

**THE ROLE OF FINANCIAL SERVICE ACCESSIBILITY AS A GROWTH  
STRATEGY IN COMMERCIAL BANKS: A CASE STUDY OF EQUITY BANK  
NAKURUTOWN**

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**DECLARATION AND APPROVAL**

This research project is my original work, and to the best of my knowledge, has not been submitted to this or any other institution or university for examination.

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## **DEDICATION**

This work is dedicated to the immediate members of my family; to my mum, Beatrice Litabas, and my father Patrick Lumumba Litabas who taught me virtues of good work, patience and tolerance; to my provost prof. Jacob Kibor a man God used to bless me with moral support and guidance, to my friends: Melky, Joy, Sammy, Bonny, Betty, Ken, Wangila, Johnny, Edwin, Tanga, Eugene, Stupiner, Timothy, all likeminded ones, the list is endless. May almighty God bless you for being there for me.

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## ABSTRACT

The role of financial service accessibility as a growth strategy at equity bank has received considerable attention in the last twenty five years showing effective connection. The specific objective therefore was to assess and determine how financial institutional factors, financial structure, collateral requirements, and awareness of funding opportunities affect growth strategies in commercial banks. The Equity bank branch offices Nakuru town was the area where the general objective of the study was conducted of which has a workforce of 125 permanent employees as at January 2016. The study adapted a descriptive research design. Simple random sampling technique was employed. Sample size of 65 respondents was determined using Nassiuma's formula. Primary data was then collected using questionnaires and results were presented in tables and figures. Both descriptive and inferential statistics were used to analyze the data with the aid of Statistical Package for Social Sciences (SPSS). The study findings indicated that the banks institutional factors ( $r = 0.224$ ,  $p = 0.073$ ), collateral requirement ( $r = 0.394$ ,  $p = 0.010$ ), and awareness of funding opportunity ( $r = 0.280$ ,  $p = 0.005$ ) had a significant effect on growth strategies. Financial structure ( $r = 0.840$ ,  $p = 0.508$ ) was found to have negative significant influence on growth strategies. Multiple linear regression analysis showed that institutional factors ( $\beta = 0.003$ ,  $p \text{ value} = 0.791$ ), financial structure ( $\beta = -0.027$ ,  $p \text{ value} = 0.552$ ), collateral requirement ( $\beta = 0.166$ ,  $p \text{ value} = 0.013$ ) and awareness of funding opportunity ( $\beta = 0.164$ ,  $p \text{ value} = 0.072$ ) were all of a particular significant. This study found out that equity bank collateral security requirement ( $\beta = 0.166$ ,  $p \text{ value} = 0.013$ ) had a positive significant influence on growth strategies in commercial banks implying that effective collateral requirement practices leads to increased access to financial services achieving growth strategies. On awareness of funding opportunity ( $\beta = 0.164$ ,  $p \text{ value} = 0.072$ ), findings are in line with this study in which efficient and effective awareness of funding opportunities had a positive significant influence on growth strategies. Findings also show that institutional factors ( $\beta = 0.003$ ,  $p \text{ value} = 0.791$ ) have significant but almost weaker influence on growth strategies of the bank. The key limitation was that the respondents were not willing to give the required information likely due to fear of intimidation or negative image perceived towards them after they gave the information out. This problem was handled by provision of an introductory letter from university that assured them that the information given would be treated confidentially and used for academic purpose only. The study thus concluded that effective and reliable financial structure, awareness of funding opportunities, collateral requirement and institutional factors were of significant importance towards the growth strategies of commercial banks. It is important to note that these factors are only responsible for variation of 15% of growth strategies. The study recommends that the bank should continue enhancing access to their financial products and services as well as coming up with more means and growth strategies towards creation of high level of quality services for this would enhance growth of equity bank. In addition, a research on effect of financial structure as a financial service accessibility factors need to be carried out to ascertain the negative correlation displayed in this study.

**Key Words:** *Financial service accessibility, funding opportunity, Product development, diversification, market development, commercial banks, growth strategy.*

## **LIST OF ACRONYMS AND ABBREVIATION**

**BSC-** BALANCE SCORE CARD

**CBK-**COMMERCIAL BANK OF KENYA

**EBS-**EQUITY BUILDING SOCIETY

**MFI'S-** MICRO FINANCIAL INSTITUTIONS

**SACCO-** SAVINGS AND CREDIT COOPERATIVE

**SASRA-** SACCO SOCIETY'S REGULATORY AUTHORITY

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## CHAPTER ONE

### INTRODUCTION

This chapter provides the background of the study, statement of the problem, objective of the study, research questions, significance, scope, limitation and the definition of terms.

#### **1.1 Back Ground of the Study**

Financial service accessibility refers to the expansion of financial services to individual household, enterprises and the growth of financial institutions so as it becomes inclusive and within reach to all. It is an increase in per capital amount and access of financial services and institutions. It is also an increase in the ratio of financial assets to income (Ahmed& Ansari, 1998). The development of the financial services globally, especially in developing countries, is seen as a part of the growth strategy of the banking sector. Commercial banks have been identified as one of the very important intervention strategy to address the issue of poverty alleviation or reduction.

However, the role of financial service accessibility factors within economy in many African countries is poorly researched. Africa's growth strategies have long been disappointing and it has been described as a tragedy by some commentators (e.g. Easterly & Levine, 1997). Although less well-acknowledged and perhaps not surprising, the financial service sectors of sub-Sahara African countries have remain woefully under-developed, even relative to the standards of developing countries. This is despite the fact that most of these countries have undergone extensive financial services sector reforms in the last two decades of the same proportions as other developing and emerging countries.

The financial service accessibility gap in sub-Saharan Africa is stark, and the gap is visible in the data. The few studies that have looked at financial service access in Africa have grouped countries together using panel data even though African countries are diverse in terms of their institutional arrangements for monetary policy and have experienced diverse outcomes in terms of macroeconomic performance and volatility (Honohan& O'Connell, 2005). This makes it difficult to make any generalization about financial systems in Africa as countries are so diverse in terms of financial development and access to financial services

The poor state of African inaccessibility to financial services and especially in Kenya raised a number of important questions as to what went wrong with the financial reforms in Africa and what could be improved? Is African accessibility to financial services slow in itself, or is it a reflection of broader economic and policy failures? Are the levels of financial accessibility achieved in the developing world outside of Africa achievable for most African countries? What factors have inhibited African accessibility to financial services to this point and how can they be overcome? There is very little rigorous academic research that addresses these questions. This project was conducted as a first step in addressing key issues at the heart of financial service accessibility roles towards growth strategy in commercial banks (Honohan & O'Connell, 2005).

The research acknowledged that the problem with banks that try to increase financial services accessibility was whether they could generate sufficient profits to sustain their business model but not growth strategies. In this regard, the project focused on studying commercial banks in Kenya, a country that has made significant strides in financial inclusion in recent years, and Equity Bank, a leading private commercial bank devoted to providing banking services to lower income people. The project therefore examined the role of financial services accessibility as a growth strategy in Equity Bank, as area of survey to represent other commercial banks.

The research acknowledged that collateral requirement is the key factor for access of financial services in Kenya thus the reason for this choice was on the basis that Kenya's level of financial inclusion which is not too far off from the predicted level, and has been witnessing a strong bank branch expansion in recent years a scenario linking it to growth strategy. This expansion coincides with the emergence of Equity Bank, a pioneering (for-profit) commercial bank that devises a banking service strategy targeting low income clients and traditionally under-served territories. The bank is listed on the Nairobi Stock Exchange, and has no government ownership share making it emerge as a case study for research. Many scholars and policy makers agree that a key obstacle to access to financial services is lack of inclusion of the disadvantaged to finance, which would promote strategic growth at the broadest scales (Honohan, 2005).

While the success of microfinance institutions (MFIs), such as Grameen Bank, captured the attention of strategist and policy makers, many commercial banks currently are beset by non-repayment problems while most established commercial banks view the sectors targeted by MFIs

as ‘unbankable.’ This makes Equity Bank and Kenya a particularly interesting ‘laboratory’ for the study of financial service accessibility.

Moreover, absence of research at both the headquarters and bank branch level made the study on accessibility of financial services a challenge. George,(2011) acknowledged that Equity Bank presence is strongly associated with increases in households’ usage of bank accounts and bank credit between the two thus these effects are particularly strong for under privileged households—those with low income and less education, who do not own a permanent house, and those that lack any member with a salaried job.

Additionally, there is a wide difference in branching and agency strategies between Equity Bank and other commercial Banks. While all bank types (including Equity Bank) open a greater number of agencies and branches in urban, highly populated and devolved counties, it is noted that Equity Bank is more likely to expand its financial services to underdeveloped counties than other types of banks between 2006 and 2009— less densely populated areas and areas where the dominant language is not English or Swahili. These imply that different branching and agency strategy which is consistent with earlier result that population density is a major obstacle to accessibility of financial services in Kenya; more importantly, these is encouraging to this research in the sense that it pose a question; can private institutions arise in such an environment to help overcome the ‘no finance access, no growth strategy trap’ in many commercial banks?

Research argued that putting commercial bank under the control of CBK give banks undue advantages for instance a research by George, (2008) indicate that Credit reference bureau has not been affected by commercial banks giving the banks undue advantage to financial institutions. This is because sharing of information had not been fully effected in the financial sector. Credit reference bureau Regulation (2008) suggests that it could be years before commercial banks are allowed to access loan default information.

Prior to the unveiling of the vision 2030, structure of the financial sector was in the year 2006 identified as one of the six priority sectors in order to realize a long term development strategy such as the vision 2030. Consequently the finance Act was seen as very significant in enhancement of financial reach. The finance bill was then drafted of which the draft culminated in the enactment of the finance Act (2006) which came into operation in the year 2008. The act

was meant to improve the regulatory climate for finance providers in order to thrive in a systematic way and provide a more enabling environments for commercial banks.

It was meant to set out legal regulatory and supervisory framework for the commercial banks and to increase its capacity to facilitate easy access to finance by the poor or the financially unserved by the traditional Bank thus quest for strategic growth. It was also intended to enhance corporate governance, accountability and transparency and set prudential standards in the commercial banks. Further it was intended to protect customer's deposits as is the case with commercial banks operating under the Banking Act in order to promote the depositors confidence. The Finance Act (2006) ushers in new look for financial institutions which are now given opportunity to take deposits from their customers. These are categorized as Deposit Taking financial institutions. It imposes new regulations such as licensing and transparency requirements, deposit protection, dissolution mechanisms, corporate governance and accounting standards and supervision by the central bank. (George, 2005).

The Finance Act (2006) divide deposit-taking FI's into two categories, community financial institutions and nationwide financial institutions for easy supervision. The community FI's have looser capital requirements. There are also those categorized as non-deposit taking financial institutions which do not fall under the jurisdiction of the central banks finance regulations. The research looked at the structure of financial sector and reviewed how it enhances accessibility to financial services. In view of the above and in order to bring all these institutions on board, the savings and credit cooperative (SACCO) societies act (2008) was legislated upon and operationalized in 2008. The SACCO category institutions are regulated by the SACCO societies regulatory authority (SASRA). The ones regarded as informal finance are unregulated except for licensing required of all NGOs in Kenya.

Before the year 2003, commercial banks were registered under eight different acts of parliament of which some of these forms of registration do not address growth strategy issues like market penetration, product development, diversification and market development. It is against this background therefore that this study is intended to examine the role of financial service accessibility as a growth strategy on commercial banks in Kenya. Research noted that increased competition among commercial banks threatens the attractiveness of the Banking industry and reduced the profitability of the players in the sector (George et al, 2014). It exerts pressure on

banks to be proactive and to formulate successful growth strategies that facilitate proactive response to anticipated and actual changes in the competitive environment (Johnson & Scholes, 2002). Banks therefore focus on gaining competitive advantage to enable them respond to, and compete effectively in the market. By identifying their core competences, banks are able to concentrate on areas that give them a lead over competitors, and provide a competitive advantage (Pearce & Robinson, 2005). According to Johnson & Scholes (2008), core competences on growth strategies are more robust and difficult to imitate because they relate to the management of linkages within the organizations value chain and to linkages into the supply and distribution chains.

Porter (2004) viewed competitive growth strategies as a two dimensional phenomenon with a supply side – strategic scope; and a demand side – strategic strength. He later simplified the scheme into three generic growth strategies, namely ‘overall cost leadership’, ‘differentiation’ and ‘focuses. Johnson, Scholes & Wittington (2008) on the other hand, perceive competitive growth strategies from a business level perspective and believe that it is the achievement of competitive advantage by a business unit in its particular market. They advocate for a hybrid strategy which provides a market-facing element to Porter’s model in the form of price as a new dimension and its combination with differentiation. Sidorwicz, (2007) on the other hand sees competitive growth strategies as more skill-based and involving strategic thinking, innovation, execution, critical thinking, positioning and the art of warfare.

Drucker (2008) noted that management is primarily about the continuing development of the organization and its employees. The demands and needs of the environment are constantly evolving and management is about adjusting the company according to the needs and demands of the environment. One of the environmental influences to a business normally arises from competition (Pearce & Robinson, 2005).

Combined growth strategy of an organization involves matching its corporate objectives and its available resources. In this development of growth strategy, managers are concerned with reconciling the bank organization with the allocation of resources (Porter, 2004). This allocation process is concerned with the general purposes of an organization, whether it is part of the grand plan, the overall objectives or a ‘strategy’ designed to keep the organization in business (Hannagan & Bennett, 2008). According to Drucker, (2001) growth strategy is the pattern of

major objectives, purposes or goals and essential policies or plans for achieving these goals, stated in such a way as to define what business the bank is in or to be in and the kind of company it is or is to be.

When formulating a Growth Strategy, commercial banks look at the history of organizations it wishes to emulate — specifically, those that have recently been successful in similar industries. This was confirmed by the findings on the change shape of strategic problem, Ansoff,(2007) presented paper to policy and planning Research (2007).While there is no guaranteed Growth Strategy blue print, understanding the path these commercial banks took with consideration of their unique time frame and business environment would be very helpful in formulating Growth Strategy. Ansoff,(2007) urge commercial banks that a good place to start when determining a Growth Strategy is to pursue (after a Situation Analysis is completed) the Ansoff Product-Market Matrix. This standard tool provide four common Growth Strategy options (summarized below in fig 2.1) by analyzing the relationship between Products (existing and new) and Markets (existing and new) which this project was therefore anchored to.

According to Scott,(2011) growth strategy refers to a long-term strategic plan for sustained growth of an organization's (banks) revenue, product or service offering, and talent (employees).The research adopted Ansoff product market mix as growth strategy to be effected in commercial banks through financial service accessibility factors.

In addition to this, and according to Raymond (2006),in his World bank policy working report on financial service accessibility in long and short run emphasized that in the short-run, accessibility to financial services would be facilitated by the reallocation of resources to any financial institution with high growth potential. This means that actual growth is more highly correlated with the measure of growth opportunities in institutions with high financial service accessibility. In the long-run, he emphasized the implications of financial service accessibility for the types of financial sectors that come to dominate economic activity thus this forms basis for my research as it entails strategic growth. Commercial banks with high financial access specialize in industries with an inherent reliance on external finance. Notably that this work would help to guide future work in examining the role of financial service accessibility, and a locative institution more broadly defined, in the development process.



The aim of this research project therefore was to examine the relationship between accessibility to financial factors and its implication on growth strategies in commercial banks in Kenya with a thorough survey of Equity branch in Nakuru Town. The following accessibility to financial service factors was selected due to the effect it posed in achieving growth strategies of commercial banks in Kenya as part of expected outcome of vision (2030) report. These factors include Financial Institutional factors, financial structure, and awareness of funding opportunity, and collateral requirements.

### **Profile of Equity Bank**

Equity Bank Limited is one of the biggest banking industry players currently in Kenya with subsidiaries in Kenya, Uganda, South Sudan, Rwanda and Tanzania. Its shares are also listed on the Nairobi Securities Exchange and Uganda Securities Exchange. Equity Bank was founded as Equity Building Society (EBS) in October 1984 and was originally a provider of mortgage financing for the majority of customers who fell into the low income population. Around the early 1990s, Equity was facing serious financial challenges and had been declared technically insolvent. It was around this time that the bank implemented a series of changes in its management as well as change in its strategic direction. Within no time, Equity bank had rapidly transformed into a fast growing microfinance institution and later a leading commercial bank in Kenya. By 2012, Equity Bank had more than 8 million customers making it the largest bank in terms of customer base in Africa and having nearly half of bank accounts in Kenya. The bank did this by adopting competitive growth strategies that would see it tap markets that had previously been ignored by their competitors. One of the products by equity bank includes the recent introduction of Equitel as a telecommunication platform that gives it a chance to compete in the industry at the same time retains its customers.

Equity Bank's accessibility to financial service model is anchored on access, convenience and flexibility that have enabled the Bank to have evolved to become an all-inclusive financial services provider with a growing pan African footprint. Equity Bank's accessibility to financial service model and its visionary leadership has continued to earn local, regional and global accolades and recognitions. It is against this back ground that this research project surveyed Equity bank Nakuru town branch.

## **1.2 Statement of the Problem**

The role of financial services accessibility factors as growth strategy at equity bank has received considerable attention in the last 25 years showing an effective connection. Despite the potential gains of financial services accessibility factors in the country, little has been done on the access to financial services and growth strategy in commercial banks; even after adoption of the structure of vision 2030. One of this study conducted in Africa highlighted only the determinants of financial accessibility (Yongfu Huang 2010) but the extent to which financial service accessibility factors have affected growth strategies of commercial banks in Kenya has not yet been established.

Commercial banks in Kenya have realized that stiff competition within the banking industry necessitated the design of competitive growth strategies to guarantee their performance. Successful growth strategies lead to superior performance and sustainable competitive advantage (Porter, 2004). The ability of a firm to command a competitive advantage depends on the sustainability of the competitive advantages that they command. The business environment in the country drastically has been changing resulting with some commercial banks opening a number of branches across borders and thus increasing competition in the industry globally (Porter, 2004).

Previous research which include: Chege, (2008) researching on the competitive strategies adopted by Equity Bank Limited. Warucu, (2004) studying the competitive strategies employed by commercial banks. Nyakang'o (2007) carrying out a research on the competitive strategies adopted by audit firms in Nairobi. Gakenia (2008) survey on the strategy implementation in Kenya Commercial Bank and Gitonga (2008) study on the various response strategies of Equity Bank Ltd to competition in the Kenyan banking industry never included accessibility to financial services as growth contributing factor thus, the research aims to identify the universal financial institutional factors surrounding financial service accessibility, and how these factors may promote financial services access leading to achievement of growth strategies. Growth strategies include market development, diversification, market penetration and product development. The research reviewed key issues on the impact of financial institutional factors, collateral requirement, and financial structure, and awareness of funding opportunities on access to

financial services with aim being to seek its role as growth strategy in commercial banks in Kenya. The research project surveyed equity bank Nakuru town branch.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objectives**

The general objective of this research project was to establish the role of financial service accessibility as a growth strategy in commercial banks in Kenya, a survey of equity bank branch in Nakuru town.

#### **1.3.2 Specific Objectives**

The specific objectives were:

1. To assess how collateral requirement affects growth strategies in commercial banks.
2. To determine how institutional factors affects growth strategies in commercial banks.
3. To assess how the financial structure affects growth strategies in commercial banks.
4. To determine how awareness of funding opportunities affects growth strategies in commercial bank.

### **1.4 Research Hypothesis**

**H<sub>01</sub>**: Institutional factors have no significant influence on growth strategies in commercial banks.

**H<sub>02</sub>**: Financial structures have no significant influence on growth strategies in commercial banks.

**H<sub>03</sub>**:Collateral securities have no significant influence on growth strategies in commercial banks.

**H<sub>04</sub>** :Awareness of funding opportunities has no significant influence on growth strategies in commercial banks.

### **1.5 Significance of the Study**

The study was intended to benefit many commercial banks stakeholders. The government through central bank has indicated use of this finding to increase governance and management capacity thus ensuring unlimited access to funds for development, countywide.

### **1.6 Justification of the Study**

The study was important since it helped to establish ways and means of enhancing growth strategy at Equity bank in Kenya, especially enhancing institutional reforms in pursuit of sustainable development goals; this study was useful to the equity bank branch around Nakuru town since it evaluated the extent to which financial accessibility factors had impact on its growth strategies. The study findings and recommendation if well implemented would improve client's satisfaction, image, competitive advantage and diversification at the Equity branches in Kenya. The study findings also benefited management team that is responsible in formulating growth strategy. Consequently it: greatly helped stabilize financial institutions in Kenya; Helped strengthen currency by understanding importance of financial accessibility and setting sound policies in relation to central bank; Ensured that support from the government and other stakeholders in financial service industry would result in partial or total eradication of poverty, hence resulting to economic growth thus to the expected outcome it immensely contributed to the body of knowledge as it would be used by other scholars in future reference.

### **1.7 Limitations and Delimitations of the Study**

The following limitations were encountered during the study. The limitation of Time. Time limit for carrying out the research was too short thus more questionnaires were used to ensure data was collected.

The limitation of Communication. Poor communication was experienced since some of the server demanded subscription to obtain tangible information. Also the respondents were not be willing to give the required information likely due to fear of intimidation or negative image perceived towards them after they gave the information out. This problem was handled by provision of an introductory letter from university that assured them that the information given would be treated confidentially and used for academic purpose only.

The limitation of Finance. Numerous costs were incurred such as typing, printing, binding, visiting various financial institution, surfing the Internet, purchase of reference materials such as newspapers, books. This problem was sort by securing more funds to finance the research.

### **1.8 Scope and assumptions of the Study**

The study only sought to establish the role of financial services accessibility as a growth strategy on commercial banks in Kenya with a thorough case study of equity branch in Nakuru town .A survey was carried out within three equity bank branches in Nakuru town with target population of 125 employees as respondents from the same geographical area of study.65 employees of the equity bank branch were used as the sample for the study of which they responded and filled questionnaire;. Simple random sampling method was used to get exact number of respondents. The respondents were the staff of three Equity branch offices in Nakuru Town. Data was collected using structured questionnaires then analyzed using tables and chi-square method and then presentation and validation of hypothesis.

The study was based on assumption that all respondents gave accurate, honest and detailed answer to questions. They were conversant with the financial services accessibility as growth strategy factors in their bank. It also assumed that the sample selected would be representative of the population.

### **1.9 Operational Definition of Terms**

**Growth strategies**-Refers to specific business strategies designed to move the organization through a series of phases defined by target goals or milestones related revenue, product/service offering, and talent. For efficient and effective execution of growth strategies in commercial banks, accessibility to financial services must be at the core, thus forming the basis of this research. The growth strategies used in this study include: market penetration, product development, market development and diversification.

**Financial service accessibility**- Financial service accessibility refers to the expansion of financial services to individual household, enterprises and the growth of financial institutions so as it becomes inclusive and within reach to all(Ahmed &Ansari, 1998).This form part of the study since it's a mandatory responsibility of banks to ensure access to their financial services.

Financial services accessibility factors in this study include collateral requirement, awareness of funding opportunity, financial structure and institutional factors.

**Awareness of funding opportunity**-is about information asymmetries where they are actually concerned with the two players in the financial market. On the other hand, it entails the lack of timely, accurate, quality, quantity, and complete information regarding the ability of the applicants to repay back the loan and to access financial products from the banking institutions (Bazibu, 2005).It is at the core of this research therefore that both the bank and individual household need to be conversant with the requirement of funding opportunities in order to make readily accessible the services of the commercial banks.

**Financial institution factors**- Institutional factors as a financial services accessibility factor in effecting growth strategies is considerable among banks having very different operating structures than regular industrial companies; it stands to mean a different set of fundamental factors to consider within the bank, when evaluating access to finances. They both affect smooth running of commercial banks and formulation of growth strategies as well. This institutional factor referred to in this study include: Credit Quality ratios, Capital Ratios, Loan/Deposit Ratio, Deposit Growth and Loan Growth.

**Collateral requirement**-Collateral is usually some form of property or assets such as equipment, automobiles, tools or real estate that is pledged as security for a loan. When a bank has collateral as security, it helps to reduce its risk. When a customer defaults on a loan agreement, the bank can repossess or foreclose to take possession of the collateral (Francis, 2010).

**Financial Structure**-Financial structure is more important particularly for the cost of services and products in the banking industry. The level of competition seen within the structure of financial services provides and determines the price of financial products and the level of access to finance (Thorsten & Maksimovic, 2003) thus should have greater implication between concentration of the market and access to financial services.

**Equity bank Nakuru town**-refers to a place where the study was conducted, Equity bank has made remarkable strides in terms of access to financial services over years with enhancing financial inclusion through launching Equitel - a mobile banking platform plus increasing use of

branches and ultra-modern trendy strategies like online banking makes it a point to case study as a significant destination while conducting this study on the role of financial services accessibility as growth strategy in commercial banks. Equity bank has three branches within Nakuru town. This is Westside mall branch; Gatehouse and the Kenyatta Avenue. A sample of 65 employees was selected from the three branches out of which data was collected for this study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

In this chapter, the researcher reviews literature related to the role of financial service accessibility as a growth strategy in commercial banks. The literature review gave some exploration of previous and related studies. It gave the researcher insight to the concept, forms and theories of financial service accessibility, credit access, financial inclusion and its impact to growth strategies. It also provided the existing knowledge gap in the area of study under critical review.

#### **2.2 Theoretical Review**

##### **2.2.1 Information Asymmetry Theory**

Information asymmetry theory postulates that when two parties are making decisions or transactions, there exists a situation where when one party has more or better information than the other. Thus, information asymmetry may cause an imbalance of power between the parties.

In this context, for example, the borrowers are more likely to get more information than the lenders. Information related with the risk associated with the investments is likely to be available to both the commercial bank and borrowers. Matthews & Thompson (2008) observed that this may lead to the problems of moral hazard, where a party took risks because they assume final cost of that risk, as well as adverse selection, where there are adverse results because parties have different/imperfect information; therefore, the problems may cause inefficiency related to the flow or transfer of funds from the lenders (surplus) to the borrowers. This causes access to finances hard as the information is imperfect implying that bank services would be paralyzed especially when the calculated risk is high. This theory is relevant to this study because it forms the basis for the objectives collateral requirement and awareness of funding opportunities.

Furthermore, for overcoming these issues, the commercial banks use three major ways when making available access to financial services such as providing the commitment for long-term relationship with the clients. The second way was through the sharing of the information. Lastly is through the delegation and monitoring of the credit applicants. When the customers borrow



money directly from banks, the banks should consider the need for relevant information to be addressed so as to redress the asymmetry of the information (Matthews & Thompson, 2008).

### **2.2.2 Crucial Role of Access to Finance Theory**

Modern development theory studies the evolution of growth, relative income inequalities, and their persistence in unified models. In many of these models, financial market imperfections play a central role, influencing key decisions regarding human and physical capital accumulation and occupational choices. For example, in theories stressing capital accumulation, financial market imperfections determine the extent to which the poor can borrow to invest in schooling or physical capital. In theories stressing entrepreneurship, financial market imperfections determine the extent to which talented but poor individuals can raise external funds to initiate projects. Thus, the evolution of financial development, accessibility, growth, and intergenerational income dynamics are closely intertwined. Finance influences not only the efficiency of resource allocation throughout the economy but also the comparative economic opportunities of individuals from relatively rich or poor households (Demirguc-Kunt et al, 2013).

This crucial focus on the financial sector in economic modeling has been strengthened with the historical development of views on the links between economic growth and income inequality. It was long believed that the early stages of economic development were inevitably accompanied by inequality and concentrations of wealth. Pointing to the fact that rich people's marginal propensity to save is higher than that of the poor; theoreticians argued that the need to finance large, indivisible investment projects in the process of development implied that rapid growth would need wealth concentration, leading to a fundamental trade-off between growth and social justice (Kuznets, 1955).

More generally, Kuznets (1955) reasoned that this trade-off meant that inequality would increase in the early stages of development until the benefits of growth spread throughout the economy. Some of the earlier empirical evidence from the United States and other developed countries supported the Kuznets hypothesis. But evidence from developing countries was not so supportive. The importance of providing incentives to reward the productive efficiency of enterprise and investment might seem to imply that growth and inequality must be positively linked, but empirical studies suggest that this is not always so. In particular, while very low

inequality is indeed empirically associated with rapid subsequent growth, the highest rates of growth are associated with moderate inequality.

Furthermore, high levels of inequality seem to reduce subsequent growth. Helping to explain these findings, more subtle theories have explored precise mechanisms whereby inequality might adversely affect growth. Financial market imperfections are often at the core of this line of thought because inequalities persist because of these imperfections. For example, in the model of Galor&Zeira (2012), it is because of financial market frictions that poor people cannot access to finances and invest in their education despite their high marginal productivity of investment. In Banerjee & Newman's model (1993), individuals' occupational choices are limited by their initial endowments.

The structure of occupational choices whether people can become entrepreneurs or have to remain wage earners in turn determines how much they can access commercial banks deposit, save and what risks they can bear, with long-run implications for growth and income distribution. Hence, these models show that lack of access to finance can be the critical mechanism for generating persistent income inequality or poverty traps, as well as lower growth. One implication of these modern development theories is that redistribution of wealth can foster growth. Indeed, this has been the main policy conclusion drawn by many readers of these theories (Galor&Zeira, 2012). This theory is relevant to the study because it forms the basis for specific objective which is institutional factors like credit ratio, loan growth and deposit growth and collateral requirements.

This thinking rationalized a focus on redistributive public policies such as land or education reform. However, if it is the capital market imperfections that lead to these relationships and necessitate redistribution, why neglect policies that might remove capital market imperfections. Nevertheless, some theories take credit constraints or other frictions as exogenous. In others, static information and transaction costs endogenously yield adverse selection and moral hazard frictions that impede the operation of financial markets. In either case, researchers take capital market imperfections as given and suggest different redistributive policies to promote growth strategies, focusing on schooling, saving, or fertility changes. This is true even though the literature also noted that if financial market imperfections continue to exist, absence of a virtuous circle a la Kuznets may also necessitate permanent redistribution policies (Banerjee et al, 1991).

A more effective and sustainable development approach would directly address financial market imperfections, without causing adverse incentive effects.

Most redistributive policies create disincentives to work and save, although the economic magnitudes of these disincentive effects are a subject of intense debate (Aghion& Bolton 1997).As Demirgüç- Kunt& Levine (2007) argue, these tensions vanish when focusing on financial sector reforms. Reducing financial market imperfections to expand individual opportunities creates positive, not negative, incentive effects. Hence these arguments are very consistent with modern development theories yet emphasize putting financial structure reforms that promote financial accessibility at the core of the development agenda. Addressing financial sector imperfections can also appeal to a wider range of philosophical perspectives than can redistributive policies in as much as the latter are directly linked with equalizing outcomes, whereas better functioning financial systems serve to equalize opportunities.

Annand&Kanbur (1993) extensive empirical evidence suggested a significant and robust relationship between financial depth and financial growth. More recent micro evidence using firm-level data sets suggests that better-developed financial systems ease financial constraints facing firms. This finding illuminated one mechanism through which financial development influences economic growth. Furthermore, researchers recently have shown that access to financial services at depth reduces income inequality and poverty and is thus particularly beneficial for the poor.

Although these results are encouraging, the link between theoretical models and empirical evidence has not been very close because of a lack of data on access to financial services. While theory focuses on the importance of broader access and greater opportunities (that is, financial inclusion), relatively little empirical evidence links access to finance to development outcomes, and there is little guidance for policies on how best to promote access (Demirguc-Kunt et al, 2013).

Financial depth or accessibility more generally, has direct and indirect effects on growth strategies of commercial banks. Greater depth is likely to be associated with greater access for both banks, which would make them, better able to take advantage of investment opportunities, smooth their consumption, improve service delivery and insure themselves. However, even if

financial accessibility did not improve direct access for small firms or poor households, its indirect effects might also be significant (Barro, 2000).

### **2.2.3 The Credit Rationing Theory and financial access.**

The credit rationing theory, propounded by Stiglitz&Weiss (1981), provides a framework for analyzing financial market inefficiencies. It asserts that, information asymmetry is the main cause of financial market malfunctioning in developing countries. Commercial Banks that advance loans to economic agents are not only interested in the interest they receive on loans, but also the risks of such loans. Also, the interest banks charge on loans have the tendency to affect the risks of a pool of loans by either sorting potential borrowers (the adverse selection effect) or affecting the behavior of borrowers (the moral hazard problem). The end result of these two decisive problems which forms the basis of this research is that banks have to resort to various screening means to identify potential borrowers who are more likely to pay back their loans and allow them access to financial services; since the expected return on such loans depends crucially on the probability of repayment. One of the methods of screening suggested by Stiglitz& Weiss is the interest rate that an individual is willing to pay. This is because, given the efficient financial markets hypothesis, individuals who are willing to pay high interest rates may on the average not pay back the loans collected and banks are mostly discouraged to give loans to such borrowers (Diagne, & Zeller, 2001).

On the other hand, low risk borrowers, faced with high interest rates, all other things being equal will be expecting negative returns and hence would not go for such loans. The terms of loan contract are thus designed (by banks) in a manner that induces borrowers to take actions in the interest of banks, and that also attracts low risk borrowers. For both reasons, the expected returns of banks increase less rapidly than the interest rate and beyond a certain point, actually declines. The moral hazard problem, on the other hand, is that risk-neutral firms prefer projects with low probability of bankruptcy and hence make lower expected returns.

Stiglitz& Weiss (1981) further argued that the problem of adverse selection and credit rationing can again occur if banks require collateral for loans. They argue that since low-risk borrowers (borrowers who face a lower rate of return if a project returns its highest outcome) expect a lower rate of return if the rate of inflation is high, they are on the average less wealthy than high-risk borrowers (after some time period) and even, are unable to provide more collateral for extra

loans (as they may not have the necessary collateral). This theory was relevant to this study because it formed the basis for specific objective collateral requirements and funding opportunity. The most important conclusion from Stiglitz & Weiss (1981) argument is that information asymmetry in the form of adverse selection and moral hazard is the source of market inefficiency in developing countries and this leads to low risk borrowers being sidelined or even excluded from access to financial services.

## **2.3 Empirical Review**

### **2.3.1 The institutional factors and growth strategy**

Research on the role of institutional factors as a financial services accessibility factor in effecting growth strategies is considerable among banks having very different operating structures than regular industrial companies; it stands to mean different set of fundamental factors to consider within the bank, when evaluating accessibility to commercial banks. According to Stephen, 2016 a blogger this is not meant as an exhaustive or complete list of the financial details a bank as investor needs to consider (Investopedia, 2016) financial institutional details include: loan growth, deposit growth, Loan/deposit ratio, Capital Ratios, Credit Quality.

#### **Loan Growth**

Stephen, (2016) notes that for many commercial banks, loan growth is as important as revenue growth to most industrial companies. The trouble with loan growth is that it is very difficult to evaluate the quality of the borrowers that the bank is serving as it expands access to finance. Above-average loan growth means that the bank has targeted attractive new markets, or has a low-cost capital base that allows it to charge less for its loans achieving its growth strategy. On the other hand, above average loan growth can also mean that a bank is pricing its money more cheaply, loosening its credit standards or somehow encouraging borrowers to move over their business (investopedia.2016).

#### **Deposit Growth**

Stephen, (2016) notes that, deposits are the most common, and almost always the cheapest, source of loanable funds for banks. Accordingly, deposit growth gives commercial banks as potential investors a sense of how much lending a bank can allow to be accessed. There are some important factors to consider with this number. First, the cost of those funds is important; a bank

that grows its deposits by offering more generous rates is not in the same competitive position as a bank that can produce the same deposit growth at lower rates. Also, deposit growth has to be analyzed in the context of loan growth and the bank management's strategic plans for loan growth. Accumulating deposits, particularly at higher rates, is actually bad for earnings if the bank cannot profitably deploy those funds to be accessed elsewhere (investopedia, 2016).

### **Loan/Deposit Ratio**

The loan/deposit ratio helps assess a bank's liquidity, and by extension, the aggressiveness of the bank's growth management strategies. If the loan/deposit ratio is too high, the bank could be vulnerable to any sudden adverse changes in its deposit base. Conversely, if the loan/deposit ratio is too low, the bank is holding on to unproductive capital and earning less than it should (Investopedia, 2016).

### **Capital Ratios**

There are a host of ratios that bank regulators use to assess how risky a bank's balance sheet is, and the degree to which the bank is vulnerable to an unexpected increase in access of bad loans. A bank's Tier 1 capital ratio takes a bank's equity capital and disclosed reserves and divides it by the bank's risk-weighted assets, (assets whose value is reduced by certain statutory amounts, based upon its perceived riskiness). The capital adequacy ratio is the sum of Tier 1 and Tier 2 capital, divided by the sum of risk-weighted assets. The tangible equity ratio takes the bank's equity, subtracts intangible assets, goodwill and preferred stock equity, and then divides it by the bank's tangible assets. Although not an especially popular ratio prior to the 2007/2008 credit crisis, it does offer a good measure of the degree of loss a bank can withstand, before wiping out shareholder equity. Capital ratios can be thought of as proxies for a bank's margin of error. Nowadays, capital ratios also play a larger role in determining whether regulators would sign off on acquisitions and dividend payments (investopedia.2016).

### **Credit Quality ratios**

Stephen, (2016) cite that the importance of credit quality ratios is somewhat self-explanatory. If a bank's credit quality is in decline because of non-performing loans and assets and/or charge-offs increases, the bank's earnings and capital may be at risk. A non-performing loan is a loan where payments of interest or principal are overdue by 90 days or more, and it is typically presented as

a percentage of outstanding loans. Net charge-offs represent the difference in loans that are written off as unlikely to be recovered (gross charge-offs) and any recoveries in previously written-off loans. Commercial banks therefore need to calculate credit quality ratio prior making a decision to enhance access for borrowing and weather to incorporate appropriate growth strategies (Investopedia, 2016).

### **2.3.2 Financial Structure.**

Competition in the financial service industry is more important particularly for the cost of services and products in the banking industry. Furthermore, the level of competition enables financial structure to provide and determines the price of financial products and the level of access to finance (Maksimovic et al, 2003). The direct competition in the banking industry may impact on the growth of emerging banks and startup banks. If there is low competition, this will undermine the overall stability of the banking financial structure. In addition, the products and services might be expensive and there will be less growth of new firms (Rocha et al, 2010).

The financial regulatory structure should have a greater implication between concentration of the market and access to finance. It is important to note that when there is a high regulatory regime, then entry barriers may increase. In most cases, the competitiveness of the banking system will not rely on the actual market structure but will rely on the regulatory regime of the country (Philip et al, 2002). There is no clear relation between regulatory restriction, interference of the government on the process of intermediation and banking system's competitiveness and access to finance. However, the regulatory restrictions to financial structure may reduce the efficiency and competitiveness in the banking system and further block banks from using their information advantages (William et al, 2001).

The ownership structure of banks may influence the relation between access to finance, market power, and costs of external financing. Local domestic banks are more likely to pursue more information, better enforcement mechanisms than the foreign owned banks, and foreign banks may be willing to lend to opaque borrowers (Michele et al, 2001)

### **2.3.3 Collateral Requirements**

Collateral refers to the extent to which assets are committed by borrowers to a lender as security for debt payment (Gitman, 2003) in order to be allowed to access financial services. The security assets should be used to recover the principal in case of default. Individuals in particular provide security in form of properties (houses, the businesses, the car, and anything that could actually bring back the principal) in case of default on loans (Garrett, 2009). Security for loans must actually be capable of being sold under the normal conditions of the market, at a fair market value and also with reasonable promptness. However, in most banks, in order to finance and to accept loan proposals, the collateral must be 100 % or more, equal to the amount of credit extension or finance product (Mullei et al, 2000). Collateral is usually some form of property or assets such as equipment, automobiles, tools or real estate that is pledged as security for a loan. Banks will use collateral to make sure they are in a more stable situation when a loan is made. If a bank wants to make a larger loan to a consumer or a business, it may require some type of collateral. When a bank has collateral as security, it helps to reduce its risk. When a customer defaults on a loan agreement, the bank can repossess or foreclose to take possession of the collateral (Francis, 2010).

Moral hazard issues can be reduced by collateral requirements by increasing and adding a potential cost to borrowers when they are not making their best effort. Sometimes the borrowers extract the funds provided by the lenders for their own personal and private use. Therefore, the collateral requirements when in place can reduce negative consequences that can rise due to an improper utilization of the funds. It is evident that most individuals are denied and discriminated by the lenders in providing financing. This is because of high risk and for not having adequate resources to provide as collateral (Kihimbo et al, 2012). This reduces the rate of access to finances thus inhibiting growth of commercial banks since less sales count of their products registering a loss and stagnation for long period.

### **2.3.4 Awareness of Funding Opportunity**

The flow of information in the financial market is crucial for both individuals and financial providers (Falkena et al. 2001). In order for individuals to identify potential supplier of financial services, they require enough information. The financial institutions require information to enable them to evaluate the potential risks associated with the individual household that apply for bank financing and also to access the location where the same will be operating and its market



segments (Othieno, 2010). Information is concerned with awareness of funding opportunities by individual house hold. In addition, information asymmetry is that relevant information is not available and known to all players in the financial market (Agostino, 2008). Information asymmetries are actually concerned with the two players in the financial market. In this case, the borrowers know more about their business cases and the bankers may not know more about it on one hand. On the other hand, it entails the lack of timely, accurate, quality, quantity, and complete information regarding the ability of the applicants to repay back the loan and to access financial products from the banking institutions (Bazibu, 2005).

A study by Agostino, (2008), conducted on agricultural sector, points out that the failure of the current African market is because of the number of the current agricultural financial access problems. These problems are associated with the imperfection of the information in the risk presences. The failures of the market mostly occur due to the fact that it is costly to screen credit applicants. The imperfections of the information affect almost all small holder farmers who are in most cases African women.

### **2.3.5 Growth Strategies**

The Growth Strategy being a long-term strategic plan for sustained growth of commercial banks revenue, product/service offering, and talent should be comprised of specific business strategies designed to move the commercial banks through a series of phases defined by target goals or milestones related revenue, product/service its offering, and talent. An effective Growth Strategy were determined after a thorough Situation Analysis, comparison to standard business growth models, and comparison to historical growth strategies of successful organizations in similar industries or business environments (Ansoff, 2011).

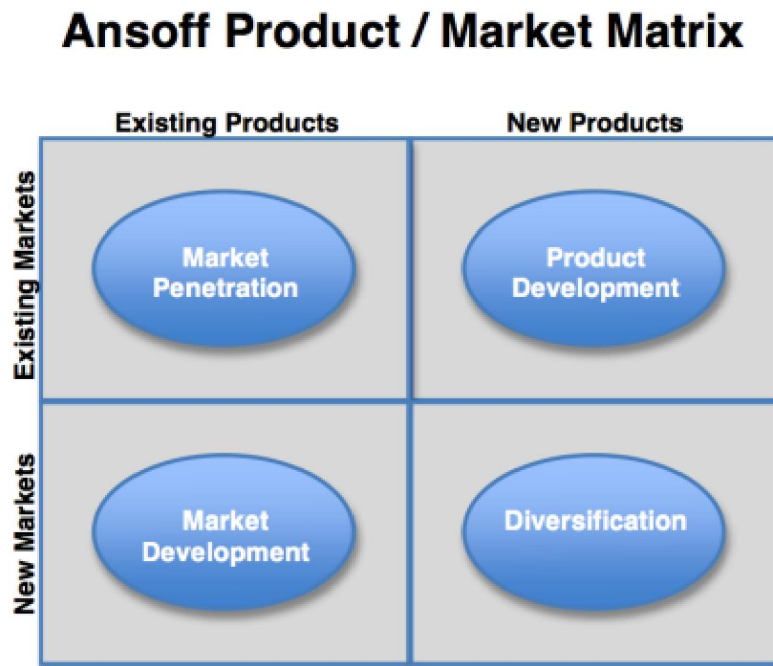
In the last ten years, the balanced scorecard (BSC) has become one of the most effective management instruments for implementing and monitoring growth strategy executed as it helps to align strategy with expected performance and it stresses the importance of establishing financial goals for employees, functional areas, and business units to ensure there is accessibility. Commercial banks should adopt the BSC since it ensured that the growth strategy is translated into objectives, operational actions, and financial accessibility goals and focuses on four key dimensions: financial access factors, growth strategies, customer satisfaction, and internal business processes (Kaplan et al, 1996).

When formulating a Growth Strategy, commercial banks looked at the history of organizations it wished to emulate — specifically, those that have recently been successful in similar industries. While there is no guaranteed Growth Strategy blue print, understanding the path these commercial banks took with consideration of their unique timeframe and business environment will be very helpful in formulating Growth Strategy. Ansoff (2011) urged commercial banks that a good place to start when determining a Growth Strategy to pursue (after a Situation Analysis was completed) was the Ansoff Product-Market Matrix. This standard tool provided four common Growth Strategy options (summarized in figure 2.1 below) by analyzing the relationship between Products (existing and new) and Markets (existing and new). (“vp of strategy,” 2011).

Empirical studies showed that a vast majority of corporate strategies fail during execution. Financial metrics should therefore help commercial banks implement and monitor their growth strategies with specific, industry-related, and measurable financial goals, strengthening their capabilities with hard-to-imitate and non-substitutable competencies. They create sustainable competitive advantages that maximize banks value, which is the main objective of all stakeholders. (Pedro, 2010).

The financial practice team ought to set up the financial metrics for commercial banks. They should come up with alternative measures of the banks financial soundness and show how efficiently its financial resources are being utilized and accessed. Since financial metrics have long been the standard for assessing banks performance, the BSC supports the role of financial accessibility through establishing and monitoring specific and measurable financial strategic goals on a coordinated, integrated basis with growth strategies, thus enabling access to bank finances and enabling it to operate efficiently and effectively. Pedro (2010) further notes that financial goals and metrics are established based on benchmarking the “best-in-industry”. Free cash flow, Economic value added, asset management, financial decision and capital structure, profitability ratio, growth indices, risk assessment and management and tax optimization are the financial metrics involved and contribute immensely in growth strategy of commercial banks (pedro, 2010)

Figure 2.1 Ansoff product/market matrix



Source: Researcher, 2016

#### Market Penetration

This strategy focused on banks on continuing to sell existing products and services into existing financial markets at the same time enhancing financial service accessibility. Therefore, its goal was to increase market share in the current marketplace by winning a higher percentage of new business opportunities, and / or taking customers from competitors. Inappropriate interpretation and application of commercial banks market penetration strategy inhibit financial accessibility in market segments. Typically, this strategy is most effective strategy banks should adopt when the overall financial market is growing, and should be done by implementing one or more of competitive tactics such as: New targeted marketing campaign, Increasing sales force / refine sales process, Aggressive pricing changes (undercut competition) and maximizing Value-added services aimed at dominating high growth financial market segments (“vp of strategy,” 2011).

## **Diversification**

Developing and increasing the use of this strategy by commercial banks provided a networking and innovative opportunities to strengthen their niche and competitive advantage thus enhancing financial accessibility. This was the strategy of diversifying into new businesses by introducing new products into new markets. For instance equity launched mobile banking platform called Equitel that has increased financial accessibility countrywide. This is the most risky of the four strategies and the least attractive option unless there is a unique circumstance that would warrant such a move. Also, through Diversification commercial banks were able to move into either a related business or completely unrelated business, but the former is almost always preferable. This enabled banks to position themselves to have integrative infrastructure that create possibilities enabling financial access at the same time transiting from local to national, regional and ultimately global level through innovation, networks, consolidation or mergers. Change in product is important for growth and change is driven by creative ideas and technology (“vp of strategy,” 2011).

## **Market Development**

This is the strategy of selling existing products into new markets. The goal was to increase revenue by moving beyond the immediate customer base enhancing financial accessibility services, attracting new kinds of customers for existing products. Typically, this involves identifying new vertical market segments that have not yet been served, developing new distribution channels, or international expansion. New pricing or packaging strategies can be effective with this strategy (“vp of strategy,” 2011).

## **Product Development**

This strategy outlined that commercial banks should introduce new products / services into existing markets with aim to increase market share in the current marketplace by increasing revenue per customer, and attracting new customers in the current marketplace with new product options. This strategy is often part of the natural growth of commercial banks, however it requires the development of new competencies (often done through acquisition or strategic partnerships), which inevitably brings new risks and expenses (“vp of strategy,” 2011).

## **2.4 Critical Review**

Commercial bank played a key role in determining the economic performance of any country through facilitating financial accessibility resulting to economic development in the country. The place of growth strategies in alignment with financial strategies in enabling financial accessibility could not be over emphasized in that this area is an engine of growth for developing commercial banks and in some case referred to as pollinator of the development process. Although the role of financial accessibility as growth strategy had not acknowledged by numerous scholars as put across by Mwangi, et al (2012) it was vital at the heart of every commercial bank that deserve growth to ensure accessibility of its financial product and services.

Despite the importance of financial growth, financial service accessibility, not too much work had been done to study its effect on growth strategies until the launch of financial variables on growth (Becchetti&Trovato,2002) thus understanding the role of financial accessibility factors impact on growth strategy remain un attended to. Not too much of theories had built on the financial accessibility and growth strategies. Although various literature described determinant of growth in commercial banks as: Increase in sales, Assets, profit and Technology not much had been done on the financial accessibility activities towards impacting on growth strategies and none of the above mentioned factors had conclusively constituted a success factor to growth strategies of the bank; not even Equity.

According to Mendes &Reblo, 2009, there was a disconnect between growth strategies employed by bank branches and financial accessibility. The bank branches focus on enhancing profit ignoring financial accessibility factors as having a role in enhancing growth strategies used. On the other hand, Claensens et al, (1998) argued that opening banking markets enhances the functioning of commercial banks and quality of financial services but it does not mention which growth strategy to enable this enhancement. To a large extent growth strategies influenced the pattern and enhancement of financial access despite the effort employed by financial intermediaries to empower commercial Banks. This was constrained by financial accessibility factors; financial policies, structure of financial sector, institutional factors, collateral requirement and awareness of funding opportunity. This constrains inhibit the success of growth strategies in commercial Banks thus greater need for constant review. These challenges are related to the weakness of financial institution.

It was therefore critical to relate the growth strategies and financial accessibility in commercial banks as this directly brings about change in their growth. This is based on growth strategies and financial accessibility variables discussed in this research. Most of the researchers proposed explanation to be empirically proven correlation between financial intermediaries and economic growth. There was sufficient evidence that financial sector development and economic growth were endogenous. The relevant theory thus stated that there is a shared view that financial institution development and growth are related. Thus financial accessibility factors help in formulation of growth strategies enhancing growth of commercial banks. The alternative view thus linked financial access to economic performance as the key function of a financial system in saving and investment (Bencivenga, 1991).

## **2.5 Conceptual Framework**

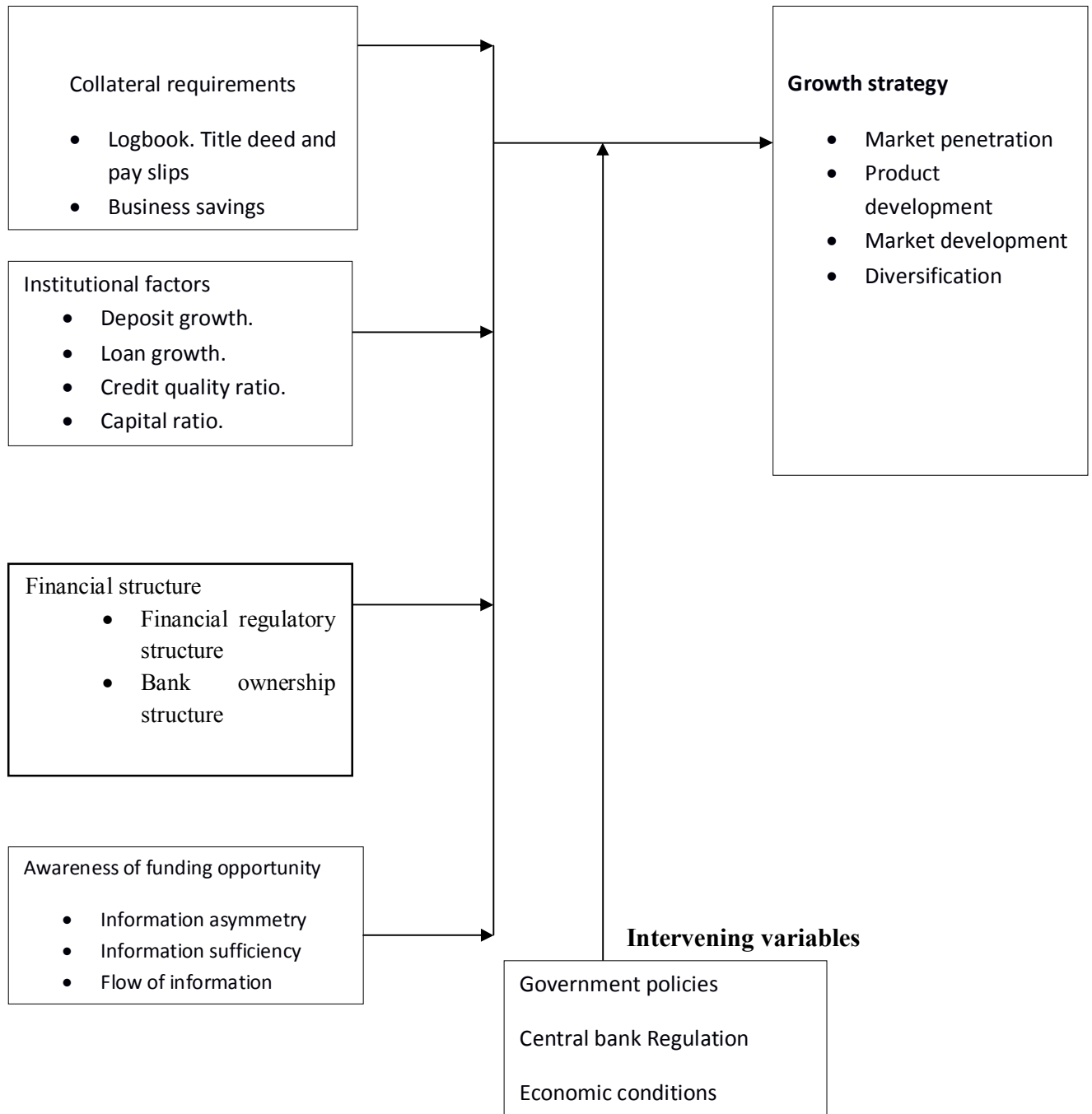
A conceptual framework helped simplify the proposed role of financial service accessibility variables in the study and show the same graphically or diagrammatically (Mugenda, 2003). The conceptual framework of this study was based on four independent variables namely; Institutional factors, collateral requirement, financial structure, Awareness of funding opportunity; The dependent variable of this study were growth strategy indicators such as Favorable market penetration, Good product development, effective and efficient market development, and diversification. The figure below shows how the various independent variables affect the dependent variable under study

**Figure 2.2: Conceptual Framework.**

**Independent variable**

**Dependent variable**

**(Financial services accessibility)**



Source: Author (2016)

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

According to Kothari (2005) Research methodology is described as systematic way of research solving. Therefore, this chapter of the research discussed the methodology adopted in gathering data. In this chapter the researcher aimed at describing the Research design, Target population, sampling design and procedures, data collection and Research instruments, and data analysis.

#### **3.2 Research Design**

The study adopted descriptive research design. This type of research design attempted to describe systematically a situation problem, provides information about an issue and describes attitudes towards an issue (Kumar, 2005). A survey is an attempt to collect data from members of population with respect to one or more variables. The design is probably the best method available to social scientist and other educator interested in collecting original data for the purpose of describing a population which is too large to observe directly. Surveys are also excellent vehicles for the measurement of characteristic of large population (Mugenda, 2003). The design was applicable to the study since it enabled the researcher to study the role of financial accessibility as a growth strategy in commercial bank in Kenya with a survey of equity bank branch in Nakuru town.

#### **3.3 Study Area**

The study was conducted in Equity bank branches within Nakuru town with permanent employees who are at Nakuru town branches. The research was carried out at Equity branch offices.



### **3.4 Target Population**

The term target population means an aggregate of individuals, objects, or any other subject of concern which by virtue of a common characteristic is of interest to the researcher and may lead to the obtaining of relevant information regarding a phenomenon under study (Osoo et al, 2009). The study targeted respondents who were drawn from employees in the top management to the bottom that is from higher management level to lower level. The three branches had a target population of 125 employees. 65 employees were sampled in the sample size using simple random sampling. The study targeted employees of equity bank in Nakuru branch offices and agencies employees which includes sections heads, administrators, production staff, marketing /sales representatives.

**Table 3.1 Target population**

EQUITY BANK BRANCHES (NAKURU TOWN)	POPULATION	NATURE OF FINANCIAL SERVICES
GATEHOUSE BRANCH	45	Selling financial services and deposit- withdrawal services
KENYATTA AVENUE BRANCH	50	Selling financial services and deposit- withdrawal services
WESTSIDE MALL BRANCH	30	Selling financial services and deposit- withdrawal services
TOTAL	125	

Source: Equity bank branch in Nakuru town Research data, 2016.

### **3.5 Sampling Design**

According to Webster (1985) the statistical finite part of population to obtain whole information is known as sampling. It can also be selecting suitable sample representation of a whole population. Sampling is therefore the process of selecting a member of individuals selected to represent the larger group.

There are 125 employees at Equity bank branch offices. Simple random sampling was used to select 65 employees, made up of management and non-management employees.

## Sampling Technique

To determine the sample size,  $n$ , a stratified random sampling was used. Nassiuma, (2000) asserts that in most surveys, where population size  $N$ , is 125, we adopt  $C$ =coefficient of variation in the range of  $20\% \leq C \leq 30\%$  and a standard error,  $e$ , in the range  $2\% \leq e \leq 5\%$  is usually acceptable as follows:

$$n = \frac{NC^2}{C^2 + (N-1)e^2}$$

Then we allocate the sample size with probability proportional to size of the strata using stratified random sampling as:

$$n_h = \left(\frac{n}{N}\right)N_h \quad \text{Where } N_h \text{ is the strata size}$$

- $n_h$  is the sample size of the stratum
- $N$  is the total number of employees
- $N_h$  is the total number of employees per strata?

$C=29\%$ ;  $e=0.025$ ,  $N=125$ ;  $n=65$ . The results are as shown in Table 3.1

**Table 3.2: Distribution of sample size**

EQUITY BANK BRANCHES (NAKURU TOWN)	POPULATION	$\left(\frac{n}{N}\right)N_h$	NATURE OF FINANCIAL SERVICES ACCESSED
GATEHOUSE BRANCH	45	23	Selling financial services and deposit- withdrawal services
KENYATTA AVENUE BRANCH	50	26	Selling financial services and deposit- withdrawal services
WESTSIDE MALL BRANCH	30	16	Selling financial services and deposit- withdrawal services
TOTAL	125	65	

**Source: Equity bank branch in Nakuru town Research data, 2016.**

### **3.6 Data collection instruments and procedures**

According to Creswell (2003), the process of obtaining information from subject of study is known as data collection .The researcher collected the required research permits from relevant authorities before collecting data. The researcher collected the completed questionnaires for analysis. The purpose of the questions was help to gather feedback from members and for study analysis.

The researcher collected primary data using a structured questionnaire which were designed to give a brief introduction with sections representing variables to be adopted for study. A

questionnaire was used to collect data from the respondents. This is designed such that the respondents are given a chance to fill them at their own time in response to what they considered relevant. The questions were asked and distributed in the form of paper sheets. The purpose of the questions was to help gather feedback from the members on how good financial accessibility factors can strategically enhance growth strategy at equity bank branch.

### **3.7 Validity and Reliability**

The validity and reliability refers to the appropriateness of the instrument for the purpose of study (Adrian, Lewis and Saunders, 2007). On the other hand reliability refers to the consistency of the scales used in the study. This study used Cronbach statistics due to the Nature of the research instrument. Cronbach's alpha reliability coefficient was calculated to estimate the reliability of the data. The results of the correlated sets gave the researcher positive correlation coefficient of 0.63 which showed that the instrument was reliable. These are within the threshold of 0.7 which is considered good (Sekran, 2000). A level of reliability coefficient between 0 and 1 was considered acceptable in most social science applications (Ryan, 2013; Kothari, 2009).

### **3.8 Data Analysis and Presentation**

This is a process of bringing order, structure and meaning to mass of information collected. Collected data will be recorded in a scale of 1 to 5 as; Very large extent=1, large extent=2, moderate extent=3, small extent=4 and very small extent=5. Data was then be exported to statistical package for social science (SPSS) version 21. Qualitative data was analyzed by the use of descriptive statistics, frequency tables and chi-square test using SPSS. Inferential statistics used include correlation analysis and multiple regression was carried out on quantitative data to access the nature and strength of relationship between dependent and independent variables (Kothari, 2009), The findings were then be presented using tables.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where Y= growth strategies

$\beta_0$  = Constant

$\beta_1, \beta_2, \beta_3, \beta_4$  = Parameter of the model

$X_1$  = Institutional factors

$X_2$  = Financial policy

X3= collateral requirements

X4= financial structure

X5 = Awareness of funding opportunities.

$\varepsilon$  = Error term where,

## CHAPTER FOUR

### DATA ANALYSIS, INTERPRETATIONS AND DISCUSSIONS

#### 4.1 Introduction

This chapter comprises of a presentation of data results and their interpretation. The presentation in this chapter shows the results as tested according to the objectives of the study. The chapter begins with demographic characteristics of the respondents such as age, educational level, tenure and gender which were all presented using cross tabulations. Descriptive for the items in the instruments were also presented using means for each item to define the relative opinion of the respondents for that particular item. The results from the correlations and the regression analysis results were presented.

##### 4.1.1 Response Rate

**Table 4.1 shows the response rate of the respondents**

No. of questionnaires Returned	No of respondents targeted	Response rate (%)
<b>65</b>	<b>65</b>	<b>100</b>

Source: Research data, 2016

The study sampled 65 bank employees but the actual number that participated in the study was 83. A response rate of 100% was obtained, which is an acceptable proportion according to Mugenda, (2003), who reports that a response rate of 50% and above is acceptable.

#### 4.2 Demographic Characteristics

The researcher enquired about the gender of respondents, the age group, the level of education, length of time respondents have been with the organization, position the respondents hold, Bank incorporation, Years of Equity bank in operation as well as Geographic Scope of Operation that the respondents were members of equity bank Nakuru branch office. The researcher had targeted employees who were picked from the Equity bank branches. Data analysis was based on the 65 fully answered questionnaires. The results of the findings were as below:

#### 4.2.1. Gender of the respondents

**Table 4.2.1: Gender of the respondents**

Gender	Frequency	percent
Male	30	46.2
Female	35	53.8
TOTAL	65	100

Source: Research data, 2016

The 35 of respondents representing 53.8% of the total respondents are female, while 30 respondents representing 46.2% are male. Majority of respondents were found to be of female gender. This could be because they were most willing to participate in the study and also there were more females than males in the selected Equity bank branches. The proportion of male to female was not significantly different. The result therefore means that Equity bank have equal employment opportunity for both male and female employees.

#### 4.2.2 Age of the respondents

Frequency distribution was used to present age of the respondents.

**Table 4.2.2: Age of the respondents**

Age groups	Frequency	Percent
25	8	12.3
29	6	9.2
30	5	7.7
31	3	4.6
32	14	21.5
33	13	20.0
34	16	24.6
Total	65	100.0

Source: Research data, 2016



According to the results in table 4.2.2, 12.3% of the respondents belonged to the age group with <25 years, 9.2%, 7.7% and 4.6% belonged to the 29, 30 and 31 years age groups respectively, 21.5% belonged to the 32 years age group while the largest age group belonged to the One with 33 years as it constituted to 20% this could be because the work experience they have such that the formulate growth strategies for the Bank. From the findings, majority of the respondents belonged to the 34 years age group and were permanently employed thus most employees have been with equity bank consistently and are more likely to know and formulate growth strategies on the extent to which banks financial services can be accessed easily. Therefore, most members of the work are within the productive age. This encourages effective delivery of services.

#### 4.2.3. Respondents Educational Level

**Table 4.2.3-Respondents Educational level**

Education level	Frequency	Per cent
tertiary	10	15.4
diploma	14	21.5
undergraduate	29	44.6
masters	12	18.5
Total	65	100.0

Source: Research data, 2016

Respondents with undergraduate bachelor's degree account for 44.6% of the sampled population, 21.5% have diploma, 15.4% and 28.5% have got certificate(tertiary) for secondary and masters respectively, this could be because of nature of services they provide for accessibility and delivery of this financial services Majority of respondent were those with undergraduate bachelors education, this could be because the three of the equity bank branches specializes in service delivery and sale of product thus this require very high qualifications and professional skills which many have do have. Those with master's degree in three branches played a crucial role in decision making, managerial formulation of growth strategies thus effective and efficient delivery of financial services.

#### 4.2.4 The length of time respondents have been with the organization

**Table 4.2.4-Longevity of respondents in the SMEs**

Years of experience	Frequency	Per cent
6-10 years	50	76.9
11-15 years	15	23.1
<b>TOTAL</b>	<b>65</b>	<b>100</b>

Source: Research data, 2016

The question deals with the longevity of staff in the bank. The respondents with 6-10 years of experience were dominant (76.9%) followed with those with 11-15 years of experience (23.1%). This shows that most of the staff have been with the bank consistently and are more likely to know more about performance of the bank in terms of financial services accessibility.

#### 4.2.5 The position the respondents hold

**Table 4.2.5-position held by respondent**

Position	Frequency	Per cent
Management	20	30.8
MIDDLE STAFF	32	49.2
JUNIOR STAFF	13	20
<b>TOTAL</b>	<b>65</b>	<b>100</b>

Source: Research data, 2016

We have 30.8% of the respondents drawn from top management employees and this consist of sections heads,49.2% are middle level staff and these are credit relation managers, accountants, cashiers, agency administrators, marketing assistants and line managers.20% are junior level staff and include product staff, agency staff, drivers, cleaners, hospitality staff etc. Both middle staff and junior staff constitute of Non-management. Majority of the respondents were in the middle level of the bank because they were more accessible. Management staff forms second largest majority in this study because they are the major target and their turn up was in large extent.

#### 4.2.6 Bank incorporation

**Table 4.2.6-Bank incorporation**

Incorporation	Frequency	per cent
Yes	65	100.0

Source: Research data, 2016

The data above shows that all respondents are fully aware that their bank is incorporated and regulated by central bank Kenya.

#### 4.2.7 Years of Equity bank in operation

**Table 4.2.7-Years of equity bank in operation**

Equity bank in operation	Frequency	per cent
18 years	1	1.5
30 years	5	7.7
32 years	59	90.8
Total	65	100.0

Source: Research data, 2016

From the analysis above, we can see that 59 of respondents representing 90.8% described that Equity bank has been in operation for 32 years, while those that choose 30 years are 5 respondents representing 7.7% .Only one representing 1.5% of respondents didn't know the number of years the company was in operation.

## 4.2.8 Geographic Scope of Operation

**Table 4.2.8-Geographic Scope of Operation**

Geographic scope	Frequency	per cent
within one government administrative division	2	3.1
Countrywide	2	3.1
Global	16	24.6
in two or more countries	45	69.2
<b>TOTAL</b>	<b>65</b>	<b>100</b>

**Source: Research data, 2016**

From the above analysis we can see that 45 of respondents representing 69.2% described that equity bank has extended its financial services accessibility to two and more countries, while 16 of respondent representing 24.6% believed that equity bank operational scope is global. Only two and two other respondents representing 3.1% each contend that the banks geographic scope is countrywide and within one government administrative division. This indicates that all employees among respondents know that equity bank has been expanding its geographic scope to outside countries implying that they understand the role of financial service accessibility as growth strategy thus suitable for this study.

## 4.3 Descriptive Statistics

### 4.3.1 Collateral Requirements

From your experience from the bank, to what extent do you agree that effective collateral requirements practices leads to increased access to financial services?

For banks to issue access to funds it is evident that collateral requirement is necessary. The study brings to light the fact that collateral requirement as a factor affect growth strategies in commercial banks through use of the following: frequent collateral security check, availability of structure in the system, security description and specification, availability of collateral security policy, risk reduction (moral hazard issue).The study sought to analyze the extent to which effective collateral requirements practices leads to increased access of financial services in the equity branch Nakuru town. The objective was achieved by asking the respondents to respond to questions that best described how their collateral requirement works. This together with other items was each rated on 5-pointlikert scale ranging from: 1=Very large extent, 2=Large extent, 3=moderate extent, 2=Small extent and 1=very small extent and results were summarized below in table 4.3.1.

**Table 4.3.1-collateral requirement**

<b>STATEMENT</b>	<b>V.LE Freq (%)</b>	<b>L.E Freq (%)</b>	<b>M.E Freq (%)</b>	<b>S.E Freq (%)</b>	<b>V.S.E Freq (%)</b>	<b>Chisq</b>	<b>P- Value</b>
Equity bank conducts collateral security check before allowing access to funds.	28 (43.1%)	22 (33.8%)	13 (20%)	2 (3.1%)	0 (0%)	23.68	0.000
Equity bank is fully aware and has structured collateral requirements that are flexible and promote growth strategies.	23 (35.4%)	33 (50.8%)	9 (13.8%)	0 (0%)	0 (0%)	13.42	0.001
All financial grants by equity are subject to formal collateral requirement analysis(security description and specification)	26 (40%)	28 (43.1%)	9 (13.8%)	1 (1.5%)	0 (0.0)	30.08	0.000
The bank has structured policy that align this access factor to growth strategy	25 (38.5%)	30 (46.2%)	9 (13.8%)	1 (1.5%)	0 (0%)	33.89	0.000
Security for loan is capable of being sold at a fair market value and with reasonable promptness.	24 (36.9%)	32 (49.2%)	8 (12.3%)	1 (1.5%)	0 (0%)	37.46	0.000
Moral hazard issue which adds potential cost to your bank when there is default can be reduced by collateral requirement.	22 (33.8%)	35 (53.8%)	5 (7.7%)	3 (4.6%)	0 (0.0%)	42.26	0.000

Source: Researcher 2016.

The study required the researcher to establish from the respondents whether effective collateral requirement practices leads to increased access to finances achieving growth strategy employed at Equity bank, according to result displayed in the table 4.3.1, Majority of the respondents (76.9%) agreed ( $\chi^2 = 23.68, p < 0.000$ ) to a very large extent that Equity bank conducts collateral security check before allowing access to funds. Majority of the respondents (86.2%) agreed ( $\chi^2 = 13.42, p < 0.001$ ) to a large extent that Equity bank is fully aware and has structured collateral requirements that are flexible and promote growth strategies. Majority of the respondents (83.1%) agreed ( $\chi^2 = 30.08, < 0.000$ ) to a large extent that all financial grants by equity are subject to formal collateral requirement analysis (security description and specification). Majority of the respondents (84.7%) agreed ( $\chi^2 = 33.89, P < 0.000$ ) to a large extent that the bank has structured policy that aligns this access factor to growth strategy. Majority of the respondents (86.1%) agreed ( $\chi^2 = 37.46, P < 0.000$ ) to a large extent that Security for loan is capable of being sold at a fair market value and with reasonable promptness. And finally, majority of the respondents (87.6%) agreed ( $\chi^2 = 42.26, P < 0.000$ ) to a large extent that moral hazard issue which adds potential cost to your bank when there is default can be reduced by collateral requirement. These findings agree with literature where the security assets should be used to recover the principal in case of default and Individuals in particular provide security in form of properties (houses, the businesses, the car, and anything that could actually bring back the principal) in case of default on loans (Garrett, 2009). Also, security for loans must actually be capable of being sold under the normal conditions of the market, at a fair market value and also with reasonable promptness. It is evident that, in Equity bank, in order to finance and to accept loan proposals, the collateral must be 100 % or more, equal to the amount of credit extension or finance product (Mullei et al, 2000). It is also evident that when a bank has collateral as security, it helps to reduce its risk and when a customer defaults on a loan agreement, the bank can repossess or foreclose to take possession of the collateral (Francis, 2010).

### **4.3.2 Institutional Factors**

The study sought to know the extent to which effective use of institutional factors leads to increased access to financial services achieving satisfactory growth strategy employed. The objective was achieved by asking the respondents to respond to questions that best described how their institutional factors work. This together with other items was each rated on 5-point likert scale ranging from: 1=Very large extent, 2=Large extent, 3=moderate extent, 2=Small extent and 1=very small extent and results were summarized below. The following table 4.3.2 presents the analysis on use of institutional factors and how it leads to increased access of financial services achieving growth strategy.

**Table 4.3.2 Institutional Factors**

STATEMENT	V.L.E Freq (%)	L.E Freq (%)	M.E Freq (%)	S.E Freq (%)	V.S.E Freq (%)	Chisq $\chi^2$	P- Value
a. Well laid and formulated institutional factors in your bank consider loan growth, deposit growth and credit ratios to allow access to funds.	<b>30</b> <b>(46.2%)</b>	<b>29</b> <b>(44.6%)</b>	<b>6</b> <b>(9.2)</b>	<b>0</b> <b>(0%)</b>	<b>0</b> <b>(0%)</b>	17.015	0.000
b. Deposit growth shows the bank the exact amount of lending your bank allow to be accessed	24 (36.9%)	29 (44.6%)	10 (15.4%)	2 (3.1%)	0 (0%)	28.60	0.000
c. Favorable loan growth will enable equity bank attract new market at affordable cost capital base spreading access.	22 (33.8%)	31 (47.7%)	12 (18.5%)	0 (0%)	0 (0%)	8.34	0.015
d. Equity bank needs to calculate credit quality ratio prior making a decision to enhance borrowing.	28 (43.1%)	28 (43.1%)	9 (13.8%)	0 (0%)	0 (0%)	11.11	0.004
Capital ratios determine whether regulators will sign acquisition and dividend payment achieving growth strategies.	25 (38.5%)	37 (56.9%)	3 (4.6)	0 (0%)	0 (0%)	27.44	0.000

Source: Researcher 2016.

Table 4.3.2 presents the findings on respondents experience from the bank on the extent to which effective use of institutional factors leads to increased access to financial services achieving satisfactory growth strategy. Majority of the respondents (90.2%) agreed



( $\chi^2 = 17.015, P < 0.000$ ) to a very large extent that well laid and formulated institutional factors at the bank considers loan growth, deposit growth and credit ratios to allow access to funds. Majority of the respondents (81.5%) agreed ( $\chi^2 = 28.6, P < 0.000$ ) to a large extent that deposit growth shows the bank the exact amount of lending the bank allows to be accessed. Majority of the respondents (81.5%) agreed ( $\chi^2 = 8.34, P < 0.015$ ) to a large extent that favorable loan growth will enable equity bank attract new market at affordable cost capital base spreading access. Majority of the respondents (86.2%) agreed ( $\chi^2 = 11.11, P < 0.004$ ) to a large extent that equity bank needs to calculate credit quality ratio prior making a decision to enhance borrowing. Majority of the respondents (95.4%) agreed ( $\chi^2 = 27.44, P < 0.000$ ) to a large extent that capital ratios determine whether regulators will sign acquisition and dividend payment achieving growth strategies. Stephen, (2016) notes that for many commercial banks, loan growth is as important as revenue growth to most industrial companies. The trouble with loan growth is that it is very difficult to evaluate the quality of the borrowers that the bank is serving as it expands access to finance. Above-average loan growth means that the bank has targeted attractive new markets, or has a low-cost capital base that allows it to charge less for its loans achieving its growth strategy. These findings also agree with the fact that Research on the role of institutional factors as a financial services accessibility factor in effecting growth strategies is considerable among banks having very different operating structures than regular industrial companies; This therefore mean different set of fundamental institutional factors ought to be considered within the bank, when evaluating accessibility to financial services in commercial banks (Stephen, 2016).

#### **4.3.3 Financial Structure**

From your experience from the bank, to what extent do you agree that efficient financial structure leads to increased access to financial services achieving growth strategy? The study required to find out respondents ratings on extent to which efficient financial structure leads to increased access to financial services achieving growth strategy.

**Table 4.3.3-Response on Financial structure**

STATEMENT	V.L.E Freq (%)	L.E Freq (%)	M.E Freq (%)	S.E Freq (%)	V.S.E	Chisq $\chi^2$	P- Value
Designing competitive financial structure affects particularly the cost of services and product being accessed in your bank.	26 (40%)	28 (43.1%)	11 (16.9%)	0 (0%)	0 (0%)	7.962	0.019
The banking financial regulatory structures have a greater implication on concentration of the market and access to financial service	23 (35.4%)	30 (46.2%)	10 (15.4%)	0 (0%)	2 (3.1%)	29.338	0.000
There is clear process of implementing growth strategies and banking system competitiveness and access to finance.	25 (38.4%)	28 (43.1%)	10 (15.4%)	2 (3.1)	0 (0%)	28.108	0.000
High regulatory regimes, increases the accessibility of the bank thus will rely on to formulate banks growth strategy.	18 (27.7%)	36 (55.4%)	8 (12.3%)	2 (3.1%)	1 (1.5%)	64.923	0.000
Ownership structure of banks influence the relation between access to finance, market power and cost of external financing.	28 (43.1%)	26 (40%)	5 (7.7%)	3 (4.6%)	3 (4.6%)	50.615	0.000

**Source: Researcher 2016.**

Findings of this study indicates that majority of the respondents (83.1%) agreed ( $\chi^2 = 7.962, P < 0.019$ ) to a large extent that designing competitive financial structure affects particularly the cost of services and product being accessed at the bank. Majority of the respondents (81.6%) agreed ( $\chi^2 = 29.34, P < 0.000$ ) to a large extent that the banking financial regulatory structures have a greater implication on concentration of the market and access to financial service. Whereas majority of the respondents (83.1%) agreed ( $\chi^2 = 28.11, P < 0.000$ ) to a large extent that there is clear process of implementing growth strategies and banking system competitiveness and access to finance. Majority of the respondents (83.1%) agreed ( $\chi^2 = 64.92, P < 0.000$ ) to a very large extent that high regulatory regimes, increases the accessibility of the bank thus will rely on to formulate banks growth strategy. Majority of the respondents (83.1%) agreed ( $\chi^2 = 50.62, P < 0.000$ ) to a very large extent that ownership structure of banks influence the relation between access to finance, market power and cost of external financing. The findings are in line with literature where Competition in the financial service industry is more important particularly for the cost of services and products in the banking industry. Also, the level of competition enables financial structure to provide and determines the price of financial products and the level of access to finance (Maksimovic et al, 2003). It is evident that direct competition in the banking industry may impact on the growth of emerging banks and startup banks. If there is low competition, this will undermine the overall stability of the banking financial structure. In addition, the products and services might be expensive and there will be less growth of new firms (Rocha et al, 2010).

The financial regulatory structure should have a greater implication between concentration of the market and access to finance. It is important to note that when there is a high regulatory regime, then entry barriers may increase. In most cases, the competitiveness of the banking system would not rely on the actual market structure but will rely on the regulatory regime of the country (Philip et al, 2002).

#### 4.3.4 Awareness of Funding Opportunity

From your experience from the bank, to what extent do you agree that effective awareness of funding opportunities results in increased access to finances achieving growth strategy.

**Table 4.3.4-Response on Awareness of funding opportunity.**

STATEMENT	V.LE Freq (%)	LE Freq (%)	ME Freq (%)	SE Freq(%)	V.S.E Freq (%)	Chisq $\chi^2$	P- Value
Flow of information concerning funding opportunity in the financial market is crucial for both individuals and financial providers(you)	26(40%)	33(50.8%)	6(9.2%)	0(0.0)	0(0%)	18.123	0.000
In order for your client to identify potential supplier of financial service they require enough information on awareness of funding opportunities.	30(46.2%)	28(43.1%)	3(4.6%)	4(6.2%)	0(0%)	40.169	0.000
Equity bank require information relating to funding to enable them evaluate potential risks associated with the individual that apply for financing.	23(35.4%)	28(43.1%)	9(13.8%)	5(7.7%)	0(0%)	22.323	0.000
Information asymmetries are actual concerned with the two player in the financial market (you) and individual household.	24(36.9%)	30(46.2%)	11(16.9%)	0(0%)	0(0%)	8.708	0.013
Failure of current market is because of lack of awareness to funding opportunity and access to credit.	24(36.9%)	24(36.9%)	12(18.5%)	2(3.1%)	3(4.6%)	35.692	0.000

**Source: Researcher, 2016**

Respondents were required to indicate their rating on the extent to which effective awareness of funding opportunities results in increased access to finances achieving growth strategy. On this question, majority of the respondents (90.8%) agreed ( $\chi^2 = 18.123, P < 0.000$ ) to a large extent that flow of information concerning funding opportunity in the financial market is crucial for both individuals and financial providers. Majority of the respondents (89.3%) agreed ( $\chi^2 = 40.17, P < 0.000$ ) to a very large extent that in order for your client to identify potential supplier of financial service they require enough information on awareness of funding opportunities. Majority of the respondents (78.5%) strongly agreed ( $\chi^2 = 22.32, P < 0.000$ ) to a large extent that equity bank require information relating to funding to enable them evaluate potential risks associated with the individual that apply for financing. Majority of the respondents (83.1%) agreed ( $\chi^2 = 8.708, P < 0.013$ ) to a large extent that information asymmetries are actual concerned with the two player in the financial market (you) and individual household. Majority of the respondents (85.4%) strongly agreed ( $\chi^2 = 35.692, P < 0.000$ ) to a large extent that failure of current market is because of lack of awareness to funding opportunity and access to credit. Majority of the respondents (73.8%) strongly agreed ( $\chi^2 = 35.692, P < 0.000$ ) to a large extent that failure of current market is because of lack of awareness to funding opportunity and access to credit. The findings concur with research done in literature where the flow of information in the financial market is crucial for both individuals and financial providers (Falkena et al. 2001). In order for individuals to identify potential supplier of financial services, they require enough information. The findings show that equity bank to a large extent require information to enable them to evaluate the potential risks associated with the individual household that apply for bank financing and also to access the location where the same will be operating and its market segments (Othieno, 2010). Information concerned with awareness of funding opportunities by individual house hold. In addition, it is evident that information asymmetry is that relevant information is not available and known to all players in the financial market (Agostino, 2008). Information asymmetries are actually concerned with the two players in the financial market. In this case, the borrowers know more about their business cases and the bankers may not know more about it on one hand. On the other hand, findings suggest that it should entails the lack of timely, accurate, quality, quantity, and complete information regarding the ability of the applicants to repay back the loan and to access financial products from the banking institutions (Bazibu, 2005).

### 4.3.5 Growth Strategy

**Table 4.3.5-Response on Growth strategies**

STATEMENT	V.L.E Freq (%)	L.E Freq (%)	M.E Freq (%)	S.E Freq (%)	V.S.E Freq (%)	Chisq $\chi^2$	P- Value
Equity is fully aware that to increase market share and attracting new clients with new products by incorporating financial services accessibility factors will achieving product development strategy.	22 (33.8%)	33 (50.8%)	8 (12.3%)	0 (0.0%)	2 (3.1%)	35.985	0.000
Equity bank through diversification knows how to position themselves to have integrative infrastructure will enable accessibility to financial services smoother.	28 (43.1%)	27 (41.5%)	10 (15.4%)	0 (0%)	0 (0%)	9.44	0.009
Equity bank market development strategy of selling their products to new financial markets enables them enhance accessibility to financial services	12 (18.5%)	37 (56.9%)	16 (24.6%)	0 (0.0%)	0 (0.0%)	16.64	0.000
Growth strategies in equity bank depend on efficient execution of financial accessibility factors.	28 (43.1%)	24 (36.9%)	13 (20%)	0 (0%)	0 (0%)	5.569	0.062
Growth strategies when well incorporated helps banks become competitive and with large volume of satisfied customers.	27 (41.5%)	27 (41.5%)	11 (16.9%)	0 (0.0%)	0 (0%)	7.877	0.019

Source: Researcher 2016.

The study sought to establish the banks indicators of growth strategy as a dependent variable as a results are shown above in the table 4.3.5. Most of respondents on the above table agree to large extent that growth strategies are achieved through market penetration, product development, market development and diversification as tested by components in the statement in the table above. On this question, majority of the respondents (84.6%) agreed ( $\chi^2 = 9.44, P < 0.009$ ) to a large extent that Equity bank is fully aware that to increase market share and attracting new clients with new products by incorporating financial services accessibility factors will achieve product development strategy. Majority of the respondents (75.4%) agreed ( $\chi^2 = 16.64, P < 0.000$ ) to a large extent that Equity bank through diversification knows how to position themselves to have integrative infrastructure will enable accessibility to financial services smoother. Majority of the respondents (81.9%) agreed ( $\chi^2 = 83.93, P < 0.001$ ) to a large extent that Equity bank market development strategy of selling their products to new financial markets enables them enhance accessibility to financial services. Majority of the respondents (80%) strongly agreed ( $\chi^2 = 5.569, P < 0.062$ ) to a large extent that growth strategies in equity bank depend on efficient execution of financial accessibility factors. And finally, Majority of the respondents (83%) strongly agreed ( $\chi^2 = 7.877, P < 0.019$ ) to a large extent that Growth strategies when well incorporated helps banks become competitive and with large volume of satisfied customers. The findings concur to a large extent with research done by (scott,2016) that when formulating a Growth Strategy, commercial banks looked at the history of organizations it wished to emulate — specifically, those that have recently been successful in similar industries. While there is no guaranteed Growth Strategy blue print, understanding the path these commercial banks took with consideration of their unique timeframe and business environment will be very helpful in formulating Growth Strategy. Ansoff observed that commercial banks good place to start when determining a Growth Strategy to pursue (after a Situation Analysis was completed) was the Ansoff Product-Market Matrix which is evident in this finding. This standard tool provided four common Growth Strategy options which is evident as diversification, product development, market development and market penetration (Ansoff, 2011).

#### 4.4 Inferential Statistics

Besides the researcher also computed the inferential statistics to establish the extent to which the independent variables (collateral requirement, institutional factors, financial structure, and awareness of funding opportunity) influence the dependent variables respectively. Multiple regression analysis and correlation findings were presented respectively.

##### 4.4.1 Correlation Analysis

Correlation coefficients measure the strength of association between two variables. A positive correlation indicates the extent to which those variables increase or decrease in parallel; a negative correlation indicates the extent to which one variable increases as the other decreases. Pearson's correlation analysis was therefore performed to determine the existence, significance and degree of association of the variables. These results were summarized in table 4.4.1

Table 4.4.1 Summary of Correlation

		collateral requirement	Institutional factors	Financial structure	Awareness of funding opportunity	Growth strategy
collateral requirement	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	65				
Institutional factors	Pearson Correlation	.461**	1			
	Sig. (2-tailed)	.000				
	N	65	65			
Financial structure	Pearson Correlation	.175	.002	1		
	Sig. (2-tailed)	.163	.989			
	N	65	65	65		
Awareness of funding opportunity	Pearson Correlation	.209	.132	.425**	1	
	Sig. (2-tailed)	.094	.294	.000		
	N	65	65	65	65	
growth strategy	Pearson Correlation	.394**	.224	.084	.280*	1
	Sig. (2-tailed)	.001	.073	.508	.024	
	N	65	65	65	65	65

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

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



The correlation results shown in Table 4.8 revealed that collateral requirement has significant influence on growth strategies at Equity bank Nakuru town branches ( $r = 0.394$ ,  $a = 0.01$ ). It was also found that awareness of funding opportunity has a significant influence on growth strategy ( $r = 0.280$ ,  $a = 0.05$ ). Institutional factors and financial structure has no significance influence on growth strategies because both are above the 0.01 level and 0.05 levels of sig.(2-tailed). According to the correlation results, collateral requirement was the greatest contributor of growth strategies followed by awareness of funding opportunity whereas financial structure and institutional factors in that order as shown in table 4.8 had no influential contribution towards growth strategies.

#### 4.4.2 Regression Results

Regression analysis is statistical measure that attempts to determine the strength of the relationship between one dependent variable (usually denoted by Y) and a series of other changing variables (known as independent variables). Multiple regressions use two or more independent variables to predict the outcome. Multiple linear regressions demonstrated that indeed growth strategies to equity bank financial accessibility factors was dependent on availability of collateral requirement, awareness of funding opportunity, institutional factors and financial structure of the bank for accessibility financial services.

**Table 4.4.2: Regression model summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.450 <sup>a</sup>	.202	.149	1.448

a. Predictors: (Constant), awareness of funding opportunity, institutional factor, financial structure, collateral requirement)

b. Dependent variable: growth strategy

Source: Researcher 2016.

From the model summary, adjusted  $r^2$  was 15% implying that the regression model was able to explain 15% of the variability in the data meaning only 15% of variation in growth strategy can be explained by the four independent variables that were awareness of funding opportunity, Institutional factor, financial structure and collateral requirement. The rest, 85% can be explained by other factors not included in the model.

**Table 4.4.4: Coefficient analysis and individual significance of the variables.**

MODEL	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Multi-collinearity statistics	
	B	Std. Error				Beta	Tolerance
(Constant)	13.751	2.644		4.490	.000		
collateral requirement	.166	.063	.342	2.566	.013	0.750	1.333
Institutional factors	.003	.107	.035	.266	.791	0.775	1.290
Financial structure	-.027	.074	-.077	-.598	.552	0.801	1.249
Awareness of funding opportunity	.164	.096	.237	1.832	.072	0.795	1.258

A Dependent Variable: Growth strategy of Equity bank; p-value= 0.05

Source: Researcher 2016.

Table 4.4.4 summarized the results of the model as;

$$Y = 13.751 + 0.166X_1 + 0.003 X_2 - 0.027X_3 + 0.164X_4$$

Where independent variables are;  $X_1$ ,  $X_2$ ,  $X_3$  and  $X_4$  are collateral requirement, institutional factors, financial structure and awareness of funding opportunity respectively. According to the regression analysis model the most contributor to growth strategy was collateral requirement, followed by awareness of funding opportunity then institutional factors and financial structure was found to be the last.

In table 4.4.4, the result shows that all the independent variables have a positive influence on employee performance except financial structure. ( $\beta_1=0.166$ ,  $\beta_2=0.003$ ,  $\beta_3=-0.027$ ,  $\beta_4=0.164$ ) and they were all significant at  $p<0.05$ . This shows that positive 0.166 of collateral requirement influenced the dependent variable while negative 0.027 financial structure influenced the dependent variable negative.

Also, positive 0.003 of institutional factor had minimal or almost no influence on the dependent variable and finally positive 0.164 of awareness of funding opportunity influenced the dependent variable as per the model

$$(Y = 13.751 + 0.166X_1 + 0.003 X_2 - 0.027X_3 + 0.164X_4).$$

The ANOVA model in table 4.4.3 show that there was a significant difference between means of factors influencing growth strategy at the Equity bank branches Nakurutown (F-value 3.803;  $df=4$ ;  $p=0.008$ ).

#### 4.4.3 ANOVA and Regression Results

**Table 4.4.3: Summary of Regression Model Analysis Of Variance (ANOVA<sup>a</sup>).**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	31.909	4	7.977	3.803	.008 <sup>b</sup>
	Residual	125.845	60	2.097		
	Total	157.754	64			

a. Dependent Variable: growth strategy.

c. Predictors: (Constant), awareness of funding opportunity, institutional factors, financial structure, collateral requirement

Source: Researcher 2016.

In order to find the overall significance of the model F-statistics was analysed. Table 4.4.3 shows that the F-statistics of the model is 3.803 which conclude the model is significant.

Individual significance of the variables was determined by t values. Coefficient analysis of the variables was undertaken by the values of the coefficients of respective variables as shown in the table 4.4.4 below.

$$Y = 13.751 + 0.166X_1 + 0.003 X_2 - 0.027X_3 + 0.164X_4$$

The above stated equation was therefore obtained. On collateral requirement t-value 2.566 shows that the variable has positive significant influence on growth strategies of the bank. For institutional factors, the t-value obtained was 0.266 which shows the variable alone has significant but almost weaker relationship or influence on growth strategies of the bank. The t-value of financial structure was found to be -0.598 which shows negative significant influence on growth strategies of Equity bank. Lastly, t-value of awareness of funding opportunity was found to be 1.832 which showed that there is a significant influence on growth strategies of the bank. Analysis of coefficient of collateral requirement tells us that there is a positive relationship towards growth strategies of the bank.

It further reveals that 1% change in collateral security requirement will bring 34.2% change in growth strategies of the bank. Furthermore, for every 1% change of the awareness of funding

opportunities brings 23.7% change in growth strategies of the bank. It further shows that 1% change in institutional factors brings about 3.5% change in growth strategies at the bank. From the above model it is also clear that if financial structures decrease/decline with 1% there will be decrease in employment of growth strategies by 7.7%.

This result is consistent with that of the literature review where, Steven, 2016 conducted a study titled, role of institutional factors on growth of banks in Kenya. From the study, Steven, (2009) deduced that bank as an investor needs to consider loan growth, deposit growth, loan deposit ratio, capital ratio and credit quality ratio implying that institutional factor mentioned above are a determining indicators influencing growth strategies of the banks.

Also according to Garreth 2009, Gitman, 2003, Francis,2010 who conducted research on collateral security requirement examined that when banks has collateral it helps reduce risk and the bank can reposes or foreclose to take possession of collateral in case default thus collateral must be 100% or more, equal to the amount of credit extension or finance product. The collateral security should be used to recover the principal in case of default thus reduce moral hazard issue. This study found out that equity bank collateral security requirement have significance influence on growth strategies in commercial banks implying that effective collateral requirement practices leads to increased access to financial services achieving growth strategies.

Furthermore, a study by Bazibu,(2005) and Agostino,2008) found out that information concerning awareness of funding opportunities needs to be timely, accurate, sufficient, quality, quantifiable and complete to avoid problem of information asymmetry. This finding are in line with this study in which efficient and effective awareness of funding opportunities at the bank is based on clear information, on sufficient information, evaluation of risk and information asymmetry respectively.

Moreover, this study found that financial structure has negative influence on growth strategies is in line with the findings in the literature where, according to Philip,(2002) the financial regulatory structure should have grater implication between concentration of the market and access to finance thus when there is high regulatory regime, then entry barriers may increase negatively affecting banks thus competitiveness of bank would not rely on actual market structure but regulatory regime of the country.

#### 4.5 Test of Hypothesis

The study further tested four hypotheses at 0.05 and 0.01 level of significance. This was achieved through correlation test on relationship between growth strategies and collateral requirement, financial institutional factors, awareness of funding opportunity and financial structure. The null hypothesis tested dependence while the alternative hypothesis would be accepted or rejected based on the findings at different confidence level.

**Table 4.4.5 Hypothesis test**

Hypothesis	Hypothesis Statement	Beta values	r -value	p-value	Remarks
H0 <sub>1</sub>	No significant influence of Collateral security requirement on growth strategies.	<b>0.166</b>	<b>0.394</b>	<b>0.01</b>	<b>reject</b>
H0 <sub>2</sub>	No significant influence of Institutional factors on Growth strategies.	<b>0.003</b>	<b>0.224</b>	<b>0.073</b>	<b>accept</b>
H0 <sub>3</sub>	No significant influence of Financial structure on growth strategies	<b>-0.027</b>	<b>0.84</b>	<b>0.508</b>	<b>accept</b>
H0 <sub>4</sub>	No significant influence of Awareness of funding opportunity on growth strategies	<b>0.164</b>	<b>0.28</b>	<b>0.005</b>	<b>reject</b>

Researcher, 2016.

From the analysis findings collateral requirement indicated was to have highest positive influence on growth strategies in commercial banks followed by awareness of funding opportunities which was reported to have positive influence on growth strategies. Financial structure was the only variable that reported a negative influence on growth strategies whereas institutional factors showed almost weaker or no influence on growth strategies.

**Hypothesis one** stipulated that Collateral requirement has no significance influence on growth strategies in commercial banks. Table 4.4.5 showed that collateral requirement had a  $\beta$  value of 0.166 at a significance p-value of 0.01 thus the study rejected the null hypothesis and concluded that collateral requirement positively influence growth strategies in commercial banks.

**Hypothesis two** stated that institutional factors have no significance influence on growth strategies in commercial banks. Table 4.4.5 showed that institutional factors had a  $\beta$  value of 0.003 at a significance p-value of 0.07 which is greater than 0.05 thus the study accepted the null hypothesis and concluded that institutional factors have almost weaker or no influence at all on growth strategies in commercial banks.

**Hypothesis three** stated that financial structure have no significance influence on growth strategies in commercial banks. Table 4.4.5 showed that financial structure had a  $\beta$  value of -0.027 at a significance value of 0.508 which is greater than 0.05 thus the study accepted the null hypothesis and concluded that financial structure negatively influence growth strategies of commercial banks.

**Hypothesis four** stated that awareness of funding opportunity have no significance influence on growth strategies in commercial banks. Table 4.4.5 showed that awareness of funding opportunity had a  $\beta$  value of 0.164 with a significance value of 0.005 thus the study rejected the null hypothesis and concluded that awareness of funding opportunity positively influence growth strategies in commercial banks.

## CHAPTER FIVE

### SUMMARY OF FINDINGS CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter covers the discussions of each research objective. It presents the summary of the findings on the study of the role of financial service accessibility as a growth strategy in commercial banks in Kenya; a case of Equity bank Nakuru town branch. The specific objective of the study were: To assess how collateral requirement affects growth strategies in commercial banks, to determine how institutional factors affects growth strategies in commercial banks, to assess how the financial structure affects growth strategies in commercial banks and to determine how awareness of funding opportunities affects growth strategies in commercial bank. It also presents the effects or implication coming out of the results from the study, recommendations, conclusions and suggestion for future research.

#### 5.2 Summary of Findings

The respondents for this study comprised of staff of equity bank Nakuru town branch. The staff provided responses by answering research questionnaire sent to them. Most of the employees of equity fall in the age of 34 years and above the reason might be because of experience and decision making ability required to formulate growth strategies for the banks. Majority are feminine the reason could be because they were most willing to participate in the study and also there were more females than males in the selected Equity bank branches also the marketing, product offering and service structure was in line with growth strategies of the bank that include market penetration, product development, market development and diversification. The bank is fully incorporated with vast (32) years of experience thus several employees have vast experience in operations in the bank; the longevity of majority of employees in operation range from 6-10 years implying they are experienced in growth strategies employed by the bank during its expansion and subsequent transformation over years. Majority of respondents described that equity bank has extended its financial services accessibility to two and more countries, while 22 of respondent representing 26.5% believed that equity bank operational scope is globally accessed implying that the bank has made significant strides over years.



### **5.2.1 Collateral requirement as a determining factor affecting growth strategies in commercial banks.**

The first objective of the study was to assess how collateral requirement affects growth strategies in commercial banks in Kenya. The study found out that collateral security requirement resulted to positive effect on growth strategies of commercial banks. This could be because it has a positive coefficient ( $\beta = 0.166$ ). This implies that 1% change in collateral security requirement will bring 34.2% change in growth strategies of the bank. This is supported by findings of Gitman,(2003),Gareth,2009 that when banks has collateral security requirement it helps reduce risk and the bank can reposes or foreclose to take possession of collateral in case default thus collateral must be 100%.Since it is not used to recover the principle in case default. This will ensure steady flow of profit earned from interest thus incentive for growth strategies success. The results clearly showed that collateral security requirements set by bank affect growth strategies of commercial banks.

### **5.2.2 Institutional factor as a determining factor affecting growth strategies in commercial banks.**

The second objective of the study was to determine how institutional factors affect growth strategies in commercial banks. The study found out that majority of respondents rated that; loan growth, deposit growth and credit ratio are considered to a large extent in order to allow access; they agree to a large extent that deposit growth exhibit amount of lending to be availed for access; to a very large extend agree that loan growth as strategy will enable equity bank attract and expand to new market at affordable cost: respondents agree to a large extent that the bank needs to calculate credit quality ratio prior making a decision on borrowing; they also agree to large extent that capital ratios determine whether regulators will sign acquisition and dividend payment achieving growth strategies. This result is consistent with that of the literature review where, Steven, 2016 conducted a study titled, role of institutional factors on growth of banks in Kenya. From the study, Steven, (2009) deduced that bank as an investor needs to consider loan growth, deposit growth, loan deposit ratio, capital ratio and credit quality ratio implying that institutional factor mentioned above are a determining indicators influencing growth strategies of the banks. The effect of institutional factors on growth strategies can be reported from findings as having almost weaker effect on growth strategies with a coefficient of ( $\beta = 0.003$ ).

### **5.2.3 Financial structure as a determining factor affecting growth strategies in commercial banks.**

The third objective of the study was to assess how the financial structure affects growth strategies in commercial banks. On this question, the study established that majority of the respondents agreed to very large extent that designing competitive financial structure affects cost of service and product accessed. Respondents also agreed to a large extent that: Banking financial regulatory structure have a greater implication on concentration of the market and access to finance; that there is clear process of implementing growth strategies and banking system competitiveness and access to finance; that High regulatory regimes, increases the accessibility of the bank thus will rely On to formulate banks growth strategy; and lastly that Ownership structure of banks influence the relation between access to financial services, market power and cost of external finance. However, the effect of financial structure on growth strategies was found to be ( $\beta = -0.367$ ) which shows negative significance. The statistical regression model is in agreement with findings of the literature where, according to Philip, (2002) the financial regulatory structure should have greater implication between concentration of the market and access to finance thus when there is high regulatory regime, then entry barriers may increase negatively affecting banks thus competitiveness of bank will not rely on actual market structure but regulatory regime of the country.

### **5.2.4 Awareness of funding opportunity as a determining factor affecting growth strategies in commercial banks.**

The last objective of the study sought to determine how awareness of funding opportunities affects growth strategies in commercial bank. Majority of the respondents indicated that to a large extent that clarity of information, sufficient information, and evaluation of risk, information asymmetry and awareness results to increased access to financial services achieving growth strategy. This implies that efficient and effective awareness of funding opportunities at the bank is based on clear information, on sufficient information, evaluation of risk and information asymmetry respectively. Awareness of funding opportunity has a positive correlation coefficient ( $\beta = 0.164$ ) which showed that there is a significant influence on growth strategies of the bank. The statistical regression model is in agreement with the findings of a study by Bazibu,(2005) and Agostino,2008) found out that information concerning awareness of funding opportunities needs to be timely,accurate,sufficient,quality, quantifiable and complete to avoid problem of

information asymmetry. This finding are in line with this results in which efficient and effective awareness of funding opportunities at the bank is based on clear information, on sufficient information, evaluation of risk and information asymmetry enabling realization of growth strategies.

### **5.3 Implications of the study**

The results of the study indicate that the four financial accessibility factors contribute towards achievement of growth strategies. Growth strategies analyzed in this study were, market development, market penetration, product development and diversification. The study sought to establish the banks indicators of growth strategy as a dependent variable for the research. As a results financial services accessibility factors which include the bank's collateral security requirement, financial structure, awareness of funding opportunity and effective institutional factors were independent variable affecting growth strategies. Most of respondents on the above table agree to large extent that growth strategies are achieved through market penetration, product development, market development and diversification as tested by components in the statement in the table above. Thus chi-square value at various p-value mentioned and indicated implicated that growth strategies are significantly achieved and have strong positively relationship to various financial services accessibility factors. From the statistical analysis when a factor is analyzed alone it results to a positive coefficient on dependent variable compared to when two or more dependent variable are studied together. The study analyzed each specific independent variable and gave finding as results for the study. This implies that commercial bank should implement each growth strategic factor in their organization separately if it has to achieve positive results.

### **5.4 Recommendations**

The study recommends that the bank should continue enhancing access to their financial products and services as well as coming up with more means and growth strategies towards creation of high level of quality services for this would enhance growth of equity bank.

Recommendations are also made to the equity bank managers that it is necessary for them to adopt the various growth strategies for their banks in order to be able effectively adapt to stiff competition by other commercial banks in the country. The staff and customers should benefit from programs that this study recommends the management to come up with through training so as to enlighten growth strategies used by the banks during subsequent transformation and

realignment to meet dynamics of the financial market thus improve financial services accessibility.

### **5.5 Conclusion**

Equity bank is a major player in banking sector among commercial banks in Kenya, and more so in the economy of this nation. During the conceptual stage of this study it sought to establish the role of financial services accessibility as growth strategy in Equity bank Nakuru town. The study concludes that effective and reliable financial structure, awareness of funding opportunities, financial structure and institutional factors was of significant importance towards the growth strategies of commercial banks. The study found out that collateral security requirement affect growth strategies the most followed by awareness of funding opportunities, then efficient institutional factors and lastly financial structure. It is important to note that these factors are only responsible for variation of 15% of growth strategies.

### **5.6 Recommendations for Further study**

This study covered the areas in the main objective which were not exhaustive in achieving growth strategies. Some of the areas can be researched to add up knowledge to the findings of this study may include the following; The different types of collateral securities and their effects on growth of commercial banks, The magnitude of different institutional factors occurring in the equity agencies and at the bank. There is also need to carry out the same study in other institution across the board other than in the banking sector. There is also need for research to be carried out determine the role of growth strategies on financial performance of the commercial banks in Kenya. The research would be of great importance to the banking industry and other financial institution in that the findings will inform them of which growth strategies to pick and the role they play in financial market. As shown from this study that the statistical significance was very low, the same research should be carried out in major towns and cities like Mombasa, Nairobi and Kisumu. In addition a research on effect of financial structure as a financial service accessibility factors need to be carried out to ascertain the negative correlation displayed in this study.

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## APPENDIX 1

### INTRODUCTORY LETTER TO THE RESPONDENT

#### KABARAK UNIVERSITY

ANTONY MUKHWANA

P.O.BOX PRIVATE BAG 20157

NAKURU

Dear sir/madam,

#### **RE: REQUEST FOR PARTICIPATION IN MY RESEARCH WORK**

I am a postgraduate student in the faculty of commerce, Kabarak University pursuing a Masters of Business Administration (MBA). In order to fulfill the degree requirements I am currently undertaking a study to establish the relationship between financial service accessibility factors and strategic growth on commercial banks in Kenya with a case study of Equity bank branch in Nakuru town. Your institution has been selected to participate in this study and a questionnaire to be filled in by the staff based in Nakuru branch offices will be used.

I would highly appreciate if you spare some time for me to fill this questionnaire since a research project report is a university requirement for the award of MBA degree. This exercise is strictly for academic purposes and any information obtained will be treated as confidential therefore, I am requesting your permission to undertake the research. A copy of the research report will be available to you once the study is complete upon request.

Thanks for your cooperation in advance.

Yours faithfully,

**Mukhwana Antony**

**APPENDIX 2  
QUESTIONNAIRE**

**THE ROLE OF FINANCIAL SERVICE ACCESIBILITY AS GROWTH STRATEGY  
INCOMMERCIAL BANKS: A SURVEY OF EQUITY BANK BRANCH IN NAKURU  
TOWN.**

**INSTRUCTIONS**

**Please answer all the questions honestly and exhaustively. All the information given will strictly be used for academic purpose/research only and will be treated with the ut most confidentiality.**

**SECTION A: DEMOGRAPHIC CHARACTERISTICS**

**Please tick [ ] where appropriate**

**In this section you are requested to fill in the spaces with the relevant information or tick the box to indicate the choice that is applicable in your case.**

1. What is your gender? Male [ ] Female [ ]
2. How old are you.....
3. What is your highest level of education? Tick where appropriate.
  - a) Secondary [ ]
  - b) Tertiary(certificate) [ ]
  - c) Diploma [ ]
  - d) Undergraduate degree [ ]
  - e) Master's degree [ ]
  - f) PhD degree [ ]
  - g) Other (s) [ ]
4. How long have you been operating at equity bank
  - 1-5 years [ ] 6-10 years [ ]
  - 11-15 years [ ] 16-20 years [ ]
4. In what Capacity (position) are you employed?
  - a) Management ( upper level) [ ]
  - b) Middle staff (middle level) [ ]
  - c) Junior staff (low level) [ ]

5. a) Is your Bank incorporated?

i.) yes [ ] ii.) No [ ]

6. How many years has your organization been in operation? .....

**SECTION B: SPECIFIC OBJECTIVES**

**Part 1: Effective collateral requirement practices leads to increased access to financial services achieving growth strategy employed.**

**In a scale of 1-5 indicate to what extent you agree with the statement about the following:**

**5 - Very large extent**

**4 - Large extent**

**3 - Moderate extent**

**2- Small extent**

**1- Very small extent**

<b>Collateral requirement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
a. Equity bank conducts collateral security check before allowing access to funds.					
b. Equity bank is fully aware and has structured collateral requirements that are flexible and promote growth strategies.					
c. All financial grants by equity are subject to formal collateral requirement analysis (security description and specification)					
d. The bank has structured policy that align this access factor to growth strategy					
e. Security for loan is capable of being sold at a fair market value and with reasonable promptness.					
f. Moral hazard issue which adds potential cost to your bank when there is default can be reduced by collateral requirement.					

**Part 2: Effective institutional factors leads to increased access to financial services achieving satisfactory growth strategy employed.**

**Indicate the extent to which the following institutional factors affect choice of your banks growth strategy.**

<b>Institutional factors</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
a. Well laid and formulated institutional factors in your bank consider loan growth, deposit growth and credit ratios to allow access to funds.					
b. Deposit growth shows the bank the exact amount of lending your bank allow to be accessed					
c. Favorable loan growth will enable equity bank attract new market at a affordable cost capital base spreading access.					
d. Equity bank needs to calculate credit quality ratio prior making a decision to enhance borrowing.					
E.capital ratios determine whether regulators will sign acquisition and dividend payment achieving growth strategies.					

**Part 3: Efficient structure of financial sector leads to increased access to financial services achieving growth strategy.**

**To what extent do you think the following about structure of financial sector affecting choice of growth strategies in your bank?**

<b>Financial Structure</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Designing competitive financial structure affects particularly the cost of services and product being accessed in your bank.					
The banking financial regulatory structures have a greater implication on concentration of the market and access to finance.					
There is clear process of implementing growth strategies and banking system competitiveness and access to finance.					
High regulatory regimes, increases the accessibility of the bank thus will rely on to formulate banks growth strategy.					
Ownership structure of banks influence the relation between access to finance, market power and cost of external financing.					

**Part 4**

**Effective awareness of funding opportunities results in increased access to financial services achieving growth strategy.**

**To what extent do you think the following about awareness of funding opportunities affecting choice of growth strategies in your bank?**

<b>Awareness of funding opportunities</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Flow of information concerning funding opportunity in the financial market is crucial for both individuals and financial providers(you)					
In order for your client to identify potential supplier of financial service they require enough information on awareness of funding opportunities.					
Equity bank require information relating to funding to enable them evaluate potential risks associated with the individual that apply for financing.					
Information asymmetries are actual concerned with the two player in the financial market (you) and individual household.					
Failure of current market is because of lack of awareness to funding opportunity and access to credit.					

**Part 4: Growth strategy**

To what extent do you think growth strategy enhance financial services accessibility

To what extent do you agree with the statement about the following?

<b>Growth strategies</b>	5	4	3	2	1
Equity is fully aware that to increase market share and attracting new clients with new products by incorporating financial services accessibility factors will achieving product development strategy.					
Equity bank through diversification knows how to position themselves to have integrative infrastructure will enable accessibility to financial services smoother.					
Equity bank market development strategy of selling their products to new financial markets enables them enhance accessibility to financial services					
Growth strategies in equity bank depend on efficient execution of financial accessibility factors.					
Growth strategies when well incorporated helps banks become competitive and with large volume of satisfied customers.					

## AUTHORITATIVE LETTER



### SCHOOL OF BUSINESS & ECONOMICS

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30<sup>th</sup> September, 2016

**To Whom It May Concern:**

Dear Sir/Madam,

**RE: MUKHWANA LITABAS ANTONY – GMB/NE/1088/09/14**

This is to confirm that the above named is a bonafide student of Kabarak University pursuing a Master of Business Administration (Finance & Strategic Management Option).

Antony has completed his coursework and currently carrying out a study on "*The Role of Finance Service Accessibility as a Growth Strategy in Commercial Bank: A Case Study of Equity Bank Nakuru.*"

Your assistance will be highly appreciated.

Thank you.

Yours faithfully,

**Dr. John Gathii**  
Ag. Dean

**KABARAK UNIVERSITY**  
**DEPT. - OF B & ES**  
**P. O. Box 3270**  
**NAKURU.**

**Kabarak University Moral Code**

As members of Kabarak University family, we purpose at all times and all places, to set apart in one's heart, Jesus as Lord.

(1 Peter 3:15)