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Determinants of Choice of Financial Institutions for Transport Entrepreneurs in KISII County

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Abstract:
The purpose of the study was to investigate the determinants of the choice of financial institutions for transport entrepreneurs. This was necessitated by numerous reports suggesting that despite the presence of many financial institutions, it has been very challenging to know the determinants of the selection of financial institutions for transport entrepreneurs considering that financial access has improved tremendously. The study, therefore aimed at finding out the determinants of the choice of financial institutions for transport entrepreneurs. This study was based on diffusion of innovation theory by Rogers (1962). Explanatory research design was used in this study. The study targeted 12 transport SACCOS that had 10 vehicles minimum each. The study sought entrepreneurs of those vehicles and targeted 2 managers of reputable financial institutions. Since the target population was small and manageable, census method was used to select the entire population. Questionnaires and document checklist was used for data collection instruments. To establish reliability of research instruments the Cronbach's coefficient alpha model was used.Descriptive statistics involved the use of frequency, means, tables, and percentages. Inferential statistics involved the use of regression analysis to assess the strength and association of the variables in the study. The findings revealed that there is significant correlation of 0.7 between choice of financial institution and the services offered by financial institution to entrepreneurs.

1.1. Background to the Study

AUSAID (2010) indicates that the financial services offered by various institutions are increasingly being seen as important to poverty reduction and achievement of the millennium development goals. By borrowing, saving or buying insurance, entrepreneurs can plan for their future beyond the short term. They can build assets and invest in education and health. Financial services can also help them cope in times of need and hardship. Beyond this, the adoption of financial services can promote social inclusion and build self confidence and empowerment; in particular among women. However, adoption of basic banking services, especially for entrepreneurs in Sub-Saharan Africa remains limited, and lags far behind even other parts of the developing world (Chaia et al. 2009). Further, behind each of the success stories of entrepreneurship, there is usually some sort of institutional support. Besides individual or group entrepreneurial initiative the enabling environment supporting these initiatives is of utmost importance (Chaia et al. 2009).

1.2. Statement of the Problem

Kenya has a relatively well developed financial sector which comprises 43 commercial banks, 1 mortgage finance company, 7 Deposit Taking Microfinance companies (DTMs), some 3,500 active Savings and Credit Cooperatives (SACCOs), one postal savings bank - Kenya Post Office Savings Bank (KPOSB) 125 foreign exchange bureaus, a host of unlicensed lenders, and an Association of Microfinance Institutions (AMFI) with 56 members (AMFI report, 2013). However, despite the presence of many financial institutions, it has been very challenging to know the determinants of the selection of financial institutions for transport entrepreneurs considering that financial access has improved tremendously. This is particularly true of transport entrepreneurs in Kisii County. Omwenga *et al.* (2004) noted that the entrepreneurship community has made great strides in beneficial innovation of business practices which has increased their gains enough to rise out of poverty and yet despite this fact, many seem to have problems selecting the right financial institution to interact with and one that would enable them save, invest and ask for loans, which has consequently left many still stuck. While studies have been done on the issues of financial access (Banerjee et al 2010; Crépon et al 2011), very few have been done on the determinants of the choice of financial institutions for transport entrepreneurs. This study hopes to fill the gap.

1.3. General Objective

The general objective of the study will be to find out the determinants of choosing financial institutions for transport entrepreneurs in Kisii County

1.4. Specific Objectives

i. To find out the influence of quality of banking services on choice of financial institutions by transport entrepreneurs in Kisii County

H_{01}: There is no significant influence of quality of banking services on choice of financial institutions by transport entrepreneurs in Kisii County

2. Pecking Order Theory

This study will be based on the Pecking order theory which was first suggested by Donaldson in 1961 and it was modified by Stewart C. Myers and Nicolas Majluf in 1984. It states that companies prioritize their sources of financing, according to the cost of financing, preferring to raise equity as a financing means of last resort. Hence, internal funds are used first, and when that is depleted, debt is issued, and when it is not sensible to issue any more debt, equity is issued.Pecking order theory (or pecking order model) postulates that the cost of financing increases with asymmetric information. Financing comes from three sources, internal funds, debt and new equity. Companies prioritize their sources of financing, first preferring internal financing, and then debt, lastly raising equity as a "last resort". Hence: internal financing is used first; when that is depleted, then debt is issued; and when it is no longer sensible to issue any more debt, equity is issued. This theory maintains that businesses adhere to a hierarchy of financing sources and prefer internal financing when Looking at the financial sector, selection of financial institutions services and products requires knowledge of available financial products, decision making will consider perceived cost and perceived benefits of such capital.

2.1. Quality of Banking Services and Choice of Financial Institution

CGAP (2011) considering African countries notes that the level and kinds of risk to which a bank will be exposed as a result of its use of banking services and which may affect selection of financial institution by entrepreneurs will depend on (i) the extent of such use the picture is quite different if a bank uses services minimally or for 100 percent of its business, (ii) the activities in which its financial institution are engaged, and (iii) the bank's management of the its business, including not only proper oversight and monitoring of its activities but also the process by which staff are selected and trained.

The services that may be provided by bank can be divided roughly into four categories: i) Transmitting information; ii) Processing information; iii) Cash handling; Electronic funds transfer (CGAP, 2011). Lal (2011) mentioned that information transmission consists primarily of providing the customer with account information (e.g., balance inquiries and bank statements) and receiving account and loan applications, including transmitting know-your-customer (KYC) information.

Finally, electronic funds transfer may involve making bill payments, disbursing government benefits, and effecting payments (salary payments) (Lal, 2011; CGAP, 2011). Some countries permit banks to engage in all such activities; other countries are more restrictive.

The financial institutions may engage in different activities, depending on applicable regulation and the terms of the agency agreement (Lal, 2011). Mylenko (2008) in Australia says that some institutions provide only cash-in/cash-out services (these banks are often called "cash merchants").

3. Population and Sample Size

Population Size	
Category	Target Population
Managers	20
Entrepreneurs	120
Total	140

Table 1

Source: Kisii County Office (Statistics, 2014)

3.1 Sample Size

Kull (1984) noted that sampling is the process by which a relative small number of individual object or event is selected and analyzed in order to find out surrounding about the entire population from which was selected using some systematic form. Since the overall population is heterogeneous, stratified random sampling was used in the study to select the respondents. Yamane (1967) provides a simplified formula to calculate sample sizes. This formula was used to calculate the sample sizes as shown below.

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

Where n is the sample size, N is the population size, and e is the level of precisionor margin of error at 5% (standard value of 0.05). When this formula is applied to the above sample, we get;

$$n = \frac{140}{1+140(0.05)^2} = 104$$

Sample Size	
Category Target Population Sample Size	
Managers	20
15	Entrepreneurs
120	89

Table 2

Source: author 2014

4. Data analysis

4.1. Processing of Customer Information on Choice of Financial Institution

The researcher sought to establish the relationship between processing customer information and bank services offered on the choice of financial institution chosen by transport entrepreneurs.According to table 6, 24.04% strongly agreed, 19.23% agreed, 23.08 % were undecided, 26.92% disagreed and 6.73% strongly disagreed. From the information given in table five the researcher can make a conclusion that 43.27% of the respondents value the choice of services offered by a financial institution on the choice of their financial institution. Further, transport entrepreneurs pay great attention on the processing of information on their choice of financial institution whereby they look at control of cash once received from customers for banking, recording in the books of accounts, issuing receipts to customers among others. This avails information to the business entrepreneurs from where a decision can be made on the choice of financial institution chosen by transport entrepreneurs these findings were supported by (Davidson, 2008) who found out that efficient services offered by financial instructions provided opportunities for informed decision on the choice of financial institution by transport entrepreneurs. However, 23.08%of respondents choose their financial institution for business support without looking at the kind of services offered. They base on other factors they believe on other than the services offered.

	Frequency	Percent	Cumulative Percent
Valid strongly agree	25	24.04	24.04
Agree	20	19.23	43.27
Undecided	24	23.08	66.35
Disagree	28	26.92	93.27
Strongly disagree	7	6.73	100.0
Total	104	100.0	

Table 3

4.1.2 Effect of Electronic Money Transfer

According to table 7, 10.58% strongly agreed, 26.92% agreed, 19.23% undecided, 23.08% disagreed and 20.19% strongly disagreed. Only 37.5% of the respondents value the kind of electronic money transfer offered by financial institutions on the choice of their financial institution. This indicates transport entrepreneurs value electronic money transfer to meet dairy business expenses since it is efficient, reliable and most convenient and this plays a great role on the choice of the financial institution. This finding was supported by (Bhulman, 2005) who found out that electronic money transfer is building the base for the choice of financial institutions chosen by business men and women.

	Frequency	Percent	Cumulative Percent
Valid strongly agree	11	10.58	10.58
Agree	28	26.92	37.5
Undecided	20	19.23	56.73
Disagree	24	23.08	79.81
Strongly disagree	21	20.19	100.0
Total	104	100.0	

Table 4

Source: primary data 2015

4.1.3 Influence of Capital and Credit Period on Choice of Financial Institutiton

From table 7, the researcher sought to establish the credit period used on loans given to transport entrepreneurs on the choice of financial institutions. According to table 8. 57.69% of respondents use a credit period of 30 days whereby they issue invoices and give short credit period to ensure uniform cash balance in the business however this was found to discourage most transport entrepreneurs from this financial institutions since the credit period offered was not favorable to their business. However, (42.3%) give a credit period of 1-5 years and this has a great influence on the choice of the financial institution by transport entrepreneurs since majority of them prefer a longer credit period to enable them carry out their business smoothly and enable them service their credit efficiently.

Frequency	Percent	Valid Percent	Cumulative Percent	30 Days
	60	57.69	59.7	59.7
1-5 years	44	42.30	40.3	100.0

Table 5
Source: primary data (2015)

4.1.4 Banking Policy on Choice of Financial Institution

From table 8, 26.92% strongly agreed, 33.65% agreed, 20.19% not sure, 10.59 % disagreed and 8.65% strongly disagreed. Transport entrepreneurs experience both cash sales and credit sales. 60.57% of the respondents agree that they thrust financial institutions with strongest banking policy that would safeguard their money and resources that they will put on those financial institutions. Efficient banking policy helps transport entrepreneurs collect cash easily which accelerates business growth.

	Frequency	Percent	Cumulative Percent
Valid Strongly agree	28	26.92	26.92
Agree	35	33.65	60.57
Not sure	21	20.19	80.76
Disagree	11	10.59	91.35
Strongly Disagree	9	8.65	100
Total	104	100	100

Table 6
Source: primary data (2015)

4.1.4 Regression Results

The statistical tools used in analyzing the model of this research were given thus; the coefficient of correlation (r) shows the degree or extent of relationship between the dependent variable and the independent variable. The value of 0.700 in table 6 shows the existence of a positive relationship between these variables. It equally reveals a good degree of dependency of the dependent variable to the independent variable. The coefficient of determination (R^2) explains the proportion of the total variation in the dependant that is attributed to the variation in the independent variables. From table 6, it was revealed that about 70% (0.700) of the variations in the dependable variable are attributed to variations in the independent variable. It thus indicates that only 70% of financial institution services offered to transport entrepreneurs are explained through financial performance of this financial institution. The adjusted co-efficient of determination (R^2 adjusted) which shows the actual variation in the dependant variable attributed to the independent variable. Table 7, below revealed that the adjusted coefficient of variation is 0.700 which implies that the actual variation is 70.0%.

Model	R	R Square	adjusted R square	Std. error of the estimate
1	.8379	.700	.700	15842335.035

Table 7: Model Summary of Regression Results

a predictor: (constant), X (value of loans issued)

From table 7, the column headed 'Unstandardized Coefficients', gives us firstly the value of the constant, **a**, which is the intercept or the predicted value of *X* if *Y* is 0, in other words if Total loans issued is 0 the Profit after tax is 5896877.903. It also gives us our **b** (dependent variable – Profit after tax) coefficient, the value that *Y*will change by if *X*changes by 1 unit. That value is .328, so if Total loans issued goes up by 1, reading scores are predicted to go up by .328.The column headed 'Standardized Coefficients' contains the Beta coefficient. This is .837. If you look back at the section on Pearson's r correlation coefficient, you will see that this is in fact the same value. The final column in this box gives us the statistical significance of the relationship between the independent and the dependent variable. In other words, how likely is it that we would have found a relationship this strong in our sample, if there was not one in the actual population under study? As you can see, the relationship is statistically significant at the .001 level.

Model	sum of squares	df	mean square	F	Sig
1 regression	3.303E13	2	1.652	6.580	0.0029
Residual	2.184E14	87	2.510		
Total	2.514E14				

Table 8: REGRESSION MODEL (ANOVA[b])

a. Predictors: (Constant), Total loans issued 2008-2014, Credit Period used to manage the loans

b. Dependent Variable: Total Level of Profit After Tax 2007-2013

Model	unstandardized	coefficients	standardized coefficient	t	Sig
	B	Std. error	Beta		
1(Constant)	5896877.9	1202825		4.903	.000
Credit period used To manage cash flow	-713548.71	341021.44	- . 211	2.092	0.039
Total cost of Consumables 2007-2013	.328	.102	.837	3.211	.002
a Dependent variable. Total level of profit after tax 2008 -2014					

Table 9: The Regression Model (Coefficients[a])

5.3 Conclusion

The researcher drew the following conclusions from the study based on the research objectives highlighted in chapter one.

5.3.1. Effects of Quality of Banking Services on Choice of Financial Institution

The study sought to establish the effect of quality of banking on choice of financial institution by transport entrepreneurs in Kisii County. The findings reaffirmed that the quality of banking is essential for choice of banking institutions by transport entrepreneurs. Therefore more emphasis should be dwelt on quality banking to ensure a good customer base since this is an essential ingredient for choice of financial institution. In addition to this, the careful elimination of the non-required costs, no-value added services to the customers could help the bank to build a good customer base. The entrepreneurs tend to prefer those banks that extend seminars to them when they advance capital to them since financial planning is necessary and it provides information of the financial performance and the various expressions related to the operations as well as allocation of funds to the different types of needs to transport entrepreneurs. Banks should focus on making use of capital extended to entrepreneurs to fulfill the necessity of funds in unlike market considerations and this enhances the choice of financial institution in preference to the others.

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