EFFECT OF BANKING SERVICES OPERATIONS ON THE PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN LILONGWE CITY, MALAWI

MASTER OF BUSINESS ADMINISTRATION DISSERTATION

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MASTER OF BUSINESS ADMINISTRATIONDISSERTATION

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BSc (Hons.)

A Dissertation Submitted to Management Studies Department, Faculty of Commerce, in Partial Fulfilment of the Requirements for the Award of a Degree of Master of Business Administration

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DECLARATION

I, Nelly Chimwemwe Luwemba, declare that this MBA dissertation, submitted for the award of Master of Business Administration at University of Malawi, the Polytechnic, is wholly my work unless otherwise referenced or acknowledged. Further, no part of this dissertation has been submitted anywhere for an award of any other degree or examination to any other university or college.

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CERTIFICATE OF APPROVAL

We, the undersigned, hereby certify that we have read, and we approve for examination by the University of Malawi, Polytechnic, this dissertation entitled *The Effect of Banking Services Operations on the Performance of Micro Small and Medium Enterprises (MSMEs) in Lilongwe City of Malawi.*

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DEDICATION

This dissertation is dedicated to my three children: Bilal, Faheem and Kondwani, my entire family and my friends for the positive encouragement and support.

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ABSTRACT

Small and Medium Enterprises (SMEs) have been widely recognized as engines for economic growth across countries. In Malawi, Micro, Small and Medium Enterprises (MSMEs) sector was reported to have contributed 25% to Malawian household incomes and employed 38% of the labor force. However, performance of the MSME sector has been noted as dismal. SMEs are faced with many challenges that include access to financing leading to stagnation and failure. The objective of the study was to assess the effect of banking service operations on the performance of SMEs in Lilongwe City, Malawi. The study targeted population were registered MSMEs in the City of Lilongwe. The study used a cross section survey technique where a questionnaire was used to collect quantitative primary data from 168 respondents. A descriptive research design was adopted using the Cronbach formula to sample 168 MSMEs. A random sampling technique was used to select the 168 MSMEs who participated in the survey. Data was analyzed using SPSS statistical package version 20 and Stata version 14. Descriptive statistics (frequencies and Pearson's Chi square) and inferential statistics (rank of Chi square) and Logit Multivariate Model were used in the analysis. The study findings indicated that level of education had a significant association with SME performance and use of banking services. The study found no significant difference between the ages of the businesses and performance of SMEs. The study however, found a significant association between bank payment services and SME performance. Furthermore, the study found a considerable association between banks training services and SME performance. The study concluded that the level of education and experience were significant in the use of banking services and products. Bank payment services, as well as bank training services, were positively related to SME performance and significance. The study recommends a deliberate government policy that includes financial education in the county's curriculum as well as a national service for school leavers to equip them with entrepreneurial skills and experience. Banks should improve their savings and investment services to help SMEs build capital and improve production. The study also recommends more investments in payment services by banks to improve payment options such as foreign exchange to improve and widen payment options and ease the pressure on the use of foreign cash.

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ABBREVIATIONS AND ACRONYMS

CMA	Competition and Markets Authority
DEMAT	Development of Malawian Enterprises Trust
ECI	Ebony Consulting International
EIU	European Intelligence Unit
EU	European Union
FCA	Financial Conduct Authority
GDP	Gross Domestic Product
IFC	International Finance Corporation
MBS	Malawi Bureau of Standards
MEDI	Malawi Entrepreneurs Development Institute
MEPEC	Malawi Export Promotion Council
MIPA	Malawi Investment Promotion Agency
MIPC	Malawi Investment and Trade Centre
MIRTDC	Malawi Industrial Research and Training Development Centre
MSME	Micro Small and Medium Enterprises
NSO	National Statistic Office
SEDOM	Small Enterprise Development Organization of Malawi
SME	Small and Medium Enterprise
SMEDI	Small Enterprise Development Institute
SSA	Sub-Saharan Africa

CHAPTER 1

INTRODUCTION

1.0 Background of the study

Small and Medium Enterprises (SMEs) have been widely recognized as engines for economic growth across countries. Scholars, to a large extent, agree that SMEs play a pivotal role in generation of employment and growth in the formal sector (Ayyagari, Demirguc-Kunt, & Maksimovic, 2011). They claim that SMEs are drivers of economic growth and job creation in developing countries (Wang, 2016) and constitute the most dynamic firms in emerging economies. At the same time, SMEs have been found to play a major role in economic development, particularly in emerging countries (International Finance Corporation, 2010). Studies by the International Finance Corporation (IFC) claims that in developing economies SMEs could contribute more to economic development than they currently do (IFC, 2010). However, despite the substantial potential of contribution of SMEs in redeeming the world from the vicious cycle of abject poverty, (Dalberg, 2011) observes that SMEs are less developed in low-income economies.

The development of SMEs has varied across the globe. When the development of SMEs in Asia was assessed, noticeable progress was made. For example, a study by the (Kumar, 2013), one of the global quality assurance firms, observed that in Asia and the Pacific region including China and India, SMEs form a large part of enterprises in all the regions' economies. In Japan, the highest proportion of SMEs accounted for more than 99% of total enterprises. Equally, in India the SME sector is highly vibrant and dynamic, contributing to 17% of Gross Domestic Product (GDP), accounting for 45% of India's total manufacturing output and constituting to around 45% of its work force. Similarly, in China, the SME sector makes up 99% of all enterprises which accounts for almost 60% of the country's GDP and generates more than 82% of employment (Hoffman, 2017) cited in (Hongbo et al., 2019).

Additionally, it is worth noting that SMEs represent about 99% of all businesses in the European Union (EU), Szczepański (2016), found that SMEs play a pivotal role in its economy. Szczepański (2016) reiterates that the EU values SMEs as key that ensures economic growth, innovation, job creation and social integration in its territory. However, in Russia, the SME sector remains at a primary level despite the sector noted to have growth potential (Bank, 2016).

In Sub- Saharan Africa, the tenet of SME had many stakeholders relative to the size of the regional economy. For example, in Nigeria, SMEs represent about 90% of the industrial sector, provides 70% of employment and contributes between 35%-40% to GDP (Eniola, 2014). Equally, SMEs in Kenya are growing its economy, they account for a larger percentage (98%) of all businesses in the country (Wanjohi, 2010). In the south of the Sub-Saharan Africa, SMEs constitute 91% of formalized businesses in South Africa and provide employment to about 60% of the labor force and account for 34% of GDP (African Trade Insurance Agency, 2015).

However, the success story is not consistent with the situation in Malawi. For instance, a Micro Small and Medium Enterprises (MSME) survey estimated that the sector in Malawi contributes only 25% to Malawian household incomes, employs 38% of the labor force and contributes 15.6% to GDP (FinScope, 2012). In addition, most of the SMEs are in the agricultural industry and most of them are concentrated in rural parts of Malawi. Additionally, the survey further points out that 59% of MSMEs are excluded from financial services access such as access to loans at a reasonable low-level contrary to 31% who access the financial services due to their collateral financial standing, only 22% are banked.

Despite such low numbers of SMEs in Malawi, studies have proven that SMEs play a key role in economic and industrial development of a country. In Malawi, SMEs make a vital contribution in improving social economic development. It is believed that a competitive and innovative SME sector holds out enormous promise particularly for developing countries like Malawi more especially when they have access to banking services to help the SMEs enhance their performance. Therefore, a study on the effect of banking service operations on the performance of SMEs in Lilongwe is urgent and imperative if the country is to realize the aspiration of the Malawi vision 2063 and its First 10 Years Implementation Plan (MIP-1).

1.1 Banking services operations

Banking services are important in any economy. Scholarly, banking services have been viewed as contributing positively toward economic development of any country including Malawi. This is because the banks act as financial intermediaries that play a pivotal role in mobilization of society's savings into the productive sectors (Levine et al., 1999). In addition, banks alter the path of economic progress by affecting allocation of savings. A bank provides customers with financial services that help them manage their businesses. Comprehensively, due to advances in technology and competition, banks are offering different types of services for them to have a competitive advantage (IFC, 2010). Bare, (2017), points out that financial institutions, as part of their core business, provide credit to SMEs. Furthermore, Abiola (2011), adds that other than financial services delivery, financial institutions do provide non-financial services such as SME business training, financial and business management to help improve the capacity of their clients (SMEs included) in managing the loan resources rendered to them. A study by Ledgerwood (1998), argues that financial intermediation practice by the banks has a positive impact on economic growth. The author further maintains that some financial institutions provide social intermediation services namely, group formation, capacity building and training associated with financial literacy and management. For instance, critical services rendered include savings and deposit management, business financing and advisory services, international transfers among others.

Additionally, bank service delivery includes offer of digital services, that enable businesses and individuals manage their finances online in an e-commerce environment. Some of the services offered online are online and mobile banking, point of sale services (POS), e-statements, and online bill payments. Business current accounts are core business payment accounts used to make and receive payments and to manage cash flow according to the Financial Conduct Authority (FCA) and The Competition and Markets Authority (CMA) in the UK (Ashton & Keasey, 2005). Small and medium enterprises may make payments using these accounts in different ways (over the counter, in a branch, on a telephone or mobile /internet banking) and through different means.

Banks have recently started to offer non-financial services in addition to their traditional financial services especially for the SME sector (IFC, 2010). On the other hand, banking operations are the legal transactions executed by a bank in its daily business, such as providing loans, mortgages and investments depending on the business model and the size of the bank. According to the IFC, banking operations for the SME sector can be summarized by five key activities at each of the five stages of the value chain (IFC, 2010). These activities include understanding the SME market, developing products and services, acquiring and screening of SME clients, serving SME clients and managing information. However, risk management is the overarching activity in the operations.

1.2 SME performance in Malawi

The term SME encompasses a broad spectrum of definitions. Different organizations and countries set their own guidelines for defining SMEs, often based on head count, sales, or assets (Dalberg, 2011). Darrol (2012) indicates that there is no universal definition of micro, small and medium size enterprises. Each country has developed its own definition to fit its context and economic circumstances. In Malawi SMEs are defined based on number of employees (less than 100 employees), assets value (less than MK million), and sales (less than MK 10 million) (National Statistic Office & Ebony Consulting International, 2001). The performance and progression of the SMEs is measured in terms of the same units of measure such as employee levels, sales, expenditure, and numbers of products (NSO & ECI, 2000).

Small and medium enterprises are very significant as in many other developing countries as they constitute a proportion of the total number of firms, and they contribute to employment and can innovate. The activities of the small businesses have been there for decades, and the government of Malawi recognizes their contribution in stimulating competition, providing employment, and distributing wealth. The government acknowledges the vital role of the sector to the overall economic growth and development in the country. Government was desirous to set up support programs which would enable the firms to increase their export sales, given the positive effects of increasing exports on economic growth.

The Malawi Government recognizes the important role SMEs play in the economy. Even though there was no policy on the same, Government expressed its commitment to the sector in the Poverty Alleviation Program of 1987-96 (Kayanula & Quartey,2000). Kayanula and Quartey explain that the objective of the SME policy was to create a conducive environment within which SMEs could thrive but observes that notes there was no specific vision of the sectors position in the overall economic development. Furthermore, the SME policy tackles problem issues in the county’s fiscal policy, monetary and banking policy, trade and industry, appropriate technology, marketing infrastructure development and institutional development to provide the necessary support.

It has been observed that government policy towards economic development in the period 1964-1980 was mainly focused on large scale manufacturing industries as noted by the Fin Scope survey of 2012. There was no specific policy to develop the MSME sector (FinScope, 2012). It is only in the early 1980s when specific government initiatives to develop and support the MSME sector commenced, yet most SMEs were failing to graduate to large scale enterprises (Daniels, 2009). Daniels study on the role and development of SMEs in four Africa economies (Botswana, Kenya, Malawi, and Zimbabwe)' observes that in these countries the state of SME development was predominantly rural based and most of them mainly focused on survival mechanisms. That notwithstanding they do help alleviate poverty at household levels and contribute significantly to national income.

Darroll, (2012a) seeks to support the development of a vibrant local entrepreneurial sector with improved competitiveness. The policy aims at enhancing MSME operations, assisting priority industries and improving operational and regulatory environment. The policy emphasizes the need for the Malawi government to create an enabling environment that combines minimum regulation with maximum openness providing equal incentives for all enterprises (Darroll, 2012b). Several obstacles restrict the growth of the MSME sector, which in turn restrict the growth of the overall economy according to the (*Malawi Priorities Project*, 2021). Limited access to financial services such as credit and banking, limited business training, informality, high costs of complying with regulations and an overall poor environment for conducting business have been cited (NPC, 2021). However, all these significant policy developments in Malawi to help SMEs are affected by limited resources to be implemented (Kayanula & Quartey, 2000).

Darroll (2012) observes that the MSME sector has potential to promote indigenous entrepreneurship, emphasizing its ability to absorb labor, transfer modern technological skills, foster innovation, and enhance international competitiveness. Darroll (2012) also contends that successful MSMEs could uplift women, the youth, and marginalized groups from poverty. He adds that MSMEs were particularly important for Malawi because of its relatively undiversified resource, poor economy, and the need to promote exports.

The contribution of small and medium scale businesses to socio-economic growth and development of nations takes many forms including boosting public revenue collections through various forms of taxation, provision of goods and services to the public and, more importantly, poverty alleviation through creation of employment and economic empowerment of citizens (Zidana, 2015).

To help produce an enabling environment for the private sector, the Malawi Government has established several statutory and other institutions. In the Ministry of Trade and Industry there was the Malawi Export Promotion Council (MEPEC) which recently merged with the Malawi Investment Promotion Agency (MIPA) to form the Malawi Investment and Trade Centre (MITC), the Malawi Bureau of Standards (MBS), the Malawi Industrial Research and Training Development Centre (MIRTDC), the Small Enterprise Development Organization of Malawi (SEDOM), Development of Malawian Enterprises Trust (DEMAT), the Malawi Entrepreneurs Development Institute (MEDI). The latter three organizations have been merged to form the Small Enterprise Development Institute (SMEDI). Most functions of these institutions were duplicated which rendered them ineffective as nearly two thirds of MSMEs were not aware of their institutional support, states the 2012 MSME survey (FinScope, 2012).

1.3 Effect of banking services on the performance of MSMEs

Banks are known to spur the growth of businesses of different lines by, among other things, supporting growth of small and medium enterprises. The International Finance Corporation (IFC) upholds that SMEs access to financial services provides room for growth which results in a positive impact on the economic growth (IFC, 2010b). It is important to note that the role of banks in contributing towards sustainable development is enormous due to their intermediary role in the economy (Ramnarain & Pillay, 2016). Furthermore, banks transform money in terms of duration, scale, spatial location, and risk and they have an important impact on the economic development of nations. For example, Ramnarain and Pillay (2015), emphasizes that banks can influence the pace and direction of economic growth. He also asserts that banks are an integral driver and enabler of economic development and growth and impacts on the economy and society as well as on their customers. As such, commercial banks have been identified as the most important intermediaries as they link savings and investments; and offer a broad range of products and services for SMEs.

On the contrary, other researchers observe that young small firms do not have a positive experience from their cooperation with banks (Hyz, 2011). This is because small firms are not encouraged to intensify use of the banking services. Additionally, (Hyz, 2011) observes that SMEs cooperation with banks does not constitute an integral element in their development strategy. Therefore, the examination of the effect of the banking service operations on the performance of MSMEs is very critical.

1.4 Problem statement

Although the MSME sector contributes significantly to the national economy, the high failure rate among small businesses is a concern. The World Bank (WB) states that Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. The WB notes that SMEs account for most businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included (World Bank, 2022). Performance of Small and Medium Enterprise has been observed to be dismal as they face a myriad of problems that include less access to finance services, poor management and entrepreneurship skills and low adoption on technologies, leading to stagnation and failure especially in the Sub-Saharan Africa (Bekele & Worku, 2008). The Malawi Fin Scope MSME 2019 survey observes that MSMEs in most countries, as the case is for Malawi, have not received the necessary attention to enable them to start, grow and diversify. They face countless challenges (Finscope Malawi, 2019). He asserts that weak financial performance and high failure rate of SMEs negatively affects their ability to achieve the objectives of poverty alleviation, income redistribution, employment creation and economic growth. Much less is known about the determinants and implications of access to financial services by individuals and firms according to (Beck et al., 2008). Furthermore, this was because data on who has access to which financial services remained thin and inadequate.

According to Alper and Hommes (2013), access to financial services by small scale enterprises is seen as one of the constraints that regulate the SMEs benefits from credit facilities. However, Bare (2017), note that in most cases the access problem, especially among formal financial institutions is one created by the institutions mainly through their lending policies for example minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes. Further to that, Alper and Hommes (2013) observe that the type of financial institution and its policy often determine an access problem. Where credit duration, terms of payment, required security and the provision of other services do not fit the needs of the customers, potential borrowers do not apply for credit even where it exists and when they do, access is always a challenge.

In view of these challenges, the Government of Malawi established specialized SME support institutions to provide prerequisite entrepreneurial skills, business management training, business financing and technology interventions aiming at promoting SME growth. Yet it is obvious that majority of the SMEs are failing to break even for a longer period. Therefore, despite this Government's efforts, SMEs still face various challenges associated with survival and growth. This consequently challenges their participation in the economy hence affecting its growth (FinScope, 2012). These challenges emanate from limited access to resources, and lack of competencies necessary to meet challenges that exist within the business environment. Further to that, an uneven landscape, that includes access to financial products and services as well as other constraints, negatively affect the growth of SMEs (FinScope, 2012).

Despite government effort aimed at promoting the business growth of these SMEs, however, the financial sector responds to SMEs needs differently due to challenges such as lack of collateral to allow the SMEs acquire loans and other bank rendered services for them to conduct their businesses successfully. Such challenges result in a majority of the SME's lacking financial support for their businesses which affect not only growth challenges but also lack of sustained business ventures.

On the same note, research has not been able to analyze the challenges despite their relevance and social implications. The Malawi Financial Scoping survey of 2012, deemed to be a nationally representative survey on the status of the sector in Malawi, reflects the status of the MSME sector. The survey focused on the constraints to SME development and growth focusing on access to financial services.

Studies that anticipated to explore SME growth in Malawi had little position to examine in detail what factors affect the operations of the SMEs as they interact with banks. More illustratively, a study by (Zidana, 2015), that anticipated to determine whether financing Micro, Small and Medium Enterprises through the banking system had an impact on economic growth in Malawi between 1980 and 2014, did not articulate the contribution of other bank services on the performance of the SMEs. This study was only limited to financing hence lacking the scope and rigour which can interpret SME growth in general terms. In another context, Mulaga (2013), analyzed whether the use of external financing was determined by other characteristics such as firm size, firm age, availability of information, firm growth and industry using firm level data from the World Bank Enterprise survey which only concentrated on the use of external financing.

Further to that, Majanga (2015), analyzed bottlenecks to SME growth in developing countries, specifically focusing on Malawi but did not include bank service operations as a challenge. These studies did not articulate the contribution of the banking services to the performance of the SMEs. Hence such studies cannot be generalized.

Based on the above information, therefore, little has been known on the significant contribution of the banking sectors' services in the country and its effect on the performance of SMEs in Malawi. As such, the exploration of the banking sectors' services and its effect on the performance of SMEs in the country cannot be over emphasized.

1.5 Research objectives

1.5.1 Main objective

The objective of the study was to assess the effect of banking service operations on the performance of SMEs in Malawi.

1.5.2 Specific objectives

The study is designed to achieve the following specific objectives:

i. To investigate the socio-economic attributes of the SMEs using banking services in Lilongwe

ii. To examine the effect of banking service operations rendered on SME performance in the city.

iii. To assess the effect of advisory services rendered by the banks on SME performance in the city.

1.5.3 Research hypothesis

Ho_1: Social economic attributes affect the SME performance.

Ho_2 Banking services operations influence the SME performance.

Ho_3: The advisory services affect the SME performance.

1.5.4 Research questions

Specifically, this study sought answers to the following questions to achieve the research objectives.

i. What are the socioeconomic attributes of the SMEs that are interacting with the banks in the different sectors?
ii. How relevant are the banking services to the SMEs' performance in Lilongwe City?
iii. How effective are the advisory or non- financial services offered by the different banks in Lilongwe City?

1.6 Significance of the study

The study is important to government, Reserve Bank of Malawi, commercial banks in Malawi, to the academia and other stakeholders.

In the academic field, the results of the study contribute to the existing body of knowledge on the subject and serve as a catalyst for further research on innovative ways of serving SMEs to achieve sustainability. It is useful as a source of reference to researchers, academics, policy makers, students and other stakeholders interested in the effect of banking services and growth of SMEs.

In bank regulations and management, the findings of the study would provide information that may be used by banks to better understand the needs and preferences of the SMEs. This also includes identification of "best practices" in commercial bank involvement with SMEs, including key factors and links among business models, processes, tools, as well as the actual performance in SME banking.

To policy makers such as the Reserve Bank of Malawi, Ministry of Industry and Trade, the findings of the study would provide an insight and a more reliable guide for monitoring the banking services visa-vis SME sector growth. The study would provide information that may help understand the needed finances for banks to provide quality service to SME consumers and to ensure that their systems achieve the highest level of efficiency in provision of these services.

To other stakeholders, such as other SMEs that are not using the banks services, investors, shareholders, employees, among others, the study provides information for suggesting improvement in SME banking services. Additionally, the findings provide information that can be used by the different stakeholders to manage relationships based primarily on "soft" information gathered by the loan officers through continuous, personalized, direct contacts with

SMEs owners, managers, and the local community where they operate with respective banks other than on hard factors mostly used by Malawian banks.

1.7 Layout of the thesis

The research study is organized in five separate chapters. The introduction is made under this chapter by providing the background, objectives, and justification for the study. The next chapter is the literature review that outlines the scholarly conversations of SME performance and growth, benefits and possible pitfalls, critical success factors, theoretical and conceptual frameworks. Chapter three is the methodology that expands on study site; philosophical thinking, approaches and strategies; population and sampling methods; data collection; data analysis and ethical considerations and limitations. Chapter four presents and discusses the findings of the study while Chapter five draws conclusions, makes recommendations and suggests areas for further study.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter discusses literature by presenting definition of SMEs, factors affecting SME performance, socio-economic attributes of SMEs, banking services and advisory services available to SMEs from the banks. The Chapter also discusses the theoretical and empirical literature.

2.1 Definitions

2.1.1 SMEs and performance measures

The term SME encompasses a broad spectrum of definitions. Different organizations and countries set their own guidelines for defining SMEs, often based on head count, sales or assets (Dalberg, 2011). According to Darroll (2012), there is no universal definition of micro, small and medium size enterprises. Each country has developed its own definition to fit its context and economic circumstances. In Malawi SMEs are defined according to the number of employees and turn over or maximum asset. A *micro* enterprise has one to four employees with an annual turnover less than MK5 million and asset value of MK1 million while a *small* enterprise may comprise 5-20 employees with annual turn-over of about K50 million and maximum of maximum assets value of MK 20 million. A *medium* enterprise may have small number of employees between 21 and 100 (Ministry of Trade & Industry, 2012). The performance and progression of the MSMEs is measured in terms of the same units of measure such as employee levels, sales, expenditure and numbers of products (National Statistic Office & Ebony Consulting International, 2001).

SME performance is measured by both financial and non-financial measures. Financial measures include profitability, revenue, return on investment (ROI), return on equity (ROE), and earnings per share (EPS). These are favored because they are objective, simple and easy to understand. However, they are not easily available and are historical in nature. Schayek 2011 cited in Akinyi, (2014), notes that performance may be measured using objective or operational measures. She explains that financial measures can be referred to as the result of a firms' financial measures of performance derived from the accounts of a firm or can be found in the firms' Profit and Loss statement or the balance sheet. Kellen (2003), as cited by Akinyi, (2014), observes that these measures are also referred to as objective measures because they can be individually measured and verified. However, these measures offer lagged information and can be subject to manipulation and may be incomplete. Non-financial measures include number of employees, revenue growth, market share, customer and employee satisfaction, social and environmental performance. The drawback is that non-financial measures are subjective. As such, a hybrid approach is used. Owing to the limitations of the financial and non-financial measures, a generally acceptable standard has been to use a hybrid approach combining both measures. In this study, SME performance was measured by cumulative growth of the business recorded in the past three years recorded as (1) whereas those without consistent register in the period was recorded as (0).

2.1.2 General performance of SMEs

The measurement of business performance is also subjective determined by entrepreneurial motivation which might be pull or push and intrinsic or extrinsic (Ahuja &Lampert 2010; Ryan & Deci 2009; Morris 2006) as cited in Jepchirchir, (2017). On the same note Jepchirchir, (2017), argues that the motivation is either pull, push or intrinsic/extrinsic and the performance effect can be internally or externally measured. Furthermore, Jepchirchir, (2017) asserts that the goal of any firm was to make profit and growth and that growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements. For instance, Boubakri and Saffar (2016), suggested some strong principles that are said to govern the growth of firms and the rate at which firms can grow successfully. Ayuba and Zubairu (2015), who analyses factors influencing the growth of small and medium sized enterprises in Algeria, noted that firms were a bundle of internal and external resources that help the firm to grow and realize competitive advantage. These arguments assert that firm size is incidental to the growth process whereas firm growth is determined by effective and innovative managerial resources within the firm. This explains the availability of top managerial and technical talent serves as an engine for firm growth.

Such debates concur with researchers on the performance of SMEs namely, (Yusuf, Gunasegaram, & Dan 2007), as cited in (Bare, 2017) note that every organization exists to achieve a particular goal. They observe that organizational performance is the final achievement of an organization and comprises the existence of certain specified targets, a period for achieving those specified targets and realization of efficiency and effectiveness. The study further asserts that performance of an organization can be divided into financial and non-financial. For instance, Carton (2004) defines financial performance of an organization as the measure of the change of the financial state of an organization or the financial outcomes that results from management decisions and the execution of those decisions by members of the organization.

2.1.3 Factors affecting performance of SMEs

Access to finance has been acknowledged as one of the factors that affect growth of small and medium enterprises. Fowowe, (2017) investigated the effect of access to finance on the growth of firms in African countries using data from 10888 firms across 30 African countries. The study found that firms that were not constrained by credit experienced faster growth than firms which were constrained. Additionally, he observed that one central tenet of the vast literature on the finance growth nexus is that finance promotes growth by channeling credit to most eligible firms. As such, bank credit has been touted as the most important source of external financing for businesses (Fowowe, 2017).

Ayuba and Zubairu (2015), who examined the impact of banking sector credit on the growth of SMEs in Nigeria found that bank credit had a significant impact on the growth of SMEs for example, the vital role of commercial bank credit in generating growth in the SME sector has been widely acknowledged according to Imoughele and Ismaila (2014), . Earlier arguments established that bank sector facilitates technological innovation through their intermediary role. This emphasizes that efficient allocation of savings through identification and funding of entrepreneur with best chances of successfully implementing innovative products (Sulehri & Naeem, 2018). The banking sector makes credit available by mobilizing surplus funds from depositors who have no immediate needs of such money and channel it to investors who have brilliant ideas on how to create additional wealth in the economy but lack the necessary capital to execute them.

In Costa Rica a study by the Inter-American Development Bank (Monge-Gonzalez et al., 2011), sought to identify the impact of Banco Nacional’s Internet Banking service on SMEs performance. The study found that internet banking services had an impact on performance of SMEs measured in terms of productivity, increase in sales and cost reduction. The study established that e-business tools like internet banking affected performance and competitiveness in a revolutionary way that embodies radical changes through the adoption of internet business solutions which help the firm to increase revenue. A study by Woldie et al., (2008) added that internet banking service would lead to higher efficiency and reduced costs through improvement of internal processes in key business areas such as accounting, information management, human resources, and procurement. However, the study revealed that internet use was limited in SMEs daily operations because of limited access to computers and relatively low penetration of internet services. Consequently, firms have limited knowledge about the uses of the internet as a business development tool (Monge-Gonzalez et al., 2011).

Financing has been widely acknowledged as the most challenging factor affecting the performance of small and medium enterprises. Turyahikayo (2015) discussed the challenges faced by SMEs in raising finance in Uganda based on critical documents, the study found that among the challenges were: inadequate collateral to secure loans, information opaqueness, low level of technical and management skills (Turyahikayo, 2015). The study further asserts that SMEs have always been susceptible to information asymmetries. Additionally, (Oteh, 2010; Zavatta, 2008) argued that information opaqueness makes it difficult for banks to ascertain if SMEs have the capacity to pay if credit is extended to them. Furthermore, Kasekende and Opondo (2003), observed that not only is information opaque but that small business owners keep three sets of information, one for the revenue authority, one for themselves and another for their ex-wife (Kasekende & Opondo, 2003). Turyahikayo (2015), also notes that information asymmetries between borrower and lender may limit the types of lenders and the lending technologies available. On technical and management skills the Turyahikayo (2015) emphasizes that there is a strong interdependence between human capital and financial capital such that these skills will determine the amount of social and financial capital generated for the SMEs. Human capital management has been touted as critical for survival of organizations according to (Armstrong, 2006; Bernadin, 2003; Leslie, 2000). The author argues that inadequate human capital hinders the ability of SMEs to strengthen their capability to receive finance quoting (Longenecker et al., 2006), adding that the human capital provides the required management skills, entrepreneurship skills and knowledge.

It is also argued that banks also face difficulties in financing SMEs in Sub-Saharan Africa (SSA), Derreumaux (2009), outlines some of the problems. He argues that both firms and banks alike seem to be responsible for the lack of SME financing in SSA. He observes that firms on their part have shortfalls in meeting the classic requirements of the banking sector and banks could mobilize more resources to penetrate the SME segment. He further argues that the relations between banks and SMEs have always been very similar to those between an old couple who constantly blame each other yet they must live together. The author adds that this situation is particularly true in SSA where banks have traditionally dominated financial systems with little leeway for SMEs seeking alternative financing to bank loans.

Scholars have observed that banks were influenced by their shareholders, their working methods and management roles, and effects of increasingly restrictive regulations. Furthermore, he asserts that banks feel comfortable with reliable financial statements validated by auditors. They want to see their clients' firms with well-organized and managed structures adding that banks always hoped to back up their financing with sound guarantees that allow them to meet the requirements of their supervisory authorities. However, he points out that it was extremely difficult for SMEs in SSA regardless of their business or country to put all this together. Additionally, banks are concerned with the seemingly widespread lack of equity in SMEs because of the promoter reluctance to seek other shareholders. The security, available treasury, and the frequent underestimation of operating and investment costs in budgets and under assessment of capital requirements to reach the target turnover (Derreumaux, 2009). The author further cites lack of organization in SMEs as an obstacle for banks especially in terms of human resources, accounting, administrative management, and control functions. This is because most SMEs are sole decision makers in their firm. He emphasizes that the modest, often fledgling formalization creates a breeding ground for errors, fraud and works against regulatory of processes. On the part of banks, he argues that banks have at least three shortcomings namely, weakness in supervising their portfolios, the relevance of their investments and the difficulties they meet. Further to that, banks should systematically take the initiative although naturally SMEs are reluctant to allow banks to fulfill their advisory role. Furthermore, Derreumaux (2009) asserts that bank teams often lack specific reference framework based on in depth of experience in SME financing due to the diversity of SMEs in size, sectors, and characteristics and or in terms of support required.

Other studies have also written on the barriers faced by SMEs in raising finance from banks. For example Irwin, (2006) in a study explored the extent to which owners/ managers' personal characteristics such as ethnicity, gender and education impacted their ability to access finance. The study further asserts that it is critical to understand the decision-making process of both banks and entrepreneurs in lending and the way in which distortions caused by the impact of entrepreneurs' personal characteristics could lead to discrimination. Irwin (2006) further stresses that growth constraints and failure can be caused by financing constraints adding that there were both supply and demand side factors. On the supply side, he notes that banks were less likely to lend long term to SMEs due to perceived risk arising from SMEs lacking track record of performance and the basis of their credit rating assessment. Earlier, Kotey, (1999), asserted that on demand side, many entrepreneurs do not wish to use long term debt finance due to personal values.

The International Finance Corporation (IFC) has cited three common challenges that banks face when serving SMEs: regulatory obstacles, weak legal frameworks, and macroeconomic factors. Consequently, these challenges may impact the supply side by hampering effective banking operations and the demand side by inhibiting SMEs. The report maintains that regulatory obstacles can impact the willingness or ability of SMEs to borrow. For example, the requirement of audited financial statements may prevent SMEs from applying for loans (IFC, 2010).

2.1.4 **Proposed solutions to SME challenges**

Most governments in Sub Saharan Africa (SSA) and the Malawi Government indeed recognize the challenges SMEs face to grow their businesses. The Malawi government recognizes important role SMEs play in the economy as stated in the Poverty Alleviation Program Framework of 1987-96. The government committed to create a conducive environment where SMEs could thrive. The SME policy framework has tackled problem issues in the country's fiscal policy, monetary policy and banking policy, trade and industry policy, appropriate technology, marketing infrastructure development and institutional development to provide the necessary support. The Malawi government realizes that the role of government is to create an enabling environment and development support program for implementation by the private sector (Kachiza, 2000).

The IFC supports the establishment of credit bureaus to provide advisory services to Central banks, national banks and associations implement a credit information sharing system (IFC, 2013). Further to that, establishment of a collateral registry for movable property has enabled SMEs to access financing from banks reducing the perception of high risk by lenders (IFC, 2013). SMEs need banks support for their growth but SME access to banking services is still lacking (Riwayati, 2017). It is universally accepted that a vibrant SME sector is a vital component of any health economy but cites lack of banks SME centric approach (Atterton et al., 2016).

The African Trade Insurance Agency (ATI) agrees with the sentiments advanced by others that one of the biggest hurdles to business growth is limited access to credit more especially for the SME sector (ATI, 2015). The agency further contends that if SMEs had greater access to credit, they could more easily expand, compete, and contribute to job creation. The importance of banking services in the growth of SMEs cannot be overemphasized. The SMEs need banking services in order to develop their capacity and enable them grow (Lucas, 2017).

The government of Malawi established eight statutory and other institutions to help produce an enabling environment for the private sector. For example, the Ministry of Trade and Industry, the Malawi Export Promotion Council (MEPEC) merged with the Malawi Investment Promotion Agency (MIPA) to form the Malawi Investment and Trade Centre (MIPC) in (2010) , the Malawi Bureau of Standards (MBS), the Malawi Industrial Research and Training Development Centre (MIRTDC), the Small Enterprise Development Organization of Malawi (SEDOM), Development of Malawian Enterprises Trust (DEMAT), the Malawi Entrepreneurs Development Institute (MEDI). The latter three organizations have been merged to form the Small Enterprise Development Institute (SMEDI). It is also noted that most of the functions of these institutions are duplicated and seen to be ineffective as nearly two thirds of MSMEs were not aware of such institutional support (MSME survey , 2012a).

2.2 Theoretical framework

The study used Agency theory and the theories of financial intermediation of banking in order to uncover the role of the banking services in the performance of the SMEs in Malawi.

2.2.1 The theory of financial intermediation of banking

Financial intermediation refers to borrowing by deficit units from financial institutions rather than directly from the surplus units themselves. Hence, financial intermediation is a process which involves surplus units depositing funds with financial institutions who in turn lend to deficit units (Allen & Santomero, 1997). Furthermore, banks benefit the economy by taking deposits and making loans. Of these two activities, deposit taking is unique to banks. However, the authors note that loans can also be made by any other institution that has the capacity to assess the loan applicants' creditworthiness and to monitor their performance.

According to Casu et al. (2016), affirms that Banks, as other financial intermediaries, play a pivotal role in the economy, channeling funds from units in surplus to units in deficit. They reconcile the different needs of borrowers and lenders by transforming small-size, low-risk and highly liquid deposits into loans which are of larger size, higher risk and illiquid status (transformation function).

Traditional theories of intermediation are based on transaction costs and asymmetric information. They are designed to account for institutions which take deposits or issue insurance policies and channel funds to other firms (Allen & Santomero, 1997).

In their paper, (Ramakrishnan & Thakor, 1984) observe that it would be beneficial for agents engaged in the production of information to form coalitions. The tendency to centralize information production was explained by financial intermediation and that the explanation was rooted in informational asymmetries and information reliability. They also assert that financial intermediation reduces the cost of exchanging capital and reduces the cost of information production. They further note that without an intermediary, there would be enormous duplication in information production as each investor attempts to screen the firm.

Other scholars have also agreed that the financial intermediation theory is based on the theory of informational asymmetry and the agency theory and that, in principle, the existence of financial intermediaries is explained by the existence of factors such as high cost of transaction, lack of complete information in useful time; and the method of regulation (Andrieş, 2009). Financial intermediation theory holds that banks are merely financial intermediaries, not different from other non-bank financial institutions, They gather deposits and lend these out (Werner, 2016) . He quotes other authors who have state that, “Banks create liquidity by borrowing short and lending long” (Dewatripont et al., 2010), meaning that banks borrow from depositors with short maturities and lend to borrowers at longer maturities.

The author attributes the activity of the banks as negotiators of credit characterized by the lending of other people's, money that is, of borrowed, money. He asserts that banks borrow money to lend it. Banking is negotiation between granters of credit and grantees of credit. He, however, distinguishes banks from those that only lend money. Those that only lend the money of others are bankers. Those that merely lend their own capital are capitalists, but not bankers citing (Moses, 1980). The paper further quotes Moses who argued that this was only one of the functions of banks. The author cites (Keynes, 1936) whose general theory clearly states that for investments to take place, savings first need to be gathered. This view has also been reflected in the Keynesian growth models by (Harrods, 1939) and (Domtar, 1947), which are based on the financial intermediation theory of banking, although not explicitly modeling bank.

Different studies have used this theory. For example Bare (2017) used the theory of financial intermediation to investigate provision of banking services and financial performance of Small and Micro Enterprises Garisa County, Kenya and found that banking services were positively related with financial performance of SMEs. The theory was used in this study to explain banking service operations such as bank financing, savings and investment services, bank payment services and advisory services and shade more light on why SMEs face challenges in accessing banking services.

2.2.2 Agency theory

Agency theory originates from the problems of risk sharing between principal and agents. Agency theory is a management and economic theory that attempts to explain relationships and self interest in business organizations. It describes the relationship between principals and agents and delegation of control. It also explains how best to organize relationships in which one party (the principal) determines the work and in which another party (the agent) performs or makes decisions on behalf of the principal (Jensen & Meckling, 1976).

Agency theory explains the organization of relationships when one agent determines the work and another undertakes it (Mole, 2002). Furthermore, Mole argues that under certain conditions three agency problems arise: adverse selection, moral hazard, and hold-up. Mole (2002) observes that adverse selection occurs when the principal is unable to verify that the agent is as qualified as he/she may represent. Additionally, Mole (2002) contends that the firm must ascertain whether an adviser possesses the required expertise. The paper explains that moral hazard occurs when the principal is unsure as to whether the agent has exerted him/herself to the maximum. While hold-up is described as an occasion when a party attempts to renegotiate a contract after other parties have made investments specific to that relationship.

In the United Kingdom, the government decided to approach small firm support through the business link which provided a one stop shop for small businesses (DGI, 1994; Freely, 1998; &Hutchinson et al, 1996) as cited in (Mole, 2002). The business links aimed at assisting growth companies whether young or well established according to Mole, 2002. This was used as a prism through which to view the relationship between business advisers and clients.

Akinyi (2014) used the Agency theory to establish the effect of bank financing on the financial performance of SMEs in Nairobi, Kenya. She identifies the conflicts that arise as a result of the relationship according to Jensen & Meckling,(1976), two types of agency conflicts. First is the conflict between shareholders and managers and the second is the conflict between equity-holders and debt holders. She says the second type of conflict arises between debt holders and equity holders because debt contracts give equity holders an incentive to invest sub optimally. The agency problems such as asymmetric information and moral hazards can impact negatively on the availability of credit and thus capital structure of SMEs (Akinyi, 2014).

Whilst these relationships are relevant for SMEs, the primary agency conflict in small firms is generally not between owners and managers, but between inside and outside contributors of capital (Bhaird & Lucey, 2010). They assert that potential agency problems in SMEs are exacerbated by information asymmetries resulting from the lack of uniform, publicly available detailed accounting information. The primary concern for outside contributors of capital arises from moral hazard or the possibility of the SME owner changing his/her behavior to the detriment of the capital provider after credit has been granted.

In this study, the agency theory was used to evaluate non-financial services offered by banks to their SME clients. The banks act as advisors to their SME clients and offer training sessions aimed at helping their SME clients improve their business and achieve growth.

A review of empirical work by other researchers revealed that there exist various research gaps which the current study would seek to fill. Some studies looked at the variables under the current study in isolation. For example, a study by (Lucas, 2017) looked at the impact of demographic and social factors on firm performance while (Mbogo, 2017) assessed the effect of business management training on performance of youth owned Small and medium enterprises. Munene (2013), analyzed the impact of entrepreneurial training on performance of SMEs. Ayuba & Zubairu, (2015) and Akinyi (2014) investigated the effect of banking sector credit and the effect of bank financing respectively on financial performance of SMEs while Turyahikayo (2015) focused on challenges faced in raising finance. This was an indication of conceptual research gap which the current study sought to fill by using multiple variables instead of isolating them.

The review of empirical literature also revealed that previous studies conducted on the topic reflected different contexts. For instance, Turyahikayo (2015), conducted a study to determine the challenges facing MSEs in raising finance in Uganda and Beck et al. (2008), looked at barriers to access and use of banking services around the world. Majanga, (2015) analyzed bottlenecks to SME growth in Malawi focusing on financing, while (Mulaga, 2013) analyzed the use of external financing in Malawi and Derreumaux (2009) discussed difficulties banks face in financing SMEs in SSA. Much less is known about the determinants and implications of access to financial services by individuals and firms according to Beck et al. (2008). They observed that this is so because data on who has access to which financial services remain thin and inadequate.

The current study sought to find out whether similar results would be obtained in the context of the city of Lilongwe. Furthermore, some studies showed contrasting results. For example, a study by Inter-American Development Bank (Monge-Gonzalez, 2011) in Costarica found out that internet banking service use was limited in MSEs' daily operations because of limited access to computers and the relatively low penetration of internet services in employees' activities. In addition, firms had limited knowledge about the use of the internet as a business development tool. These results contrasted with the reported benefits obtained by a small group of firms. Those benefits include reduced costs, higher sales, and better contact with customers. These are the research gaps which motivated the current study to be conducted.

2.3 Empirical literature on banking services

This section presents studies done by other scholars and academics in relation to the objectives of the study.

2.3.1 Effect of socio-economic attributes on SME performance

Demographic factors such as age, gender, education, income and experience have a considerable impact on business performance (Vallabh & Mhlanga, 2015). In a study that tested whether gender, education and income of the business have a significant impact on the business performance of Small Medium Tourism Enterprises (SMTEs) in the Eastern Cape, South Africa Vallabh and Mhlanga (2015) found that the relationship between gender and income in relation to business performance was significant and observed that lack of education poses a core challenge in terms of human resources. They note that the high failure rate of small businesses in South Africa made it necessary to examine whether selected demographic factors impact business performance.

2.3.2 Age and firm performance (SME)

In Malawi the SME sector is made up of relatively young people with an average age of 31 years, only 7% of businesses are owned by people over 61 years of age according (MSME survey, 2012). The survey notes that young business owners are most likely to be individual entrepreneurs (FinScope, 2012).

Age is used in social science research to classify people and point out the differences among them. Lucas (2017) asserts that the skills of a person improve with age. A study by Lucas which investigated the impact of demographic and social factors on performance of business firms in Kenya using data from MSME 2016 survey, conducted by The Kenya National Bureau of Statistics found that a person's age is not related to firm performance, but rather the firm's age. The author also cites Coad et al (2013) Gaur & Gupta, (2011) who noted contradictions in literature regarding the relationship between firm age and performance. Furthermore, other researchers support a positive relationship arguing that experience through age helps firms to perform better. For example, Loderer and Waelchli (2010) as cited in Lucas (2017) state that as the firm ages, its performance drops. According to Frederic, Davidson, and William (2003), Phillips and Kirchhoff (1989) and Storey (1994) as cited in Lucas (2017), firm performance patterns are connected to demographic characteristics of firms such as firm age. These agree that young firms that display high performance levels have twice the probability of survival as their less performing counterpart (Lucas, 2017). Similarly, Radipere and Dhliwayo, (2014) highlighted the importance of business age and business size and their influence on firm performance. They cite past studies that have shown positive relationships between business size and firm performance (Wiklund & Shepherd, 2005).

2.3.3 Education and firm performance

The 2012 Malawi Fin Scope survey noted that previous research suggested important links between education and entrepreneurial activity. The relationship between levels of education and entrepreneurship takes into account factors such as type of business, profitability of the business, entrepreneurial orientation, perception regarding business success, record keeping and financial inclusion (FinMark, 2012). The survey concluded that levels of education have an impact on and influences business performance and outcomes. However, the survey noted that female entrepreneurs have lower levels of education as compared to males.

Kelley, Singer, and Herrington (2012) observe that good quality education has a positive impact on firm performance as it enhances entrepreneur’s self-confidence and self-efficacy. Lucas (2017) contends that education builds confidence, psychology, knowledge, and skills, which are critical in achieving firm objective. In addition, Chowdhury, Alam and Arif (2013) observe that educated people were creative and innovative and can therefore look for unique ways of satisfying a want (Chowdhury, Alam, & Arif, 2013). Lucas (2017) further affirms that education level of the owner of a business firm can assist the business to survive and manage a complex environment and maintain the firm’s objectives. He cites Mhlanga and Vallabh (2015) who noted that education and training help overcome management issues that confront businesses. He further points out that by integrating education and training into businesses helps them experience many advantages in operational, tactical, and strategic management.

Additionally, GEM, (2012) as cited in Vallabh and Mhlanga (2014) notes that a good quality education can have an impact on entrepreneurial development as it can enhance an individual’s level of self-efficacy and self-confidence. They emphasize that education of entrepreneurs can impact the path to business success as it aids the process of building absorptive capacity of managers such as confidence, psychology, knowledge, and skills. Educated people are creative and innovative, are always looking for something unique to fulfil a need or want (Chowdhury, Alam, & Arif, 2013). The paper asserts that one of the success factors in small business is the education level of the owner, that can assist the business to survive and manage a complex environment and maintain the profitability of the business (Radipere & Dhliwayo, 2014; Chowdhury, Alam & Arif, 2013). Vallabh and Mhlanga (2014) underscore that education and training of SMTEs can help them overcome the management issues that often confront these small businesses. Further, they add that by integrating education and training into the business process, SMTEs can experience many advantages in operational, tactical, and strategic management.

2.3.4 Ownership structure and SME performance

Ownership structure is believed to affect firm performance. Lucas (2017) observes that in the framework of structure-conduct-performance, a set of conditions determine the ownership structure of a firm, which then determine the corporate behavior and performance (Lucas, 2017). Chen (2012) investigated the effect of ownership structure on firm performance in Scandinavia and found that ownership concentration had a positive effect on firm profitability and growth (Lucas, 2017). He asserts that there exists a relationship between ownership structure and firm performance because ownership concentration and owner identity influence the incentives of each party within the firm, thus influencing the firm's ability to solve agency problem. The author further cites Taufil-Mohd, Md-Rus, & Musallam, (2013) who investigated the effect of ownership by different groups of investors on performance of listed companies in Malaysia and found that firm performance is positive and significantly related to government-linked investment companies and foreign ownership while negatively and significantly related to state ownership. Kapopoulos and Lazaretou, (2007) as cited in Lucas (2017) investigated the hypothesis of variations across firms in observed ownership structures. These results in systematic variations in observed firm performance and the findings suggested that a more concentrated ownership structure positively relates to a higher firm profitability.

2.3.5 Banking services

While lending is a central offering on bank services, the way banks can meet SME needs extend beyond lending. SMEs use a range of financial and non-financial products.

SMEs have important operational needs that banks can meet with non-lending products that include deposits and savings, transactional products, and advisory services. These bank services help SMEs to improve operational efficiency and contribute to their growth (IFC, 2010). SMEs particularly need banking services because they lack the cash flow to make large investments> They cannot access capital markets as large firms do and they often lack qualified staff to perform financial functions (IFC, 2010).

According to Ramnarain and Pillay (2015) the role of banks in contributing towards sustainable development is potentially enormous because of their intermediary role in an economy. The authors affirm that banks are an integral driver and enabler of economic development and growth, and that banks have impact on the economy and society as well as on their customers. On the same note, SMEs are touted as drivers of economic growth and job creation in developing countries according to Wang (2016). Pisa Rides (1999) as quoted in (Wang, 2016), notes that SMEs potentially constitute the most dynamic firms in emerging economies. He further contends that empirical evidence from around the world shows that the ambiguity of SMEs has grabbed the world's attention because of the significant role played by the sector in the economy and that cannot be underestimated.

However, Hyz (2011) observes that SMEs, particularly young and very small firms, do not have a positive experience from their cooperation with banks such that they are not encouraged to intensify their cooperation with banks. He notes that cooperation with banks does not constitute an integral element in their development strategies but that in most cases cooperation it is based on seeking a banks' assistance in critical situations and not on partnership relations from which both sides can derive definite advantages. Hyz (2011) also found that services offered by banks to SMEs were not suited to the SMEs needs. As a result, there was a small demand of SMEs for banking services. Although this study was specific to Greece, it is very much applicable to the situation in Malawi. The also notes that high cost of bank loans, collateral required by banks, complicated and time-consuming procedures connected with obtaining bank loans are some of the barriers restricting access to banking services. In addition, he observed that banks request too much information and the administrative process of a loan application is very demanding and too long and is compounded by very high interest rates.

In another study by Abdulsaleh (2015), Libyan SMEs are discouraged from applying for bank finance because of a lack of collateral and interest charges on bank loans due to religion (Abdulsaleh, 2015). SMEs face major challenges in accessing cheap finance because of asymmetric information problems between suppliers and demanders of funds. This consequently hinders their growth (Yoshino & Taghizadeh-Hesary, 2017).

Furthermore, a study in the United Kingdom found that most SMEs were more concerned with the service that they obtained from their bank rather than the prices that were charged. The study also found that there was considerable room for improvement in the service which SMEs receive from their bank (JAs05). It is noted that a banking sector which is customer focused provides products that are well suited to their customers' needs and are provided in a way that makes it easy for customers to make well informed decisions about how and when they are used (JAs05) Commercial banks are a principal source of debt finance for new SMEs as they offer new SMEs a wide range of services in their own right or through either wholly or partially owned subsidiaries. For example, SMEs can access international trade financing, order financing and short-term loans. Rungani (2009) asserts that these services cover every aspect of the financial market such as overdraft facilities, term loans, trade bill financing, factoring, leasing, export and import finance and even government loan guarantee schemes. Bare (2017) observes that commercial banks are in a better position to gather information on SMEs through established relationships which they and their staff have with SMEs adding that commercial banks have extensive branch networks that can be accessed by new SMEs even in remote locations.

According to the IFC, bank products could enable SMEs to take on more and larger contracts. SMEs may have a potential order from a customer but may need cash upfront to complete the order. The paper notes that banks can provide short-term working capital to such SMEs to purchase supplies, pay employees and meet obligations to clients. In addition, banks can help in providing help with order fulfillment and can extend across borders to include trade finance. For example, letters of credit, exporting SMEs can offer customers better payment terms (IFC, 2010).

Financial services help in boosting growth by improving and reducing poverty according to Beck, Dermirguc-Kunt, and Honohan (2008). They point out that financial services work well but when they do not, growth opportunities are missed, and inequalities are evident. Beck et al asserts that providing savings, payments, and risk management products to a large set of participants and financing good growth opportunities is an important role of a well-functioning financial system. For example, mobile phone banking services play a huge role in the performance of businesses according to Bare (2017). Banking is a tool in service delivery. Mobile banking enables access to accounts at any time and this smoothens operations (Woldie, Hinson, Idrisu, & Boateng, 2008). This enables convenience and continuous operation, hence better performance. Bare (2017) argues that mobile phone banking is critical in the operation of SMEs because its introduction has brought with it the promise to provide cheaper, faster and more widely available finance for SMEs and to find for them better solutions than the cash based informal economy. However, a study by the Inter-American Development Bank in Cost Arica that was designed to determine the impact of internet banking on the performance of SMEs found that internet use was limited in SME daily operations because of limited access to computers and the relative low penetration of internet services in employee's activities. The study observed that there was limited knowledge about the uses of the internet as a business development tool (Monge-Gonzalez, 2011).

2.3.6 Financial services

Access to financial services is recognized as critical to understanding the micro foundations of economic development (Al-Hussainy, Beck, Demirguc-Kunt, & Zia, 2007). However, usage of financial services in Malawi seems to be under reported when SMEs are asked about usage of the same (Campos, Goldstein, & McKenzie, 2015). According to Bare (2017), financial services provided to SMEs include financial products and services such as savings, credit, insurance, credit cards, and payment systems. However, evidence indicates that SMEs were under supplied with the financial products and services that are critical to their growth despite being recognized as important. SMEs reported that the cost of finance is their greatest obstacle to growth and rank access to finance as another key obstacle. These constraints are more acute in developing countries. SMEs in any environment are nearly one third more likely than large firms to rate financing as a major growth obstacle. In low-income countries this means that nearly half of small firms report being severely constrained by financing difficulties, In Malawi, bank financing is at 7%. SMEs lack access to financial products and services more especially in developing countries observes, the IFC. Beck et al (2008) noted that in developing countries less than half the population has access to formal financial services.

2.3.7 Effect of deposit products (savings and investments) on SME performance

The main deposit products are checking and savings accounts though there are differences in the extent to which savings or checking account are the dominant transaction account type. It requires a minimum deposit to open and maintain the account. Service fees are collected monthly; hence affordability expand beyond the initial stage of opening the account.

According to 2010 IFC report, deposit and transaction products were worth highlighting as they were overlooked, despite SMEs expressing demand for them. The report however noted that deposit products offered by banks have not been tailored to SME needs. The report, however, emphasizes that technology developments such as internet banking, electronic clearing and document management have increased the appeal of transaction banking products to SMEs. Additionally, the paper notes that transaction products were valued by SMEs that were less likely to have in house capabilities to manage wage and supplier payments, taxes, receivables, and other critical transactions. The IFC observes that deposit and savings products provide businesses with basic financial management tools to help organize revenues and savings adding that other investments products provide businesses with opportunities to obtain earnings on excess capital. The report also notes that transactional products facilitate SME access to and use of available cash. Automatic payroll and payment collection, currency exchange are bank offerings that lower the cost of doing business and streamline complicated processes (IFC, 2010).

According to FCA, (2014), business current accounts are an indispensable service to the large majority of SMEs. They are a gateway Product which appears relevant both to business loans and to a wider range of other SME banking products. A 2014 FCA market survey that was based on previous reviews undertaken in the SME banking sector by then in the UK found that deposits allow SMEs to access liquidity management services such as overdrafts, business loans which include term loans. The report noted that through deposits SMEs can make effective comparisons between bank offerings and consequently make informed decisions as to the products that best meet their needs. The authors further affirm that SMEs are a highly diverse set of businesses operating in different sectors, at different sizes with significantly differing needs. The differences between SMEs and their financial needs is reflected in their different usage of financial products. Larger SMEs use a wider variety of financial products.

According to the joint study by Financial Conduct Authority (FCA) and Competition and Marketing Authority (CMA), Banks require customers to have an account as a condition of receiving other services and have a relationship with a bank or bank manager (FCA & CMA, 2014). The report contends that smaller SMEs tend to have simple banking needs often featuring a transactional relationship with their bank. For example, making payments, cash handling while larger SMEs have a greater degree of financial sophistication and are likely to require a wider range of products and services. These observations are true even for banks in Malawi, most small businesses use their business accounts for a transactional relationship. The report points out that some SMEs were relationship seekers who seek a wider relationship with their bank for the additional services provided by the bank and will not be more concerned with the cost of the services. Others are transactors who seek primarily to use their bank for making payments and cash handling. For these the report asserts that the costs of using banking services will tend to be more important than the additional services which are provided by the banks.

Business accounts enable SMEs to access business loans, applications for business loans are generally assessed by banks using a risk-based pricing model which relies on several key customer and loan characteristics. This assessment is done using information from a deposit account. Sigey (2017), argues that saving was not only important to private persons but also for the success and growth of any business. While the business is making profit, the business owner should explore starting a savings plan which could provide relief during tough times as well as for funding investments. Mobilization of savings provides a means of funding investments, Sigey (2017) conducted study that aimed at evaluating the effect of microfinance services on the growth of SMEs. The results established that there was a strong and significant relationship between growth of SMEs and provision of micro credit, mobilization of savings and provision of managerial trainings. The results also confirmed the existence of a statistically significant relationship between the growth of SMEs and the predictor variables of micro credit, micro savings, and training.

2.3.8 Effect of credit services (bank financing) on SME performance

Financing products include loans, overdrafts, leasing and asset financing, invoice discounting, international trade financing, letter of credit and order financing. Financing or credit services is a major part of the services offered by banks. A research by the IFC, McKinsey and Company and the G20 generated data about the market size of the SME sector and the financing needs of SMEs (IFC, 2009). The financing of small and medium enterprises (SMEs) has been a topic of interest in recent years for governments and development agencies because of the key role that SMEs play in economic development and their important contribution to economic diversification and employment (Ayyagari et al., 2011; Beck et al., 2008)

As regards extending financing to SMEs, banks have an important role to play in Sub-Saharan Africa due to their dominance in the financial systems. This has been necessitated by the limitations of informal finance, especially as regards serving the higher end of the SME market (Ayyagari et al., 2011). Other external financing options such as corporate bond and organized securities markets are typically only accessed by larger firms requiring longer-term funding according to (Beck et al., 2008).

Long term financing products like term loans with longer maturities provide SMEs with investment capital for strategic business expansion, research and development and purchasing equipment. Lack of financial resources to start, sustain and grow SMEs has been cited as one of the biggest constraints to SME development. It is estimated that between 55 and 68 percent of formal SMEs in emerging markets are either unserved or underserved by financial institutions (Alibhai et al., 2017). They add that SMEs cite access to finance as the single biggest obstacle to them doing business. Additionally, Alibhai et al. (2017) argue that financial needs of most growing firms quickly expand beyond the limited capabilities of SMEs warranting alternative forms of financing failing which the firms will either stagnate or worse still, enter what is called the “Valley of Death”.

Most importantly, finance promotes growth through the provision of loans to most promising firms observes (Beck et al, 2008). They point out that small firms complain about lack of access to finance and their growth suffers.

Beck et al (2008, 2011) observed that the extent to which commercial banks lend to SMEs depends on a range of country and bank specific factors. Among the main factors impacting bank financing for SMEs are the macroeconomic environment, the legal and regulatory framework, the state of the financial sector infrastructure, bank-internal limitations in terms of capacity and technology, SME specific factors particularly the SME landscape in terms of number, size, focus of operation, as well as the opaqueness of information.

2.3.9 Non- financial services/advisory services

Experience by IFC shows that commercial banks are starting to gain a better market understanding of the needs and preferences of their SME clients. As such, banks are beginning to see, through financial returns, the profitability of serving SMEs. More importantly, the IFC has observed that more banks were beginning to serve their SME clients with not only financial products but also non- financial tools and services. Such services have the potential to help SMEs become more bankable, increase their ability to repay loans and improve their business practices to grow their enterprises (IFC, 2009). Banks are offering non- financial services tools and services to SMEs to help business owners to develop practical skills and better grow their enterprises (FinScope, 2012). Additionally, the Malawi Financial Scoping survey conducted in 2012, observes that the practice of commercial banks providing and facilitating access to non-financial services for SMEs has not been extensively studied and measured in recent studies (FinScope, 2012).

Similarly, Innovations for Poverty Action (IPA) found that giving loans and training to small businesses offer the possibility of helping them to grow (Martinez et al., 2016). The definition of Munene (2013) refer training as the formal and systematic modification of behavior through learning, which occurs as a result of education, instruction, development and planned experience. He further asserts that the fundamental aim of training is to help the enterprise achieve its purpose by adding value to its key resource in terms of the people it employs. Furthermore, training activities and programs offer interactive activities designed to facilitate the learning and development of new and existing skills and improve performance (FinScope, 2012).

Munene (2013) also highlights the importance of trainings as a key ingredient for MSME growth and asserts that studies have established a positive contribution of training in the growth and performance of enterprises. (Edgecombe et al., 2002), established that training has significant impact on participant characteristics and final participants' outcomes. Edgecombe et al. (2002), further points out that training can result in operators obtaining better management techniques, expand their entities, adopt new technology and build more business linkages. The paper quotes Brigham and Houston, (2021) highlighted that training helps business owners or managers learn how to tackle certain problems, saving time and money. The author has also highlighted government role and policies that stimulate business through training. For example, (Ripsas, 1998; Thaddeus, 2012), noted that some parts of the world have created programs that specifically help stimulating SME business growth by providing training. These include the US, Latin America, Poland, India, and Iran.

The paper further observes that entrepreneurship development training schemes enhance entrepreneurial skills amongst entrepreneurs and that in most developing countries entrepreneurship development is provided by the government and its agencies. The author cites an exploratory study of SMEs done in India by Letha and Murthy (2009) which found that government and its agencies played a vital role in helping entrepreneurs enhance their entrepreneurial skills by providing continuous entrepreneurship development programs on financial management knowledge including budgeting, costing, and maintaining a cash flow. Similarly, the paper cites (Botha, 2006) who interviewed several entrepreneurs in South Africa to obtain information on the main obstacles they face and found that lack of education and training were the most frequently mentioned weakness.

According to Kessy and Temu, (2010), training enables participants to change behavior and perception of their activities and agrees that training helps business owners and managers plan and manage challenges prevailing in the modern business environment such as competition, price fluctuations, changing customer preferences (Munene, 2013). The author notes that incubation services were important for nurturing and mentoring MSMEs citing Mbogo (2011), who studied Kenya Industrial Research and Development Institute (KIRDI) incubated SMEs in Nairobi. They noted that business manager's capabilities in financial, marketing, human resource and managerial accounting influence decision making and consequently SME success and development. Further to that, the study asserts that the training level and managerial capabilities of business owners and managers have a strong positive and significant influence in decision making and critical for success, growth and survival of SMEs. Al-Awawdeh, (2011) as cited in (Njue & Mbogo, 2017), observed that training not only develops the capabilities of the management employee but also sharpens their thinking ability and creativity in order to take better decision efficiently and effectively. It also enables employees to deal with the customer in an effective manner and respond to their complaints timely (Njue & Mbogo, 2017).

On the same note, researchers in Uganda evaluated the impact of loans, grants and business training on the profits of men and women owned businesses that received loans and small business management training and found that training greatly increased profits by 58% for men but not for their female counterparts. The researcher observed that training helps business owners write business plans, develop entrepreneurial skills, and improve profits. Training helps businesses start and survive.

It is widely acknowledged that small and medium enterprises are faced with a myriad of problems especially in their initial stages. Key among them includes insufficient business and management skills. Entrepreneurial training enables enterprise operators adopt better management practices such as profit retention, good customer relations, timely loan repayments and structured bookkeeping (Munene, 2013).

2.4 Conceptual framework

Based upon the discussion on the empirical and theoretical frameworks, the proposed conceptual framework as illustrated in Figure 1 below. In the figure, social economic attributes, transaction al banking services and advisory services are independent variables while the SME performance measures are the dependent variables.

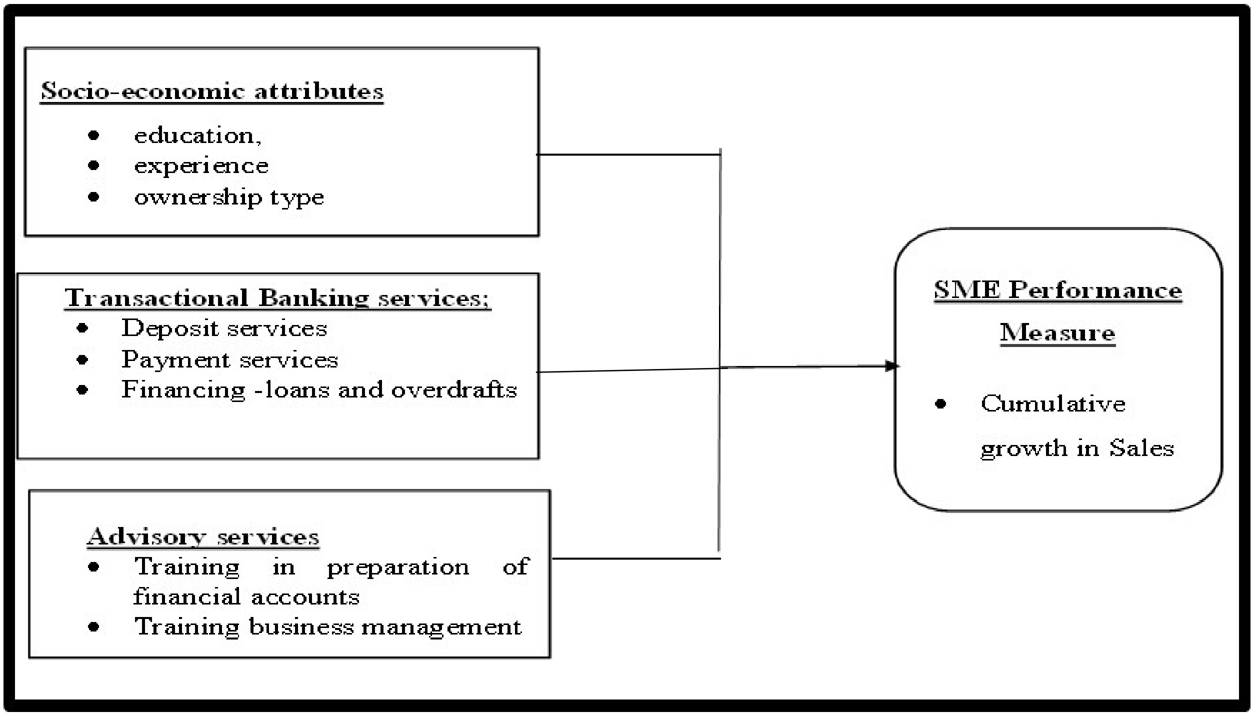


Figure 1: Conceptual framework on banking services in relations to SMEs performance

2.5 Summary of the chapter

The chapter reviewed literature and discussed banking service operations and how they affect the performance of micro, small and medium enterprises. The chapter further discussed theories that informed the study, the financial intermediation theory of banking and agency theory and linked the theories to the conceptual framework.

CHAPTER 3

RESEARCH METHODOLOGY

3.0 Introduction

This chapter covers an overview of methodology used in the study. The discussion in the chapter is structured around the research design, population, sampling, data collection and data analysis.

3.1 Study setting

The SME sector in Malawi has close to a million MSMEs with about 758,118 business according to the 2012 Fin scope survey of which 59% were individual entrepreneurs while the remaining 41% had employees. Many of the SMEs operate either from a trading center or market or from home. Small and medium enterprises (SMEs) are scattered across the length and breadth of the country with most of them located in rural areas and mostly informal. The survey concentrated on SMEs in the city of Lilongwe. The city was identified because of a high concentration of SMEs in the formal sector doing business. Operating accounts with the bank branches in the city were also studied. SME customers with bank accounts in the different bank branches located in Old Town and city Centre were selected, and 138 SMEs took part in the survey. The SMEs were chosen in line with socio economic characteristics, the period that they have been in business and their type of business.

3.2 Research philosophy, approach and design

The research design is a general plan of how the research answers the research questions, is an outline of research study which indicates what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data. A research design is the arrangement of conditions for data collection and analysis of data in a manner that aims at combining relevance to research purpose with economy in research procedure (Kothari, 2004). Its objectives were derived from the research questions, with specific sources of data, method of collecting the and analyzing the data discussing ethical issues and constraints.

The study used quantitative methodological approach, which is a formal, objective and systematic process in which numerical data are used to obtain information about the world (Burns & Grove, 2007). The purpose of the quantitative study was to determine the relationship between banking services operations and SME growth. The quantitative approach was used for testing objective theories by examining the relationship among the variables. The variables were then measured on instruments so that data could be analyzed using a statistical procedure.

A positivist philosophy was adopted. A philosophical paradigm helps the researcher to understand explicitly the philosophical assumptions underlying the methodological choices. This philosophy separates reality from the knowledge as it places considerable value on rationality, objectivity, prediction, and control (Burns & Grove, 2002). The positivist paradigm encompassed the study of research questions that identified prevalence and characteristics of the concept and tested the relationship. The problem statement reflects the need to identify and assess the causes that influence the outcomes. The study also assessed the cause-and-effect relationship between the variables. A cross-sectional survey approach was used to provide quantitative trends and opinions of the population. Questionnaires were used to collect data and the data used was primary.

The research design was descriptive and causal (explanatory). Descriptive design was used because it focuses on complex analysis to bring out the correlation of variables. Causal relationship seeks to establish how one variable affects changes in another. The design was used to focus on understanding, explaining, predicting, and controlling relationships between variables. This is consistent with (Bare, 2017) who used this method to investigate provision of banking services and the financial performance of SMEs in Garisa County, Kenya. Furthermore, (Olusola et al., 2013), explained that a descriptive design is appropriate as it answers research questions who, what, where, when and how the problem is. Explanatory study designs are important in answering the "how" questions. The design seeks to explain how one variable affects another. The use of the explanatory research is considered appropriate to use any time there is need to clarify a perceived problem. Whenever there is a problem, it is important to completely understand it before solving it and the use of explanatory research to address such a problem is recommended according to (Saunders et al., 2009). Explanatory study design is preferred because the study needed to establish the relationship between banking services and performance of SMEs in Lilongwe city.

To answer the research questions and meet the objectives, a survey strategy was used. According to (Saunders, Lewis, & Thornhill, 2009), surveys are common in business research, as they are used to answer who, what, where, how much and how many questions. (Saunders et al., 2009), observes that surveys allow the collection of a large amount of data from a sizeable population in a highly economical way. According to (Creswell, 2009), a survey provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population. The author adds that a survey includes cross-sectional and longitudinal studies where questionnaires or structured interviews are employed for data collection, with the intent of generalizing from a sample to a population.

The survey allowed the researcher to collect data which was analyzed quantitatively using descriptive statistics and suggested possible reasons for relationships between variables. The variables were then measured so that numeric data could be analyzed using statistical procedures.

3.3 Target population

Target population in statistics is the entire group a researcher is interested in, the group about which the researcher wishes to draw conclusions (Easton & McColl, 1997). This definition ensures that the population of interest is homogeneous. The target study population were registered SMES in Lilongwe city with a relationship of a commercial bank. The population for this study was 385 SMEs in the city that were registered by the Lilongwe City Council.

3.4 Sample and sampling frame

The sampling plan describes the sampling unit, sampling frame, sampling procedures and the sample size for the study. Saunders, Lewis and Thornhill (2007), define a sampling frame as a complete list of all the cases in the population from which your sample will be drawn. There are several ways of determining a sample size. A formula can be used to draw a sample (Fosgate, 2009). The aim of the calculation is to determine an adequate sample size which can estimate results for the whole population with a good precision (Sarmah & Hazarika, 2012). To this end, the study used a modified Cochran's formula to come up with a sample to take part in the study. The Cochran's formula is given below. Other studies have used this formula for example, (Dell et al., 2002; Hazarika, 2014; Woolson et al., 1986).

$$X_i = \sum \frac{(O_i - E_i)^2}{E_i}$$

Where:

- Variability (P) = 0.5

- Confidence level = 95%
- Precision = ±5%

n_0 is Cochran's sample size which is 385

N is the population size

385/ (1 + (384/300)) = 168

Application of the formula yielded a sample size of 168. The study then used random sampling methodology to sample the 168 respondents. A random sampling technique was chosen where everyone was identified entirely by chance and each member of the population had an equal chance or probability of being selected. The respondents in the study were owners or managers of the SMEs because they have more information about the management of the SMEs.

3.5 Data types and collection tools

The data for this study were gathered using primary data sources. Primary data was collected through the administration of questionnaires to SMEs in the city of Lilongwe by the researcher. The data were standardized to allow for easy comparison.

Upon obtaining a letter from the University, the data collection process began. Saunders, Lewis & Thornhill, (2007) define questionnaire as a measuring tool that asks individuals to answer a set of questions or respond to a set of statements. The study collected quantitative data through a structured questionnaire. To enhance the response rate, the respondents were given enough time to respond to the questionnaires since most had busy schedules. Drop and pick methodology was used for data collection.

3.6 Pilot test

A pilot test involves the administration of the data collection instrument to a smaller number of respondents to test for the reliability and validity of the data collection instrument. Kothari, (2004) describes a pilot survey as a replica and a rehearsal of the main survey. The subjects participating in the pilot study were included in the final study to avoid survey fatigue. The study conducted a pilot study to establish the validity and reliability of data collection instruments. Ten questionnaires were piloted by issuing them to ten respondents. According to Coper (2006), the respondents in a pilot test do not have to be statistically selected when testing the validity and reliability of the instruments.

3.7 Data analysis

The study used two analysis procedures, descriptive statistics, and logit regression technique to analyze the effect of banking service operations on MSME performance. The logit regression technique was used to conduct a multivariate analysis of factors influencing the use of banking services in the old and new banks in Lilongwe city. In the descriptive statistics, frequencies and percentages were used. Additionally, the study used visual aids such as charts, graphs and tables to explain the attributes of respondents, banking service operation perspectives that affect SME businesses. Furthermore, the Pearson's chi-square measure of association was used to measure the association among the variables. The chi square formula was as follows.

$$\chi^2 = \Sigma ((O_i - E_i)^2 / E_i)$$

Where:

0_i is the observed variables.

E_i is the expected outcome.

Multivariate analysis

Multivariate data analysis refers to all statistical methods that simultaneously analyze multiple measurements on each individual respondent or object under investigation (Hair, 2011). It deals with statistical analysis of data collected on more than one variable and determines the pattern and relationships that exists between independent and dependent variables. It estimates the effect of a change in one independent variable over the dependent variable. Logistic regression analysis is used to calculate and predict the probability of a binary event occurring. A binary outcome is one where there are only two possible outcomes; either the event occurs (1) or it doesn't (0). So, based on a set of independent variables, logistic regression can predict how likely it is that a certain scenario will arise (Stevens, 2022). In this study, the tool was used because of the several independent variables that were used, namely, education, experience, ownership, loans, payment services, forex services, savings and investments and training services. The SME performance was categorized as low or high. Therefore, logit multivariate analysis through coefficient value of each independent variable assisted in determining which variable positively affected the binary independent SME sales (low or high).

3.8 Data validity and reliability

Validity refers to the appropriateness, meaningfulness and usefulness of the specific inferences researchers make based on the data collected. It can be said that validity is the degree to which results obtained from the analysis of the data represent the phenomenon under study. Reliability measures the level to which the research instruments yield consistent results or data after repeated trials (Kothari, 2012). Reliability is the consistency of a set of measurement items (Cronbach, 1951). The Cronbach alpha has been deemed to be the most widely used method for estimating internal consistency reliability and has proved very resistant to the passage of time (Trizano-Hermosilla & Alvarado, 2016). Reliability is the consistency of measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects. In short, it is the repeatability of measurement. A measure is considered reliable if a person's score on the same test given twice is similar. Data were validated and verified. The analysis and the interpretation thereof and established their validity, credibility, and authenticity.

Validity determines the relevance of the data in achieving the research objectives. Validity was achieved by structuring the questionnaire in a way that all the study variables were captured. Validity is defined as the accuracy and meaningfulness of inferences, which are based on the research results (Mugenda & Mugenda, 2003). Reliability of the data was achieved by administering the questionnaires to the respondents most of whom were busy, and any inconsistencies were corrected at point of data collection. The researcher vetted the information provided and ensured that accurate information was provided.

3.9 Ethical considerations

According to Saunders, Lewis, and Thornhill (2007), the respondents must be protected from harm for taking part in research. The key areas of ensuring protection include the privacy, confidentiality, anonymity, informed consent to take part and the responsibility in data analysis and reporting of findings. In the study, for example, the key considerations were taken to ensure that the respondents were not harmed for their participation in the research. The confidentiality of the respondents was maintained in the data collection, processing, and the reporting. In order, to obtain objective information, the respondents were not induced by incentives in order to participate in the survey. The consent of the respondents was obtained with option for opting out at any stage in data collection. The data collectors were trained on key ethnical issues to observe during the data collection. In addition, the stakeholders were introduced to the purpose of the study and the possible benefits for participation in the study. The stakeholders were assured of the data security and that respondent's identity would not be disclosed during and after the research. Data access was protected with a password. In addition, the data was identified by codes not by the respondent's name to maintain anonymity of the respondents. The drafting of the report was done in style that the identity of the respondents remained anonymous in the report.

3.10 Limitation of the study

The study was limited by lack of adequate information as SMEs level of information disclosure differed. Some of the SMEs did not disclose all the information on the banking service that they access from their bankers. The descriptive research design also had inherent limitation such as the risk of non-response rate because such studies are conducted based on voluntary participation. The study was further limited by the lack of co-operation from the study respondents who were not forthcoming with information fearing that they would be reported to the revenue authority and some owing to their busy work schedule when the researcher sought clarification on the information on SMEs use of banking services.

3.11 Summary of the chapter

The research methodology chapter has discussed the study design, setting, strategies, sampling techniques, sample size, study population, data collection techniques, data analysis, data quality, ethical considerations, and limitations of the study.

CHAPTER 4

RESULTS AND DISCUSSIONS

4.0 Introduction

This chapter is organized as follows; the first section provides the response rate of the survey, followed by socio-demographic attributes of the respondents and frequencies of the outcomes. The descriptive analysis comprises graphical analysis and descriptive statistics, presents bivariate analysis using Chi-square for key variables used in the analysis while the graphical analysis emphasizes on the selected variables. The banks were disaggregated as old and new for analysis purpose as it would have been a lot of work to analyse each bank on its own.

4.1 Background characteristics of the respondents

4.1.1 Response rate

Figure 2 below indicates the response rate of the study.

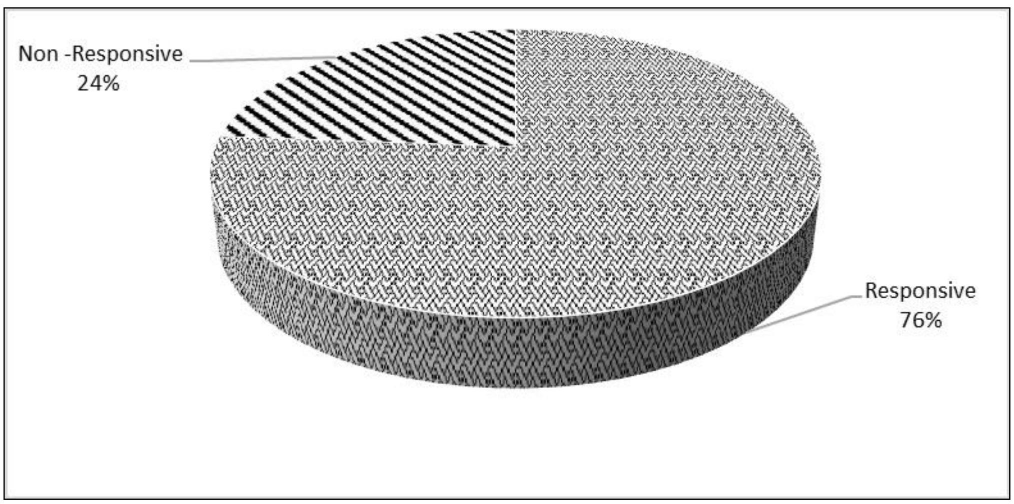


Figure 2*:* Survey response rate

The number of questionnaires that were administered was 168. A total of 128 questionnaires were properly filled and returned. This represented an overall successful response rate of 76% as shown on Figure 2 above. According to Babbie (2004), return rates of 50% are *acceptable* to analyze and publish, 60% are *good* and 70% are *very good*. A response rate of 76% was hence very good for the study. The high response rate was achieved because the method of drop and pick was effective. The respondents who were busy were given more time to respondent to the questionnaire before they were picked.

4.2 Analysis of socio-economic attributes

This section contains results on demographic analysis which include level of education, experience of the respondents in the business and the type of ownership of the business. It shows the demographic characteristics of the respondents.

4.2.1 SME level of education

The study sought to find out levels of education of the respondents. The results are shown in **Figure 3** below.

Old bank **New bank** **All banks**

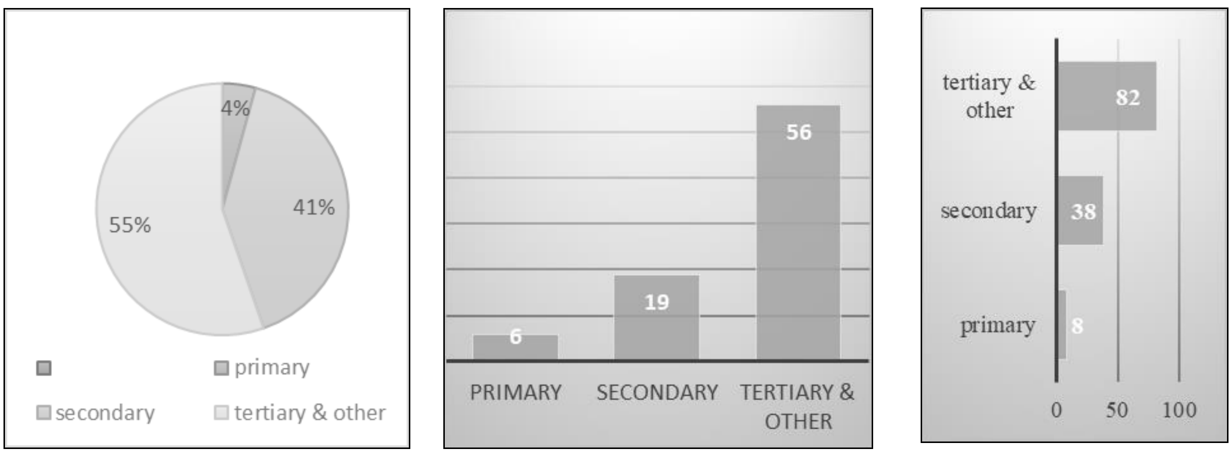


Figure 3: SME level of education of the owners

Results on Figure 3 shows that majority of the respondent, 55%, had a secondary education or certificate while 41% had tertiary education. Only 4% had primary education. The findings imply that the respondents were literate. This indicates that they could easily read and understand the questions in the questionnaire and respond as required. This hence contributed to a higher reliability of the results.

4.2.2 SME experience in business

The study sought establish the levels of experience of the respondents in the business. The results are shown in Figure 4 below.

Old bank **New bank** **All banks**

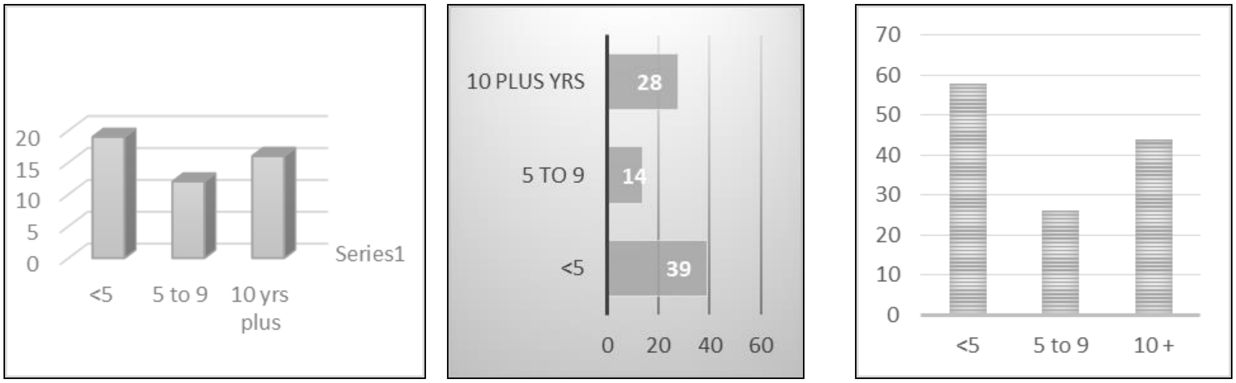


Figure 4: SME experience in business

The figure 4 shows that in both the old and new banks, most SMEs were in the less than five years age bracket.

4.2.3 SME business ownership

The study sought to find out the type of ownership of the responding enterprises. The results are shown in **figure 5** below. The study unveiled that 94% of businesses were sole proprietors while the remaining 6% were either owned by partners or associations.

Old bank **New bank** **All banks**

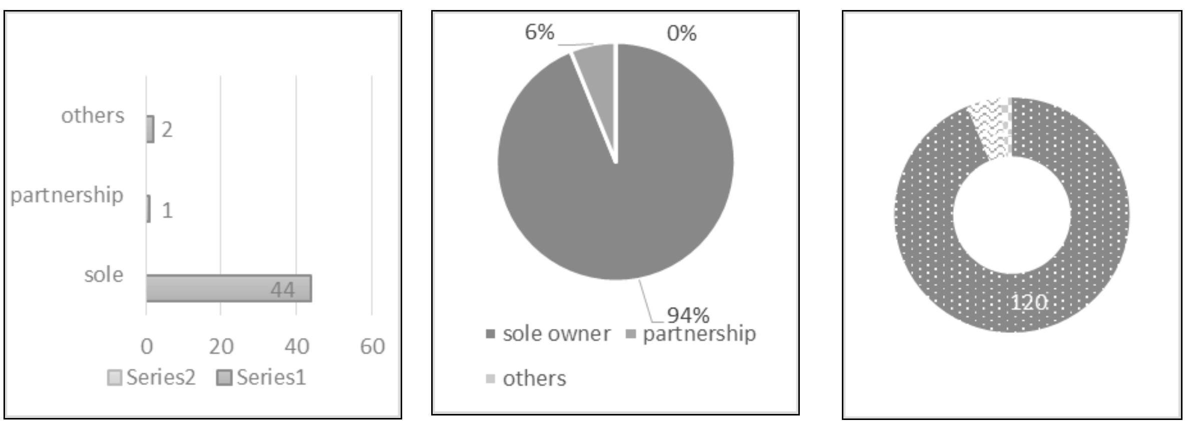


Figure 5: SME business ownership

4.3 Banking services

4.3.1 Bank credit services (loans and overdrafts)

The study examined the association of bank credit services (loans and overdrafts) from the banks and sales performance of the enterprises. Fifty-six (56) SMEs accessed loans from their bankers representing 43.75% of the respondents while 72 SMEs could not access any loan from their bankers representing 56.25% of the respondents. The results showed that there was a consistent insignificant association.

Old banks New banks All banks

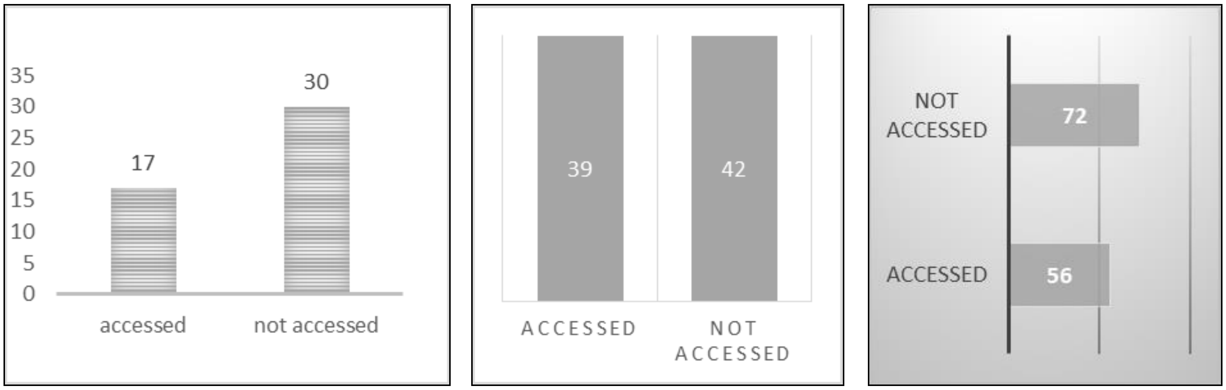


Figure 6: Bank credit services for SMEs

4.3.2 Bank payment services

On aggregate respondents rated payment services for their banks as "good", 17% rated the service as *"bad"* while 83% of the respondents said their bank payment services were "*good"*.

Old banks **New banks** **All banks**

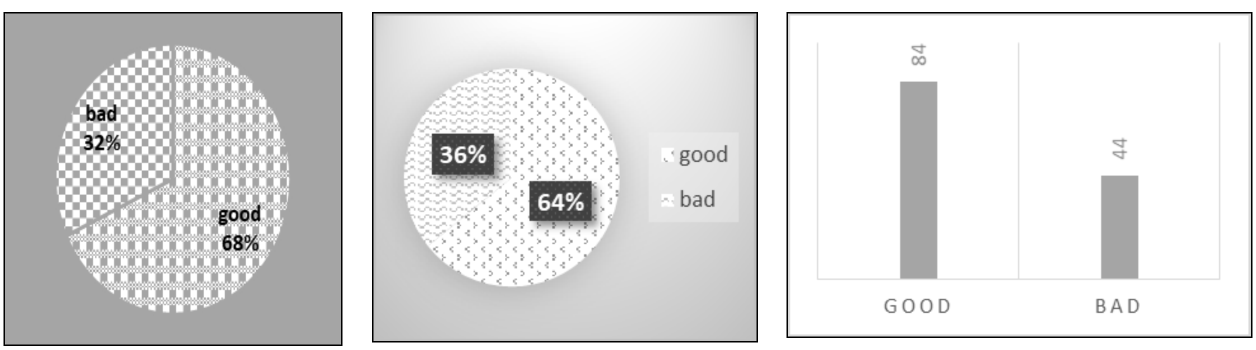


Figure 7: Bank Payment Services for SMEs

4.3.3 Bank foreign exchange services

For the old banks forex services had highly insignificant association with SME sales performance 32, 15 and a chi square 0.401. The study found a relatively significant association between new banks and sales 5, 12, 15, 10, 5 and a chi square 0.070.

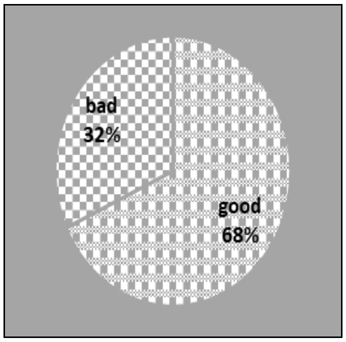
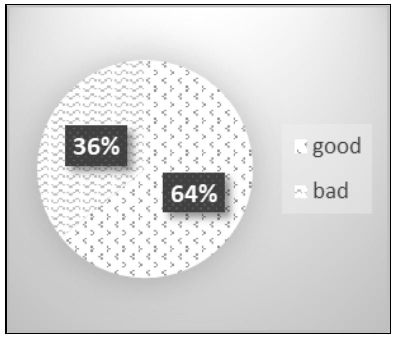
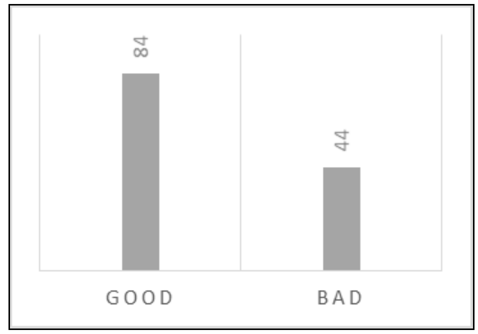
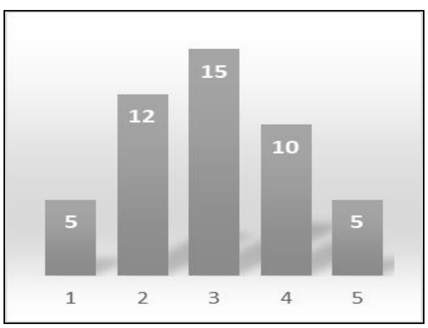
Old banks	New banks	All banks
		

Figure 8: Bank Exchange Services for SMEs

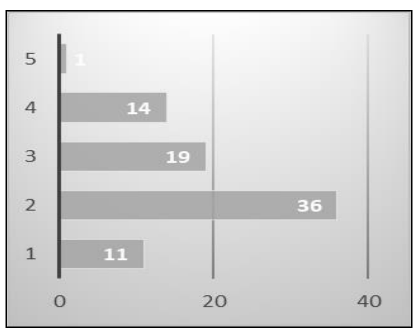
4.3.4 Bank savings and investment services

The study found a significant association between savings and investment services of the old banks with a significance level of 10%. On aggregate there was a significant association for all banks at 10%.

Old bank



New bank



All banks

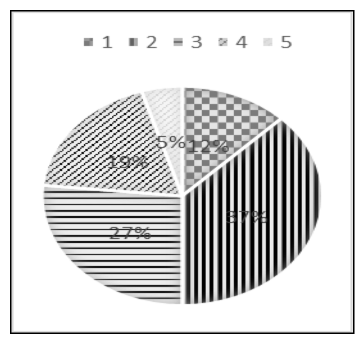


Figure 9: Bank savings and investment services for SMEs

4.3.5 Bank advisory services

The study sought to find out the level of respondent's opinion on bank advisory services. The services were training on preparation of financial accounts and training in business management, the summary of responses is as shown in Figures 9 above and 10 below:

4.3.5.1 Training on preparation of financial accounts for SMEs

The study established that 59.57% of SMEs in the old banks were not trained in preparation of financial accounts while 40.43% said they were trained by their bank. In the new banks a higher percentage of respondents reported not to have been trained on how to prepare financial accounts 69.14% while 30.86% reported to have been trained.

Old bank **New bank** **All banks**

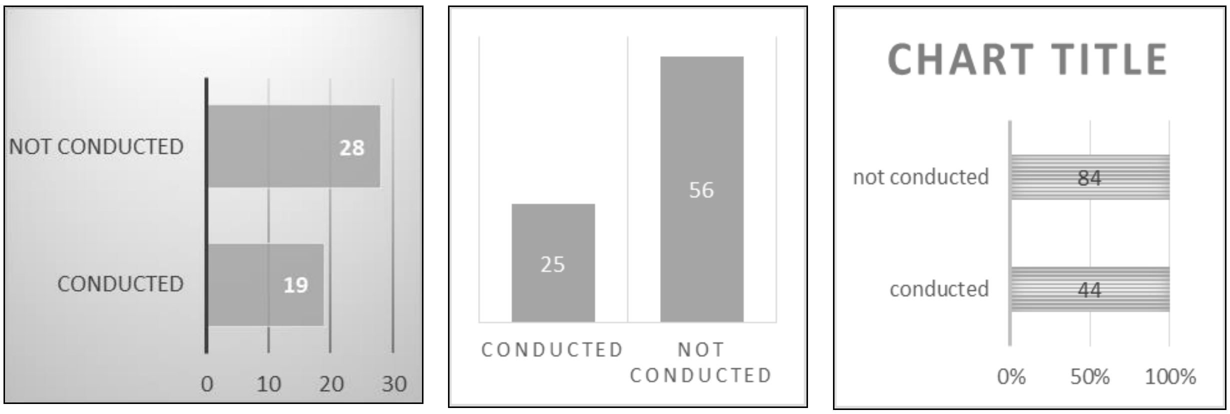


Figure 10: Training in Preparation of business accounts for SMEs

The study established that 59.57% of SMEs in the old banks were not trained in preparation of financial accounts while 40.43% said they were trained by their bank. In the new banks a higher percentage of respondents reported not to have been trained on how to prepare financial accounts 69.14% while 30.86% reported to have been trained.

4.3.5.2 Training in business management for SMEs

In the old banks 74.47% of respondents reported not to have received training in business management while 25.53% received training. The number in the new banks was higher as 85.19% reported that they did not receive training. Only 14.81% reported having received the training in the new banks. The aggregate for all banks showed that training was not a priority for the banks as 81.25% of their SME customers were not able to access any training.

Old bank **New bank** **All banks**

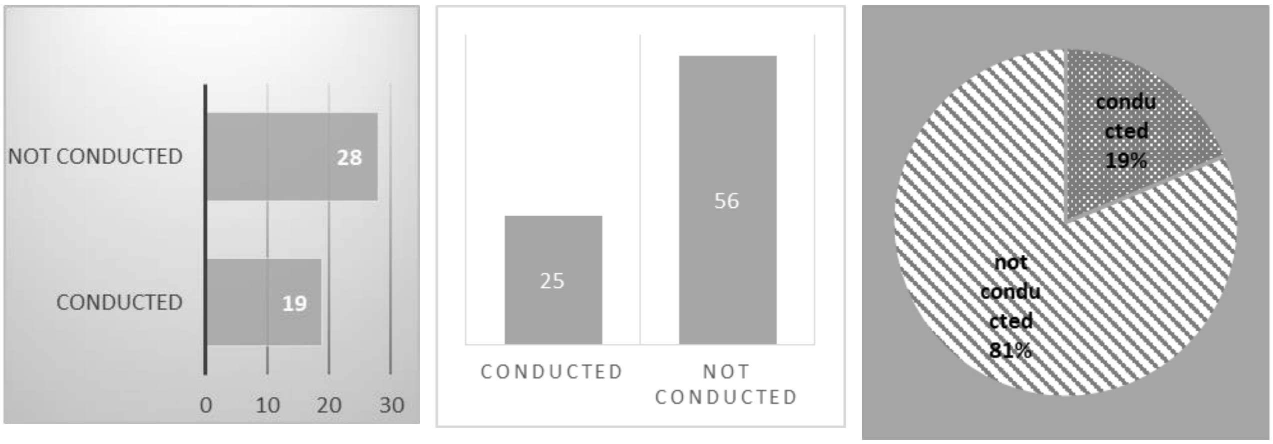


Figure 11: SME training in business management

4.4 Cross tabulation between independent variables and SME performance

4.4.1 Socio economic factors and its relation to SME performance

The study measured the association of the factors that relate to SME performance in the city of Lilongwe.

Appendix 2 below, illustrates the socioeconomic factors in relation to SME performance. The study found that there was a significant association between levels of education and performance of SMEs at 5% in terms of sales for SMEs accessing bank services from new banks, where 6 of the respondents had primary education, 19 had secondary education and 56 had tertiary or other education.

For instance, based on the new banks the study found that education of the SMEs and their use of banking services when operating their business had a significant association on their sales (chi square 6.7047, $P< 0.035$) Similarly on average, for all banks, the study found that education of the SMEs had a significant association with SME performance (chi square 4.7199, $P< 0.094$).

Based on experience, the study found that new banks experience of the SMEs in operating their businesses using banking services had a significant association with SME sales (chi square 6.7047, $P< 0.035$). In terms of all banks the study established a significant association between experiences of the SMEs when using banking services to run their businesses and SME sales (chi square 8.12, $P< 0.017$).

Distribution of Chi square value to identify critical factors associated with banking service operations and SME performance.

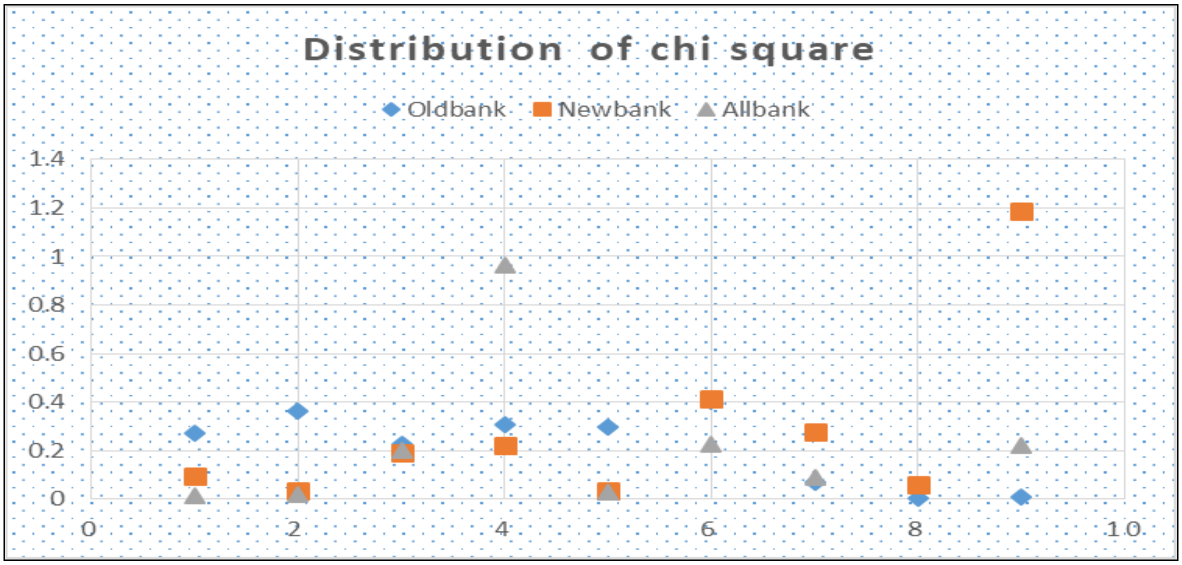


Figure 12: Distribution of Chi Square values by bank

Rank of Chi square value to identify critical factors associated with banking service operations and SME performance. The study found that education, experience, payment services and training services were favorable at 5%.

Table 1: Rank of Chi Square in Banks

Rank	P-value	Attributes	Bank
1	P=0.01	None	None
2	P=0.05	1. Education 2. Experience 3. Payment services 4. Training	All banks All banks New banks New banks
3	P=0.1	1. Education 2. Savings	New banks All banks

4.5 Logit regression analysis

The logit multivariate model estimates the likelihood of the joint influence of the banking services (independent variables) on the performance of the SMEs (dependent variable). For example, the study results under Table 2 indicate that entrepreneurs with exposure to business training are likely to experience improved business performance.

Table 2: Independent factors influencing SME performance.

	Unadjusted O/Banks		Adjusted O/Banks		Unadjusted N/Banks		Adjusted N/Banks	
Variables	β Coefficient	P-value	β Coefficient	P-value	β Coefficient	P-value	β Coefficient	P value
Education								
Primary ®	1							
Secondary	1.0588	0.131	0.7537	0.079*	0.2902	0.672	0.9444	0.034**
Tertiary/Other	-0.2549	0.72	0	1	-0.8175	0.278	0.3794	0.292
Experience								
<5 yrs ®	1							
5-10yrs	0.8125	0.225	0.6359	0.123	0.8947	0.196	0.9985	0.024**
>10	0.4261	0.499	0.1335	0.715	0.101	0.875	0.6931	0.074*
Owner								
1®	1							
2	0.8125	0.225	0.9162	0.058*	-0.3596	0.633	0.9162	0.058*
3	0.4261	0.499	-0.2231	0.565	0.0932	0.896	0.8649	0.04**
Loans/Ods								
1 ®	1							
2	-0.8252	0.192	-0.1335	0.715	0.6958	0.281	0.6931	0.074*
Payments								
1 ®	1							
2	-0.1722	0.738	0.1278	0.662	-0.9093	0.091*	0.3877	0.10092
Forex Services								
1 ®	1							
2	0.1006	0.839	0.1466	0.64	0.1466	0.779	0.7672	0.022**
Savings/Invest								
1 ®	1							
2	-0.31	0.686	0.1053	0.819	0.1147	0.881	0.5389	0.257
3	-0.1893	0.806	0.6061	0.232	1.3849	0.093*	1.54	0.015**
4	0.0523	0.945	0.4054	0.374	-0.0206	0.978	0.2006	0.655
5	-0.9411	0.328	-0.1541	0.782	1.2941	0.182	1.2039	0.067*
Training ACC								
No®	1							
Yes	0.2767	0.604	0.3285	0.288	0.8712	0.118	0.949	0.005***
Training BMGT								
No ®								
Yes	0.3885	0.538	0.1718	0.613	-0.0242	0.97	0.6505	0.068**

Hint ***significant at 1%; ** significant at 5% and * significant at 10%

4.6 Discussion of the results

4.6.1 Banking services and SME performance

The study examined the frequencies of the specific objectives and their outcomes. The outcomes were grouped into two distinct categories. For the satisfaction of SMEs with the various bank services, the outcomes were grouped into *good* or *bad* and *satisfied* or *dissatisfied* for advisory services. While for the contribution of bank services on the growth of SME businesses was *agree* or *disagree*. These were then converted to percentages for the interpretation. The factors were further analysed with SME sales performance categorised as low or high.

Socioeconomic factors such as education, experience and ownership of businesses have a considerable impact on business performance. However, much attention has been paid to business skills and challenges faced by SMEs with little attention paid to socioeconomic factors. Hence this study used demographic attributes as mediating variables.

4.6.2 Level of education and SME performance

The study found that most SMEs operating a bank account with old banks had a tertiary or other education at 55.32%, while 40.43% had a secondary education and 4.26% had primary education. For those SMEs banking with new banks 69.14% had tertiary or other education, while 23.46% had secondary education and 7.41% had primary education. On aggregate, the distribution in all banks was 64.06% and had tertiary or other education while 29.69% had secondary education and 6.25% had primary education. The study unveiled a significant association between education and use of banking services and SME sales (chi square 6.7047, $P< 0.035$), The logit multivariate analysis results indicate that there is high likely performance of the SME which increases as we move from entrepreneurs with primary school to secondary school. However, there is no difference between the tertiary and secondary school (β=0.944, P<0,034).

These results concur with results of a study by Lucas 2017 who investigated the impact of demographic and social factors on performance of business firms in Kenya using data from MSME 2016 survey, which was conducted by Kenya National Bureau of Statistics in 2016. The study found that education level and age of the firm have a positive effect on performance. Similarly, a Malawi Fin Scope survey of 2012 found that levels of education have an impact on and influence business performance and outcomes. On the same note Vallabh and Mhlanga (2015), investigated demographic factors impact on business performance found that education and training help overcome management issues that confront businesses.

4.6.3 Experience and SME performance

The study discovered that most of the SMEs with an account in the old banks were less than 5 years old at 40.43% followed by those that were 10 years and above at 34.04% while 25.53% were 5-9 years old. In the new banks, the majority had less than 5 years experience while 34.57% had 10+ years of experience and 17.28% had 5-9 years experience. The distribution for all banks was 45.31% with less than 5 years, 20.31% with 5-9 years and 34.38 had over 10 years of experience. When then data was further analysed, the results confirmed that the SME performance was likely to improve among entrepreneurs with more years of experiences ((β=0.9983, P<0.024).

The results agree with a study by Radipere and Dhliwayo (2014) which examined the effect of age and business size on the performance of businesses and found that a significant statistical difference does exist between business age and business performance however, the study also found that there was no significant difference between the age categories; under one year and 20 years and more and business performance. Their study concluded that age was no longer a significant factor in a company's performance after twenty years. However, Lucas (2017) asserts that each person's skills improve with advancement in age.

4.6.4 Payment services and SME performance

The study revealed that bank payment services in the new banks had a significant association with SME sales (chi square 4.58, P< 0.032). The study found a significant association between payment services and SME sales for all banks (chi square 4.86, P< 0.027). A further drill down of the results confirms that those entrepreneurs with access to the payment system are marginally likely to have experienced improved SME performance ((β=0.38, P<0.10092). SMEs rated payment services from their banks as *good*, 83% thought the payment services were *good* while 17% of SMEs thought the payment services from their bank were *bad*. There was a significant association between payment services and sales performance of enterprises 106, 22 and a chi square 0.027. Most of the SMEs were involved in trading business hence consider payment services important for their businesses. A study by Beck et al. (2007) measured payment services affordability and found that the cost of transferring funds internationally was correlated to higher loan fees. The study also found that the cost to transfer funds internationally was positively correlated with the fees associated with using ATM cards. Similarly, a study by the CMA, 2014, revealed that SMEs use a variety of channels and the evidence showed that SMEs were generally satisfied with the quality of transactional services provided by their banks. A study by the IFC, on SME 2010 showed that SMEs use a current account more than anything else and that they rely on banks for payment and other transactional services. On the same note, an IFC 2010 report found that SMEs in Latin America used bank payment services such as payment of taxes, wages, and payment to suppliers, transfers, and other payments.

4.6.5 Foreign exchange service and SME performance

Most SMEs are importing merchandise from other countries. As such, they use foreign exchange services. The study found that most SMEs who participated in the survey thought their bank's foreign exchange service was good. When the effect on forex service were further analysed, the results indicate that those with access to the forex services are more likely to have improved business purchases (($\beta=0.0022$, $P<0.7672$). These findings differ with the findings of a study by Belghitar et al. (2016), examined the effect of a floating exchange rate on the performance of SMEs in the United Kingdom. The study found that SMEs were generally unable to overcome the negative competitive effects introduced by the floating exchange rate. The study also unveiled that both depreciations and appreciations of the exchange rate had a predominantly negative effect on returns for all SMEs.

4.6.6 Savings and investment services and SME performance

In terms of savings and investment services the study found that savings and investment services in the old banks had a significant association with SME sales (chi square 8.63, $P< 0.070$) and that on aggregate for all banks savings and investment services had a significant association with SME sales (chi square 8.04, $P< 0.090$). The results from the logit multivariate analysis provide more weight that those entrepreneurs with many years of savings are likely to enjoy improved business performance ($\beta=0.015$, $p>1.54$).

Deposit and savings products provide businesses with basic financial management tools to help organize revenues and savings. Other investments products provide businesses with opportunities to obtain earnings on excess capital. The study found that SMEs considered savings and investment services from their banks important and that they influence their businesses. The study revealed a significant association between savings and investment services of the old banks with a significance level of 10%. On aggregate there was a significant association for all banks at 10%. These results concur with the findings of a study by Thuo (2015) that sought to establish the effect of microfinance services on the growth of SMEs in Nairobi, Kenya. Her study found that savings had a positive and significant relationship with SME growth. Similarly, a study by Namoloh, (2018), investigated the causal relationship between savings and investment on the economic growth of Namibia and found that there was a long run relationship between savings and investment and economic growth. The study implied that a pro savings policy could achieve increased investment which leads to capital accumulation. Although the study was specific to the economic growth of Namibia, the findings could be applied to the growth of SME businesses as well Geoffrey and Emenike (2018), in a study that explored support of microfinance institutions and the growth of SMEs in Nimble, South Sudan found a moderate positive linear relationship between savings accounts provision by microfinance institutions and growth of SMEs. The study also concurs with a study by Sigey (2017) who evaluated the effect of microfinance services on the growth of SMEs in Kericho County, Kenya. The results established that there was not only a strong and significant relationship between growth of SMEs and provision of micro credit but it also in the mobilization of savings. The results also confirmed the existence of a statistically significant relationship between the growth of SMEs and the predictor variables of micro credit, micro savings, and training.

4.6.7 Advisory services

In terms of advisory services, the study measured the association of non-financial services to find out how they relate to SME performance.

4.6.7.1 Bank training services and performance of SMEs

The study looked at some of the advisory services available to SMEs from the different banks. The study assessed the preparation of financial accounts and training in business management. Although banks have these services as their offerings for the SME sector, the study found that the services were not being offered to most of their SME customers.

4.6.7.2 Training in preparation for financial accounts

The study found that 59.57% of SMEs in the old banks were not trained in preparation for financial accounts while 40.43% said they were trained by their respective banks. In the new banks a higher percentage of respondents (69.14%) reported not to have been trained on how to prepare financial accounts while 30.86% reported to have been trained. The study found that in the old banks there was a significant association between the training and SME performance (chi square 7.8, $P< 0.005$). The new banks training was also found to have a significant association with SME sales (chi square 3.50, P< 0.061). The results are further amplified with logit analysis that confirms that those entrepreneurs with training are likely to enjoy the improved business performance ((β=0.94, P<0.005)

4.6.7.3 Training in business management

In the old banks 74.47% of respondents reported not to have received training in business management while 25.53% received training. The number in the new banks was higher as 85.19% reported that they did not receive training. Only 14.81% reported having received the training in the new banks. The aggregate for all banks showed that training was not a priority for the banks as 81.25% of their SME customers were not able to access any training. The study found that in the old banks there was a significant association between the training and SME sales (chi square 7.8, P< 0.005). In the new banks training was also found to have a significant association with SME sales (chi square 3.50, P< 0.061).

Similarly, the logit multivariate study results indicate that entrepreneurs with exposure to business training are likely to experience the improved business performance. ((β= 0.6505, P<005)

These results concur with (Mbongo, 2017) who studied 635 SMEs that had access to business management training under *'the improve your business training program'* offered by Kenya Institute of business training to youth owned SMEs. Her study found a statistically significant relationship between training in business management and SME performance. In another study by Eniola and Entebang (2017), which examined the level of small and medium enterprises, business owners/managers, financial literacy and how it impacted firm performance, it was found that business owners/ managers with financial knowledge, awareness, and attitude in converting financial literacy could increase firm performance.

4.7 Summary of the chapter

In this chapter, results of the study focused on respondents'socio-economic attributes and frequencies of the outcomes on the banking services. The analytical procedure used descriptive statistics in which frequencies in percent and tables and charts were presented. Then measure of association using the Chi square test of association was done and then a rank of chi square value was used to identify critical functions associated with banking services and performance of SMEs in line with the objectives of the study.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter summarises conclusions and related recommendations in line with the objectives of the study. Areas of further research have also been suggested. The summary presents inferential findings of the Pearson's Chi square measure of association and logit multivariate analysis that guided the formulation of the study conclusions from which recommendations were made.

5.1 Summary of study findings

The study assessed the effect of banking service operations on the performance of micro, small and medium enterprises in the city of Lilongwe. The study focused on transactional services, credit services and advisory services accessed by the MSMEs from the different banks. The respondents were drawn from the city of Lilongwe, only those with a banking relationship with any of the bank branches in the city participated. The study used a random sampling technique where respondents had equal chance of being selected for the survey.

The study on the effect of banking service operations and performance of MSMEs involved formulation of a research proposal where research questions were developed. Data were collected using a structured questionnaire which was administered to MSMEs in the city of Lilongwe. A total of 128 responses were generated and the data were analyzed using SPSS and Stata to come up with frequencies and the Pearson's Chi square, B-coefficient and the P-values from the logit multivariate analysis. Lastly a report was written on the findings, outlining the process and the results. The following sections present the study conclusion and recommendations.

5.2 Conclusions

The study analysed the effect of banking service operations on the performance of MSMEs focusing on the various banking services that are available for the SME clients in different banks in Lilongwe city. The study also looked at socioeconomic attributes of SMEs who are interacting with the banks. The study respondents were MSMEs that do business in the city of Lilongwe. The study used simple random sampling technique where SMEs in the city had equal chance of being picked for the study. The study used a modified Cochran's formula to come up with a sample to take part in the study. Based on the findings, the study concluded that:

(a) Level of education was significant in the way SMEs use banking services in the new banks and in all banks on average. SMEs with higher levels of education used more banking products and services.
(b) Experience of the SMEs in their business was significant as they interact with banks not only in the new banks but also in all banks on average.
(c) Bank payment services in the new banks were good and the average for payment services in all banks showed that payment services play a significant role in the performance of SMEs. The transactional services offered by banks helped MSMEs carry out their business operations effectively. Furthermore, the study concluded that the relationship between bank payment services and performance of SMEs is positive and significant.
(d) Bank savings and investment services in the old banks were good as well as the average for savings and investment services overall were relevant to SME performance as they help SMEs accumulate capital. The study concludes that significant association exists between bank savings and investment services and SME performance.
(e) Bank training in preparation for financial accounts and in business management both the old and new banks was satisfying. The study also concluded that the relationship between bank training services and performance of SMEs is positive and significant. Training helped improve SME businesses and was necessary for development of SME capacity in financial management and general business management skills. This enables better management of MSME business operations. The study also concluded that the relationship between bank training services and performance of SMEs was positive and significant.

5.3 Recommendations

Based on the findings, the study recommends several actions.

First and foremost a deliberate government policy should include financial education in the country's curriculum and should be put in place to improve the level of understanding of banking service operations among the population. The policy will help more SMEs understand banking products and services and how to use them to improve their businesses. It has been observed that education determines to what extent SMEs are influenced and affected by their attitude, behaviour, and use of banking services. An important finding was that most SMEs had at least a secondary education or post secondary education.

The study recommends that the government should have a policy that equips school leavers with entrepreneurial experience. For example, there should be a national service that allows young people acquire entrepreneurship experience.

In addition, the study recommends that banks should improve their savings and investment services to help MSMEs build capital and improve production. Banks should invest more on banking products and on provision of these services as it encourages more access to financial services thereby leading to better performance of SMEs.

Besides the above, the study calls for banks to invest more in payment options such as foreign exchange services to improve and widen the scope of payment chances so as to encourage use of other payment alternatives and ease pressure on the use of foreign cash. The use of other payment options would ease the pressure on managing currency. The regulator should make use of smart payments, cashless transactions compulsory.

Since the bank training services are positively related to performance of MSMEs, the study recommends that bank management should encourage subscription to such trainings as training in technical and business management skills and preparation of financial accounts management skills is significant. This enables better management of credit and other services extended to them.

Lastly the study recommends regulators of the banking sector, such as Reserve Bank of Malawi, to formulate policies that allow commercial banks to be flexible in introduction of various products that suit their customer’s needs to create a conducive environment for MSME sector improvement. Now, new products take time to be approved by the central bank and in other instances, they are not approved at all.

5.4 Scope for further studies

Further studies can focus on SMEs in the other cities in Malawi to compare the results. Furthermore, a longitudinal study over a bigger coverage is recommended since this study was cross sectional and was only representative. A longitudinal study will cover a longer period hence may shed more light on the trends. Other studies can focus on other moderating factors for instance the legal and regulatory environment. Similar studies can also be conducted to establish other factors not studied in this study but affect the performance of SMEs. Such factors can be SME banking services. Other banking services not considered in this study are internal factors for instance corporate governance or external factors for instance macro-economic conditions of inflation, exchange rates and interest rates.

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APPENDICES

APPENDIX 1: CHI SQUARE AND P-VALUES

Old Bank Sales						**New Bank Sales**				**All Banks Sales**			
		Yes	No	Chq	P.V	Yes	No	Chq	P.V	Yes	No	Chq	P.V
		No%	No%			No%	No%			No%	No%		
Education	P	2(100)	0(0.00)	2.6074	0.272	6(100)	0(100)	4.72*	0.094	8(100)	0	8.**	0.016
	S	8(42.11)	19(57.89)			10(52.63)	9(47.37)			18(47.37)	20(52.63)		
	T&O	14(53.85)	12(46.15)			38(67.86)	18(32.14)			52(63.41)	30(36.59)		
Experience	<5	11(57.89)	8(42.11)	2.0367	0.361	25(64.10)	14(35.90)	6.7047	0.035	36(62.07)	22(37.93)	8.12**	0.017
	5-9	4(33.33)	8(66.67)			6(42.86)	8(57.14)			6(42.86)	8(57.14)		
	>10	9(56.25)	7(43.75)			23(82.14)	5(17.86)			23(82.14)	5(17.86)		
Owner	1	22(50.00)	22(50.00)	2.9801	0.225	52(68.42)	24(31.58)	1.7053	0.192	74(61.67)	46(38.33)	3.22	0.199
	2	0(0.00)	1(100)							2(33.33)	4(66.67)		
	3	2(100)	0(0.00)							2(100)	0(0.00)		
Loans/overdrafts	1	7(41.18)	10(58.82)	1.0419	0.307	27(69.23)	12(30.77)	0.2225	0.637	34(60.71)	22(39.29)	0.0021	0.964
	2	17(56.67)	13(43.33)			27(64.29)	15(35.71)			44(61.11)	28(38.89)		
Payment Services	1	18(47.37)	20(52.63)	1.0845	0.298	42(61.76)	26(38.24)	4.58**	0.032	60(56.60)	46(43.40)	4.86**	0.027
	2	6(66.67)	3(33.33)			12(92.31)	1(7.69)			18(81.82)	4(18.18)		

Forex Services	1	15(46.88)	17(53.13)	0.7040	0.401	33(63.46)	19(36.54)	0.6714	0.413	48(57.14)	36(42.86)	1.4782	0.224
	2	9(60)	6(40)			21(72.41)	8(27.59)			30(68.18)	14(31.82)		
Savings &Investments	1	5(100)	0(0.00)	8.63*	0.070	9(81.82)	2(18.18)	5.0884	0.278	14(87.50)	2(12.50)	8.04*	0.090
	2	3(25)	9(75)			25(69.44)	11(30.56)			28(58.33)	20(41.67)		
	3	7(46.67)	8(53.33)			9(47.37)	10(52.63)			16(47.06)	18(52.94)		
	4	6(60)	4(40)			10(71.43)	4(28.57)			16(66.67)	8(33.33)		
	5	3(60)	2(40)			1(100)	0(0.00)			4(66.67)	2(33.33)		
Training prepare Accounts	Yes	19(67.86)	9(32.14)	7.8**	0.005	41(73.21)	15(26.79)	3.50*	0.061	60(71.43)	24(28.57)		
	No	5(26.32)	14(73.68)			13(52.00)	12(48.00)			18(40.91)	26(59.09)		
Training bus mgmt.	yes	18(51.43)	17(48.57)	0.0073	0.932	48(69.57)	21(30.43)	1.7609	0.185	66(63.46)	38(36.54)	1.4845	0.223
	no	6(50)	6(50)			6(50)	6(50)			12(50)	12(50)		

Hint ***significant at 1%;** significant at 5% and * significant at 10%

APPENDIX 2: QUESTIONNAIRE

Dear sir/Madam

I am an MBA student at the Department of Post Graduate Studies, The Polytechnic, University of Malawi researching on the title "The Effect of Banking Service Operations on the Growth of Small and Medium Enterprises in the City of Lilongwe". The research is purely academic and the information you provide will be treated in strict confidence. You are requested to fill the questionnaire and return the same. Your support in terms of investing time to respond to this questionnaire would be a great contribution to accomplish the study.

Kind regards
Nelly Chimwemwe Kalengamaliro

SURVEY QUESTIONNAIRE EXPLORING THE EFFECT OF BANKING SERVICE OPERATIONS ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN THE CITY OF LILONGWE

Socio-economic information of SMEs interacting with commercial banks

1. Name of the SME: ____

2. Tick Name of your bank/s from (List)
   [ ] NBM [ ] STD [ ] NBS FMB. FDH. NED. ECO. NFB.
OTHER…………..

3. Which industry most closely describes your business?
   [ ] Agribusiness [ ] Trade [ ] Service [ ] Manufacturing [ ] Others.

4. Educational Qualification of business owner
   [ ] Primary [ ] Secondary [ ] Tertiary [ ] others (specify).......

5. Which best describes the ownership of your enterprise?
   [ ] Sole proprietorship [ ] Partnership [ ] Cooperative [ ] Private Public

   How long have you been in this business? …………….. Years

6. Number of full-time workers in your enterprise ………………. Employees
7. Apart from this business, do you own any other businesses? If yes, how many?

B Examination of the banking services operations

8. Which of the following SME banking services offered by your bank have you used;

Products		
SME current account	Yes	No
savings/Investment account	Yes	No

Bank financing (overdraft/loan)	Yes	No
Payment services: wages, taxes	Yes	No
Use/purchase of foreign exchange	Yes	No
Training/advisory services	Yes	No

9. Can you assess the following bank services on a scale of 1 to 5 where;

1= very bad 2 = bad 3 = fair 4 = good 5 excellent

Statement	**1**	**2**	**3**	**4**	**5**
SME current account					
savings/Investment account					
Bank financing (overdraft/loan)					
Payment services: wages, taxes					
Use/purchase of foreign exchange					
Training/ advisory services					

10. Assess the contribution of bank services on the SME business improvement

1= strongly disagree 2 = Disagree 3= neutral 4 = Agree 5 = strongly agree

Statement	**1**	**2**	**3**	**4**	**5**
Bank services has improved my sales					
Bank services has improved my profit					
Bank services have made my capital to increase					
Bank services enabled my business to employ more people					
The bank services have helped increase the value of my business					

11. On a scale of 1-5, 1 representing the least satisfied and 5 the most satisfying, rate the following non-financial services provided by your bank:

Statement	1	2	3	4	5
I receive training from my bank on how to save from my business					
I receive business management training to improve my business					
I receive training on how to prepare financial accounts for my business					
I find mentorship and networking opportunity from my bank					

12. Please express your views on the bank SME services using the following.
    5- Strongly disagree, 4- disagree, 3-neither agree/nor disagree, 2- agree & 1-strongly agree

Statement	1	2	3	4	5
My bank provides relevant products and services					
My Bank provide flexible products and services					
My bank provides convenient business banking					
My bank supports SME in good and difficult times					
My bank makes timely decision regarding lending					

END OF THE QUESTIONNAIRE

THANKS