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The background of the cover features a hand in a white suit sleeve pointing its index finger towards a glowing, circular light effect. Inside this light effect, the word 'Strategy' is written in a large, dark, sans-serif font. A thick, curved line with red, white, and blue stripes sweeps across the upper half of the image, partially obscuring the title and the hand.

Strategy

**The Influence of commercial banks' products accessibility strategy on
growth of MSEs in Kenya**

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The Influence of commercial banks' products accessibility strategy on growth of MSEs in Kenya

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Abstract

Purpose: The main purpose of this study was to establish the influence of commercial banks' products accessibility strategy on growth of MSEs in Kenya

Methodology: The study employed a descriptive survey design with a population of 2,519,457 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 will use questionnaires to collect data from the field. Both quantitative and qualitative data gathered will be 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.

Results: The study found out that commercial banks' product accessibility have a positive and significant effect on MSEs growth.

Unique contribution to practice and policy: Based on the findings of the study, recommended that commercial banks should ensure that their products are accessible since it leads to MSEs Growth.

Key words: *Commercial banks' products accessibility strategy, growth of MSEs*

1.0 INTRODUCTION

1.1 Background and Research Gap

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 (Osoro, & Muturi, 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 (USAID, 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).

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 (Biswas, 2008). 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).

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).

According to Cowan *et al.* (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 formal financial institutions. 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, 2015).

1.2 Statement of the Problem

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 (Liedholm & Mead, 2009). Reports from Kenya Bankers Association show that 80% of lending by 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. Yet up to 40% of the country's GDP is attributed to the MSEs. Could this trend be reversed by the commercial banks lending strategies? This was the subject of this 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) has researched on challenges faced by physically impaired people in access of services offered by KCB. In a study on utilization of micro finance by small entrepreneurs in Kenya, (Ndung'u, 2010) highlights how the MSEs have utilized credit extended to them. There is no research that has been done on commercial banks lending strategies and thus exist a research gap. This study was therefore aimed at assessing the influence of the influence of commercial banks' products accessibility strategy on growth of MSEs in Kenya.

1.3 Objective of the Study

The objective of this study was to examine the influence of commercial banks' products accessibility strategy on growth of MSEs in Kenya.

2.0 METHODOLOGY OF THE STUDY

This study employed descriptive survey research design. Borg & 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 strategic influence of commercial banks lending to the growth of MSEs in Kenya. The study population comprised owner-managers of all MSEs in the country estimated to be 2,571,293 [The Micro and Small Enterprises Authority (MSEA), 2013] and chief credit officers from the 44 commercial banks operating in the country (CBK, 2013). 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 stratified randomly selected was comprised of 352 respondents. 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, 2013). A pilot study was conducted in order to establish the validity and reliability of data collection instruments. Data collected from the questionnaires was prepared and converted from responses to quantitative format for ease in analysis using statistical package for social sciences (SPSS). The statistics generated was descriptive statistics and inferential statistics. The specific descriptive statistics included percentages and frequencies while the specific inferential statistics included a regression. A simple linear regression model was used to test the significance of the influence of the independent variable on the dependent variable. The results were presented in form of tables and charts.

3.0 RESULTS OF THE STUDY

3.1 Response rate

The return rate provides a profile of respondents who participated in this study. A total of three hundred and fifty two (352) questionnaires were given to the respondents (MSEs owners and credit officers). A total of three hundred and thirty seven (337) questionnaires were returned giving a return rate of 95.73% as shown in table 1.

Table 1: Response rate

Response	Returned	Percent (%)
MSE s' owners	331	95.66
Credit officers	6	100
Total	337	95.73

The average return rate was 95.73% which was considered appropriate for the research findings of the study.

3.2 Reliability

The reliability of an instrument refers to its ability to produce consistent and stable measurements. 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

Variable	Cronbach's Alpha	Comment
Product accessibility	0.734	Accepted

and 1.00. The higher the coefficient, the more reliable is the test. The cronbach alpha was calculated in a bid to measure the reliability of the questionnaire. Results are presented in table 2.

Table 2: Reliability coefficient

Table 2 shows the reliability results. Product accessibility was 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 respondents opinions on the study problem.

3.3 Demographics

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 respondents for this study were predominantly male MSEs owners , Out of 331 respondents, 55.6% were male. Further, the credit officers were requested to indicate their gender. The credit officers for this study were equal in number (50%). 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 31 (9.4%) had secondary level to be the highest level of education. 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. The respondents were requested to indicate the length of business operation. Results 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. The respondents were requested to indicate on the number of employees in their enterprises. Results indicated that 78.1% of the MSEs had between 1-5 employees, 17.2% had between 6-10 employees, 3.6% had 11-50 employees. The credit officers were requested to indicate on the number of years they had worked in the bank. Results 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

3.4 Descriptive Statistics

The objective of the study was to establish the influence of commercial banks' products accessibility on growth of MSEs in Kenya. The MSEs owners were asked to indicate if they have borrowed a loan from bank.

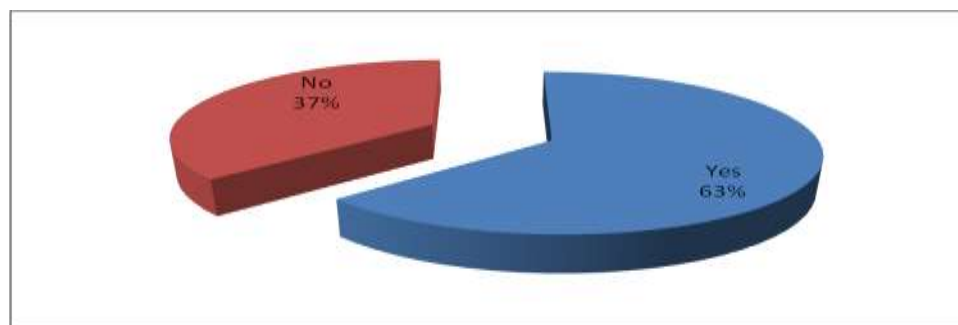


Figure 1: Loan borrowing

Results in Figure 1 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. Further, the respondents were requested to indicate the rate of the accessibility. Results are presented in table 3.

Table 3: Rate of accessibility

Strongly not accessible	Not accessible	Accessi	Strongly
accessible	accessible	Neutral	accessible
2.50%	15.70%	24.80%	52.00%
5.00%			

Results in Table 3 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.

Credit officers were asked to indicate the number of products which were priced using different product pricing methodologies. Results are presented in table 4.

Table 4: product pricing methods

Pricing methods	Mean	Std. Deviation
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
Average	3.10	0.75
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
Average	3.50	1.22
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
Average	2.80	1.14

Results in table 4 showed that the average mean of number of products which was priced using competitive pricing between the year 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. Further, they were asked to indicate the number of products provided under product mix to the SMEs clients over the last five years. Results are presented in table 5

Table 5: Product mix

Product mix less than 2 products 2-5 products over 5 products			
2011	0.00%	66.70%	33.30%
2012	0.00%	49.00%	51.00%
2013	0.00%	16.70%	83.30%
2014	0.00%	33.30%	66.70%

2015 0.00% 0.00% 100.00% Results in table 5 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.

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 6.

Table 6: One line product

	<u>One line product less than 2 products</u>	<u>2-5 products</u>	<u>over 5 products</u>
2011	0.00%	100.00%	0.00%
2012	0.00%	83.30%	16.70%
2013	16.70%	83.30%	0.00%
2014	0.00%	49.00%	51.00%
2015	0.00%	66.70%	33.30%

Results in table 6 showed that 100% of the respondents provided between 2-5 products under one line product in 2011. 83.3% also provided between 2-5 products under one 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.

Respondents were asked to indicate if commercial banks products accessibility influences growth of SMEs in Kenya. Results are presented in Figure 2.

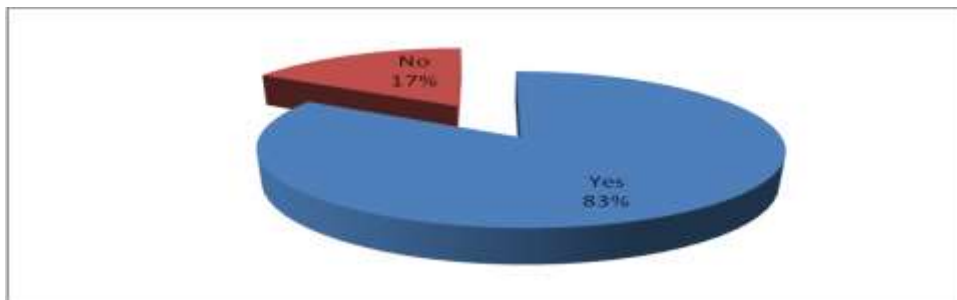


Figure 2: Commercial banks products' accessibility

Results in figure 2, showed that 83% of the respondents indicated that commercial banks products' accessibility influence the growth of MSEs while 17% indicated that it did not.

3.5 Regression Analysis

The results presented in table 7 present the fitness of model used of the regression model in explaining the study phenomena.

Table 7: Model Fitness

Indicator	Coefficient
R	0.240
R Square	0.058
Adjusted R Square	0.055

Std. Error of the Estimate

3.55566

Commercial banks product accessibility 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 8: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	251.679	1	251.679	19.907	.000
Residual	4108.887	325	12.643		
Total	4360.567	326			

Table 8 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 9

Table 9: Regression of Coefficients

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

Results in table 9 shows that commercial banks' product accessibility 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 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.

The hypothesis was tested by using simple linear regression (table 7). 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' products accessibility and growth of MSEs in Kenya. Results in Table 7 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 and growth of MSEs in Kenya.

4.0 DISCUSSION CONCLUSIONS ANDRECOMMENDATIONS

4.1 Conclusions

Based on the study findings, the study concluded that most of the MSEs borrow loan from the banks so as to finance their business's working capital. In addition, the study concluded that the ability to influence the price is different among banks. This often depends on firm bargaining power and competition. From the regression results the study concluded that commercial banks products' accessibility have a positive and significant effect on the growth of MSEs.

4.2 Recommendations

Following the study results, it was recommended that commercial banks should ensure that their products are accessible to the 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.

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