

The Effects of Relationship Banking on the Financial Performance of SMEs in Kenya

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Abstract : The purpose of this study was to determine the effects of relationship banking on the financial performance of SMEs. The paper attempted to establish the link between the constructs of relationship banking and SME performance. The study was guided by relationship lending, relationship monitoring, relationship risk sharing and bundle of products as independent variables while financial performance will be the dependent variable. The study used a quasi experimental design with population being the 620 SMEs who have a relationship banking arrangement with banks in Nairobi. The study used stratified sampling to pick a sample of 235. The population of interest will be the CEOs of the respective companies. The basis of stratification is the sectors in which the SMEs operate in. The study will use a questionnaire to collect data. The questionnaire will have both open and close ended questions. A pilot study will be conducted to test reliability and validity of questionnaire. The data was analyzed using descriptive statistics. Regression analysis was employed to test if there is a relationship between the dependent and the independent variable. The study found evidence that relationship banking positively impacts on financial performance of SMEs. Specifically, the study established that each component of relationship banking in this study i.e relationship lending, monitoring, bundle of products and risk sharing positively affects financial performance.

Keywords : relationship banking, SMEs, financial performance, entrepreneurial orientation

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