FACTORS AFFECTING PERSONAL LOANS GROWTH STRATEGIES IN COMMERCIAL BANKS IN NAIROBI

(A CASE OF EQUITY BANK LIMITED IN KENYA)

EUNICE MUTISYA

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MAY, 2013
DECLARATION

This project is my original work and has not been presented for an award of a degree in any other university.

Eunice Mutisya

D53/CTY/PT/23897/2011

Signature ------------------------------- Date: -------------------------------

28/05/2013

This research project has been submitted with my approval as University Supervisor.

Robert Nzulwa

Supervisor

School of Business Kenyatta University

Signature ------------------------------- Date: -------------------------------

24/05/2013

This research project has been submitted with my approval as the chairman

DR. MUATHE, SM Ph.D

Chairman, Department of Business Administration

School of Business Kenyatta University

Signature ------------------------------- Date: -------------------------------

26/05/2013
DEDICATION

To my husband Benjamin, our daughter Esther and son, Timothy for their patience and support.
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Firstly, I want to acknowledge the almighty God for the grace and favor that He has given me throughout the study. Secondly, I acknowledge my supervisor Mr. Robert Nzulwa for the great role that he played in this project. This project would not have been a success without the financial support received from my husband, Benjamin to whom I am forever grateful. I also acknowledge the immense support from Eunice Mmboga. I will appreciate my parents for their prayers and moral support. Lastly, I acknowledge the support of School of Business at Kenyatta University for their uncountable contribution in this project and coursework.
ABSTRACT

There are concerns that interest rates on personal loans in Kenya are high and the country remains among the most unfriendly countries in the world in terms of cost of lending. Studies undertaken on loans include; “Credit Scoring Practices and the Non-Performing Loans in Kenyan commercial banks”, by (Mutie, 2001), “The relationship between Interest rates and Non-performance loans in commercial banks in Kenya” by (Bochaberi, 2007). However, no known study has been undertaken on factors affecting personal loans growth strategies in commercial banks. The purpose of this study was to establish the factors affecting personal loans growth strategies in commercial banks, a case study of Equity Bank Limited. The study adopted a descriptive research design. The target population of the study was the customer care officials of Equity Bank in Nairobi branches which currently stand at 38. We have only one customer care official in each branch and this formed the sample size which was 38 customer care officials. Data was collected using questionnaires. Data was analyzed by use of descriptive statistics and the findings presented inform of figures and tables. In conclusion, interest rates determine the advancement of personal loans; competition plays a vital role as every bank or financial institution tends to work out formalities of outdoing their rival in the business; there is a need of opening more branches closer to the customers and make them more efficient; and technology speeds up transmission of information on products in the market and at the same time, the customers get to know when their loans are ready for dispatch. On recommendation, banks should revise their interest rates on personal loans; banks should study well the competitive market they are treading in; banks should ensure that it has several branches and outlets or satellites to serve its mass of customers; and management of organizations should entrench a well defined policy that identifies the embrace of new technologies and creativity within its networks and operations.
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<table>
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<tr>
<td>Kshs</td>
<td>Kenya Shillings</td>
</tr>
<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
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<tr>
<td>SACCO</td>
<td>Savings and Credit Co-operative organisation</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance Institution</td>
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<td>SME</td>
<td>Small medium enterprise</td>
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DEFINITION OF TERMS

Growth Rate of Increase.

Interest rate The proportion of return a lender charges for amounts borrowed by a borrower.

Personal loan Loan given to an individual for his or her own personal use.

Collateral Security or guarantee given by a borrower to a lender for amounts lent as a loan.

Loan procedure This is the process that the customer follows during loan application.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A personal loan is a form of debt, which is given to an individual customer by the Bank. There are many other types of loans including corporate loans and Business loans. Corporate loans are given to Corporate companies which are registered as legal entities as per the provisions of the Companies Act, while business loans are given for business purposes where the business could be running as partnership or as sole proprietorship. In both cases the primary source of repayment is from the business for which the amount is borrowed.

A personal loan could be used to purchase personal assets such as furniture, motor vehicles or even to pay for services such as school fees. The main difference between a personal loan and other forms of loans is that the source of repayment is normally the salary or personal income of the borrower (BBK, 1999). In general any loan whose repayment does not come from an asset purchased with the loan but from another source such as wages would be termed as a personal loan.

The decision of an individual to take a personal loan is driven by the needs identified by “Maslow” in his theory of Motivation which tries to highlight the needs of individuals and place them in some order of priority of importance (Armstrong, 2001). This starts with the most basic needs and working towards man’s materialistic requirements. These requirements can broadly be divided into; 1. Physical needs; which includes the requirements for food, clothing and warmth. 2. Safety needs/Social needs; e.g. the desire to be accepted or loved (sense of belonging). 3. Status needs and self – actualization or the needs for self-achievement. Maslow suggested that the most basic needs are the need for oxygen, food, water and sex. He termed these as physiological needs. The next level of needs was what he described as safety needs which include the needs for protection against danger and the deprivation of physiological needs. Social needs he described as the need for love, affection and acceptance as belonging to a group. For the esteem need,
he saw as the need to have a stable, firmly based high evaluation of oneself (self esteem) and to have the respect of others (prestige). These needs may be classified into two subsidiary sets: first the desire for achievement of adequacy, for confidence in the face of the world and for independence and freedom. Second, is the desire for reputation or status defined as respect or esteem from other people, and manifested by recognition, attention, importance, or appreciation? The final and highest level of needs Maslow identified was self actualization which he termed as the need to develop potentialities and skills, to become what one believes one is capable of becoming. People therefore borrow to fulfill any of these needs depending on the level where one places himself in the hierarchy.

According to Marsh and Wild (1990), when looking at customer needs in the financial sense and also in the modern world we now live in, we tend to have categories such as, the need to make money or save money and to acquire material things that money will buy. This is the single most important factor in shaping most people’s behavior. Another category is the desire for financial power or control. This might be required in order to reduce credit losses, borrowing costs or just simply greater funds availability. It also enables one to gain achievement/recognition which stems from being financially successful, establishing acclaim from the bank or colleagues, the need for self-preservation, security among others. Financial worry is a real fear, but under this one can also include the desire to protect valuables or merely the need to provide for retirement. Another important consideration is satisfaction feelings which are also an important financial motivator, wanting to enjoy a modern orderly environment with the right degree of space and convenience is directly related to other needs already mentioned (Marsh and Wild, 1990).

There are good reasons to borrow money. Borrowing to buy a house, a car or a washing machine yields a substantial return on investment, in services, and convenience. Borrowing to finance education or training which increases your future income is an example of how a personal loan can be used as an investment. The purchase of assets, including consumer durables and investment in improving skills are two of the most common and economically justifiable reasons for borrowing. Investments of this type will by far outlast monthly payments (Marsh and Wild, 1990)
Another good reason to borrow is to match lifetime income to lifetime needs and expenditures. Young couples just starting a household have substantial needs like cars, appliances, furniture etc but frequently have relatively low income. Older couples are more likely to find their incomes reaching a peak just when their children are grown and the mortgage on the house retired. For them, income exceeds expenses. While they undoubtedly can find uses for the additional income, it could have made life easier and more pleasant had they been able to transfer some of the income backwards to the time when their needs were greater and their incomes smaller. Borrowing makes this transfer from surplus to deficit years feasible as illustrated below.

Access to loans is the ability and willingness to borrow and to repay at a price that covers the long-run cost of an efficient lender. Access to loans is the nexus of creditworthiness demand based on ability and willingness to repay and technology supply passed on an efficient way to judge credit worthiness and to enforce repayment. More access means that loans depend more on demand and less on the constraints of supply. While the ability to post standard physical collateral such as mortgage on real estate can signal creditworthiness and help to insure the lender against default, some collateral increases costs for borrowers. Those with the least risk and the lowest expected returns may opt not to borrow.

1.1.1 Equity Bank of Kenya personal Loan

Equity Bank of Kenya Ltd is one of the leading Banking institutions in Kenya and is a limited liability company registered in Kenya. It is incorporated under the companies Act Cap 486 to conduct banking business under the banking act. The Bank introduced personal unsecured loans about ten years ago when other financial institutions did not have such a product. In the past loans were largely given on the basis of the security provided and most of the loans were mainly given to businesses to finance working capital requirements and capital investments.

Equity Bank of Kenya was among the first Banks to enter the personal loan sector within the Kenyan Industry. Banks have always given loans to businesses and individuals for specific purposes, but mainly for capital and working capital financing. However most of
these loans were only on collateralized basis. The introduction of non-collateralized loans heralded a new phenomenon as most banks were averse to unsecured lending and adopted a wait and see attitude. On entry, due to aggressive marketing and the fact that the loans were unsecured, the rate of growth was phenomenal. The returns were good given the interest charged was higher in comparison to Corporate and Business loans where customers have more negotiation power for interest charges and can readily provide collateral.

Personal unsecured loans were therefore considered a new product and hence other Banking institutions joined in competition for what was seen to be a lucrative product. The reasons why the product was considered lucrative by the banks was the relatively high interest rates charged because the small borrowers do not have bargaining power as far as interest rates were concerned. In addition the risk of lending has been spread over many small borrowers compared to the big corporate business, which on default a higher amount of money was at risk. During these Ten years, the product, which has a maximum term of five years, has gone through the full cycle. However the rate of growth has continued to slow down. Arguably, due to the Keynesian effect, personal borrowings stir economic growth as it leads to domestic savings and investment (Keynes, 1936). Due to the success and high returns compared to the corporate and business sectors, this attracted other banks in Kenya to offer similar products. In addition, micro finance institutions mushroomed and Sacco’s also became more innovative to avoid losing members to the main Banking institutions.

1.2 Statement of the Problem

The financial system in most of Kenya is under-developed and so provides few financial instruments. Studies however show that commercial banks provide the lowest amount of financing to small and Medium-sized Enterprises and where it is provided the credit is rationed (Lee, 2003). Furthermore, the banks do not know the needs of their clients, which means that they do not have the ability to provide tailor made products for the customers and this is how they lose on potential customers (Kangaru, 2008).
According to Kibuthu (2004), there exists strong negative correlation between lending rates and volume of borrowing. Interest rate are an important factor determining amounts borrowed. Many studies from the USA found that the main factors affecting customers’ bank selection were a) distance from home or work (Kaufman, 1967; Riggall, 1980). This indicates that it is critical for commercial banks to open up branches in various parts of the country to reduce the customers’ proximity to the banks. This will make potential customers seek bank products including taking personal loans from the banks near them.

The importance of technology is prominent in the banking industry and affects strongly customers’ decision whether to choose a particular bank Coyle (1999). The competitive bank of the future is the one which can offer speedy, technology based services (e.g. ATM) backed by effective staff training. It would be important to see how adoption of technology affects personal loans growth strategies within commercial banks in Kenya.

There are also concerns that interest rates on personal loans in Kenya are high and the country remains among the most unfriendly countries in the world in terms of cost of lending. Studies undertaken on loans include; “Credit Scoring Practices and the Non-Performing Loans in Kenyan commercial banks”, by (Mutie, 2001), “The relationship between Interest rates and Non-performance loans in commercial banks in Kenya” by (Bochaberi, 2007). However, no known study has been undertaken on factors affecting personal loans growth strategies in commercial banks. The purpose of this study will therefore be to establish the factors affecting personal loans growth strategies in commercial banks, a case study of Equity Bank Limited.

1.3 Objectives of the Study

1.3.1 General Objectives

The broad objective of this study was to establish the factors affecting personal loans growth strategies in commercial banks, a case study of Equity Bank Limited.

1.3.2 Specific Objectives

The specific objectives of the study were:
1. To analyze how interest rates affect personal loans growth strategies in commercial banks in Nairobi.

2. To determine how competition affects personal loans growth strategies in commercial banks in Nairobi.

3. To examine how network branch affects personal loan growth strategies within commercial banks in Nairobi.

4. To determine how technology affect the personal loan growth strategies within the commercial banks in Nairobi

1.4 Research questions

This study was undertaken to answer the following questions;

1. Does fluctuation in interest rate affect personal loans growth strategies in commercial banks in Nairobi?

2. Is competition affecting personal loans growth strategies in commercial banks in Nairobi?

3. Do branch network affect personal loan growth strategies within commercial banks in Nairobi?

4. Is technology affecting personal loans growth strategies within commercial banks in Nairobi?

1.5 Significance of the Study

The findings are expected to help management teams in commercial banks make informed strategic decisions on issues of determining growth strategies, countering competition, insurance against job loss and in setting distributing branch network. In addition it is expected to help the bank understand to what extent technology in processing loans products affect personal loans growth strategies. This is expected to form a baseline study, which can be used to formulate marketing strategies for personal loans by banks in future.
To the government, the study will provide information and methodologies, which can be used in encouraging personal sector borrowing as this has a direct impact on the economy. It is worth noting that Banks mostly determine interest rates based on underlying macroeconomic environment, which the government is able to control.

To future researchers and academicians, the study will offer a basis for further academic investigations in the area of factors affecting personal loans sector within the banking institutions in Kenya. There are so many other factors which affect personal loans growth strategies which cannot be covered by this study. This study therefore can be used in future as reference by other researchers wishing to further investigate additional factors. In addition the banking environment is dynamic and keeps on changing; this study can therefore be used by researchers to understand historical trends.

1.6 Limitation of study

The limitation of this study was time considering the researcher was employed in a private sector and had to spend extra time in the evening researching. Finance to get materials printed and more so getting relevant materials to gather information was a challenge.

1.7 The scope of the study

This study was limited to the factors affecting personal loans growth strategies in commercial banks in Nairobi focusing on the lending book. The study was limited to Equity Bank Nairobi branches only, which formed the geographical scope of the study. The study focused on customer care officials while seeking information for the study.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is structured to cover the factors affecting personal loans growth strategies in commercial banks. The chapter also gives the theoretical and conceptual frameworks on which the study is based. The study will be based on the Theory of Reasoned Action (TRA) and service quality model.

2.2 Theoretical review

2.2.1 The Theory of Reasoned Action (TRA)

The TRA assumes that individuals are usually rational and will consider the implications of their actions “before they decide to engage or not engage in a given behavior” (Fishbein and Ajzen, 1980). According to the TRA, Behavioral Intention is the immediate antecedent of an individual’s behavior. The TRA posits that most behavior of social relevance is under volitional control and is thus predictable from intention. The measure of intention has to correspond to the behavioral criterion in action, target, context, and time; and intention does not change before the behavior is observed.

Thus far, the concept of customer satisfaction can be explained by the Theory of Reasoned Action (TRA) which is concerned with the determinants of consciously intended behavior (Fishbein and Ajzen, 1980; Davies, Foxall, Pallister, 2002). Since 1967 TRA has been developed, tested and used extensively. It has been a success in predicting and explaining behavior across a wide variety of domains (Davies et al, 2002).

The TRA is based on the assumption that consumers behave rationally and that they collect and evaluate systematically all of the available information. Additionally, TRA assumes that people also take into account the effects of their possible actions and based on this reasoning make a decision whether or not to take action (Fishbein and Ajzen, 1980). Customers would use banking products if they have a feeling that some positive benefits (outcomes) would accrue from such use. Fishbein’s (1967). Theory of Reasoned
Action or behavioral intentions is another widely accepted and well-developed expectancy-value theory. For Fishbein, behavior is a result of intentions. Intentions, in turn, are functions of one’s attitudes to the behavior in question and one’s subjective norms. Attitudes result from one’s beliefs (expectations) that behavior will lead to a particular outcome (its subjective probability) and one’s evaluation of that outcome (its subjective utility). The subjective norms are a combination of a person’s beliefs of how significant others feel about the normative appropriateness of the anticipated behavior and the individual’s decision as to the value of those predicted norms.

2.2.2 Service Quality Model

Grocock (2006) defined quality as the degree of conformance of all the relevant features and characteristics of the product or service to all aspects of customers’ needs limited by the price and delivery that are accepted. On the other hand, Juran (2005) defines quality as fitness to use, while Amitava (2008) extended the issue of fitness further by defining quality of a product or service as the ability of that product or service to meet or exceed its intended use as required by the customers. As organizations find it harder and harder to differentiate their products, they turn to service differentiation. Organizations seek to develop a reputation for superior performance regarding on-time delivery, better and faster answering of inquiries, and quicker resolution of complaints (Kotler, 2006).

According to Lewis (2001), service quality can be defined as the degree to which the service delivered matches the customer’s expectation(s). Deviation from this expectation creates either a higher or a lower quality perception. Customers derive these expectations from their past experiences, word-of-mouth or communication by the organization. Njagi (2007) observed that customers who complain are usually complaining about either a service or merchandise and that the customer’s levels of dissatisfaction may be made worse by lack of entrepreneurial spirit among employees, low level of accountability by employees and lack of customer trust. Therefore, customer feedback is important and keeps an organization in tune with the changing demands of the customer. An organization should aim to deliver consistently higher quality service by exceeding customer expectations. The intangible, variable and inseparable nature of services makes
it difficult to evaluate the quality of service delivered to customers. Service marketing has identified the user of the service as the most critical voice in assessing service quality (Kotler and Keller, 2006).

Most researchers have agreed that perceived quality is an antecedent of customer satisfaction (Szymanki and Henard, 2001) where higher quality leads to higher customer satisfaction. Bowen and Chen (2001) also reported a positive relationship between quality and customer loyalty. Other researchers have demonstrated a positive benefit of effective service recovery on customers’ attitudes and behavior (De Witt and Brady, 2003; Hart et al (2002).

2.3 Personal Loans Growth strategies

According to Day (2002) far too many companies fail to achieve their growth targets in revenue and profitability. However, the probability of achieving profitable growth is heightened whenever an organization has a clear growth strategy and strong execution infrastructure. One without the other impairs the probability of success.

Most businesses fall short of achieving their growth objectives for revenue and profitability. In fact, studies report success rates as low as 20%. Why is growth so elusive? There are two major reasons: Inadequate consideration of opportunities within the core business, adjacent to the core business or within new customer sub-segments and an organizational infrastructure that cannot support successful execution (Day, 2002).

According to Kenya banking Act the primary role of banks it to lend money and take money from depositors according. Performance in the banking sector is therefore mainly measured on the degree to which money has been lent out, as this will ensure the Bank earns interest income. In the economic survey of 2005, economic growth was to a larger extent attributed to small medium enterprises (SMEs), most of which were funded by personal borrowings of the sponsors.

Banks have employed growth strategies to broaden their lending book that is, company memorandum, personal selling and salary advances.
Company memorandum is where a company negotiates rates for its employees; an example of Kenyatta University and Equity Bank. Personal selling will include the sales representatives who go from one office to the other while salary advance includes small loans given to customers who hold accounts with that particular bank for a period of one month or two.

According to Cole (2000), performance is the degree to which set goals are accomplished. One of the measures of performance is growth. Most organizations therefore measure their performance based on the degree or level of growth both in absolute and percentage terms.

There have been many loan products offered by local banks in Kenya mainly for business and individual loans. However, there emerged another distinct sector targeting one aspect that was seen as a deterrent to borrowing. This is the requirement for borrowers to provide collateral to the bank. According to Mishkin (2004), collateral is property promised to the lender as compensation if the borrower defaults on a loan. The lender can sell collateral and use the proceeds to make up for its losses.

When banks introduced the unsecured personal loans, there was phenomenal growth because those who had been restricted from borrowing due to lack of collateral were able to borrow. However, this fact notwithstanding, there has been a general downward trend in the growth of the personal loans sector within the banking industry in Kenya.

Ansoff (1990) emphasizes that organizations will only achieve success if they align their strategy to the dictates of the external environment. We shall therefore focus our objectives on both the external factors and internal factors. Internal factors will relate to procedures, processes, and requirements whilst external processes will consider activities of Savings & Credit Co-operative organizations (Sacco’s).

The overall set of growth indicators should give a balanced picture of the personal loan sector trends including outcomes from the borrowers’ perspective. Also, continuous refinement factors affecting growth should be kept under close monitoring in order to meet changing borrowers’ perceptions and environmental trends.
2.4 Empirical Studies

Many studies have found that the customer's relationship with the lender institution can be more important than interest rates. Hanson, Robison, and Siles (1996) observed in a recent study that the success and profitability for a bank to build customer relationships depends directly on the loyalty that customers develop through a good relationship with their banker. They found that an interest rate margin of 74 basis points (nearly 3/4) would be required to change lenders when the relationship was described as "friendly". Gwin and Lindgren (1986) found that personal relationships and the quality of customer service in retail banking are often of greater importance to customers than interest rates, fee structure, innovations, and convenience.

Bankers that provide customers with home banking software only for bill paying, for example, will fall short in meeting the intrinsic buyer values of the customer segment that actually wants help in finding the lowest cost consumer loan or the best investment product. According to AT&T (1997), banks need to have a thorough understanding of buyer values, a steady supply of customer-based innovations that target those values, and superior performance. The digital age is here and banks are going to have to enter it to remain competitive. It is important for them to be able to offer products in a competitive way, so that customers are not lured away by digital commerce. The article; "Relationships often lead to business transactions because when business opportunities exist, qualities that promote positive social relationships may also produce positive business relationships", provides evidence that loan approval is not always based on financial characteristics (Siles et al., 1994). The major factors that contribute to the development of a good business relationship are customer's demonstrated honesty, understanding of the customer's business, and the bank staff's friendly attitude toward the customer. Lenders may often approve a loan to maintain or improve an existing business or social relationship. In addition, they may receive "vicarious" satisfaction from improving the well being of a friend. In a survey completed by bankers, they found that, when the loan approval decision based on financial characteristics is unclear, the relationship appeared to be the deciding factor. It was much more significant to have a
loan denied because of a low-quality business relationship rather than have a loan approved due to a high-quality business or social relationship.

Collender (1994) recognizes three important reasons for financial services efficiency research. First, a general principal of economics is that, improved efficiency will lead to increases in economic wellbeing and economic growth. Secondly, given this general principle, there is a need to identify the root causes of observed inefficiencies, their relative importance, and policies to facilitate improving efficiency. Changes in markets that lead to efficiency improvements are likely to have differential impacts on various sectors of the economy, and the transition period is likely to produce some dislocation and economic losses in certain sectors. The third reason is the one most important in agricultural lending. "Fear persists in rural areas that relaxing bank regulations will decrease lending to small local businesses, small communities, and agriculture." (Collender, 1994). High capital ratios, low loan-to-deposit ratios, high profitability, and smallness typically characterize agricultural banks. The smallness factor may be the result of barriers to expansion or lack of scale economies in sparsely populated areas.

Due to changes in the banking industry, increasing competition from other financial institutions and dropping trend of growth in personal lending, there is an increasing need for lenders to become more than loan providers and be active players in all forms of investments and financial planning. Changes in the banking industry include; consolidation of lenders, shrinking markets, increasing financial services, increasing technology, increasing cross-selling opportunities, consolidation of debt, bank mergers, more information accessibility (Internet), and less employee loyalty. All of these changes indicate that lending institutions will be challenged to maintain a personal relationship with their customers. Institutions need to know who their customers are, what credit/loan products and financial services they are using (with them or their competition) and be able to examine all the information in a systematic approach. The institution then can use socio-economic, demographic, and financial information to efficiently target customers with loans and services they require. Targeting customers with every service is time consuming and inefficient. The application of databases can be used to capture the customer at the point of anticipation rather than the point of sale.
According to Glenn (1995), Target marketing and database analysis will be more cost-efficient and the bank will have a higher probability of reaching customers who will use a product/service. With a computer database, customers can be treated differently. The value of a customer determines the level of time that a firm can allocate its resources to improve either the customer's loyalty or to improve the share of that customer's business. Bank data indicate that a strong positive relationship exists between profitability and net non-interest income (non-interest income less non-interest expense). One strategy for increasing non-interest income is to transform a bank into a broad-based financial service company. Under this model, banks are managed as financial service businesses where bankers know their customers and use this knowledge to ‘cross-sell’ products. (Jeffrey Stensland and Glenn Pederson, 1995).

By using databases, banks will be able to develop a more advanced customer knowledge system and overcome the challenges of staff turnover, which will allow the bank to segment its customer base and target market resources to the segment that has the highest probability of using a product/service. This reduces unnecessary marketing efforts to many customers and saves the bank time and money. Information on the customers allows the institution to understand what products/services are currently being used, and who is using them.

2.5 Interest Rates

The dynamics of short-term treasury interest rates are central to the pricing of all fixed income instruments and their derivatives. Chan, Karolyi, Longstaff and Sanders (1992), hereafter CKLS compared a variety of single factor continuous-time models of the short-term risk-less rate over the period 1964 through 1989. They found that models that allow the volatility of interest changes to be sensitive to the level of the risk-free rate outperform other models. Longstaff and Schwartz (1992) presented a two-factor general equilibrium model, with the level and conditional volatility of short-term rates as factors. They showed that a two-factor model carries additional information about the term structure and leads to better pricing and hedging performance compared to a single factor model, which only uses the level of the short rate.
According to Longstaff (1992), the factors that affect short-term interest rates include: the monetary policy, the Government fiscal policy, taxation, inflation, and demand for capital, social values, and political trends. The monetary policy is used by the government to control the supply of money in the economy. When supply of money in the economy is low then the interest rates are expected to be high and vice versa. The volatility in money supply growth may lead to higher interest rates. Under the fiscal policy, the Government is supposed to finance all expenditure for the economy. In cases where expenditure exceeds revenue (budget deficit), the Government is forced to borrow from the local markets. This in turn affects the supply of money in the economy which in turn affects the trend of interest rates. Inflation on the other hand causes long-term interest rates to rise where investors sell-off their bonds in fear of inflation eroding their capital gains. Demand for capital influences interest rates when the demand/supply of funds is below or above the equilibrium levels. If there are fewer borrowers and the demand for funds is low then the interest rates will be low and vice versa (Long R.H 1988).

In Kenya, the interest rates charged by banks are determined by: interest rate on deposits; cost of liquidity; cost of holding cash; and operational costs. The interest on deposits depends on the bank’s cash ratio, its overall financial stability and the type of the bank for example whether it is a corporate bank or a network bank. The cost of liquidity covers both the cash, which is maintained by the banks with Central Bank as required cash ratio, and the cash maintained by the banks as the minimum amounts to meet unexpected demand from the customers. Cost of holding cash is derived from the cash held by the banks in form of liquid form to meet day-to-day customer’s needs. The banks have to compare the costs of cash outs and the opportunity costs associated with the cash held in liquid form. Operational costs are mainly meant to cover the costs of running the bank and it includes capital costs, staff costs, and technology costs. The base rate charged by the banks takes into account all these factors. The bank can reduce the base rate by improving efficiency (Porter, 1980)

Long (1988), states that the rate of interest is generally seen as a reward for lenders, but it is also the price that has to be paid when a purchaser of an asset uses his own savings. In
this case the rate of interest is the opportunity cost of using one's own resources. It is the interest forgone when one decides to buy rather than lend. If the interest rate is a price, then in a free market, it must be determined by forces of supply and demand. Two theories attempt to explain the rate of interest in terms of supply and demand. These are; the classical theory, which explains interest rates in terms of demand for capital i.e. investment and the supply of savings. There is also the theory of Keynesian or monetary theory which holds that interest rate is the price which equates the demand for the money i.e. the desire to hold wealth in the form of money and the supply of money (Cole 2000).

According to Kibuthu (2004), there exists strong negative correlation between lending rates and volume of borrowing. Interest rate are an important factor determining amounts borrowed. Amount borrowed will increase with declining lending rates as the private sector will be more willing to take on credit. Low lending rates policy will stimulate borrowing and consequently spur economic growth. A low interest regime has been associated with economic growth in many countries including Japan, U.S.A, and Korea just but to mention a few.

Kennington et al. (1996) compared their findings with studies conducted in other countries in order to determine whether bankers need to follow new policies for attracting customers, in the relatively new free-market economy of Poland. They concluded that the most important selection factors for bank choice by Polish customers were: reputation, price (reduced interest rate on loans and high interest rate on savings) and services offered. In this respect, Polish bank customers do not differ from customers of the banking industry in other countries. Additionally, other potential factors that affect customers’ selection choice of a bank are services’ efficiency, bank reputation, bank fees, convenient location and interest rates on saving accounts and loans (Yue and Tom, 1995). The study will therefore seek to establish to what extent interest rates affect growth of the personal loans.

2.6 Competition

The competitive environment faced by banks generates two sources of pressure for an error-free operation. First, consumers may be willing to pay a price premium for what
they perceive to be responsiveness to their needs: accurate answers to their questions, useful advice about new products, error-free statements, etc. On the other hand, competitors quickly match prices in this market. Thus, even if the bank cannot extract a price premium, precision in operations may be a key contributor to retaining or gaining market share (Porter M.E, 1980). In one study by the Bank Administration Institute (1993), industry leaders in retail banking generally believed that other quality-related factors would be more important contributors to the bank’s loan performance than the ability to exercise price leadership.

Competition can be done in several ways. In any discussion of competition is to recognize that, entering into completion an organization is seeking competitive advantage. This competitive advantage is the key to corporate success (Walley 1998; 186). Though competition is a threat to survival, it is the competition that drives firms to improve productivity and therefore drives growth.

The stability of locally owned banks has been a major concern of depositors and small scale savers as some of them have lost money to locally owned banks which have gone under due to poor management especially in the early 80s and late 90s (Central bank 2001). Due to this fact, many of the small savers and depositors opted for the multinationals which have been known to have strong management and integrity. It was therefore thought that these banks are safer to depositors.

Increasing levels of competition for financial services have increased the banks’ need to find and attract new market segments. In this context, university students have become a target group of potential bank customers both as a source of new accounts and future profitability. Several surveys among university students have been designed to answer the question: Why do students select a particular bank to open a new account and to do business with from a large number of alternatives? The answer to such a question should bankers develop specific marketing strategies for attracting new customers and retaining existing ones.

According to Boyd et al. (1994), the main factors that determine young (under 21 years old) customer bank selections in a sample of the head of the household were: a) bank’s
reputation; b) location; c) hours of operation; d) interest of saving accounts; and e) the provision of convenient. Less important factors were the friendliness of bank employees and the modern nature of their facilities.

2.7 Branch Network

Branches have traditionally been the main distributor channel for retail banking services. They continue to be the predominant form of access to banking services with over 4% people having visited a bank branches (Mcgreevy, 1999). Many studies from the USA found that the main factors affecting customers’ bank selection were a) distance from home or work (Kaufman, 1967; Riggall, 1980); b) bank service quality, including hours of operation, queuing size and fund safety (Laroche et al., 1986; Javalgi et al., 1989); and c) friendliness of a bank’s personnel and influence from customers’ relatives (Mason and Mayer, 1974; Kazeh and Decker, 1993).

Distance is a factor that has been heavily discussed in literature. Mainly because with ever advancing technological possibilities distance was losing its influence on trade or banking. Degryse and Ongena (2004) have proven that even though distance has diminished its influence over time it is still an important factor. Petersen and Rajan (2000) and Buch (2001) came to similar conclusions in their studies on the effect of distance on information costs in banking. Portes and Rey (2005) in their study of bilateral cross-border equity flows showed that distance is a big influence on the information cost component of trading costs and therefore could be an impending factor on choice of retail bank by SMEs. Anderson and Wincoop (2004) observed that distance formed a part of the high trade costs which persisted between economies even as highly integrated as those of the European Union. Agarwal and Hauswald (2007) showed that borrower proximity is an advantage for capturing markets. Even though their study was based on domestic competition for borrowers, it could mean that banks close to borders could find a market on the other side because of their proximity.

Avait and Coerdacier (2007) show in their study that distance has a negative effect on foreign assets and holdings of banks which is in turn mostly due to the positive link between trade and international bank assets. Blank and Buch (2007) show in their work,
that cross-border activities are positively related to foreign trade. This means that countries that are trade partners with high volumes of trade are likely to see high volumes of choice of retail bank by SMEs as well. Bank and Buch (2007) did note here that their model could explain links better between non-banks and banks than between banks.

Various business operators tend to have their preferred branch of the bank. This is due to the unique feature in that particular branch which varies with their need. This may include the customized services offered to them, minimal time spent conducting transactions, confidentiality offered to the customers. All this reasons makes an entrepreneur prefer a certain branch of a given bank for other even they are near his business premises.

2.8 Technology

The importance of technology is prominent in the banking industry and affects strongly customers’ decision whether to choose a particular bank. Coyle (1999) confirmed the importance of technology and speed: with the participation of 250 bank vendors, he observed the “Future Bank” trade show in Minneapolis (USA). This study showed that the competitive bank of the future is the one which can offer speedy, technology based services (e.g. ATM) backed by effective staff training. Moreover, Almossawi (2001) and Lenka et al. (2009) support the importance of technology in commercial bank selection. Managers should realize that young people enjoy dealing with advanced technical devices such as ATMs. This indicates that, in their bank selection, the new generation of customers tends to put more emphasis on the factors which give them quick and convenient access to bank services, rather than factors related to hospitality, bank premises conditions and bank location.

According to Kamakodi and Khan (2008), Indian banking industry is undergoing metamorphosis in terms of adoption of technology and automation. New generation of private sector banks which came into existence in the last ten years have gained a substantial market share and government owned banks are losing market share to these new banks. It is very important for banks to understand the preferences of the customers
to offer the services required both to attract new clients and protect the existing client-base from migrating to other banks.

Degryse and Ongena (2004) studied the impact of technology on the geographical scope of banking. Technology enables banks to capture bigger markets and venture abroad via choice of retail bank by borrowers. Others that looked at technology and international banking were for example Singer, Albert and Babu (2008) and Pfeffers and Tuunainen (2002).

The first indication of an organization’s adaptability is its willingness to meet the changing demands of the customer. This willingness may be evidenced by pricing flexibility. It also surfaces in the mass customization movement making its way through the service industry (Pine, 1993). Many customers have individual needs which are not easily satisfied by standard products and services. Not surprisingly then, the need to customize products and services underlies much of the recent Information Technology investment of bank. In addition to responding to the customer, financial institutions display adaptability in their ability to respond to the marketplace. In competition with non-bank financial institutions, the bank’s challenge is to create competitive products and introduce them to market before losing the chance to compete in the larger industry. The introduction of mutual funds is a perfect illustration. Given the opportunity to partake in the investment market, many banks have been slow to bring their funds effectively to the market. As change occurs, whether in the development of new products and services or the introduction of new technology, the institution must respond with changes in the business processes. Organizations and processes should be able to withstand and plan for change, as a lack of flexibility renders a firm unable to respond to changing business conditions (Roth and Velde, 1991).

2.9 Conceptual Framework

The dependent variable in this study will be the success of personal loans growth strategies among the commercial banks. Based on the literature review, the factors likely to influence personal loans growth strategies include interest rates, competition, branch
network and technology. These formed the independent variables of the study. The relationship is as shown in figure 4.1 below.

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rates</td>
<td>Personal loans growth strategies</td>
</tr>
<tr>
<td>Competition</td>
<td>- company memorandum</td>
</tr>
<tr>
<td>Branch network</td>
<td>- personal selling</td>
</tr>
<tr>
<td>Technology</td>
<td>- salary advances</td>
</tr>
</tbody>
</table>

*figure 4.1 Conceptual Framework*
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methods that were used in conducting the research study. The study design and population has been described in each respective section including the sample and sampling procedure and the instruments and procedures that were used in data collection.

3.2 Study Design

Descriptive research design was used because it enables the description of the behavior of a given population having certain characteristic by facilitating disclosure of association among different variables of study. A case study is used and the process of collecting data is to answer questions concerning the current status of the subjects under study. The design was appropriate for the study because the study intended to come up with findings that show the current situation of the personal loans sector within commercial banks in Nairobi. The design covered the issues; levels of interest rates, competition, branch network and technology.

3.3 Target Population

The target population of this study was Equity bank customer care officials. The researcher concentrated only to Equity Bank, Nairobi branches which are 38.

3.4 Sample size

The researcher used purposive sampling technique or judgmental sampling to represent the population of study. In this type of sampling the researcher chooses the sample based on who they think would be appropriate for study. We only have one customer care desk in the 38 branches and therefore the researcher took a sample of 38 customer care officials since they are the ones who handle most of the complaints and queries of customers. This type of sampling design was chosen because it gave the respondents...
equal chances of participating in the study. It therefore required the judgment of the one carrying out sampling to choose the respondents.

3.5 Data Collection

Primary data was collected using a questionnaire that was administered to customer care desk official. The questionnaire contained a mix of open ended and closed questions, which allowed the respondents freedom in answering questions and the chance to provide in depth responses. Interviews were used to allow the researcher to be able to collect accurate data and improve the response rate. The questions allowed the respondent freedom in answering questions and the chance to provide in-depth responses. An introductory letter was obtained from the University. The researcher then obtained the necessary approval from the Credit Director of Equity Bank of Kenya to administer the questionnaire.

3.6 Data collection tool

Questionnaires were used because they could be sent to large number of people and saves time and money. More so people tend to be more truthful while responding to questionnaires regarding controversial issues. Therefore questionnaires were sent through email to customer care desk officials. Due to the perceived confidentiality of information required and the fact that many people would not be willing to disclose the information, a combination of both judgmental and convenience sampling methods was used. In addition, the respondents' name was left optional to ensure confidentiality of the information.

3.7 Data Analysis

The researcher used factor analysis which is a statistical method used to describe variability among observed, correlated variables in terms of a potentially lower number of unobserved variables called factors. In other words, it is possible, for example, that variations in three or four observed variables mainly reflect the variations in fewer unobserved variables. Factor analysis searches for such joint variations in response to unobserved latent variables. The observed variables are modeled as linear
combinations of the potential factors, plus "error" terms. The information gained about the interdependencies between observed variables can be used later to reduce the set of variables in a dataset. Computationally this technique is equivalent to low rank approximation of the matrix of observed variables. Factor analysis originated in psychometrics, and is used in behavioral sciences, social sciences, marketing, product management, operations research, and other applied sciences that deal with large quantities of data. (Galbraith, 2008)

Collected data was arranged, organized, coded, classified, summarized and analyzed using measure of central tendency. The statistical package for social sciences (SPSS) was used to process data by presenting the data in pie charts and bar graphs. Quantitative analysis involves use of statistical techniques to describe, analyze and communicate research findings. Qualitative analysis makes use of non-statistical techniques to communicate and summarize data. In qualitative research it is possible to compare and study several determinants and analyzing and testing them empirically proved if there was relationship to be found in order to draw conclusion on the research. Quantitative data collected were summarized, analyzed using cross tabulation and descriptive statistics and measure of central tendency. Qualitative data was given into summaries and analyzed so as to display the opinion of the respondent.

Qualitative methods data was collected using a few objects to study and it cannot be transformed into numerical form unless simplified. They have an emphasis on understanding; interpreting and observing the data in a natural setting and with a sort of insider's view (Ghan, Gronhang& Kristiansland, 1995, 85) Gummesson (2000) says that the qualitative approach is more appropriate to research in business and management administration.

3.7 Reliability & validity

They are the two main emphases that have to be taken into notice to reduce the possibility of getting the answer wrong. Reliability and validity can be separated in two parts i.e. internal and external.
Internal reliability meaning that is, there is more than one researcher to study and can they agree on what they see and hear. External reliability means to what extend are the result the same if the research would be done again. External reliability is hard to reach, but to reach high reliability for this research so if the research should be replicated the other research could follow the same strategy to get similar results. (Saunders, lewis& thornhill 2007, 149)

Internal validity refers to whether the result obtained within the study is true and whether the researchers can agree and come to the same conclusions. Internal validity is appreciated in qualitative research, since researchers spend a long time on the research and it usually results in being able to connect the observation with relative concepts.

External validity questions if the results of the research are applicable to other population setting and periods; meaning can the results be generalized (Ghauri, Gronhang & Kristianslud, 1995, 33)

Questionnaire answers are in the appendices and answers first be analyzed separately by both researchers and thoughts combined to increase the validity and to decrease the possibility of researchers own interpretation of data.
CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter analyses the findings, interprets and presents data in line with the objectives of the study. The data obtained is presented in tabular form, percentages and in descriptive statistics such as pie charts, and bar graphs.

4.2 Presentation of Findings

4.2.1 Response Rate

This refers to the percentage of the subjects who responded to the questionnaires. In this study, 38 respondents of the sampled population participated in the study. This was a representative sample. Only thirty eight questionnaires administered were returned, the response was as in table 4.1 below:

Table 4.1 Response Rate

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response</td>
<td>38</td>
<td>100</td>
</tr>
<tr>
<td>Non-Response</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2013)
4.2.2 Gender of the Respondents

Respondents were asked to show their gender as shown below.

Table 4.2 Gender Analysis

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>26</td>
<td>68</td>
</tr>
<tr>
<td>Male</td>
<td>12</td>
<td>32</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2013)

On gender, the findings were as in table 4.2 and figure 4.2. The study findings indicate that 32% of the respondents were male while 68% were female. This indicates that there were more female respondents as compared to male.
4.2.3 Age of Respondents

The respondents were asked to indicate their ages as shown in the table below.

Table 4.3 Ages Distribution

<table>
<thead>
<tr>
<th>Age bracket</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-30</td>
<td>24</td>
<td>63</td>
</tr>
<tr>
<td>31-40</td>
<td>12</td>
<td>32</td>
</tr>
<tr>
<td>41-50</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Over 50</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2013)
On age the findings were as in table 4.3 and figure 4.3. The study findings indicated that 63% of respondents were 18-30 years, 32% were 31-40 years, while 5% were 41-50 years and 0% were over 50 years. This indicates that the majority were 18-30 years. This indicates that the majority of respondents were in their prime age taking up the most percentage of 63%.

### 4.2.4 Highest Education Level

The respondents were requested to indicate their highest level of education as shown in the table below.
Table 4.4 Highest Level of Education

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Secondary</td>
<td>6</td>
<td>16</td>
</tr>
<tr>
<td>College</td>
<td>18</td>
<td>47</td>
</tr>
<tr>
<td>University</td>
<td>9</td>
<td>24</td>
</tr>
<tr>
<td>Post Graduate</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2013)

Figure 4.4 level of Education

Source: Author (2013)
The level of education was of importance to the researcher for it reflects the know-how of the respondents as well as the skills they possess. From the findings as depicted in table 4.4 and figure 4.4, 0% has primary education, 16% have secondary education, 47% have college education, and 24% have university education while 13% have post graduate education and 0% possess other forms of education.

4.2.5 Customers take Loans from other Financial Institutions

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>32</td>
<td>84</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2013)

Figure 4.5 Customers Take Personal Loans from other Financial Institutions

Source: Author (2013)

The study findings as indicated in table 4.5 and figure 4.5 showed the following: 84% of respondents agree that customers take loans from other financial institutions and 16% disbelieve. In essence, the customers are not wholly held by one financial institution as
refers to loans. Many of them do change and visit other financial institutions for other loaning facilities.

4.2.6 Level of Interest has an effect on Borrowing Decision

Table 4.6 Level of Interest has an effect on Borrowing Decision

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>36</td>
<td>96%</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>4%</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author (2013)

Figure 4.6 Level of interest has an effect on Borrowing Decision

Source: Author (2013)
The study findings as indicated in table 4.6 and figure 4.6 showed the following; 96% of respondents agree that the level of interest rates have an effect on customers’ decision to borrow and 4% disbelieve. This is as a result of the amount of interest charged since it will have an effect on the ultimate amount to be taken and the income they have.

4.2.7 Extend Interest affect Customers Decision to borrow

Table 4.7 Extend Interest affect Customers Decision to borrow

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Great Extend</td>
<td>9</td>
<td>22</td>
</tr>
<tr>
<td>Great Extend</td>
<td>18</td>
<td>48</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>11</td>
<td>30</td>
</tr>
<tr>
<td>Low effect</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>No Extend at all</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2013)
The study findings as indicated in table 4.7 and figure 4.7, shows that 22% of the respondents believe that interest rate affect customers' decision to borrow to a very great extend, 48% say great extend, 30% say moderate extent while 0% say low effect and 0% say no extent at all.

4.2.8 Improving Interest Rates

In order to improve on interest rates, the banks and the government should come together and liaise in unison basing the interest rates on the growth of the economy and the income of the people. With due respect, the development perceived should reflect what amount of interest rate should be charged. Since the economy is not very sound and the population requires more funds to enable them overcome the huddles of life and enable their investments to grow, the banks should hold workshops with its customers and ensure they understand what the customers are facing and thereby set their interest rates based on its outcome. Also, academic research done by various scholars should be consulted as they give some hints on this fragile field.

4.2.9 Competition affects Customers' decision to Borrow

Table 4.8 Competition affects Customers' decision to Borrow

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>35</td>
<td>92</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2013)
The study findings as indicated in table 4.8 and figure 4.8 showed the following: 92% of respondents think competition from other Banks and Micro finance institutions affect customers' decision to borrow and 8% disbelieve. This is as a result of the customer feedback received and the service compliments perceived from the customers which reflects this. With competition in place, customers will always go to the bank that charges low interest rate and may opt to sell their existing loans for other loan but with a different bank this other time.

4.2.10 Customers approached by other Banks and Financial Institutions

Table 4. 9 Customers approached by other Banks and Financial Institutions

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>30</td>
<td>80</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2013)
The study findings as indicated in table 4.9 and figure 4.9 showed the following; 80% of respondents believe their customers have been approached by other banks and financial institutions for a similar loan product and 20% disbelieve. From the respondents, the financial field is open and so other banks and financial institutions are free to solicit and sell their products and in this case the target is the people who happen to be the same customers of the bank.

4.2.11 Increasing Lending of Personal Loans

In order to increase lending of personal loans, the bank should revise its interest rates so as to enable its customers be able to repay their loans and take more loans. At the same time, with a proper market research and a sound marketing, many customers will be forced and influenced to take more loans. Other service improvements, discounts and competitions will make customers take more loans. On the other hand, an effective corporate social responsibility is a good ground to sell products and services as it will reflect a positive gesture of the banks towards the customers hence make them feel they own the bank. This will attract their perception on the bank and make them buy their products and services. Investments in technology will also enable it sell more of its precuts as services will be sped up.
4.2.12 Technology Adoption Influence demand for more Personal Loans

Table 4.10 Technology Adoption Influence demand for more Personal Loans

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>29</td>
<td>76</td>
</tr>
<tr>
<td>No</td>
<td>9</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2013)

The study findings as indicated in table 4.10 and figure 4.10 showed the following; 76% of respondents think the technology adoption by banks influence the demand for more personal loans and 24% disbelieve. Technology use is known to speed up operations and services which customers require. In case the customers need the loaning facility, they only need to click on the banks websites and be informed of the services and products in offer.
4.2.13 Extend Technology Adoption influence Customers' Decision

Table 4.11 Extend Technology adoption influence Customers' decision

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Great Extend</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Great Extend</td>
<td>15</td>
<td>40</td>
</tr>
<tr>
<td>Moderate</td>
<td>16</td>
<td>42</td>
</tr>
<tr>
<td>Low Extent</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>No Extent at all</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>38</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Author (2013)

Figure 4.11 Extend Technology Adoption influence Customers' Decision

Source: Author (2013)

The study findings as indicated in table 4.11 and figure 4.11, shows that 15% of the respondents believe that technology adoption by banks influence customers decision to
borrow to a very great extend, 40% say great extend, 42% say moderate while 3% say low extent and 0% say no extend at all.

4.2.14 Adoption of Technology

In order to increase demand for personal loans to customers by banks, adoption of technology may be the best option. Technology speeds up transmission of information on products in the market and at the same time, the customers get to know when their loans are ready for dispatch. Loan processing is also done faster with the use of technological equipments and customer service is also improved hence making the customers to have trust with these banks and hence come for personal loans with them.

4.2.15 Adequacy of Branch Networks

Table 4.12 Adequacy of Branch Networks

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>29</td>
<td>78</td>
</tr>
<tr>
<td>No</td>
<td>9</td>
<td>22</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2013)
The study findings as indicated in table 4.12 and figure 4.12 showed the following; 78% of respondents agree that the bank have adequate branch networks to serve its clientele and 22% disbelieve.

4.2.16 Effects of Branch Networks on Personal Loans

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Great Extend</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>Great Extend</td>
<td>10</td>
<td>27</td>
</tr>
<tr>
<td>Moderate</td>
<td>19</td>
<td>50</td>
</tr>
<tr>
<td>Low Extent</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>No Extent at all</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>38</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Author (2013)
The study findings as indicated in table 4.13 and figure 4.13, shows that 20% of the respondents believe that the extent the branch networks of the bank affect the uptake of personal loans by customers to a very great extend, 27% say great extend, 50% say moderate while 3% say low extent and 0% say no extent at all.

4.2.17 Ways of Improving Branch Networks

In order to improve branch networks to facilitate the growth of personal loans, the employees of such branches should be good in customer care services and the information that the customers require should be retrieved without much ado as this will enhance customer satisfaction and enable them be loyal to the bank. Each branch should ensure that it involves all employees in coming up with a well structured policy system and ensure it caters for all the organizations objectives and goals. It should also leave room for innovative and creative ideas when they come by.
4.2.18 Evaluation of Financial Implications of Personal Loans to Equity Bank

Table 4. 14 Evaluation of Financial implications of Personal loans to Equity Bank

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Important</td>
<td>16</td>
<td>42</td>
</tr>
<tr>
<td>Important</td>
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<td>48</td>
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<tr>
<td>Less Important</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2013)

Figure 4. 14 Evaluation of Financial implications on Personal Loans to Equity Bank

Source: Author (2013)

The study findings as indicated in table 4.14 and figure 4.14, shows that 42% of the respondents evaluate the financial implications of personal loans to Equity as very important, 48% say important while 10% says less important.
4.2.19 Importance of Customers' Decision on Level of Interest Rates

Table 4.15 Importance of Customers' Decision on Level of Interest Rates

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Important</td>
<td>29</td>
<td>76</td>
</tr>
<tr>
<td>Important</td>
<td>7</td>
<td>19</td>
</tr>
<tr>
<td>Less Important</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2013)

Figure 4.15 Importance of Customers' Decision on the Level of Interest Rates

Source: Author (2013)

The study findings as indicated in table 4.15 and figure 4.15, shows that 76% of the respondents rates importance of customers' decisions on level of interest rates as very important, 19% say important while 5% says less important.
4.2.20 Importance of Customers’ Decision on Competition

Table 4.16 Importance of Customers’ Decision on competition

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Important</td>
<td>18</td>
<td>48</td>
</tr>
<tr>
<td>Important</td>
<td>19</td>
<td>49</td>
</tr>
<tr>
<td>Less Important</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2013)

Figure 4.16 Importance of Customers’ Decision on competition

Source: Author (2013)

The study findings as indicated in table 4.16 and figure 4.16, shows that 48% of the respondents rates importance of customers’ decisions on Competition from other financial institutions as very important, 49% say important while 3% says less important.
4.2.21 Importance of Customers’ Decision on Technology Adoption

Table 4.17 Importance of Customer's Decision on Technology Adoption

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
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<td>56</td>
</tr>
<tr>
<td>Important</td>
<td>17</td>
<td>44</td>
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<td>Less Important</td>
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</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2013)

Figure 4.17 Importance of Customers' Decision on Technology Adoption

Source: Author (2013)

The study findings as indicated in table 4.17 and figure 4.16, shows that 56% of the respondents rates importance of customers’ decisions on technology adoption as very important, 44% say important while 0% says less important.
4.2.22 Importance of Customers’ Decision on Branches Network

Table 4.18 Importance of Customers’ decision on Branches Networks

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Important</td>
<td>22</td>
<td>58</td>
</tr>
<tr>
<td>Important</td>
<td>14</td>
<td>37</td>
</tr>
<tr>
<td>Less Important</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>38</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Author (2013)

The study findings as indicated in table 4.18 and figure 4.18, shows that 58% of the respondents rates importance of customers' decisions on branches network as very important, 37% say important while 5% says less important.
4.2.23 Importance of Customers’ Decision on Management Decisions

Table 4.19 Importance of Customers’ decision on Management Decisions

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Important</td>
<td>26</td>
<td>68</td>
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<tr>
<td>Important</td>
<td>12</td>
<td>32</td>
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<tr>
<td>Less Important</td>
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<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2013)

The study findings as indicated in table 4.19 and figure 4.18, shows that 68% of the respondents rates importance of customers’ decisions on management decisions as very important, 32% say important while 0% says less important.
4.2.24 Proposal to improve Personal Loan Product

It should be noted that in order to improve on the personal loan product, the banks should embrace technology which speeds up processing of loans, venture into efficient customer care, improve its corporate social responsibility as it is a platform to address and communicate its products to the community and carry out market research. On the other hand, scholarly researches done should be used to evaluate the effectiveness of banks towards issue of personal loans.

4.3 Summary of Data Analysis

This section provides a summary of the research findings and analysis by focusing on the general response from the respondents who took part in this exercise. The response rate was very high with 100% of the respondents responding to questionnaires issued out. On gender, the study findings indicate that 68% were female and 56% of respondents in the age bracket of 18-30 years.

On interest rates 84% of respondents agree that customers take loans from other financial institutions and the customers are not wholly held by one financial institution as refers to loans. From the study 96% of respondents agree that the level of interest rates have an effect on customers’ decision to borrow and that 48% of the respondents believe that interest rate affect customers’ decision to borrow to a great extend. In order to improve on interest rates, the banks and the government should come together and liaise in unison basing the interest rates on the growth of the economy and the income of the people. With due respect, the development perceived should reflect what amount of interest rate should be charged. Since the economy is not very sound and the population requires more funds to enable them overcome the huddles of life and enable their investments to grow, the banks should hold workshops with its customers and ensure they understand what the customers are facing and thereby set their interest rates based on its outcome. Also, academic research done by various scholars should be consulted as they give some hints on this fragile field.
As far as competition is concerned, 92% of respondents think competition from other Banks and Micro finance institutions affect customers’ decision to borrow. This is as a result of the customer feedback received and the service compliments perceived from the customers which reflects this. With competition in place, customers will always go to the bank that charges low interest rate and may opt to sell their existing loans for other loan with a different bank. From the study, 80% of respondents believe their customer have been approached by other banks and financial institutions for similar loan products. In order to increase lending of personal loans, the bank should revise its interest rates so as to enable its customers be able to repay their loans and take more loans. At the same time, with a proper market research and a sound marketing, many customers will be forced and influenced to take more loans. Other service improvements, discounts and competitions will make customers take more loans. On the other hand, an effective corporate social responsibility is a good ground to sell products and services as it will reflect a positive gesture of the banks towards the customers hence make them feel they own the bank. This will attract their perception on the bank and make them buy their products and services. Investments in technology will also enable it sell more of its products and services will be sped up.

The findings on technology show that 76% of respondents think the technology adoption by banks influence the demand for more personal loans. Technology use is known to speed up operations and services which customers require. From the findings, 42% of the respondents believe that technology adoption by banks influence on customers’ decision to borrow is moderate. In order to increase demand for personal loans to customers by banks, adoption of technology may be the best option. Technology speeds up transmission of information on products in the market and at the same time, the customers get to know when their loans are ready for dispatch. Loan processing is also done faster with the use of technological equipments and customer service is also improved hence making the customers to have trust with these banks and hence come for personal loans with them.

On branch networks, 78% of respondents agree that the bank have adequate branch networks to serve its clientele and that 50% of the respondents believe that the extent the
branch networks of the bank affect the uptake of personal loans by customers is moderate. In order to improve branch networks to facilitate the growth of personal loans, the employees of such branches should be good in customer care services and the information that the customers require should be retrieved without much difficulty as this will enhance customer satisfaction and enable them be loyal to the bank. Each branch should ensure that it involves all employees in coming up with a well structured policy system and ensure it caters for all the organizations objectives and goals. It should also leave room for innovative and creative ideas when they come by.

The findings on personal loans shows that, 48% of the respondents evaluate the financial implications of personal loans to Equity as important; 76% of the respondents rates importance of customers’ decisions on level of interest rates as very important; 49% of the respondents rates importance of customers’ decisions on Competition from other financial institutions as important; 56% of the respondents rates importance of customers’ decisions on technology adoption as very important; 58% of the respondents rates importance of customers’ decisions on branches network as very important; and 68% of the respondents rates importance of customers’ decisions on management decisions as very important. It should be noted that in order to improve on the personal loan product, the banks should embrace technology which speeds up processing of loans, venture into efficient customer care, improve its corporate social responsibility as it is a platform to address and communicate its products to the community and carry out market research. On the other hand, scholarly researches done should be used to evaluate the effectiveness of banks towards issue of personal loans.
CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter discusses the summary of the findings, conclusion and recommendations of the research study. The chapter narrows towards giving an in-depth explanation of establishing the factors affecting personal loans growth strategies in commercial banks, a case study of Equity Bank Limited. The answers to the research questions were discussed and conclusions of the research study were explained. The study gave several recommendations and a suggestion for further studies was encouraged.

5.2 Summary of Findings

5.2.1 Interest Rates

Majority of the respondents' state that interest rates affects the way personal loans are taken and that it affects the amounts that they intend to take as loans. With due respect, interest rates must be revised in order for more personal loans to be advanced to the public and loaning policy be amended to cater for any change in loaning. Since the economy is not very sound and the population requires more funds to enable them overcome the huddles of life and enable their investments to grow, the banks should hold workshops with its customers and ensure they understand what the customers are facing and thereby set their interest rates based on its outcome.

5.2.2 Competition

It has partly been stated that competition affects operations and services including products on offer. There should be two-way communication that will enable employees transmit information directly to the leadership without any hindrance on the effect of competition in the market field as far as personal loans are concerned. Competition is sound and it makes services and products on offer have features that make the customer yearn for more. Other service improvements, discounts and competitions will make

51
customers take more loans. On the other hand, an effective corporate social responsibility is a good ground to sell products and services as it will reflect a positive gesture of the banks towards the customers hence make them feel they own the bank. This will attract their perception on the bank and make them buy their products and services. With increased competition and the ever changing technologies, organizations should therefore ensure they study well the business environment they operate in.

5.2.3 Branch Network

Many respondents’ stated that the available branches though are many but there is a need to increase their number so as to reach more customers who needs services and products on offer. In order to improve branch networks to facilitate the growth of personal loans, the employees of such branches should be good in customer care services and the information that the customers require should be retrieved without much ado as this will enhance customer satisfaction and enable them be loyal to the bank. Each branch should ensure that it involves all employees in coming up with a well structured policy system and ensure it caters for all the organizations objectives and goals. It should also leave room for innovative and creative ideas when they come by.

5.2.4 Technology

For businesses to function well and efficiently, they must embrace technology. Technology use is known to speed up operations and services which customers require. In order to increase demand for personal loans to customers by banks, adoption of technology may be the best option. Technology speeds up transmission of information on products in the market and at the same time, the customers get to know when their loans are ready for dispatch. Loan processing is also done faster with the use of technological equipments and customer service is also improved hence making the customers to have trust with these banks and hence come for personal loans with them.
5.3 Answers to the Research Questions

5.3.1 Does fluctuation in interest rate affect personal loans growth strategies in commercial banks in Nairobi?

The study findings indicated that 84% of respondents agree that customers take loans from other financial institutions and the customers are not wholly held by one financial institution as refers to loans. From the study 96% of respondents agree that the level of interest rates have an effect on customers’ decision to borrow and that 48% of the respondents believe that interest rate affect customers’ decision to borrow to a great extent.

5.3.2 Is competition affecting personal loans growth strategies in commercial banks in Nairobi?

On competition, 92% of respondents think competition from other Banks and Micro finance institutions affect customers’ decision to borrow. This is as a result of the customer feedback received and the service compliments perceived from the customers which reflects this. With competition in place, customers will always go to the bank that charges low interest rate and may opt to sell their existing loans for other loan but with a different bank this other time. From the study, 80% of respondents believe their customer have been approached by other banks and financial institutions for similar loan products.

5.3.3 Do branch network affect personal loan growth strategies within commercial banks in Nairobi?

On branch network, 78% of respondents agree that the bank have adequate branch networks to serve its clientele and that 50% of the respondents believe that the extent the branch networks of the bank affect the uptake of personal loans by customers is moderate.

5.3.4 Is technology affecting personal loans growth strategies within commercial banks in Nairobi?
From the findings, 76% of respondents think the technology adoption by banks influence the demand for more personal loans. Technology use is known to speed up operations and services which customers require. From the findings, 42% of the respondents believe that technology adoption by banks influence on customers’ decision to borrow is moderate.

5.4 Conclusion

The study was designed to establish the factors affecting personal loans growth strategies in commercial banks. The variables investigated were interest rates, competition, branch network and technology.

5.4.1 Interest Rates

Interest rate is one of the major factors affecting the rate and efficiency of taking personal loans. When banks increase their interest rates on loans, less people take them since the other financial institutions will opt to decrease theirs. In essence therefore, interest rates determine the advancement of personal loans.

5.4.2 Competition

Within the operations of a function or business, competition plays a vital role as every bank or financial institution tends to work out formalities of outdoing their rival in the business. In this case, banks will tend to offer their products with attached benefits or with certain discounts. This tends to make the market livelier and economically viable. With this offers, the market which is very volatile will tend to be competitive and will decrease interest rates while at the same time enhancing service delivery and improve on customer service. It should be noted that failure to transmit information in an effective manner distorts the process of advancing personal loans to the needy personnel in the market.
5.4.3 Branch Network

In order to serve customers faster and efficiently, there is a need of opening more branches closer to the customers and make them more efficient. The customers finding the services nearer to them decreases their expenditures on logistics and hence make them take more personal loans when needs arise.

5.4.4 Technology

The business environment has been bombarded with new technologies which must be effectively monitored so as to ensure the business environment does not provide an organization with many challenges difficult to venture through. Technology speeds up transmission of information on products in the market and at the same time, the customers get to know when their loans are ready for dispatch. Loan processing is also done faster with the use of technological equipments and customer service is also improved hence making the customers to have trust with these banks and hence come for personal loans with them.

5.5 Recommendations

The study would recommend the following:

Of importance to the existence of an organization is quality service and products provision which ensures that all operations and in this case advancement of loans is carried out efficiently. This ensures that the customers are satisfied and may make a comeback for more services and products and at the same time encourage others to come and source their personal loans from this institution. Banks together with central bank should therefore revise and if possible ensure that the interest rates on personal loans are affordable to customers since this grows the Economy of our country.

Competition is sound and it makes businesses provide the best product and services to the customers. The management of the bank should ensure they study well the competitive market they are treading in and realign its activities so as to be at a competitive edge while at the same time ensuring that there is customer satisfaction. The Government
should also make laws which govern competition to avoid unhealthy competition and hence enable banks a competitive edge.

The banks should ensure that it has several branches and outlets or satellites to serve its mass of customers. An increased branch networks has the advantage of reaching many customers who could not be possibly reached and who forms major customers to the banks. Central bank should also allow banks to open branches without limiting them.

Technology is a factor that many organizations have to embrace in this 21st century. An effective technology embrace begets an efficient and defined processes and operations. To this regard therefore, management of organizations should entrench a well defined policy that identifies the embrace of new technologies and creativity within its networks and operations. At the same time, innovation should be encouraged.

5.6 Suggestions for further research

There being many factors affecting personal loans growth strategies in commercial banks and due to the different work structure and background operations, this study has been limited to four specific objectives. A similar study should be replicated in any other bank or financial institution but in this extent other specific objectives undertaken and focus on other departments pertinent to the study.
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Online reference

www.barclays.com/africa/kenya 10th August 2010
APPENDICES

APPENDIX 1: QUESTIONNAIRE

Section A

1. Name of Respondent ________________________________ (Optional)

2. Gender  Male   [ ]  Female   [ ]

3. Age  18-30   [ ]  31-40   [ ]  41-50   [ ]  Over 50   [ ]

4. Highest Level of Education.
   - Primary   [ ]
   - Secondary [ ]
   - College   [ ]
   - University [ ]
   - Post Graduate   [ ]
   - Other (Please Specify)   [ ]

SECTION B

5. Do customers take loans from other financial institutions?
   - Yes   [ ]  No   [ ]

6. Does the level of interest rates have an effect on their decision to borrow?
   - Yes [ ]  No [ ]

7. To what extent does interest rate affect customers' decision to borrow? (Please tick as appropriate)
   - To a very great extent   [ ]
   - To a great extent   [ ]
   - To a moderate extent   [ ]
   - To a low extent   [ ]
   - No extent at all   [ ]

8. Suggest what the bank and the government can do to improve on interest rates.

9. Do you think competition from other Banks and Micro finance institutions affect customers' decision to borrow?
   - Yes [ ]  No [ ]
10. Have your customer been approached by other banks and financial institutions for a similar loan products?

Yes [ ]  No [ ]

11. Suggest what you would recommend to the bank on how to increase lending of personal loans in relation to other Banks and Financial Institutions so as to win competition

12. In personal loans the target group is the working community. Do you think the technology adoption by banks influence the demand for more personal loans?

Yes [ ]  No [ ]

13. To what extent does the technology adoption by banks influence customers decision to borrow?

To a very great extent [ ]  To a great extent [ ]  To a moderate extent [ ]
To a low extent [ ]  No extent at all [ ]

14. What do you recommend to the bank on technology adoption by banks to help increase demand for personal loans to customers?

15. Does the bank have adequate branch networks to serve its clientele?

Yes [ ]  No [ ]

16. To what extent do the branch networks of the bank affect the uptake of personal loans by customers?

To a very great extent [ ]  To a great extent [ ]  To a moderate extent [ ]
To a low extent [ ]  No extent at all [ ]

17. Suggest what ways of improving branch networks to facilitate the growth of personal loans?

18. How would you evaluate the financial implications of personal loans to Equity?

Very Important ( )  Important ( )  Less Important ( )
19. How important is customers' decisions on the following variables in relation to the personal loan product?

<table>
<thead>
<tr>
<th>Variable</th>
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<th>Important</th>
<th>Less Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level interest rates.</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Competition from other Financial institutions.</td>
<td>[ ]</td>
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<td>Technology adoption</td>
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<td>Branches network</td>
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<td>Management decisions</td>
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20. What recommendations would you propose to improve on the personal loan product?