ISSN: 2348-3083
An International Peer Reviewed
SCHOLARLY RESEARCH JOURNAL FOR
HUMANITY SCIENCE & ENGLISH LANGUAGE

AN INVESTIGATION INTO FACTORS AFFECTING UNIVERSITY EMPLOYEE COMMERCIAL BANKS' BORROWING: CASE OF EGERTON UNIVERSITY, KENYA

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Abstract

The study was meant to examine the factors affecting borrowing amongst the employees of public universities in Kenya. The locality of the study was Egerton University. The objectives of the study were to identify the factors that influence bank borrowing and determine the relationship between these factors and borrowing among the employees of Egerton University. The population of the study was 1889 employees of Egerton University. A sample of 318 employees was selected through systematic stratified random sampling. Questionnaire was the main tool of data collection. The results of the study were presented through descriptive statistics such as tables, pie charts, bar graphs, and histograms. Regression analysis was used to determine the extent of relationship between dependent and independent variables in the study. From the study, it was established that long repayment period is the most important factor that influences the borrowing levels from commercial banks followed by lack of guarantee. Interest rates were reported to have a moderate influence while gross salary incomes lowly influence the employee borrowing from commercial banks. The study observed that there exist a relationship between the current level of borrowing and the factors that influence employee borrowing. The level of education influences the borrowing levels from commercial bank. High interest rates significantly reduce the borrowing from *commercial banks while high gross salary income and need for business start-up finance increases the borrowing from commercial banks.*

Key Words: *Factors affecting borrowing, Commercial Banks*

Introduction

Background of study

Borrowing is the process where an individual can access some funds from either a financial institution, cooperative societies, saving and credit cooperatives societies or any other organized financial institution that are able to provide finance which is refundable with an interest. Normally commercial banks provide this facilities and public universities employees are among the beneficiaries from these borrowing facilities. Commercial bank borrowing used to be out of reach for many civil servants and more so to public university employees. But of late about eight years back or so it has become so easy for public university employees, to access this facility of borrowing. This is evident as most of them walk to the bank with only a confirmation that one is an employee by producing a pay slip. Bank borrowing has assisted many employees as most of them have developed themselves through this commercial bank loans (Loyd, 2006).

Commercial bank borrowing is costly in terms of interest while borrowing is still high, despite central bank persuasion to commercial banks to reduce interest rate, as the monetary regulator reduces its lending rates; banks in Kenya have failed to respond, keeping their rates at between 14 to 23%. This is so because the prices which commercial banks charge on their loans are left to the forces of demand and supply in the market. Despite the fact that commercial banks have failed to lower their lending interest rate borrowing from these commercial banks have kept on increasing.

Access to formal finance is poor because of the high risk of default among employees and due to inadequate financial facilities. University employees can rarely meet the conditions set by financial institutions, which see the employees as a risk because of poor guarantees and lack of information about their ability to repay loans. The financial system in most of Africa is under-developed, and so provides few financial instruments. Capital markets are in their infancy, shareholding is rare and no long-term financing is available for the employees. Nonbank financial intermediaries, such as micro-credit institutions, could be a big help in lending money to the small individuals but they do not have the resources and ability to follow up their customers when they extend credit (Kamerschen, 2002).

All commercial banks are under statutory requirement to keep cash reserve ratio with central bank to safeguard them from corrupting. At a time when the Kenyan economy is suffering from a downturn and businesses are in dire need of funding, banks have maintained high lending rates while offering low deposit rates. Borrowers pay interest charges of about 14% to 23% per cent on personal unsecured loans that have become popular with salaried workers in Kenya. Kenyan banks on their part have slowed down on lending with some executives arguing that there are inadequate outlets for the pent-up liquidity in the balance sheets of Kenyan banks. The Business Daily sought out the views of banking sector and business executives on what impact the rate cut may have on the cost of credit in the Kenya (Loyd, 2006).

Normally commercial banks provide borrowing facilities to salaried employees and business people, where public universities employees are among the beneficiaries of these borrowing facilities. Borrowing is also referred to as credit facility, like fire, credit is a dangerous servant of humanity. Its use can be beneficial or disastrous; it must be watched and regulated, and kept with its proper bounds, by financial intermediaries and other financial regulatory bodies such as commercial banks. Due to market liberalization and competition among commercial banks, interest rates are on the declining trend which has resulted in an increase in circulation of money. All commercial banks are regulated by central banks of Kenya. It has tried to explore ways of lowering the cost of money borrowing to try to make lending to private and individual borrowers cheaper. This is aimed at making lending cheaper and is geared to addressing market inefficiency by commercial banks. Despite regular persuasion to bring interest rates down, still commercial bank lending interest rates are high and also borrowing from these commercial banks remains high. Higher personal financial planning is the process of managing your money to achieve personal economic situation (Robert, 2010).

The only limiting factor with such borrowing is the fact that credit values are based on the collective wealth of the participating members. This follows that the lower the wealth the smaller the loan. Borrowing for most individuals is not an overnight decision. The Institute of Policy Analysis and Research, (1PAR, 2010), points out that for most people, the credit-seeking decision is a result of three stages. There is always the decision made over whether to or not to borrow. The credit source follows the credit perceptions of the borrower and the attendant costs.

Problem Statement

Commercial banks are of late giving loans to public university employees with no much restriction or requirement of providing assets as securities against loans taken. Most if not all commercial banks rarely ask employees for tangible securities such as assets before advancing loans to them, they only require employees who apply for loans to provide the pay- slip from the employer as evidence that they are in employment with a guarantee that the employer will recover the loan advanced through the check off system on behalf of the bank and remit the same to the bank. As a result of this most employees are accessing commercial banks and borrowing so easily from them. Banks have also embarked on serious marketing strategies of marketing various loan products they sell to the extent that rarely will one month pass without finding these banks putting up tents at strategic points within public university premises. However there is no evidence of studies carried out to establish the factors that have influenced public university employees to borrow so much from commercial banks since these loans attract very high interest rates compared to other sources of borrowings such as co-operative societies and other lending institutions. There is therefore need to establish the factors that have influenced Kenyan public university employees to borrow from these commercial banks. This study is therefore expected to substantially establish the factors influencing Kenyan university employees to borrow from commercial banks and also determine the relationship between these factors and employee borrowing.

General Objective

The general objective of the study was to investigate the factors affecting university employees' commercial banks' borrowing amongst employees of Egerton University, Kenya

Specific Objectives

i) To identify the factors that influence bank borrowing among employees of Egerton University Kenya

ii) To determine the relationship between these factors and employee borrowing in Egerton University, Kenya.

Research Questions

What are the factors that influence Egerton University employee to borrow from commercial banks?

Research Hypotheses

Ho: There is no relationship between the current level of borrowing and the following factors that influence employee borrowing among employees of Egerton University, Kenya

i) Interest rates
ii) Gross salary income
iii) Business start up finance
iv) Level of Education
v) Employees gender
vi) Repayment period
vii) Flexibility of Repayment terms
viii) Lack of gurantee
ix) Conviction by bank employees

Research Methodology

The research design was descriptive survey. The target population in this research study was staff and Management team of Egerton University for the period 2006 to 2010. This is because it captured well the distribution of the university in term of departments and section. The institution consisted of 1889 employees (Egerton university HRM department). A Sample of 318 respondents representing the members of staff of Egerton University was used for this study. A sample of respondents was selected through systematic stratified random sampling using the formula:

$$n = \frac{Z^2 pqN}{e^2 (N-1) + z^2 pq}$$

Where

n = Sample size

N = Population

p = 0.5 (Proportion of elements of interest in population)

q = 0.5 (1-p)

z = 1.96 (Critical value at 95% confidence level)

e^2 = 0.05 (Error level accepted)

Hence;

$$n = \frac{1.96^2 \text{x } 0.5 \text{ x } 0.5 \text{ x } 1889 \quad 1814.2}{5.6804.05}$$

$$n = 318$$

Source (Sharma, 1983)

The study used questionnaires as the main tool of data collection. The questions in the questionnaire were both open and closed ended. The questionnaire was personally administered through a drop and pick after one day. This method of administration is justified as it results in a higher response rate. Further, personal administration of questionnaires helped in carrying out data cleaning while on the field ensuring that data collected was adequate for the research.

Data obtained were cleaned, organized, coded and analyzed with the help of Statistical Package for Social Sciences (SPSS version 19.0).The results of the study were presented through descriptive statistics such as tables, pie charts, bar graphs, and histograms. Regression analysis was used to determine the extent of relationship between dependent and independent variables in the study.

Results

Gender distribution of respondents

The gender distribution of employees' respondents in this study was summarized in figure 1.0 below.

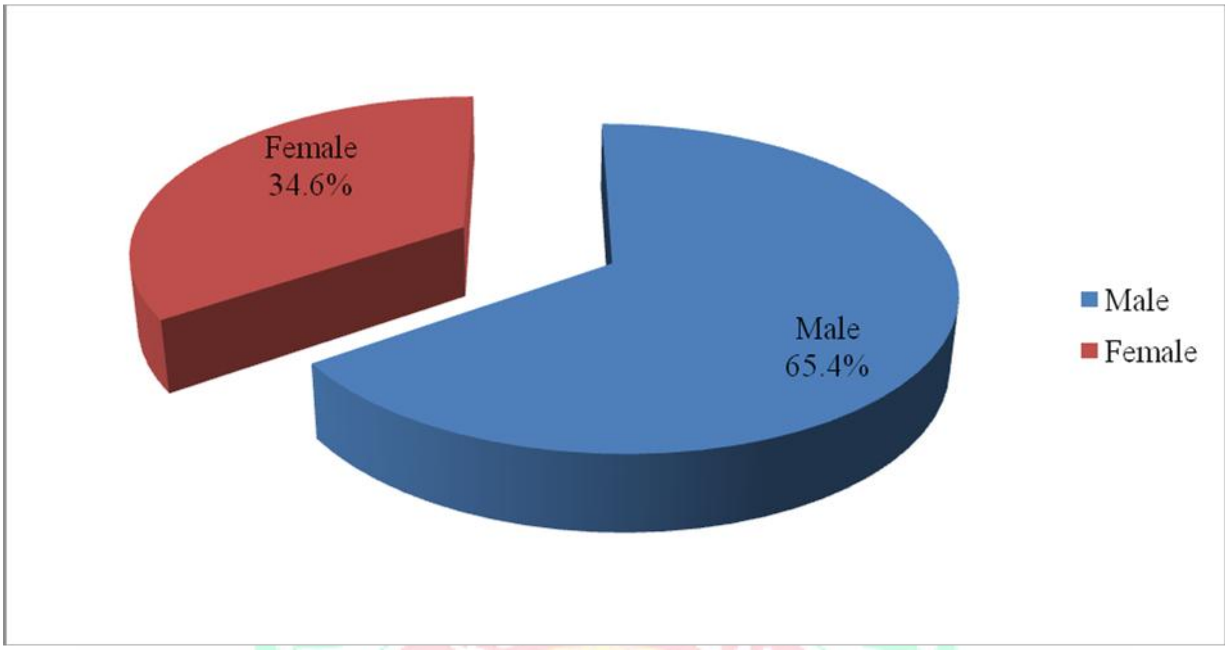

Figure 1.0: Employees' gender distribution

Figure 1.0 shows that there was significant gender disparity among the respondents with 65.4% of them being male and only 34.6% female. These results imply that the number of female employees in the learning institution is significantly lower than that of male. This implies that adequate gender empowerment and promotion of girl child education still need to be propagated in the country. This also signifies the importance of establishing a gender-responsive employment structures as proposed by IPAR (2010). It is thus expected that the levels of borrowing by male employees may be significantly higher than that of females considering that the most common form of loan guarantee among university employees is the pay slip. Carter (2000) noted that women in Kenya face numerous constraints in accessing affordable finance for small business primarily because of problems of access to collateral

Sources of Loan to University Employees

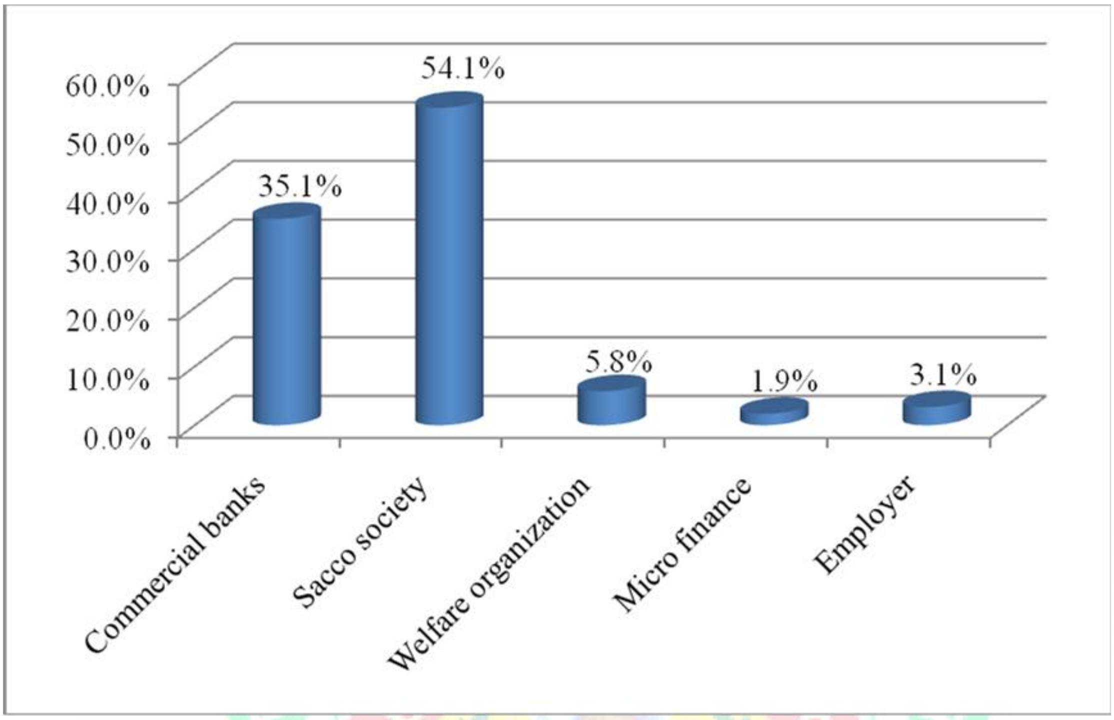

Figure 2.0: The main source of loans for University Employees

The most popular source of loan to university employees was noted to be SACCOs which contribute about 54.1% of all the loan sources. This was closely followed by commercial banks which contribute about 35.1% of the loan sources. Other sources of loan were welfare organizations (5.8%), employer (3.1%) and microfinance institutions (1.9%).

Factors that influence Egerton University employee to borrow from commercial banks

There are a number of factors that influence the level of borrowing by Egerton university employees from commercial banks. This is as shown in table 1.0

Table 1.0: Factors that influence borrowing level from commercial banks

Factors	Frequency	Percent
Long repayment period	92	28.9
Lack of guarantee	73	23.0
Low interest rates	44	13.8
Gross employment income	43	13.5
Flexible repayment period	31	9.7
Convinced by bank employee	23	7.2

Others reasons	12	3.8
Total	**318**	**100.0**

Table 1.0 show that long repayment period is the most important factor that influences the borrowing levels from commercial banks. The results indicate that 28.9% of the university employees believed that their borrowing levels to be influenced by the length of the repayment period. It was further observed that 23.0% of the university employees determine the amount of loan they prefer to borrow due to lack of guarantee other that the payslip. The number of employees who indicated to determine their level of borrowing through the extent of interest rates charged to the loan was 13.8%. This was closely followed by those who determine their level of borrowing as guided by their gross employment income who comprised about 13.5%. Some of the university employees however indicated that flexibility of the repayment period highly determine their levels of loan borrowing (9.7%) while 7.2% of the university employees determine their loan borrowing levels from commercial banks as convinced by the bank employees. Other reasons that influence Egerton university employees borrowing levels from commercial banks comprised about 3.8%.

Influence of selected factors on borrowing from commercial banks

Table 2.0 gives a summary of how the selected factors influence borrowing from commercial banks.

Table 2.0: **Influence of selected factors on borrowing from commercial banks**

	Extent of influence					
Factors	**Very high**	**High**	**Moderate**	**Low**	**Very low**	**Total**
Interest rates	20.4%	22.3%	36.8%	8.2%	12.3%	100.0%
Gross salary income	7.9%	20.4%	25.5%	32.7%	13.5%	100.0%
Business start up finance	11.3%	18.2%	23.9%	19.2%	27.4%	100.0%
Level of	9.4%	21.1%	35.5%	19.2%	14.8%	100.0%

education						
Employee gender	8.5%	17.9%	32.4%	7.2%	34.0%	100.0%

Table 2.0 shows that majority of the employees viewed the influence of interest rate on loan borrowing from commercial banks as moderate as represented by 36.8% of the respondents. About 22.3% of the employees felt that the influence of interest rates on loan borrowing was high while 20.4% of the employees considered the influence of interest rate on loan borrowing as very high. It was only 12.3% and 8.2% of the employees that argued that the influence of interest rate on loan borrowing was very low and low respectively.

Majority of the employees viewed the influence of gross salary income on loan borrowing from commercial banks as low as represented by 32.7% of the respondents. About 25.5% of the employees felt that the influence of gross salary income on loan borrowing was moderate while 20.4% of the employees were of the opinion that the influence of gross salary on loan borrowing was high. About 13.5% of the employees indicated that gross salary income has very low influence on loan borrowing from commercial banks. It was only 7.9% of the employees who argued that the influence of interest rate on loan borrowing was very high.

Employees who participated in this study indicated that the quest for a reasonable business start up finance contributes to the borrowing of loans from commercial banks in the following manner: very low influence (27.4%), moderate influence (23.9%), low influence (19.2%), high influence (18.2%) and very high influence (11.3%).

The influence of level of education on employee borrowing from commercial banks was reported as moderate by majority (35.5%) of the respondents. Other responses were high (21.1%), low (19.2%), very low (14.8%) and very high (9.4%). Employee gender was reported have very low influence on borrowing from commercial banks. Other responses was observed as moderate (32.4%), high (17.9%), very high (8.2%) and low (7.2%).

Regression analysis for the relationship between employees borrowing from commercial banks and selected factors

Table 3.0: Logistic Regression Estimates of variables influencing distribution diversification

Explanatory variables	Coefficient	Std. Errors	P - values
Interest rates	-0.001^{***}	0.001	0.001
Gross salary income	0.038^{*}	0.022	0.084
Business start-up finance	0.051	0.087	0.59
Level of education	0.043	0.087	0.49
Employee gender	-0.140	0.093	1.51
Repayment period	0.058^{*}	0.031	0.063
Flexibility of repayment terms	0.002^{*}	.001	0.079
Lack of guarantee	-0.017	0.010	0.085
Conviction by bank employees	0.022	.0261	0.395
Constant	0.649	0.243	0.009
Log likelihood	**-19.871**		
Pseudo R^2	**0.794**		

***, ** and * represent level of significance at 1%, 5% and 10% respectively

The coefficient for business start-up finance, level of education, employee gender, lack of guarantee and conviction by bank employees were not significant indicating that they were not important factors in influencing employees borrowing from commercial banks.

The coefficient for interest rates was negative and significant at 1% level, suggesting that borrowing from commercial banks was greatly hampered by their high interest rates. This is the probable reason why much borrowing was reported to come from savings and credit cooperative societies (SACCOS) and not from commercial banks since the later normally provide low interest loans to their clients. This observation agrees with Cecchetti (2009) who argued most commercial banks could serve even more customers if they could be able to reduce their interest rates.

The coefficient for gross salary income was positive and significant at 10% level, suggesting that borrowing from commercial banks increased with the increase in employees' gross salary income. Normally, most commercial banks are comfortable to approve a loan of a certain amount depending on the borrower's ability to pay as may be indicated from, among other methods, the salary income. This observation agrees with Beecham (2001) who noted that over the recent past, borrowing has become a very important source of finance by most employed persons in their efforts to finance their expenditures.

The coefficient for repayment period was positive and significant at 5% level, suggesting that borrowing from commercial banks increased with the increase in the repayment periods. This implies that most university employees preferred loan from sources that offer them long as opposed to short repayment periods. This agrees with Hussein (1999) who noted that the repayment periods as one of the important factors that influence borrowing from financial institutions.

The coefficient for flexibility of repayment terms was positive and significant at 10% level implying that most university employees preferred loan sources that had flexible repayment terms. Beecham (2001) noted the need for flexible repayment terms in order to enable financial institutions in their efforts to serve their customers and further argued that it assist in making more loan borrowers to repay their loans.

4.7 Conclusion

In the recent past, commercial banks have become one of the best options in loan financing among the salaried persons such as university employees. Based on the findings of this study it was established that long repayment period is the most important factor that influences the borrowing levels from commercial banks followed by lack of guarantee. Interest rates were reported to have a moderate influence while gross salary incomes lowly influence the employee borrowing from commercial banks.

Based on the findings of this study it was established that there was a significant relationship between level of education and the level of borrowing by university employees from commercial banks. It was observed that the higher the level of education, the higher the cumulative level of borrowing. There was a significant relationship between current levels of borrowing and the gender of the employee with majority of the borrowers being male. Likewise high interest rates significantly reduce the borrowing from commercial banks while high gross salary income increases the borrowing from commercial banks. The need for a business start-up finance significantly influence the borrowing from commercial banks causing persons with such a need to borrow more.

This study observed that there exist a relationship between the current level of borrowing and the factors that influence employee borrowing. The level of education influences the borrowing levels from commercial bank. High interest rates significantly reduce the borrowing from commercial banks while high gross salary income and need for business start-up finance increases the borrowing from commercial banks.

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