

**AGENCY BANKING STRATEGY AND ORGANIZATIONAL
PERFORMANCE IN COMMERCIAL BANK IN KENYA**

BY

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D61/67934/2013

**A RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION,
SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

NOVEMBER, 2016

DECLARATION

This research project is my original work and has not been presented for the award of a degree in this University or any other Institution of higher learning for examination.

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DEDICATION

This project is dedicated to my parents, and all those who supported me in the completion of this research writing. Thank you and God bless you abundantly.

ACKNOWLEDGMENTS

It has been an exciting and instructive study period in the University of Nairobi and I feel privileged to have had the opportunity to carry out this study as a demonstration of knowledge gained during the period studying for my masters of Business Administration. With these acknowledgments, it would be impossible not to remember those who in one way or another, directly or indirectly, played a role in the realization of this research project. Let me, therefore, thank them all equally.

Firstly, I am indebted to the almighty God for all the blessings he showered on me and for being with me throughout the study. I also thank my supervisor for his guidance, Lecturers who taught me during first year of study and my classmate for their support. Finally, I take this opportunity to express my deep gratitude to the lasting memory of my loving family, and friends who are a constant source of motivation and for their never ending support and encouragement during writing of my research project.

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ABBREVIATIONS AND ACRONYMS

ATM:	Automated Teller Machine
CAK:	Communication Authority of Kenya
CBK:	Central Bank of Kenya
ERP:	Enterprise resource planning
KBA:	Kenya Bankers Association
PCs:	Personal Computers
POS:	Point-Of-Sale
ROA:	Return on Assets
ROA:	Return on Assets
ROE:	Return on Equity
SPSS:	Statistics Package for Social Sciences

ABSTRACT

Overcoming challenges in strategy implementation necessitates the successful adoption of strategy. Many strategies are not fully realized due to inability to overcome challenges or poor implementation structures and procedures. The appropriation of office keeping money is basically equipped to enhance piece of the overall industry by drawing in and holding their clients, enhancing firm execution and make assortment of administrations. The study intended to establish the role of agency banking strategy and organizational performance of commercial banks in Kenya. This research was guided by both the agency theory and the innovation strategy. Agency banking theories look at the commercial bank as the guideline and correspondent bank (specialist banks) as the operator, which are retail foundations shrunk by the banks and approved by the national banks to render administrations for commercial banks. Two theories are therefore relevant in explaining the main forces driving banks to embrace agency banking in their expansion strategy and are therefore discussed. A Case study was used with independent variable being Agency banking while dependent variable being financial performance. A cross-sectional survey was chosen because it involves an in-depth study rather than a single superficial evaluation to understand the required findings. The total population for this study were all commercial banks in Kenya that has adopted agency banking. The respondents were the Heads of Agency Banking unit and heads of finance & accounts departments. Since the target population is small, a census study of the 16 commercial banks is proposed. The study incorporated secondary and primary data. A researcher questionnaire was used to gather primary data as guided by the objectives of the study. Qualitative and quantitative data analysis techniques were both adopted to analyze descriptive statistics of mean (average) and standard deviation, as well as describing characteristics. The results was presented in graphs and tables. The findings and conclusion was assessed with the aid of Statistics Package for Social Sciences (SPSS). Regression Analysis was utilized to research on the relationship between the factors and firm performance of commercial banks in Kenya. The study found that financial performance measure Return on Assets (ROA), number of banks agents, cash deposits, financial assistance and bank size were very important in determining the organizational performance. The study concludes that there is a significant positive relationship between strategic alliance between mobile service providers and commercial banks on banks performance in Kenya. The study recommends that commercial banks should be encouraged to embrace agency banking through adoption of improved technology. This will increase volume of transactions and bank size which will lead to financial performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In business, as in the military, procedure conquers any hindrance amongst arrangement and strategies (Burnes, 2009). Together, methodology and strategies overcome any issues amongst closures and means. The business environment universally has changed and it has been portrayed by firm rivalry among the players and the managing an account industry is no special case. Rivalry among the business banks has pushed banks towards turning out to be more creative (Mbuva, 2009). The transformation of data innovation has affected practically every feature of life, among them is the managing an account part. The presentation of electronic keeping money has altered and reclassified the way banks were working. As innovation is presently considered as the fundamental commitment for the associations' prosperity and as their center abilities (Kandie, 2013). This far, banks have been able to develop branchless banking such as ATM and agency banking.

This study is in the body of knowledge under agency theory and diffusion of innovation theory. Innovative progression has influenced the method for living as well as has affected the way individuals do their saving money. The most recent decade, has seen a mind boggling likelihood of portable managing an account, half of the world populaces have either neglected to grasp versatile saving money and monetary administrations or they have been denied of the same. Incredibly 50% of the Kenyan populaces particularly the rustic people haven't the faintest idea on portable managing an account. Be that as it

may, the effort of the portable keeping money segment has been found to fluctuate crosswise over nation (Ivatury & Mas, 2008).

Kenya appears not to have been abandoned and is overwhelmed by various business banks organizations focus fundamentally on monetary administrations. Throughout the years the area has developed into an unpredictable scene of managing an account organizations of various sorts and possession (CBK, 2010). Saving money through retail operators is an idea that is starting to offer to arrangement producers and controllers. It can possibly stretch out money related administrations to unbanked and minimized groups. Operator helped managing an account is a moderately new idea in Kenya (Kiragu, 2011). What makes agent banking an account work are data and correspondence advances which clients, retail operators and banks use to record and convey exchange points of interest rapidly, dependably and efficiently over unlimited separations. For instance even in rural areas many poor people have admittance to minimal effort cell phones and paid ahead of time broadcast appointment merchants. For banks specialist managing an account is utilized to lessen the cost of conveying budgetary administrations, soothe swarms in bank offices and set up nearness in new regions (Kumar, 2011).

1.1.1 Concept of Strategy

Strategy is a methods by which arrangement is affected, is the result of some type of arranging, sorted out process for foreseeing and acting later on so as to do an association's central goal (Baker, 2007). The general population who drive strategy in

associations are seen to be visionaries, the business people and trailblazers. They are the individuals who go out on a limb and attempt better approaches for getting things done. Strategy refers fundamentally to business methodology; which indicates how a specialty unit will accomplish and keep up upper hand inside an industry (Stock, 2009).

Strategy address the issues of business sectors and to satisfy partner desire (Johnson et al., 2005). The detailing of aggressive methodology in any industry includes first the cognizance of the basic determinants of rivalry. Rivalry is characterized as the battle for piece of the overall industry between at least two firms. A comprehension of rivalry helps the methodology producers in assessing whether the level of rivalry in an industry offers scope for good productivity. It advances sound key contemplating how to build up the general focused technique for the organization. Advancement of aggressive position helps the firm to all the more precisely conjecture both short and long haul development and its benefit possibilities (Pearson and Robinson, 2007).

It can be contended that an ability to read a compass is vital for an association, and procedure gives a structure to place this ability to know east from west in. On the off chance that there is an over-accentuation on key arranging instead of usage it can likewise as I would see it slaughter imagination as the concentration leaves from doing to considering doing. Apropos put by Macmillan and Tampoe (2000) that strategic choice must test enough to keep in front of contenders additionally must be achievable.

1.1.2 Agency Banking Strategy

Agency banking refers to a partnership with non-banks, typically retail commercial outlets to provide distribution outlets for financial services (Kumar et al; 2011). The proprietor/representative leads the exchange and gives customers a chance to store, pull back, and exchange reserves, pay their bills, ask around a record adjust, or get government benefits or an immediate store from their employer (CBK, 2014). Agency banking model requires commercial banks to depend on the current framework as far as stores, credit unions, inns and petrol stations to connect with clients. Specialists can be constrained obligation organizations, helpful social orders, parastatals, trusts, associations or people (Kandie, 2013). Any substance which is religious or not-for-benefit, a non-administrative association, an instructive organization, forex department or some other element which, under any relevant law is not permitted to bear on benefit making business might not take part in specialist managing an account business. Agents are chosen in light of their system, administrations to be given, hostile to government evasion methodology, procedure and projections imagined from agency business (Mwangi, 2011).

Agency banking was first developed in Brazil. Brazil was an initial adopter of the exemplary agency banking and has significantly mellowed over the years covering 99% of the countries metropolises. Further, nations like Peru, Colombia, Mexico, Pakistan, and the Philippines also started experiencing with banking agent networks. Additional countries have also exploited the agent banking model to develop financial services, including the republic of South Africa and Kenya. It has enhanced performance greatly in

the continent (Kiragu, 2011). Agent banks also help increase savings. Agents can be savings advocates, with key functions designed to be played by agents. Everybody needs a safe place to save, and costs can be reduced for agent banks by leveraging on the existing infrastructure, and minimizing credit risks to makes it safe (CGAP, 2010).

With real-time authorization of transactions structures, the banks check whether there are sufficient capitals in the agent's or client's account beforehand approving a cash transaction. Banking agents, thus, enforce liquidity management structures to ensure they have enough money for daily transactions (Burnes, 2009). At best, banks generate automatic receipts from a printer integrated into the POS terminal, or as client's cell, since it speaks to a claim against a bank exchange. A complaints and claims structure is also necessary for clients who trust the procedure has not worked reasonably for them and that requires records (Lozano & Mandrile, 2010).

1.1.3 Firm performance

Firm performance alludes to the degree to which association's objectives and goals are accomplished productively and viably. As per Burnes (2009), authoritative execution includes three specific territories of firm results, item advertise execution (deals, piece of the pie) and shareholder return (Davenport and Harris, 2007). Inside corporate relationship, there are three basic results analyzed including market execution, money related execution and shareholder esteem execution (Richard, 2009).

Kaplan and Norton (1992) built up a framework in which estimations are intended to drive execution where they refered to profitability, workers' inspiration and cost

productivity as the legitimate measure of execution. Davenport and Harris (2007) then again, propose that associations will decide the level of execution by the general firm performance. They contend that the boondocks for utilizing information is as a part of estimation as well as in recognizing the most gainful clients, deciding the right cost, quickening item advancement, enhancing supply chains and distinguishing the genuine drivers of hierarchical performance (Burnes, 2009).

1.1.4 Agency Banking Strategy and Firm Performance

Agent banking includes various advances all together for the monetary organizations to monitor the exchanges (Kiragu, 2011). These innovations comprise: purpose of-offer perusers, cell, standardized tag output installment exchanges, Personal Identification Number (PIN) cushions, associate with the money related establishment's utilizing an individual information association (Ivatury, 2011). Every one of these advancements require skill and capital interest in obtaining the innovative gear which is a test to the retail outlets that have constrained capital.

These innovations include ATMs, credit cards, mobile banking, internet banking, and kids accounts and now most as of late presented inside keeping money division – office managing an account (Bold, 2011). Despite the fact that commercial banks keeps taking off block, concrete conveyance test of money related administrations as a foremost obstruction to firm execution. Clients separations and spend tremendous measures.

Organizational expanding pattern chiefly been credited to appropriate administration and legitimate plan and execution of procedure. In any case, it is normal that the managing an

account area will keep on growing particularly in retail saving money fragment, as significant customer portions remain unbanked. CBK Annual Report (2010) the saving money part has kept on encountering noteworthy elements all the while. Commercial banks need to build up an economical procedure into their center business action in the business sectors and groups where they work.

The sector's total profitability in the same period was Kshs. 34.9B. The growth in the sector is attributed to the increased uptake of loans and other bank products and services by Kenyans. Some Kenyan banks are exploiting business opportunities in the regional markets thanks to liberalisation. The banking sector, over the years, has witnessed stiff competition homogeneity services offered by compelling them to re-bundle money related administrations and items to fulfill the requirements of the clients and hold piece of the pie (Kandie, 2013). Foundations along these lines progressively began offering e-managing an account administrations for both inhabitants and out-of-state people. Office keeping money developed as another market item. In light of this, a portion of the foundations reclassified their business banks systems while utilizing on creative and reasonable items to catch this new market fragment.

1.1.5 The banking industry in Kenya

In Kenya there are a sum of 42 banks which are just for a similar piece of the pie (CBK, 2014). The Kenyan keeping money industry has confronted a few difficulties including: firm rivalry among the current nearby items, crediting administrations at various rates. As per the Fin-Access National Survey (2009), banks have billions available to them yet the

vast majority of this goes to enormous corporate associations and high total assets customers. A late World Bank study into Kenya's monetary part vindicates this study, demonstrates that entrance to formal money related administrations has expanded from 26% of Kenyan bankable populace in 2006 to 67% in 2013.

In a growing number of nations, banks budgetary administrations offices and keeping money and installment benefits through retail outlets, including markets, drug stores, seed and manure retailers and service stations among others (Burnes, 2009). For needy individuals, "Organization Banking" through retail specialists might be significantly more advantageous and proficient than setting off to a bank office (Lyman, Ivatury and Staschen, 2006). To improve monetary consideration (advertise get to), Banking Act of Kenya was changed in 2010 to clear path for organization saving money.

Despite the opportunities brought about by agency banking for both the customers and commercial banks (CBK, 2014). Notwithstanding, numerous are finding that specialists need ability to handle huge exchanges of money and under-spend on efforts to establish safety, accordingly, invalidating potential customers' trust in them. Other than this, organization managing an account has gotten a blow the same number of the accessible outlets (specialists) have as of now been caught by cell phone organizations, who have depended on their operators to quick track take-up of portable cash arrangements, for example, M-Pesa, YuCash, Orange Money and Airtel Money (Kiragu, 2011).

1.2 Research Problem

Overcoming challenges in strategy implementation necessitates the successful adoption of strategy. Many strategies are not fully realized due to inability to overcome challenges or poor implementation structures and procedures. Unless strategy is translated to measures that employees can understand, it becomes limited to accept its functionality (Lynch, 2002). This curtails the positive attributes or development that the strategy was to bring. In Kenya operator managing an account has seen sensational extension in a lot of nations everywhere throughout the world including Kenya. The reception of organization managing an account is chiefly outfitted to enhance piece of the overall industry by drawing in and holding their clients, enhancing firm execution and make assortment of administrations. To this end, it is not clear whether the reception has prompted to increment in piece of the overall industry and firm performance.

The greater part of the studies investigated were done abroad and as per Aosa (1992), it is wrong to import the wholesome aftereffects of an exploration without considering the relevant contrasts and consequently the necessities to complete neighborhood examine so as to see better the issue. Lozano and Mandrile (2010) studied agent model for branchless banking in Colombia and developed a model whereby MFIs act as agents of branchless banking services, creating a new microfinance value chain through a process of scale and inclusion, and enable the poor to access a wider array of banking services.

Locally, Wabwoba (2012) focused on the challenges facing equity agency banking using Pokot County as his case study. The study found out that failure in mobile network was a

major threat to adoption of agency banking. On the other hand Kithuka (2012) studied the influencing factors of development in agency banking in Kenya. 100 Equity bank agencies were sampled and it was found out that money transfer technology has eased agency banking.

As demonstrated above, none of the studies has really focused on banking agency as a strategy for enhancing firm performance, this study therefore aimed at assessing the contribution of agency banking strategy and organizational performance of commercial banks in Kenya. Regardless of the importance of the office managing an account in the business banks picking up intensity and upgrading firm execution, there has been constrained research led locally particularly on the commitment of organization saving money on commercial banks' organizational performance in Kenya.

1.3 Research Objective

The objective of this study was to establish the role of agency banking strategy and organizational performance of commercial banks in Kenya.

1.4 Value of the Study

Central Bank and other regulatory bodies will benefit from this study in that issues that will come out of this study and will need to be regulated will be exposed. New revenue generating channels will be opened through increased tax bases from agents operating on behalf of banks. To enhance financial inclusion through agency banking, more rules and regulations will be adjusted in the existing business environment.

Diffusion of Innovation theory analyses the choices that are made by the owners, managers or trustees of organizations. Additionally, current bank agents and prospective or potential agents can utilize the study to instruct themselves on the numerous roads and stages of creating organization saving money as an aggressive methodology. Second, the discoveries of this study can be utilized by business banks to enhance or grow benefits in a route outfitted to financial strengthening to all stakeholders. Thus Agency banking is one of such avenues of expanding their service access networks cheaply. For the commercial banks who have not embraced agency banking can use this study as a gateway to embracing the technology. Also the policy makers and executives in the commercial banks in Kenya can use agency banking as a product in making strategic decisions.

The study will also important to the public as it by explores various agency banking models in Kenya; the findings would contribute towards the strengthening the agency banking business. This would promote customer loyalty and widen financial services as more Kenyans would access banking services.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The section offers the literature review on the utilization of agency banking as a strategy for enhancing financial performance.

2.2 Theoretical Foundation

A hypothetical (or reasonable) definition gives the importance of a word as far as the hypotheses of a particular train. This sort of definition expect both information and acknowledgment of the hypotheses that it relies on upon. To hypothetically characterize is to make a speculative build. This research was guided by both the agency theory and the innovation strategy. Agency banking theories look at the commercial bank as the rule and reporter bank (agent banks) as the specialist, which are retail foundations shrunk by the banks and approved by the national banks to render administrations for commercial banks. Two theories are therefore relevant in explaining the main forces driving banks to embrace agency banking in their expansion strategy and are therefore discussed.

2.2.1 Diffusion of Innovations Theory

The world is seeing today significant changes and increasing speed as an aftereffect of the huge improvement of data innovation and the consistent development of volume of data, which has prompted to the rise of new sorts of exchanges and exercises in different fields (Kandie, 2013). The saving money part has been one of the main areas that have received numerous electronic applications to enhance execution and pick up an upper

hand methodology. In light of the broad utilization of data and correspondence advances, the money related administrations industry and managing an account has given new frameworks and applications that expands the utilization of cutting edge innovation and are presently accessible.

Therefore it has become essential for banks to change the idea of customary saving money administration to remote managing an account administrations in light of the quick development of electronic saving money benefits by clients and expanded rivalry among banks to diminish costs, raise productivity and draw in more clients. Henceforth the bank specialists have flourished and are as of now assessed to have 33% infiltration. The quantity of banks opening branches has diminished and is ascribed to reasonable operator managing an account and brings down administration charges (Makori, 2003). Development in managing an account ought to be coordinated to at enhancing the foundation that cultivates proficient money related administrations and worldwide exchange.

2.2.2 Agency Theory

During the 1960-70's financial analysts investigated chance sharing among people or gatherings. Organization hypothesis expanded this hazard sharing thought. Office hypothesis is coordinated at the omnipresent organization gathering to next gathering (the Agent) who plays out the work (Kiragu, 2011). Agency theory is a hypothesis that demonstrates the agreements between the proprietors of financial assets (the principals) and chiefs (the operators) who are accused of utilizing and controlling those assets

(Lambert, 2002). Jensen and Meckling (1976) were the main researchers to explicitly model the theory of agency.

Agency theory depends on the premise that operators are more educational than the principals. This data asymmetry influences the capacity of the foremost to viably screen their riches and this is the place the specialists came close by to offer assistance. It additionally expect that principals and operators act objectively (Brigham and Gapenski, 1993). In the least complex office models, the association is decreased to these two contracting characters: the key and the operator. The key's parts are to supply capital, to shoulder chance, and to build impetuses, while the part of the operator are to settle on choices for the central's benefit and to likewise hold up under hazard (Lambert, 2002). Managing an account surplus assets with booked (State Bank of Pakistan, 2011).

2.3 Agency Banking and Financial Performance

According to the Fin-Access National Survey (2009), banks have billions available to them yet the vast majority of this goes to enormous corporate associations and high total assets customers. A late World Bank overview into Kenya's budgetary segment vindicates this review, demonstrates that entrance to formal money related administrations has expanded from 26% of Kenyan bankable populace in 2006 to 67% in 2013. In a developing number of nations, banks are finding better approaches to profit conveying budgetary administrations to "unbanked" individuals (Kiragu, 2011). Instead of utilizing bank offices and keeping money, installment, supermarkets, drug, seed and manure retailers and service stations among others. For needy individuals, "Office

Banking" through retail specialists might be significantly more helpful and productive than setting off to a bank office (Lyman, Ivatury and Staschen, 2011). To upgrade money related consideration (advertise get to), Banking Act of Kenya was revised in 2010 to clear path for organization managing an account.

With the advent of technological advancement as has been seen in the 21st century, it has become possible for several services once considered a preserve of certain providers to be incorporated and used with an ease of accessibility to many more would be channels. Such is the case with Agency banking which is expected to empower foundations give keeping money benefits in a more financially savvy and similarly less expensive path to its customers. A good example is depicted in Peru where the introduction of Agency Banking increased financial services access from 5% to 14% of the unbanked population (Ivatury and Mars, 2008). In Brazil, a total of 100,000 outlets have been turned into agency banks reaching an extra thirteen million people since 1999.

Chaia (2011) the goals of agency banking as a strategy is to increase revenue from additional investments, to increment client base and piece of the overall industry, to enhance roundabout branch profitability by diminishing clog in the branches and to offer minimal effort arrangements in territories with conceivably less number and volume of exchanges. It is further expected to upgrade simple money related availability both for the unbanked and the kept money populace (Ivatury and Ignacio Mars, 2008). It is said that low salary workers regularly feel more good managing an account at their neighborhood

store than strolling into a marble branch a fact that is well manipulated by Agency banking.

Despite the opportunities brought about by agency banking for both the customers and commercial banks (CBK, 2014). Be that as it may, numerous are finding that specialists need ability to handle expansive exchanges of money and under-spend on efforts to establish safety, in this way, nullifying potential customers' trust in them. Other than this, organization saving money has gotten a blow the same number of the accessible outlets (operators) have as of now been caught by cell phone organizations, who have depended on their specialists to quick track take-up of portable cash arrangements such as YuCash, Orange Money, M-Pesa and Airtel Money (Kiragu, 2011).

2.4 Determinants of Firm Performance

Firm performance contains the item showcase execution for example deals. Outside natural conditions and industry structure are to a great extent accepted to shape the association's execution. As of late, notwithstanding, different surges of research accentuating an asset construct heap of abilities point of view with respect to hierarchical execution have advanced to describe the association's development and vital development choices.

2.4.1 Corporate governance

Corporate governance is essential and frequently referred to contemplates has a place with Mbuva, (2009). They have fabricated a record for measuring corporate administration utilizing a specimen of 1,500 U.S. firms in the 90s. This study has shown

the presence of a positive relationship between the nature of corporate administration and firm execution. Burnes, (2009) have gotten comparable results in their exploration which is an augmentation of the examination completed by Gompers et al. Drobetz et al. (2004) likewise distinguished a positive effect of corporate administration on the execution of German firms. In Japan, Bauer et al. (2008) utilizing the database gave by GMI, demonstrated that organizations with preferred administration are more effective over organizations with weaker administration by up to 15% every year.

2.4.2 Information Technology

Information technology has been caught in the study as far as a solitary variable, to be specific the degree to which firms have executed an incorporated Enterprise asset arranging (ERP) framework. We concentrated on this variable because of the expanded enthusiasm on the relationship between the ERP framework and hierarchical execution. ERP is a standard programming bundle that gives coordinated exchange preparing and access to data that traverses different hierarchical units and various business capacities (Wu and Wang, 2006). One study went for recognizing the relationship between the ERP and authoritative execution has a place with Dehning and Richardson (2002). As indicated by these creators, the usage of the ERP framework positively affects authoritative execution, the greatness of its effect is littler promptly after execution, being increased over the long haul. A comparable result was acquired by Velcu (2007) who inspected the effect of actualizing an ERP framework on the execution of eight associations in Finland.

2.4.3 Innovation and development

The innovative capacity of organizations is a measurement less amazed in authoritative analytic models in spite of the fact that there are various studies that have been centered around recognizing effect of the imaginative limit on execution. The significance of this variable and the effect it has on authoritative execution was highlighted by the study led by Mbuva, (2009) who considered a few organizations from five nations. As per this concentrate, association's creative limit was the basic calculate clarifying execution contrasts between firms from five nations: France, United States, Japan, England and Germany. Likewise, Burnes (2009) contemplated the relationship amongst advancement and execution, offering the case of Sony, a pioneer in development that has fundamentally expanded piece of the overall industry by method for various new items to customers. Basically, this variable is caught in the models of authoritative indicative by the innovation accessible in doing exercises.

2.4.4 Structure

The variable structure is extremely regular in authoritative analytic models (Richard, 2009; Kates and Galbraith, 2007). This variable was reflected in our model through auxiliary issues identified with organization measure (number of representatives), age (years) and through angles intended to distinguish the association of the firm, making reference to adaptability and versatility of capacities and positions. To evaluate this measurement we utilized explanations planned to mirror the variable structure from the Organizational Diagnostic Questionnaire developed by Preziosi in 1980.

2.5 Empirical Review

Laukkanen (2007) conducted a survey of mobile banking in developing countries with specific reference to secure framework for delivery of SMS-banking services. Using secondary data, the study established that the potential for SMS mobile banking services is high in nations where web foundation ruins the entrance to electronic saving money administrations. Be that as it may, most creating nations especially in Africa web availability and transfer speed are low and the populace is not urbanized and averagely poor subsequently web keeping money administrations not suitable in many parts of the mainland. The study reasoned that web keeping money will remain the most appealing administration for created nations while SMS managing an account will acquire in-streets in creating nations.

Wambari (2009) tried to set up the significance of mobile banking in the everyday running of private ventures in Kenya. The study used a random sample of 20 firms and selected senior personnel (owners, managers or supervisors) to whom semi-structured questionnaires were administered.

Lozano and Mandrile (2010) studied agent model for branchless banking in Colombia. It examined traditional banking looked to build up the significance of versatile saving money in the everyday running of independent companies banking agent networks and empirically highlighted benefits of branchless banking for Colombian MFIs. The findings presented a new model where MFIs act as agents of branchless banking services. Implementation of the model would create a new microfinance value chain through a

process of scale and inclusion, and enable the poor to access a wider array of banking services. Recommendations included: clear rules of representation to mitigate confusion of clients on roles of banks; synergy among all players for achievement of integrated branchless banking solution; and, expansion of infrastructure and technology to support the model.

Kandie (2013) looked to set up the impact of agency banking on financial consideration in Kenya. The populace comprised of six business managers an account with office keeping money benefits in Kenya. She utilized optional information with inferential measurements strategies being utilized to make a forecast about the needy variable. The discoveries demonstrated solid positive relationship between financial performance and agency banking.

Watiri (2013) sought to establish the contribution of agency banking in financial performance of commercial banks in Kenya. By this time, only 9 banks had adopted agency banking and by Dec 2014, 16 banks have adopted the model. This gives more accurate results than Watiris. Also, Watiri's study didn't consider the financial performance before adoption of agency banking but my study will be a comparative study showing the financial performance before and after adoption of agency banking in Kenya commercial banks.

From all those studies reviewed, it's evident that agency banking has brought more advantages like cost saving and accessibility to financial services, with Kenyan financial

institutions regaining more, documentation of how this agency banking model is lacking in Kenyan banks. The gap this study seeks to fill is therefore to evaluate the effect of agency banking as a strategy for enhancing financial performance of Kenya commercial banks. The earlier studies also have been done on fewer banks which had adopted agency banking leading to generalized results. This study will get data from banks currently doing agency banking resulting to more accurate results.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The exploration design is the arrangement or technique of molding the examination (Henn, Weinstein and Ford, 2011). Mugenda (2003) characterized a contextual investigation as a top to bottom examination of an individual, gathering, organization or wonder. Yin (1989) said that a contextual investigation permits an examination to hold the all-encompassing and importance of genuine occasions. A Case ponder was used with independent variable being Agency banking while dependent variable being financial performance. A cross-sectional survey was chosen because it involves an in-depth study rather than a single superficial evaluation to understand the required findings.

3.3 Target Population

The target population were the total number of commercial banks in Kenya that has adopted agency banking. There are 16 commercial banks having the facility of agency banking as shown in Appendix II. The respondents were the Heads of Agency Banking unit and heads of finance & accounts departments. This is because they play a key role in implementing the Agency Banking strategy and firm performance they face daily in their line of work are of great significance. Since the population is small, a census study of the 16 commercial banks is proposed.

3.4 Data Collection

The research incorporated secondary and primary data. A researcher questionnaire were adopted to gather primary data as guided by the objectives of the study. The questionnaire included an unstructured and structured questions and was administered through researcher questionnaires at commercial banks.

In documentary analysis, the study incorporated supporting documents from the bank to get more information on Agency Banking and its implementation. Staff circulars was a good source of information and how it was carried out together with the content of the information that was carried out.

3.5 Data Analysis

Qualitative and quantitative data analysis techniques were both adopted to analyze descriptive statistics of mean (average) and standard deviation, as well as describing characteristics. The results was presented in graphs and tables.

After collection of data, the study was checked and edited for completeness, clarity, accuracy, uniformity and consistency in preparation for analysis. The data was further examined for comprehensibility and reliability. Qualitative content analysis was employed as a method of examining the data material. The findings and conclusion was assessed using SPSS.

A simple regression model was utilized as a part of deciding the level of impact the free factors:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where;

Y = firm performance of commercial banks in Kenya
(Dependent Variable)

β_0 = Constant Term

$\beta_1, \beta_2, \beta_3, \beta_4$ = Beta coefficients

X_1 = Agency Banking

X_2 = Technological Advancement

X_3 = Innovation Strategy

e = Error Term

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

The section comprises of a presentation of information results and their translation. The presentation in this section demonstrates the outcomes as tried by destinations and research system of the study. The information was accumulated from both essential and optional sources.

4.1.1 Response Rate

Results for the managers was reduced to represent the 16 banks. Questionnaires were distributed to senior staff in heads of agency banking unit, heads of finance and accounts departments of the banks, all of which were received back making response rate of 100%, a reaction rate of 55% is sufficient for factual research. Many of the respondents have been working in the company for the last five years, this perceptibly contributed to the congruence in answering questions related to the research area.

4.2 General Characteristic of the Respondents

The chapter begins with the biodata characteristics of the respondents such as highest academic level, age, tenure and job title which are presented using cross tabulations. Descriptive statistics aided the study in illustrating the characteristics of the respondents and nature of the statistics as per objectives.

4.2.1 Number of Working Years and Job Title

Individual respondent's profile comprised of the number of years the respondents had worked in the organization and the job title or position of the respondents. The quantity of years a representative worked in an organization meant understanding of the organization's operations hence was considered important in evaluating the respondents' appropriateness as relevant and knowledgeable respondents. The target respondents for the study in each organization were senior staff in heads of agency banking unit, heads of finance and accounts departments of the banks. According to Hambrick and Mason (1984) organizations are a reflection of the top management. Hence managers were deemed reliable source of credible firm information. Cross tabulation was done in order to derive more meaning out of the data. In this study the number of years the respondents had worked in their respective firms varied, while the job titles were ranging from CEOs, senior managers and heads of departments.

Table 4.1: Cross Tabulation of Working Years and Job Title

Number of Working Years	Job Title			Total
	Senior Managers	Heads of Agent banking operations	CEO	
0-5 Years	3.3%	23%		26.3%
6-10 Years	6.6%	55.8%	1.6%	64%
11-15 Years	1.6%	6.5%		8.2%
15 and above		1.6%		1.6%
Total	11.5%	86.8%	1.6%	100.0%

Job titles of most of the respondents were heads of agent banking operations comprising of 86.8%. The lowest response rate was from the CEOs with a 1.6% response rate. Majority of the respondents 64% had worked in their respective institutions between 6 to

10 years while only 1.6% for over 15 years. Overall, findings indicate that majority of employees in the banking sector work for the same organization between 0 to 10 years. This finding is useful in determining financial institutions' ability to attract and retain employees. The number of working years in an organization is associated with long experiences are assumed to be more efficient due to minimal mistakes and expertise.

4.3 Firm Performance

Table 4.2: Firm Performance

Statements	Mean	Std. Deviation
High number of agents denotes healthier performance of the bank	3.8719	0.90117
Improved ROA confirms that agency banking has been a success	3.9904	0.52236
Commercial banks extend financial assistance to agents to expand and improve its services	3.8767	0.99862
Cash Deposits	3.6437	0.51242
Bank size	4.7431	0.6135

Respondents were requested that give replies on everything that was measured by running from low high. Mean and standard deviation were utilized to test respondent thoughts.

Financial performance measure Return on Assets (ROA), number of banks agents, cash deposits, financial assistance and bank size were used for the study. Their mean and

standard deviation was taken in to account. From the findings, the study found that there was mean of 3.9904 for return on assets, 3.8719 for number of agents, 3.6437 for cash deposits, 3.8767 for Commercial banks extend financial assistance to agents and 4.7431 for bank size. Bank size had the highest standard deviation hence the highest variation from the mean.

4.4 Agency Banking Strategy

The study in this part aimed at identifying the extent at which the following factors affects agency banking strategy as instigated by respective banks to venture into agent banking. Data was collected using Linkert scale of 1 to 5. The Table 4.1 shows the research findings.

Table 4.3: Agency Banking Strategy

Statements	Mean	Std. Deviation
Increase territorial coverage	3.0186	.29589
Decongest branches	3.3953	.25971
Banking agents enhance financial inclusion as they act as delivery channels	3.4930	.31760
Reach the poor marginalized unbanked	3.3488	.38604
Banking agents offer services in a cost effective manner	3.5419	.36306
Financial institutions use agency banking to access an “additional” client segment or geography	3.4465	.44548
Technology facilitate financial institutions and clients to interact remotely in a trusted way through existing local retail outlets	2.9628	.37372

Real-time authorization of transactions	3.3465	.44548
---	--------	--------

From the findings, the statement on banking agents offer services in a cost effective manner, banking agents enhance financial inclusion as they act as delivery channels and financial institutions were found to be the most significant factors agency banking strategy as shown by mean of 3.5419, 3.4930 and 3.4465. Increase territorial coverage and the statement were the least supported with a mean of 3.0 and 2.9628 respectively.

4.5 Innovation Strategy

Respondents were asked their views on how following enhancing performance. They were requested to rate with a degree of agreement/ disagreement using a scale of 1-5, by ticking their appropriate choice. The Table 4.2 shows the research findings.

Table 4.4: Effects of Innovation Strategy

Statements	Mean	Std. Deviation
Adequate technological platforms	4.0559	.32863
Control issues of physical security	3.5526	.36585
Policies and procedures within banks that are supportive of their optimal performance	3.6579	.43664

From the research findings, adequate technological platforms was the highest supported statement with a mean of 4.0559. Policies and procedures within banks that are supportive of their optimal performance as supported with a mean of 3.6579 and control issues of physical security as supported with a mean of 3.5 respectively.

4.5.1 Efficiency of technological advancement

Respondents were asked their views on how following technological advancement practices done by commercial banks in Kenya in enhancing performance. They were requested to rate with a degree of agreement/ disagreement using a scale of 1-5, by ticking their appropriate choice. The Table 4.2 shows the research findings.

Table 4.5: Effects of technological advancement

Statements	Mean	Std. Deviation
Electronic and highly efficient	4.4803	.90813
Manual and highly efficient	4.0145	.94358
Electronic and inefficient	3.9474	1.46821
Manual and inefficient	3.4507	.74740

From the findings, all the statements were rated above 3.0. Specifically, Electronic and highly efficient had a mean of 4.4803; Manual and highly efficient was supported with a mean of 4.0145; Electronic and inefficient had a mean of 3.9474 and manual and inefficient was supported with a mean of 3.4507.

4.5 Regression Analysis

A simple regression model was utilized as a part of deciding the level of impact the free factors:

Table 4.6: Model Summary for Goodness of fit

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0	1	.796 ^a	0.633	0.594	0.30202

a. Predictors: (Constant), agency banking, Innovation strategy

Coefficient of assurance discloses the degree to which changes in the dependent variable (performance of commercial banks in Kenya) can be clarified by the adjustment in the free factors or the rate of variety in the reliant variable (performance of commercial banks in Kenya) that is clarified by all the two autonomous factors (agency banking, Innovation strategy). The two autonomous factors that were studied, clarify 63% of the adjustments in the firm performance of commercial banks in Kenya as spoke to by the R2. The study demonstrates that there is a positive significant between agency banking strategy and firm performance of commercial banks in Kenya.

Table 4.7: Results of ANOVA of Regression Analysis

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.976	3	1.494	16.377	.000 ^a
	Residual	3.466	8	.091		
	Total	9.442	11			

a. Predictors: (Constant), agency banking, Innovation strategy

b. Dependent Variable: performance of commercial banks

ANOVA findings (P- value of 0.00) in Table 4.4 show that there is correlation between the predictor's variables (agency banking and innovation strategy) and response variable (Firm performance of commercial banks). A F ratio is ascertained which represents to the fluctuation between the gatherings, separated by the difference within the groups. An extensive F proportion shows that there is more inconstancy between the groups (brought

on by the independent variable) than there is inside every gathering, alluded to as the error term. A huge F test shows that we can dismiss the null hypothesis which expresses that the populace means are equivalent. The P value is 0.000 which is less than 0.005 significance level.

From the ANOVA table, it's found that differences concerning agency banking and Innovation strategy is significant at 5% level as the calculated *F*-ratio of 16.377 is greater than the value 0.00, but agency banking and innovation strategy are significant as the calculated *F*-ratio of 16.377 is more than its table value of 0.00.

Table 4.8: Coefficients of Regression Equation

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	26.123	1.947		13.414	.006
1 Innovation strategy	.012	.394	.213	.030	.979
Agency banking	.118	2.108	.395	.056	.960

The researcher conducted a regression analysis so as to determine the relationship between agency banking strategy and organizational performance in commercial banks in Kenya. The regression equation ($Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2$) was:

$$Y = 26.123 + 0.012X_1 + 0.118X_2$$

Whereby Y = firm performance of commercial banks;

X₁ = Innovation strategy;

X₂ = Agency banking.

According to the regression equation established, taking all factors (Innovation strategy and agency banking strategy) constant at zero, the firm performance of the commercial banks will be 26.123%. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in innovation strategy will lead to a 0.012 increase in firm performance of the banking sector. A unit increase in agency banking will lead to a 0.118 increase in in the firm performance of the commercial banks. This notwithstanding, the study shows that there is a positive significant correlation between independent variables and firm performance of commercial banks in Kenya. Therefore, it can be deduced agency banking strategy and firm performance has a significant effect on banks performance.

4.6 Challenges encountered while operating agent banking strategy

The study was also interested in identifying challenges that are encountered in agents banking. The table below shows the research findings.

Table 4.9: Challenges encountered while operating agent banking strategy

	Mean	Std. Deviation
Remote placement of retail agents	1.3696	.54772
Unprofessionalism	1.2211	.63084
Operating procedures	2.0559	1.49813
cross-selling of existing bank products	4.6151	.67479
Untrained staff affects performance of agency banking	2.6941	.52824
Inadequate cash in the agents till	1.6733	.74730
System failures affects operations at the agency	3.4507	.88489

Data loss	1.7171	1.28159
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From the findings, the study found a number of challenges, particularly: remote placement of retail agents, unprofessionalism, standard operating, untrained staff affects performance of agency banking affects operations at the agency and data loss.

4.7 Discussion

Financial performance measure Return on Assets (ROA), number of banks agents, cash deposits, financial assistance and bank size were used for the study. Their mean and standard deviation was taken in to account. From the findings, the study found that return on assets, number of agents, cash deposits, Commercial banks extend financial assistance to agents and bank size influence financial performance. This in line with Burnes (2009), who contends that financial performance contains proposed yields.

Banking agents offer services in a cost effective manner, banking agents enhance financial inclusion as they act as delivery channels and financial institutions were found to be the most significant factors agency banking strategy and increase territorial coverage. Kiragu, (2011) contends that utilizing bank offices keeping money and installment benefits, supermarkets, drug stores, seed and manure retailers and service stations is a better way of enhancing agency banking.

From the research findings, adequate technological platforms, policies and procedures within banks that are supportive of their optimal performance and control issues that intends to subject agents to the same physical security were found to be essential elements of innovation strategy as highlighted by the study led by Mbuva, (2009) that the

firm performance alludes to the degree to which association's objectives and goals are accomplished productively and viably. Authoritative execution includes three specific territories of firm results, item advertise execution (deals, piece of the pie) and shareholder return. Inside corporate relationship, there are three basic results analyzed including market execution, money related execution and shareholder esteem execution.

CHAPTER FIVE:

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of findings

Financial performance measure Return on Assets (ROA), number of banks agents, cash deposits, financial assistance and bank size were very important in determining the organizational performance.

Commercial banks in Kenya have adopted agency banking increased territorial coverage, decongestion of branches, banking agents enhance financial inclusion as they act as delivery channels, reaching the poor marginalized unbanked, banking agents offer services in a cost effective manner, financial institutions and real-time authorization of transactions are some of the major strategies adopted by commercial banks for organizational performance.

However, the study found out a number of challenges that are encountered while operating agent banking strategy. the study found a number of challenges, particularly: remote placement of retail agents, standard operation, untrained staff affects performance of agency banking, inadequate cash in the agents till, system failures affects operations at the agency and data loss.

5.3 Conclusions

From the examination findings exhibited in section four and synopsis of discoveries, the study infers that there is a critical positive relationship between agency banking and

organizational performance of commercial banks in Kenya. This could be ascribed to the patterns recorded in the two factors where the quantity of clients and month to month exchanges kept up a positive development rate while execution of business banks was influenced by numerous factors which have significant effects contrasted with the appropriation and agency banking. Financial performance of commercial banks in Kenya was significantly influenced by full scale monetary factors like Return on Assets (ROA), number of banks agents, cash deposits, financial assistance and bank size among other macro-economic variables which were outside the scope of this study.

5.4 Policy Recommendations

From the conclusion, the study recommends that; commercial banks should be encouraged to embrace agency banking through adoption of improved technology. This will increase volume of transactions and bank size which will lead to financial performance. Security enhances accessibility and operation of agents' banks; the government of Kenya should thus improve security to enhance operation of the agents' bank. This will enable commercial banks in Kenya increase the number of agents. This can be done by reducing the requirements of becoming a bank agent.

Commercial banks in Kenya should improve bank standard operating procedures, system failures and also increase promotion activities of agent's banking. By doing this the number of transactions made by customers will increase. This in turn helps the customers to save more and hence the amount the bank can loan increases.

The government should support the program of operation of agency banking. This can be done by reducing the high compliance costs, bureaucracy in registration and high cost of taxation. This will increase the number of transaction by the banks hence profitability

5.5 Limitations of the Study

A confinement was viewed as an element that was available and added to the specialist getting either insufficient data or if generally the reaction given would have been very surprising from what the scientist anticipated. The fundamental impediments of this study were: in accomplishing its goal, the study was constrained to 16 commercial banks that have embraced agency banking over a 3 years' period starting from year 2012 to year 2014. This is because only those 16 commercial banks have embraced agency banking and most of them stated operating agency banking in the year 2012.

Another restriction for the study incorporated the brief time frame which business banks have executed organization saving money which couldn't give a long pattern for investigation. Agency banking in commercial banks was just presented in Kenya by March 2008. It has just been a long time since the dispatch which may not give an unmistakable photo of the relationship as not every business bank embraced it at prior yet the execution utilized as a part of the study considers the performance from all banks.

5.6 Suggestions for Further Studies

A study can also be done on the factors affecting the financial performance of the agent banks; this will enable the commercial banks embrace agency banking through adoption of technology thus enhancing financial performance of commercial banks, so as to find the reasons behind low number of operation of agency banks compared to the number of commercial banks operating in the country.

A study can also be done on the role of the government or regulatory framework in supporting the adoption of agency banking and the impact of agency banking to the financial sector deepening and financial inclusion.

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APPENDICES

Appendix I: Introduction Letter


UNIVERSITY OF NAIROBI
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Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 18.10.2016

TO WHOM IT MAY CONCERN

The bearer of this letter EVELINE OUMA

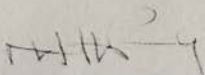
Registration No. D61/67934/2013

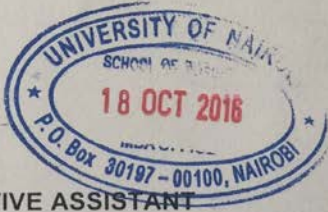
is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.


PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS



Appendix II: Questionnaire

This questionnaire seeks to collect information on agent banking as a strategy for enhancing financial performance at Kenya Commercial Bank. Please provide information frankly and honestly. All information received will be treated confidentially and used for academic purposes only.

Section A: General Information

1. Age of the bank

2. How long have you worked in the bank

0-5 Years ()

6-10 Years ()

11-15 Years ()

15 and above ()

3. Your job title (please select one)

Commercial bank manager ()

Head of Agent banking operations ()

4. How many Agency outlets does this bank have within Nairobi CBD?

Up to 500 ()

507-1000 ()

1001-1500 ()

1500-2000 ()

2000 and above ()

Section B:

	1	2	3	4	5
Fluctuations in float amount affects agency operations					
Lack of float cash at the agency leads to frustration among customers					
Commercial banks extend financial assistance to agents to expand and improve its services					
It is difficult to run a cash heavy operation at the agency level					
Maintaining adequate floats Amount throughout					

5. In your opinion what has instigated your bank to venture into agent banking as a strategy? Rank in a Likert scale of 1 – 5 where: No extent **(1)**, Little extent, **(2)**, Moderate extent **(3)**, Large extent **(4)** and Very large extent **(5)**

	1	2	3	4	5
Increase territorial coverage					
Decongest branches					
Banking agents enhance financial inclusion as they act as delivery channels					
Reach the poor marginalized unbanked					
Banking agents offer services in a cost effective manner					
Financial institutions use agents to reach an “additional” client					

segment or geography					
Technology can enable banks and their customers to interact remotely in a trusted way through existing local retail outlets					
Real-time authorization of transactions					

6. What are the factors that have contributed to the successful operations of agent banking by your bank? Rank in a Likert scale of 1 – 4 where: No extent (1), Little extent, (2), Moderate extent (3), Large extent (4) and Very large extent (5)

	1	2	3	4	5
Technological advancement					
Control issues					
Policies and procedures					

7. How could you rate the efficiency of technological advancement as regards agent banking as a strategy by commercial bank agents?

	1	2	3	4	5
Electronic and highly efficient					
Manual and highly efficient					
Electronic and inefficient					
Manual and inefficient					

8. What challenges are encountered by your bank from the agents while operating agent banking strategy? Rank in a Likert scale of 1 – 4 where 1 is very important, 2 is fairly important, 3 is important, 4 is not important.

	1	2	3	4	5
Remote placement of retail agents					
Lack of professionalism when handling bank customers					
Bank standard operating procedures not adhered to					
Difficulty in cross-selling other existing bank products					
Untrained staff					
Inadequate cash in the agents till					
System failures					
Data loss					

**Appendix III: List of Commercial Banks operating Agency Banking in Kenya as at
Dec 2015**

- 1) African Banking Corporation
- 2) Bank of Africa (K)
- 3) Barclay Bank of Kenya
- 4) Chase Bank (K) Ltd.
- 5) Citi Bank
- 6) Citi Bank Ltd
- 7) Consolidated Bank
- 8) Co-operative Bank of Kenya Ltd
- 9) Diamond Trust Bank Kenya Ltd
- 10) Eco bank
- 11) Equity Bank Ltd.
- 12) Family Bank Ltd.
- 13) I & M Bank
- 14) Kenya Commercial Bank Ltd.
- 15) NIC Bank Ltd
- 16) Standard Chartered Bank

SOURCE: CBK Bank supervision Report 2015