Services	Very Small extent	Small extent	Moderate	Large extent	Large extent
E-banking					
M-banking					
Alternative channels					

**SECTION 7: LEGAL AND REGULATORY ENVIRONMENT**

To what extent do you agree with the statement that legal and regulatory environment influences growth of MSEs

- i. Strongly Disagree
- ii. Disagree
- iii. Neutral
- iv. Agree
- v. Strongly agree

**SECTION 8: GROWTH OF MSEs**

This section is concerned with assessing the growth of MSEs

Kindly indicate the percentage growth in **revenue, number of employees, capital investment, sister companies/branches** for the last five years ?

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Revenue					
Number of Employees					
Capital investment					
Sister company/Branches					