

**UNIVERSITY OF NAIROBI**

**DEPARTMENT OF SOCIOLOGY AND SOCIAL WORK**

**THE CONTRIBUTION OF AGENCY BANKING TO THE GROWTH OF  
SMALL AND MEDIUM ENTERPRISES IN KENYA: A CASE STUDY OF  
IGEMBE NORTH SUB COUNTY - MERU COUNTY**

**BY**

**KENETH MUTUMA MUTHAURA**

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## DECLARATION

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

**Kenneth Mutuma Muthaura**

**Reg No.: C50/73221/2009**

Signature.....Date.....

### **Supervisor**

This research project has been submitted for examination with my approval as the University supervisor.

**Dr. James Kariuki,**

**Lecturer**

Signature.....Date.....

## **DEDICATION**

This project is dedicated to My Wife Canon Kendi who gave me the moral support and encouraged me to pursue and complete the course.

I would also like to thank my parents Mr. and Mrs. Francis Muthaura, my brothers Moses Kimathi, my Sisters Christine Kananu and Lorna Gikabu and friends who gave me the encouragement and much needed support that helped me a lot in finishing this project within the limited time. The financial support as well as encouragement gave me the strength to complete.

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God Bless you all.

## **LIST OF ABBREVIATIONS**

|       |                                       |
|-------|---------------------------------------|
| AIM   | Alternative Investment Market Segment |
| CMA   | Capital Markets Authority             |
| GDP   | Gross Domestic Product                |
| GNI   | Gross National Income                 |
| GOK   | Government of Kenya                   |
| ILO   | International Labour Organization     |
| IFC   | International Finance corporation     |
| MSMEs | Micro Small and Medium Enterprises    |
| SMEs  | Small and Medium Enterprises          |

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## **ABSTRACT**

With the growth of agency banking as one of the smallest units of financial institutions to disseminate services to the customers, there have been issues as well as challenges associated with their optimisation and effective usage. Therefore, this research purposes to investigate the contribution of agency banking to the growth of small and medium enterprises in Kenya through studying a case of Igembe North Sub County - Meru County. The problem of variation and inadequate services in terms of physical resources, human capital and even latest technologies have contributed to challenges in growth of SMEs, thus this research utilises the following objectives to study this phenomenon; To evaluate the characteristics of SMEs in Igembe North Sub-County; To establish factors that influences the growth and sustainability of SMEs in Igembe North Sub-County; To ascertain the factors that influences the growth and adoption of agency banking within SMEs in Igembe North Sub-County and finally. In the effort to synthesise these aspects amicably, this research utilised Agency theory, Entrepreneurship and Innovation Theory and Diffusion of Innovations Theory to try creating a deeper perspectives of the topical issue and shade light to the antecedents that formed the in-depth understanding. For effective data sourcing, this research utilised a pragmatic approach which necessitated the use of both quantitative and qualitative datasets to increase data accuracy and representability. Case study strategy was used where Igembe Sub County was used and interviews and questionnaires data collection instruments were utilised too. Accordingly, both statistical and content analysis method of data analysis was used to cater for the pragmatic nature of this study. Data findings established that, accessibility to credit is the factor that contributes highly to the growth of the SMEs, secured transactional platform was seen to be the key aspect which has made agency banking to become popular, while lacking adequate features being still the biggest concern and challenge both agents and users of this platform has in regard to agency banking in Igembe North. The following recommendations were proposed; enhancing latest security technologies to combat acts of hacking and increasing effectiveness, embracing adequate training to agents to increase customer relationship and service delivery and lastly liquidity issues must be made part of the minimum threshold requirements.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

Small and Medium Enterprises (SMEs) play an integral role in the development and economic growth of countries and regions and this aspect has underscored the proverbial function of SMEs as just community and friendship poised organised entities. Apart from the economic contribution, SMEs have been deemed to have a profound contribution in terms of generating job opportunities according to (Reddy, 1991). Past researches have indicated that SMEs have a net contribution of over 60% to the overall employment indices in the formal sectors in developed and developing countries in the manufacturing sector (Adiera). The International Labor Organization report on 'Employment, Income and Equity' in Kenya in 1972, was the first instance of uncovering the importance of SMEs. It highlights SMEs as a propagator of jobs and employment as well as growth of income overtime. African Economic Outlook Report, (2011) highlights that up to 85% of employment opportunities in Kenya is created by SMEs.

In matters innovation SMEs rank high particularly when factoring in their various advantages that root from their less rigid organization and administrative structures which averages a relatively high response speed as well as their flexibility. This leads to improvement of social as well as economic values (Crawford, 2003; Lin & Chen 2007). The major setback for the capacity and readiness in the development of innovative products however lies in the financial muscle as well as the management and technical skill (Gray 2006; Shiu & Walker 2007). It is therefore of great importance for them to receive intervention in terms of technological innovations to aid new products as well as services, other forms include financial assistance in proper financial packages so as to be able to fund their developments.

It is of general knowledge however the types of challenges that affect SMEs, which eventually affect their adequate growth and ability to be profitable. This diminishes their ability effectively contribute to sustainable development. Among these challenges as identified by the International Finance Corporation (IFC) (2011) include lack of innovation capacity, inadequate education and skill, lack of experience and appropriate

managerial training, lack of access to credit, poor infrastructure, technological shifts as well as scanty information about market trends.

A major impediment to the continued growth of SMEs however is the lack of access to loans and credit from the banks. This is a problem due to the inaccessibility of the conventional banking facilities, which are always located only in major urban centres and towns

Execution of banking agents policy in the current Kenyan economy is evidence of this reality (Ndungu & Njeru, 2014). Banks and financial institutions that have in the past depended on establishing physical branches on different towns and urban centres are now shifting to acquiring agents and engaging in agency banking which conveniently provides the most basic of banking services to areas with no major branches. This has among other impacts the effect of minimizing banking costs. In January 2010, Kenya altered its banking system and policies to enable the provision of commercial banks to give their services by means of third-party dealings. The agents function as remote branches (Mwenda, 2013).

Agency banking involves banks or mobile network operators contracting off a retail store or postal outlet to process transactions. Its difference with the branch teller is that unlike the bank teller system the owner or an employee of the retail outlet is the one who conducts the transactions. All of which range from withdrawals, deposits, bill payments, cash transfers, account balance inquiries as well as receiving deposits. The various banking agents may include: retail stores, supermarkets, convenient stores, post offices as well as lottery outlets and many more (Ivantry, 2006). Agency banking can be interpreted as a partnership between a financial facility and a non-bank facility that may be any of lottery kiosks, pharmacies, construction goods store, post offices and many others with the aim of setting up a distribution outlet for financial services (Kumar, Nair, Parsons and Urdapilleta, 2006).

Banking customers can now easily access banking services ranging from withdrawals to deposits, bill payments, cash transfers, account balance inquiry as well as receiving

deposits at the comfort of a few meters because of the implementation of Agency banking. This has effectively reduced the cost of accessing financial services (Ivatury, 2006). With the implementation of Agency banking the two major problems with the current conventional banking system has been addressed. That is the cost of handling low value transactions as well as the cost of rolling out physical branches in remote areas. These were not economically viable especially with consideration of remote locations and areas with informal settlements. By leveraging networks of existing third party agency to enable remote cash transaction and account opening and by shifting transactions online the problems have been effectively solved. The cost reduction helps to exponentially increase the chunk of population that can access formal financial services all over the country including the rural areas and the informal settlements which make up the better numbers in developing countries (Lyman *et al.*, 2008).

Through this, one of the constraints of provision of financial services to business through branches and other conventional banking based delivery channels that attract high costs has been overhauled. The amount of money needed by the banks and financial service providers to be able to serve poverty-stricken customers with minimal balance and conducting small transactions is too high to justify the viability of operating such accounts. In addition there's a likelihood that the customers would engage in interacting with banks and financial institutions, if there's no remote branch to enable their interactions convenience. However the implementation of the new financial service delivery models by using agency banking, banks, telecom companies and other several providers as a means of altering the economics of banking to the poor can offer saving services in a commercially viable way and effect reduced fixed costs thereby encourage the customers to frequently utilize the services. This helps increases the access to revenue sources (Aduda *et al.*, 2013).

Due to the establishment of a transaction driven revenue model, rather than a float driven modes and because of the lowered transaction cost, agent banking offer the most cost efficient and effective transactional accounts with much frequent transactions and a low balance. For example running a branch that receives approximately two to three deposit

and withdrawals may be more expensive than if the customers carry out their transactions through an agent. Moreover profitability levels of the agency system only requires an average number of withdrawals, a large number of small deposits and commitment accounts with increasing balances over a preset period of time. However this also depends on their average transactional volume (Veniard & Melinda, 2010)

## **1.2 Problem Statement**

Agency banking has successfully propelled and enhanced the performance of banks in developing as well as advanced countries. Countries like Columbia, Peru, India and Brazil have reported the success of agency banking (Kinyanjui, 2011). Despite its launch in Kenya in 2010 just a handful of banks have indulged into experimenting the option. Out of 43 commercial banks available only four have been able to take up the practice of agency banking successfully (CBK 2010). SMEs have also failed to completely embrace agency banking citing security issues for their money as well as lack of trust for the banking agencies despite them being flexible and effective. Moreover many banks and financial providers who have taken up agency banking have discovered the lack of the capacity of the agents to handle large transactions. In addition they do not have adequate security mechanisms put in place to offer protection to the money leading to a poor performance despite agency banking being relevant to the commercial banks in enhancing financial performance (Melinda, 2012).

A number of studies have been conducted regarding agency banking: Mauricio and Maudrile (2008) for instance conducted a study on a new model of agency banking in Columbia while Omumi (2010) conducted a study on the use of agents in banking including the postal corporation of Kenya.

Despite the fact that these studies in different counties including Kenya have confirmed the positive impact of Agency banking on overall banking performance. There has been no study so far to determine the impact that agency banking has on users and subscribers of the service among who mainly are the SMEs.

It is not clear whether the implementation of agency banking in Kenya has encouraged an increase in the financial performance of small businesses, which are majorly categorized under SMEs. As a result this study aim was to bridge the gap in literature by assessing the contributions and/or impact the policy of agency banking has had on the financial performance of small businesses in the SME sector in Igembe North Sub-County.

### **1.3. Research Questions**

The study sought to answer the following questions

- i. What are the general characteristics of SMEs in Igembe North Sub-County?
- ii. What are the factors that influence growth of SMEs in Igembe North Sub-County?
- iii. What are the factors that influence growth and adoption of agency banking within SMEs in Igembe North Sub-County?
- iv. What are challenges faced SMEs in using agency banking in Igembe North Sub-County?

### **1.4 General study objective**

This study's main objective was to establish the impact of agency banking on the financial performance of SME businesses in Igembe North Sub-County.

### **1.5 Specific Objectives**

The study was guided by the following research objectives;

- i. To evaluate the characteristics of SMEs in Igembe North Sub-County.
- ii. To establish factors that influences the growth and sustainability of SMEs in Igembe North Sub-County.
- iii. To ascertain the factors that influences the growth and adoption of agency banking within SMEs in Igembe North Sub-County.
- iv. To assess the challenges faced SMEs in using agency banking in Igembe North Sub-County.



## **1.6 Significance of the Study**

Among the potential benefits of this study is the insight it could provide the banking and financial institutions with. Highlighting the contribution that their policy has had to the economic development especially about the SMEs sector. This information is crucial to creating awareness to various banks on how their money is well spent for the benefits of their customers. This research would therefore report the effectiveness and efficiency of banks in the development of the economy through the SMEs.

The government may benefit from this study because it will be able to learn new ways of improving on the financial sector and financial institutions to ensure financial inclusion. The central bank will be able to know how to set new guidelines or re-evaluate existing guidelines when it comes to commercial banks services, products and operations. The government will be able to know how to monitor the financial business environment in order to get the most useful information in order to improve on its service delivery within the country when it comes to financial services among various commercial banks.

Individuals involved in the business industry with specificity to the SMEs may through this study may acquire knowledge of the various benefits of using agency banking services. Further they will be able to appreciate their role in the growth of the economy and its importance to the country as a result they are therefore able to share the challenges they face openly with the stake holders for improvement of the service delivery.

This study may give scholars information on the impact of agency banking on the growth of SME segment and open discussions on new areas of study. The information will pave way for further discussions on agency banking which will be beneficial to the economy as well as the stakeholders at hand.

## 1.7 Definition of Key Terms

**Agency banking:** this is the concept in which banking services are provided to the customer on behalf of a licensed, prudentially regulated bank or financial institution by a third party agency contracted by the bank itself.

**Bank agent:** an outlet contracted by a bank or any other financial institution to offer banking services on behalf of its customers most likely a postal outlet or retail store

**Bank regulation:** a process of subjecting financial institutions including banks to specific restrictions and requirements, normally done by the government.

**Commercial Bank:** an institution dealing with financial service delivery processes such as offering loans, mortgage, cash transfers, deposits and withdrawals as well as basic investment.

**Entrepreneur:** An entrepreneur can be defined as a person who sets and starts his own small business enterprise (Ray, 2008).

**Liquidity:** Availability of, access to or convertibility into cash.

**Performance:** To understand how well a business is doing in accomplishing its goals.

**Security:** The action of agency banker to provide safety of customer's liquid cash at their disposal through use of security guards, cash safe or insurance.

**Small and Medium Enterprise:** According to the Micro and Small Enterprise bill 2015, a micro enterprise is an industry or business activity or firm or trade service that is either formal or informal and has a yearly turn over not exceeding Kshs. 500,000.00 and employs between 1-9 people.

### **1.8 Scope and Limitations of the Study**

The study was out to determine the impact that the use of agency banking had on Small and Medium entrepreneurs in Igembe North Sub-County and whether the use of these services has had any effect to their growth. The study was limited to only the main objective of assessing the contribution that easy access to financial services through agency banking has had on the growth of SMEs in Igembe North Sub-County.

Due to the limitations in finance and time that's the reason why we chose only one Sub County of the entire Meru County, however we settled on Igembe North Sub-County due to its many small towns with diverse businesses but not even one has any bank in their area.

## **CHAPTER TWO: LITERATURE REVIEW AND THEORETICAL FRAMEWORK**

### **2.0 Introduction**

This chapter is devoted to the review of literature whereby the Empirical review both locally and internationally are highlighted and the different theories that the study is based which include Bank led theory, entrepreneurship and innovation theory and the diffusion of innovations theory are discussed in this chapter. Determinants of financial performance of SMEs are also discussed in this chapter.

### **2.1 General Characteristics of SMEs**

#### **2.1.1 Few workers**

Since SMEs are a small business, they do not need a large numbers of employees. Even with the few number of workers, they are able to perform all the necessary tasks needed to run and operate a business. Just like any other large business, an SME has the manufacturing, marketing and the accounting department among other departments in business (Ahn, Mortara & Minshall, 2013). The departments can easily be handled by either one or two persons. For instance, an owner can account, manage and market their business if at all they feel they can handle the task by themselves or they can also choose to hire one qualified person to help in the accounts or the manufacturing department of the company. Although the workers being depended on are few, they need to have the qualified and necessary skills that can help in performing multiple skills for the business. Even with the few employees the business can have long-term stability in their business operation.

#### **2.1.2 Market area**

Small and medium enterprises are expected to offer their services and products to a small scale area compared to large cooperation. These kinds of businesses are especially meant to serve communities around where the business is established. For example a mini-market or convenience store located in a rural area is meant to serve the people of that particular area since its services are not recognized in a large-scale area (Dzama, 2015). As the enterprises are small and medium, they are hardly recognizable in other market

areas other than where it is located and where it operates. With the small market area, they have a limitation of resources where the ability to market their services is difficult since they cannot get into new markets as they have no sufficient capital for their business.

### **2.1.3 Relationships**

Since most small and medium enterprises have attention on few products and services, it helps them build a long-lasting and strong relationship with its business partners. Strong relationships helping the building of the enterprises stability for the future of the business it operates (Zoghi, 2017). For a SME, the customers are significant and essential for the growing of the business so the business owners will do everything possible to please and satisfy their customers through their services and products offered. It is important for a cordial business relationship to exist between the business and the customers to avoid the downfall of the SME since most of the financial stability comes from the clients.

## **2.2 Factors Influencing Growth of SMEs**

### **2.2.1 Access to Credit**

A considerable amount of attention has been drawn from scholars, practitioners as well as academicians as pertains to the limited access to financial resources by SMEs for years now. Available secondary sources of information suggest that enabling access to better financial resources for the SME has the potential to spark improved economic growth as well as reduce income inequality and thereby reduce poverty (World Bank, 2008; Levine 2005; Rajan and Zingales 1998; Townsend and Ueda, 2003). Lowering financial constraints faced at the firm level can improve entrepreneurial activities thereby leading to the creation of jobs and promoting innovation and increased income earned (Beck et al., 2005; Paulson and Townsend 2004). A study carried out recently ranks limited access to finance as one of the major constraints faced by small businesses in Thailand (NESDB 2004; Bank of Thailand 2009; Wesaratchakit et. al., 2010) and worldwide (Schiffer & Weder, 2001).

Limited access to credit facilities and other financial services including deposits, cash transfers and transactions provided by banks and financial institutions is a major problem affecting Small business enterprises in most Sub-Saharan Africa countries that are also faced by widespread poverty. In Tanzania and Ghana for instance banking services and the banking sector are available for only about 5-6% of the population (Basu, Blavy & Yulek, 2004). Additionally, HFC Bank (2004) highlights that the in cooperation of agency banking in the economy saves SMEs a lot of time and resources by bringing banking services closer to them. Having this banking service within the environments from which these SMEs operate helps to save the time and resources they would have spent looking for the services, as a result focus and attention as well as the available resources are focused on improving their businesses and increasing performance. This in addition to the fact that informal support exists by way of personal savings as well as business angels, their ability to adopt and in cooperate modern technology in their businesses is enhanced. (UNIDO, 2002). Only a few businesses are financed directly by bank loans and credits, government assistance and other informal programs. (Osei, Baah-Nuakoh, Tutu & Sowa, 1993; Bani, 2003)

In the same way, Abor and Biekpe (2006) highlight that effective access to finance is a real constraint to SMEs in the Sub Saharan Africa. However it is crucial to point out that access to financial muscle is not the only constraint limiting SMEs development (Liedholm, MacPherson & Chuta, 1994). Access to funds could also effectively improve SMEs access to other essential resources including: information resources, physical resources as well as human resources. SMEs cannot maximize on their production and subsequently improve sales and profits due to low level of technological in cooperation in their business. This is majorly because they are financially unable to acquire technological resources. As a result the chances of growth are minimize and an SME is left in a perpetual state of financial inadequacy. This highlights the importance of injection of external capital to the SMEs to help boost their performance. Various research studies carried out by Arthur (2003); Mensah (2004); Deakins, North, Baldock, & Whittam (2008) illustrate that the major problem facing SMEs in developing countries is funding and financial assistance. This has prompted the inclusion of measures of ensuring financial inclusion in policies regarding agency banking. In Kenya this laws

were established and passed in 2010. Various banks have moved to establish agencies in almost all parts of the country thereby increasing access to financial services for the SMEs. This has subsequently led to their rapid development in the recent subsequent years. Many banks have established agencies in different parts of the country and this study aims to measure the impact of these agencies to the development of the SMEs in these remote areas.

### **2.2.2 Age of the firm**

According to Sutton (1997), Caves (1998) and Audretsch & Klepper (2000) presented a summary of the theoretical and empirical information regarding firm dynamics, the firm size is negatively related to growth but at the same time smaller firms are more susceptible to fail than relatively bigger firms. This conclusion that is implicitly concerned with developed countries clarifies the words of Geroski (1995) to a styled fact which contradicts the often cited Gibrat's Law. However the empirical observation that firm size is positively related to the chances of survival can be theoretically dissected within the framework of noisy selection introduced by Jovanovic (1982). A passive learning model where information is gathered by the entrepreneur at no costs adequately characterizes this contribution. New individuals coming into the business are unaware of the cost structure and thereby assume that different firms differ with as far as efficiency is concerned. They proceed to incur a range of different costs while the level of production of output remains the same. They are also unaware of their precise abilities and therefore evaluation of performance is impossible. This means each new individual in the industry has to go through a process of learning in order to accumulate information and adequately learn about the actual market. They have to establish and enhance their abilities to be good enough for the expectations set prior to their entrance in the business, failure to which they will be forced to exit the industry all together.

Consequently, in the model of Jovanovic (1982) narrates that firms that are efficient in their operations survive the market and get the opportunity to grow, while over optimistic firms eventually end up shutting down. The length of time a firm stays in the industry is directly proportional to the knowledge it establishes about its operations and abilities. This means that in this model the capacity of a firm to survive is directly proportional to

its age in the industry. In conclusion, Jovanovic predicts that the chances of a firm's survival within the respective industry increases proportionally with its age as well as its size. The only drawback of the Jovanovic approach however is the non-inclusion of any technological process in his model. As a result Ericson and Pakes (1995) propose to improve the model to current and more active learning where advancements in technology are incorporated. Firms are well aware of the level of distribution of their profits but are oddly unaware of whether or not their innovations are profitable. This is majorly due to the randomness of outcomes that are related with the infusion of an innovation to their processes as well as the actions derived from other factors in the market. Firms have to therefore extensively explore the market and invest actively in various premises so as to be able to enable productivity. If successful they survive the market pressures and effectively grow to maturity but if not they succumb to the pressures and eventually exit the industry.

### **2.2.3 Adaptiveness to Technology Change**

A firm's investment in innovation is considered as a force that helps to drive a firm to success besides its size and age. According to Jovanovic and MacDonald (1994) firms that have acquired enough experience overtime have the capability of pursuing and adopting new innovations. This happening during this age of rapid technological changes leads to the lowering of prices due to reduced production costs. Ultimately firms that do not incorporate technology in their practices end up exiting the market because of their inability to match the low market prices. Moreover, Klepper (1996) is of the opinion that a firm's size and its ability to effect appropriate returns from various technological innovations are related. He outlines the importance of firm size and why as well as how it is able to appropriate returns from technological innovations, and in his analytical framework, the decline in prices is a most probable outcome of technological infusion limits the entry of new firms. The older firms that have advanced innovative capabilities thereby retain the larger shares of the industry.

Gort and Klepper (1982) show that technology and knowledge conditions are the major determinants of the ease with which new firms are able to explore innovative ideas and be able to survive. Giving a compliment to this study Audretsch (1991, 1995) suggests



that technological adoption is crucial in the long term survival of new entrants in the market. With a specific reference to the United States Manufacturing sector he uncovers that industries where small firms possess relatively higher innovation in cooperation as compared to bigger firms, the survival rate is increased for the smaller firms. Agarwal and Audretsch (2001) also emphasizes that the relationship connecting the likelihood of firms to survive with their individual sizes is dependent on the amount of technological resources in cooperated in the business as well as the stage of the industries life cycle.

#### **2.2.4 Education Level of the Entrepreneur**

Among the factors that affect the growth and development of firms positively is education (King and McGrath, 2002). Entrepreneurs possessing extensive educational knowledge and/or vocational training are advantaged when it comes to adapting their business to the ever changing business environment King & McGrath, (1998). The capital represented by human resource is the extent of an individual's knowledge, skills and capabilities acquired through the process of education and that they can apply and use economically (OECD, 2001). This capital represented by the human resource is among the most crucial inputs for the running and management of an organization. This is specifically so as to aid the continuous improvement of the owner in terms of skills, knowledge and abilities. In addition the owner-manager relationship is among the most important and common characteristics of SMEs due to the fact that the owner and the manager of the SMEs are in most case the same individual. However the characteristics of Owner-manager have no impact in larger firms due to the availability of a professional team of managers appointed by the shareholders to manage the firm. Storey, (1994) emphasizes that firm viability of start-up and its ability to survive turbulent times are greatly improved by the quality of human capital invested in it. As a result access of debt capital to such kind of firms is greatly improved and made easier.

Coleman (2000) examined among other factors gender, education, number of years of experience and access to external finances, he conveniently concluded that level of education possessed by the entrepreneur is positively related to their chances of being able to secure external loans. With the same context Irwin and Scott (2010) explored the range of barriers present in connection to the aspect of raised bank finances faced by

SMEs specifically including the effects of personal characteristics. They established that the level of education an individual may possess is of little impact when it comes to sourcing for financial assistance.

### **2.2.5 Access to Markets**

Many Small and medium enterprises face a huge external competition and the need to grow and expand their shares in the market. However, Aryeetey *et al.* (1994) outlines that the performance of SMEs can be greatly affected by the lack of their access to wider markets, adequate capital as well as proper infrastructure.

Accordingly, access to capital is the most important problem that SMEs often face which then impedes them from accessing international markets (Lader, 1996). A significant drawback is effectively set by the lack of adequate financial resources, making it difficult to access the markets, hence with financial inclusion brought about by the agency banking model the SME owners are able to overcome some of the challenges, like capital required to access this markets through credit facilities from the banks and in addition capacity building done by the banks to the SMES owners. This is to ensure they are well equipped with knowledge to ensure their products are competitive in the market and also information on new market frontiers. In Igembe North Sub-County this is very important especially for the export of their major cash crop Miraa. The other major issue impending accessibility to markets by SMEs is on infrastructure whereby many places in many areas which are dominated by SMEs have poor infrastructural frameworks; this adversely affects the provision of infrastructural services such as power, water, access roads, sewerage as well as telecommunication.

## **2.3 Factors Influencing the Use of Agency Banking**

### **2.3.1 Low Transaction Cost**

From the views of Arora and Ferrand (2007), gain to capital is important for the sustainable efficient growth and communal development. This improves the earnings of the small persons and the degraded community to positively get involved to the improvement of the nation. This in turns generates more workflow and reduce the level of dependency: despite improving the way for those prohibited to gain capital utility and

decreasing the dependence ratio on the casual capital for instance the addition of money banking.

Cash merchants have decreased the want of more labour and braches to gain access to clients. Bean (2009) indicated that merchant banking are capable and the introduction of capital utilities as well to buyers at a reduced amount. This has also improved the ease of banks to increase and reach a larger market for customers. The introduction of negotiating in banking is a new idea which makes merchant banking conveys information that customers and banks use to save and convey business information faster and at a lower cost through longer distances. For instance in the country region a lot of needy people have a way to gain to low cost handsets and also to prepaid airtime vendors. For banks cash merchant is used to minimize the amount of conveying utilities, reduce human congestion in bank branches and establishment of banks in new regions.

According to Veniard, Bill and Gates foundation (2010) stated that agency banking adds value to any mainstream bank by ensuring convenience and accessibility perspectives in turn increasing quality and customer loyalty to the respective principal banks. The amount of cash disbursed by the capital utility provides to help the needy customers with a small balance and for doing small businesses is simply too good to make such narratives feasible. When the capital utility providers do not have sectors which are nearer to the customers, the customer is less likely to use and convey with their utilities but we see with the introduction of bank transacting services as a path to change development of banking for the needy. By the use of sell junctions as money dealers can offer storage utilities by minimizing fixed amounts of money and uplift the customers to use the utilities a lot thus providing ways to add to their earnings.

The cash merchants are three times easier to use than grasping an already established retail exits, and minimizing the want for banks to put. The use of handsets in connection to the bank services the customers are able to get more than 70 percent of the total amount at a bank branch. Fees will be experienced only when transactions are made, whereas in a commercial bank sector, fixed fees are shared over a number of transactions

made that arise in a lot much fees which are charged for every business dealings made especially if the sector is limited in utilities.

As a result of fees gained through businesses carried, the systems of cash merchants are more costly regarding business services with lower balances and a lot of businesses done. Some of the challenges which cash merchants incur to the profits include: more costs in advertising and assigning more marketers so as to reach more customers. Network in the office may differ depending on the delivery channels since the bank may tend to use a much more secure banking system. Merchants assist in reaching a wide range of people in areas where merchandising banks do not exist. Therefore merchants in the whole world have the authority to provide a wider area of capital utilities such as withdrawals, deposits and global remittances.

For someone to start a merchant bank it requires less amount of capital as it is workable compared to the ancient commercial banks. It also minimizes the want to deploy more labour and physical infrastructure. Also lower business fees are incurred since business persons will visit the bureau any time without the need of spending a lot more on travel fees in order to bank their money. Bureaus are much more accessible to the uneducated and also to the needy who previously felt abandoned in branches with less money.

### **2.3.2 Customer Relationship Management**

Baker explained customer allegiance as the etiquette customers use to gain way to a good or service and their after giving it good grading. Basically customer etiquette is a schedule that involves the plans put in store for keeping customers satisfied thus wanting to carry out more transactions with that bureau. Kotler (2006) also saw that consumer loyalty was due to some elements in the banking culture, like psychology, sociology, economical aspects and social anthropology. It was also established that customer allegiance/ loyalty was related to the family ties as well as population demographics. This was established under the auspice of the way the company was handling its relationship with its clients for example regarding the customer complaints, features of the agency banking outlet as well as the quality of services offered.

Capital bureaus or financial institutions are much interested into their client's loyalty so as to prevent losing them to their rivals in the business and to prevent loss of their money. Walsh et al. (2005) saw to it that it's important to take good care of an existing customer before looking for another. This helps by giving an existing customer lower service fees than to the new ones since he can advertise your bank services to his friends and relatives by word of mouth during their meetings which will be beneficial to the bank.

As stated by Zeithamal and Bitner (2000), quality in banking is grouped across six main areas: the banks impression to the outside world, its relationship with its clients, the fees charged to the customers and clients and the availability of resources. Therefore with these aspects, banks improve their value and gain much greater customer allegiance.

### **2.3.3 Convenient Service Accessibility**

Muluki (2011) opined that agency banking in Kenya was innovative and ultimately significant in the quest to take customers out of the banking halls that are usually very long to local kiosks and dukas where agents of banks offer similar services faster and at a cheaper rate. The traditional barriers that have previously offended entrepreneurs such as lack of access to banks near their places of work, the cost and time used to go to the bank to deposit or withdrawal cash have adequately been solved by the revolution of agency banking to both semi-banked and non-banked consumers. In addition to this the fast and uninterrupted access to these financial services via agency banking is bound to accelerate economic growth (Mas *et al.*, 2008).

In the Kenyan context fast transfers are especially important to entrepreneurs as the branch bank operation hours collide with their business hours. However, this is no longer a challenge to entrepreneurs as they can deposit their day's earnings with the agent workers without having to worry about the closing hours of banks as some agents may operate till late in the evening. Subsequently, the entrepreneurs are further favoured by the agency banking model as they escape the long banking queues in banking halls which waste their time hence being forced to shut down their businesses during the hours they have to access financial services such deposit or withdrawals. Retail agents are also far more effective, efficient and convenient for people living in poverty as compared to

going to the bank. Information and communication technology is in fact utilized in agency banking through the use of cell phones and other technological gadgets to transmit any transaction details from the customer and/ or retail agents to the bank and vice versa.

Banking through agents is beneficial to a range of individuals involved in the financial processes, convenient and easy access to financial aid and services is gained by the poor in whichever location they may be situated, therefore a wider population is adequately reached by financial institutions. Agents also capitalize on this to increase their volumes in terms of sales and get the opportunity to deeply interact with their customers. However the implementation of any corresponding strategies can provide a challenge. Building relationships and networks that enable the fulfilment of corresponding roles for instance presents a hard task. The economies of scale cannot be properly outlined especially for a sector that do not offer a range of services and due to the relatively new concept of the services it is difficult to know what will work and what will not work in different locations and communities. In a study by Yobes et al. (2006) attempting to evaluate the impact of agency banking on towns of entrepreneurial nature it was outlined that agent banking effectively saves time due to reduced queues in bank branches as well as reduced distances covered to be able to access banking services. The agents also remain open for longer periods of time. All this has greatly impacted on entrepreneurs enabling them to save time that is then used to improve performance of agency entrepreneurs.

#### **2.3.4 Security**

Lyman et al. (2008) stated that by having the distance made shorter for withdrawals and deposits for the entrepreneurs of SMEs while taking their cash to the bank, agency banking then highly mitigates insecurity issues of having business monies stolen in transit. However, agents should also strive to enhance their security. The agents' performance is also influenced and can be limited due to the amount of cash they get to hold on to and keep at their various outlets. This amount of cash is directly tied to the level of security available for them at their outlets. (Lyman et al, 2008). According to Arora and Fernand (2007), the adoption of technology in enhancing security in the banking system and financial institutions has shown great promise and resulted to a fast

spread all across the globe. In consideration to the importance attached to the financial institutions affordability and high presence, there is a great possibility of using this concept in agent banking to enhance the provision of financial services to communities lacking physical banks (Arora & Ferrand, 2007).

## **2.4 Challenges Affecting Use of Agency Banking by SMEs**

### **2.4.1 Training**

Many financial institutions have turned to using agencies to offer and boost the growth of SMEs all over the world in the business world. Agents offering financial support to small businesses need to offer training to their employees to perform their duties efficiently. Training has become a problem that most of the financial agencies are experiencing since they have no quality measures to offer training to their workers. With this challenge being experienced by financial agencies, SMEs are being affected negatively in getting of financial assistance from the agencies. In the business of financial agencies, transactions need to be carried out, and not many employees know how to perform these tasks (Tabash, 2017). Most of the employees have to go back to their agent supervisors who have to explain to them over and over again how to carry out the transaction procedures in their line of duty. Agents have different categories under which transactions take place. In most cases, training of workers fails because the threshold for transacting agents is not met by most agencies and the required methods need to be used for the comprehension of what is needed in the agencies for better performance.

### **2.4.2 Security**

For any business, security is an important key to their success. In financial institutions and agencies, security needs to be the core purpose for the clients to feel self when banking their money. In finance agencies, there is less security, and the SME owners find it difficult to get credits even from agencies associated with big banks. In most countries, organizations are meant to deliver money received an entire day to the bank (Lin, 2014). This is a safety measure that is taken by the management of the agencies to ensure that the money of the customers is safe. However, Lyman et al. (2008) was in agreement with the fact that there are great security risks in terms of data protection and network security risks that are associated with technological systems that make agency banking vulnerable

to fraudulent transactions thereby creating a tinge of uncertainty to the customers. Owens (2006), outlines that financial institutions need to invoke steps to ensure long term development and progression of their agents in remote locations so as to enhance their capability of reaching targeted customers at a specific set population. Closer coordination with the agents is required therefore so as to provide learning and proper training opportunities to them to enhance their efficiency as well as ensuring the implementation of a fair pricing mechanism for the services they provide (Arora & Ferrand, 2007). Due to the rapid shift in technological development banks have been greatly affected when it comes to their open operations. Application of technology ensures a faster and effective service provision process; however the banking agents do not indulge in frequently changing their systems this has adverse effects that eventually lead to system failure and consequently cause delays in service provision and transactions (Lyman et al., 2008). This prompts inconveniences to the customers and lowers their faith as regards the security and safety of the transactions lodged with agent banks. In addition to this the system failures make the transactions with banking agents susceptible to fraud

### **2.4.3 Liquidity**

Money liquidity is very beneficial for the business world. Having float that can be so much helpful to the agencies and the SMEs. The use of mobile accounts by agencies requires enough float to keep the agencies moving. In most agencies, the float for their business does not always seem to be available (Keung, 2013). Keung (2013) further said that this perspective by alluding that having low float in an agency affects the small business community in that they cannot be able to access the capital to keep their business afloat. Keung (2013) further said that having liquidity in an agent is the one thing that can make the continuous operation and running of SMEs and the benefiting of the entrepreneurs without having to experience any challenges.



## **2.5 Theoretical Framework**

The study was be guided by a range of theories designed over a long period with regards to the subject matter of the study. These theories include Entrepreneurship and Innovation theory, the agency theory and diffusion of Innovations theory.

### **2.5.1. Agency theory**

This theory was proposed by, Jensen and Meckling (1986), which explains the relationship between principals (banks) and agents. In this relationship, the principal delegates hires an agent to perform his work or duties or to perform a task that he is unable or unwilling to do due to some limiting factors. Reaching the unbanked clients in rural areas is often an expensive venture for financial in institutions since the transaction numbers and volume do not cover the cost of a branch operation. Low – income clients often feel more comfortable banking at their local stores than walking into a mortar and brick branch (Adiera, A-1995).

Agency banking is the backbone of mobile banking i.e. they help or facilitate the transactions over a mobile device, most often a mobile phone. This enables clients to convert cash into electronic money and vice versa, which can be sent over the mobile phones, clients will have to visit a branch, ATM or banking agency. In remote and rural set up, where cash is still the most prevalent way to pay and transact, a mobile banking service will be dependent on banking agency's to enable clients to effectively use the service (Podpiera.2008).

Agency theory operates on the assumption that the principal and the agent are motivated by self- interest, however this assumption of self- interest, it is a doom to agency theory due to inevitable inherent conflicts between the agency and the principal. This is because both parties are motivated by self- interest, in which agents are likely to pursue self-interested objectives that deviate and even conflict with the goals of the principal.

Agency theory analyses the relationships between MSME owners and its managers who, under law, are agents for the owners. In the analyses of the managers and owners agency relationship, the key issues centres upon whether adequate market mechanisms exist that

compel managers to act in ways that maximize the utility of a firm's owners, where ownership and control are separated. Under the agency theory, a principal (P) passes on authority to an agent (A) to conduct transactions and make decisions on behalf of the principal in an effort to maximize P's utility preferences. Managers most a times however may not devote their best efforts toward managing the firms, unless those efforts are in harmony with maximizing their own welfare or gains. In the commercial banking industry, ownership is becoming increasingly Complex among individual and institutional shareholders, and the dominance of individual shareholders in the industry appears to be decreasing over time. In relation to agency banking and SMEs, agent banks are retail institutions contracted by the banks and approved by the central banks to render services on behalf of the banks by ensuring that all security measures are in place and the SMEs transactions and information is secure. The theory is relevant to the study since the agency-banking concept that we are studying is based on the use of agents by the principal bank to offer services on their behalf.

### **2.5.2 Entrepreneurship and Innovation Theory**

Joseph Schumpeter is credited with the development and invention of the entrepreneurship and innovation theory (1838-1950). The role of innovation on entrepreneurship as well as the economy and impacting a social; change was the original focus of the theory. The argument presented by Schumpeter was that the economy is interested in the distribution of resources across different locations and roads. He viewed economic development as the process of change that is of quality and that has been effectively driven by innovation. An example of the innovation that he referred to include new methods of producing products, new products and supply sources and sources of economic resources, markets as well as new ways of organizing business activities. His definition of innovation involved a new combination of already existing resources in order to aid the production of a new type of product. For successful innovations, Schumpeter noted the important role played by entrepreneurs. That is, the prevalence of inertia or resistance to new ways at all levels of society that entrepreneurs had to fight in order to succeed in their aims.

Rafinejad (2007) describes the Schumpeter's theory as an example of a perfect theory that implicitly emphasizes innovation while ignoring risk taking and the other organizing abilities of an entrepreneur. The theory of entrepreneurship is of importance to this study due to its description of the relationship existing between entrepreneurship and innovation. According to the theory the main purpose of innovation is to foster economic as well as social change so as to set a suitable environment for entrepreneurship. Subsequently, innovation also presents an opportunity through which entrepreneurs can create new products, new methods of production, new sources of supply, exploitation of new markets and new ways to organize business. In the study context, agency banking presents an opportunity for banking institutions to have new ways of doing business, which are likely to bring economic and social changes within the customer fraternity. This is reflected in the way banks introduced new product and services because of the innovation, trends of adopting the innovations among customers and challenges faced during the adoption.

This theory is important or relevant to the study in that it is due to the evolution of technology whereby the use of internet to access information has led to the development of Point of sale machines which rely on networks to access information from the banks servers and it is this small machines that agencies use to transact with and offer the agency banking services.

### **2.5.3 Diffusion of Innovations Theory**

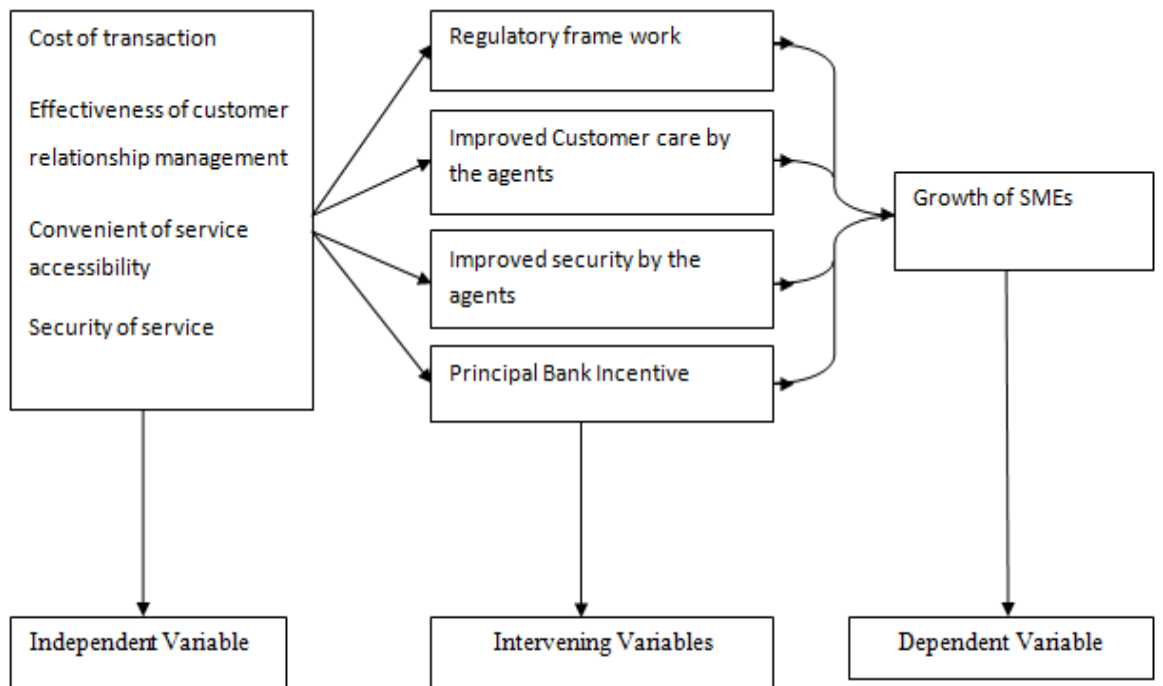
One of the oldest social science theories is the Diffusion of Innovation theory that was developed by E. M. Rogers in 1962. Innovation is an important and cross cutting factor influencing firms competitiveness (Lin & Chen, 2007). Among other things it helps to enhance growth and promotes future success of the firm and is responsible for business sustainability in terms of its viability in the global scale. Firms must maintain a step ahead of their rivals and commit to the production and commercializing their own brands of new products that boost of originality. Innovation diffusion theory analyzes how different ideas and concepts are adopted on a large scale. Rodgers (1995) highlighted that the theory considers a particular set of attributes and characteristics that enable the spreading of technological innovations to a wider market. These attributes he describes as

an advantage especially when an innovation is perceived to be better than the initial concept it takes over. Compatibility, defining the degree to which an innovation adequately matches with the existing values, past experiences, and needs of potential adopters. Complexity refers to the degree to which an innovation is perceived to be difficult to understand and use. While trial ability refers to the degree to which an innovation may be experimented on a limited basis and finally, observability being the degree to which the result of innovation is visible to others.

Time is a factor that Agency banking requires as an innovation if it is to reach critical mass. 13 out of 46 banks have so far adopted agency banking CBK (2013) with 21,816 SMEs having been recruited to act as bank agents. There is still a long way to go and with SMEs at the fore front with regards to innovation, the growth of agency banking will easily be achieved. The rate of diffusion of agency banking will depend on many factors such as SMEs putting in place proper incentives, having proper regulatory framework and banks coming up with tight and more flexible internal controls all of which are subject to this study. However banks need to implement marketing strategies that will aid the popularisation of agency banking like advertisements, road shows, and pricing strategies to create push and pull at the outlet plus added numerous plans until the agency banking has reached maximum population and attained the serious mass.

## **2. 6 Conceptual Framework**

The conceptualization of the study was based on agency theory of behavioural-based management mechanism in which the principal can monitor agents' behaviour and effort. The concept was anchored on mitigation of risk, provision of proper incentives and use of regulatory framework in guiding the relationship between the bank and the SMEs in ensuring growth. Therefore in my study the Growth of SMEs was our dependent variable whereas the Independent variable was the use of agency banking by the SMEs but the motivation to ensure frequent use of the agency banking is made possible by many factors which in this case are the intervening factors. Figure 1 contains the conceptual framework.



**Figure 2. 1: Conceptual Framework**

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.0 Introduction**

The chapter has focused on the research methodologies which were used by the researcher in this study through chosen methodological paradigms for the sake of gaining valid and credible data to offer this research sound outcome. This was done in line with the nature of the research as well as the study objectives through considering a research design which incorporates philosophical stances, approach and strategy. Additionally there was need to consider the sampling method, research data collection instrument and the data collection and analysis methods. Finally this chapter fronts ethical considerations that will aid validity of the data.

### **3.1 Site Description**

The study was conducted in Igembe North Sub-County of the Meru County, Igembe North County in particular. It ought to be noted that Igembe North was formerly known as Ntonyiri Constituency before the 2007 elections. The constituency has seven wards namely Antuambui, Ntunene, Antubetwe Kiongo, Naathu, Akirang' Ondu, Athirurunjine and Kabachi. It has an estimated size of approximately 1,164.60 Km<sup>2</sup>, with an estimated population of 154,814 (KNBS, 2016).

The area was chosen for this study because though being a large area with a lot of economic activities like Miraa farming, trade and tea farming among others, there are few banks present in the region and the people around depend on alternative sources of banking to do their transactions, for instance, the Credit and Savings Societies, hence alternative banking channels like agency banking, mobile banking are greatly used to make transactions here. This fits the focus of this research which seeks to establish the impact of agency banking to the growth of small and medium enterprises (SMEs) in Kenya.

### **3.2 Research Design**

According to Badke (2011), research design is the compound perspective which encompasses the methodical paradigms and stances that are used to ensure the researcher understands the type and nature of the research. This design was attributed through understanding the befitting philosophy that governs this type of research, the approach as envisaged through the best fit school of thought, as well as the research strategy that ensured a formidable plan of action to gain data in line with research objectives.

#### **3.2.1 Research Approach**

An approach of a research according to Sekaran and Bougie (2010) is the procedure through which the researcher critically gauges raw data and uses the set methodical approaches to purpose the research's objectives through findings relevant and logical inferences. There are normally two research approaches commonly used notably; deductive and inductive approaches. According to Robson (2011), a deductive approach is that approach that holds to the school of thought that the data has to be obtained from a wider perspective of approaching many people before deducing the viable inferences that make sense of the specific study. This approach supports positivism and has a structured theoretical connotation which aids quantitative data. Whereas, an inductive approach supports data to be obtained through a smaller and well calculated approach which seeks a high quality respondent sample who understands the topical issue well for accuracy (Bryman and Bell, 2011). While research through this approach is more observational, this approach is faulted to have a higher researcher interference index, thus the researcher ought to be careful to ensure minimum data biasness. Nevertheless, inductive was found fit in this research on the basis that it resonated well with pragmatism through allowing the researcher to dwell on a case study so that to narrow down the study area to a specific area in order to establish the contribution of agency banking to the growth of SMEs in Kenya. Further, the use of inductive approach enabled the study to utilise a semi structured sets of paradigms, thus increasing accuracy through theory examination as well as observation for increased data reliability (Rubin, Haridakis and Piele, 2009). This means the researcher thought it wise to utilize the inductive approach as a paradigm to ensure that both qualitative and quantitative data aspects are taken into account so as to ensure that the loopholes or disadvantages of each other are catered for.

### **3.2.2 Research Strategy**

The use of a research strategy which Saunders, Lewis and Thornhill (2015) terms as the concise plan of action that the researcher takes to tactically use skills to obtain suitable data to meet the objectives is vital in ensuring the research attains precedence to gain sound data. Usually, a study choice lies on the nature of research. However, there are a number of strategies used in research in the academic circles, namely; survey, archival research, case study and experiments among others (Sherbaum & Shockley, 2015). Since this research is out to investigate the contribution of agency banking to the growth of SMEs in Kenya, this study utilized case study strategy as the research was able to gain data from the selected and triangulated region (Igembe North Sub County) and from a specific population sample (the SME owners of as well as Agency banking managers). Therefore, through this, this research was successfully able to fuse the macro and micro data sources for instance the macro data through quantitative research as well as the micro data from qualitative research, thus making this a mixed research Hair et al. (2011). Further the use of case study against other options like survey was reached upon in this research based on the fact that this research considered more an approach of seeking to gain data from a specific area and a specific group of people, thus its narrowed in nature and pinned at a specific population strata, a fact that makes case study ideal.

### **3.3 Target Population**

According to Bryman & Bell (2011) a target population refers to a set of entities under investigation. Therefore homogeneity as well as the reliability of the population that is sampled for a research ought to be fit with the nature of research so as to ensure that the data obtained merits to be the best for sound outcomes. As alluded by Cooper & Schindler (2003), ensuring homogenous target population enabled this research to gain respondents of a similar stature and with a well-informed background of the information regarding the topical issue so as to bring out data that can help examine the contribution of agency banking to the growth of SMEs in Kenya. Therefore, the actual target population identified for this research are the SME entrepreneurs using agency banking in the defined target area (Igembe North Sub County) and owners of agency banking outlets such as Kenya Commercial Bank, Equity Bank and Co-operative bank. The choice of



using SME entrepreneurs is based on the fact that they are the people who access the money on behalf of their businesses and understand well the intricacies around relationship of the agency banking outlet and contribution to their business. The rationale for using the owners of agency banking outlets as another group of people to source data for this research is pegged on the fact that they understand which and how much money is transacted by SMEs as well as offer accuracy of transactions that are only related to SMEs.

### **3.4 Unit of Analysis**

In research the unit of analysis refers to the key phenomenon under investigation. Unit of analysis relates to the objects of research in a study. The main Unit of Analysis in this study were the SMEs that use the agency banking services as well owners of agency banking in Igembe North Sub County. It is from these larger groups that this research selected a few individuals in different towns who passed the minimum threshold for this research, which was to fit the criteria of being a SME owner-utilizing agency banking outlets for accuracy and reliable information within the scope of the study.

### **3.5 Unit of Observation**

A unit of observation refers to an element about which data is collected. Accordingly, researcher's make their conclusions while using the analysed information gathered and analyzed. Accordingly, the unit of observation in a study aids in clarifying reasonable conclusions which can be made from the data collected (Curwin & Slater, 2007). Since this study is of mixed research utilizing both qualitative and quantitative, the research will have more than one unit of observation; which is the individual SME owners as well as the owners of agency banking outlets.

### **3.6 Sampling Design and Techniques**

Sampling refers to the selection of a number of entities for a research making a representation of the larger population under investigation (Fabregar, 2013). The study therefore employed stratified random sampling, which according to Kombo (2006) includes division of the larger population into homogenous sub-groups, and then

randomly selecting for a given sub-group through convenience sampling technique of those who are willing and available to take part in the study. According to Hofmann and Patel (2014), the use of this convenience sampling was fit since it ensured that the data gained is offered from those only willing and voluntarily offer their opinions without any coercion. This ensured that the research was of sound quality and was meant to solidly address the objectives effectively. In the sampled population, SME owners as well as the owners of agency baking outlets because they would provide the reliable information required for the purpose of this study.

In this light, this research considered 120 respondents through questionnaire in which 108 successfully returned the questionnaires upon completion of the data collection. Further, the researcher checked and sorted the returned questionnaires and found out that 4 questionnaires were not successfully filled in all the areas. Therefore, the researcher considered 104 successfully, befitting questionnaires were fit for this research, and these are the ones that were used for this research. Being more than 75% of the respondent return rate in line with Gravetter and Forzano (2015), this return rate was fit continue with this research. On the other hand, this research used interview where 6 agency banking owners who offered qualitative information in regards to this research in the quest to seek contribution of agency banking in respect to growth of SMEs in Igembe North Sub-County. The contribution of interviews went a great scope to present a deeper and detailed data from a narrowed and specific manner to fit this research from interviewees who knew and understood the matter under research because of the relationship existing and the interaction of the agency baking owners with SME owners (Curwin and Slater, 2007). These interviewees will be vetted on the pedestal that they frequently transact with SMEs so as to ensure that they understand the matter under study and to give accurate and well informed data.

### **3.7 Data Collection Tools and Techniques**

Data collection can be defined as the process of gathering raw data from the sample population targeted by a study with an aim of analyzing it and coming up with meaningful conclusions from the collection (Gionis, 2013). Two methods of data

collection were used for collecting raw data considering that the study used both qualitative and quantitative research methodologies. Accordingly, both questionnaires and interviews were used for data collection. In regard to questionnaires only close ended questions were used and were formulated and categorized based on the research objectives to ensure that the responses sorted after will be relevant to the study (Saunders, Lewis & Thornhill, 2015). The close-ended questions were deemed ideal as they saved time as they were easy fill. The use of questionnaires was justified because of cost effective especially in the collection of data from 104 SMEs, this would have been very costly and time consuming if the researcher would have gone to interview one by one of the respondent, supports Mugenda and Mugenda (2003). Accordingly, the questionnaire has three main sections, section one dealing with the analysis of demographical information of the respondents, the second part dealt with introductory questions with the remaining parts of the questionnaire dealing with objective 2, objective 3 and finally objective four considering that objective one was actually met in chapter two; the literature review. The respondents offered Three weeks for the administration of the questionnaire and afterwards, the completed questionnaires were collected from the SMEs premises where they were initially dropped off by the researcher.

Accordingly, the interview data collection commenced with the researcher settling on 6 interview respondent who were settled upon through convenience sampling. 6 questions relating to objective 2, objective 3 and finally objective 4 were asked from these interviewees. The responses they offered were all recorded by the researcher in a laptop with a main aim to ensure that every data offered was captured with great accuracy to ensure effective data analysis. Each of the interviewees was offered 1 hr for the interview administration, and the researcher set-up 6 timeslots, from where each interviewee picked the time-slot which was most appropriate for them. In order to ease the process of analysis the six interviewees were coded as P1, P2, P3, P4, P5 and P6 accordingly.

### **3.8 Ethical Considerations**

Ethical considerations refer to the moral standards which a researcher has to adhere to in order to ensure that the study is undertaken in a manner that does not affect any of the

participants of the study Hammersley and Traianou (2012). Accordingly, the first ethical aspect which was considered was in regard to asking for consent from the respondents and actually truthfully elaborating to them the objectives of the study so that they are fully aware of what their contribution is for this study. More so, the researcher also made sure that the data collected was solely utilised for purpose of the research and after analysis the data it was discarded in a manner that was safe, to ensure that it does not fall into wrong hands. Finally, the researcher also ensured that polite language was used while both formulating research questions and also while asking the interview questions and adequate time was offered to all the respondents to allow them be able to offer valid data to be used for the next stage of the study; data analysis(Warner, 2010).

## **CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION**

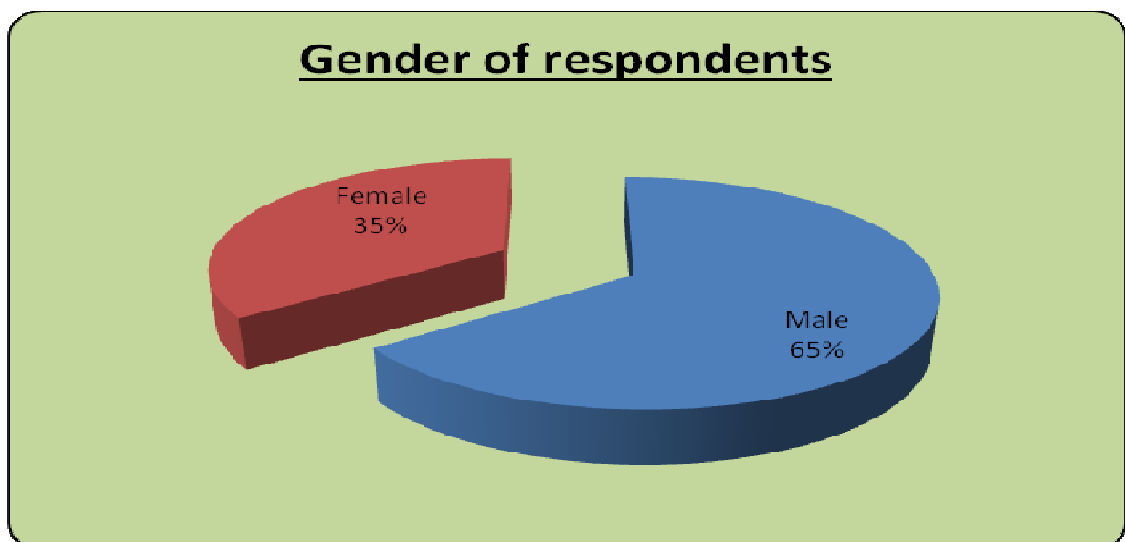
### **4.1 Introduction**

Through this chapter, the research is intended to present the research findings in regard to the data collected so as to evaluate the data in line with the research objectives. From the findings, empirical research will provide the relationship between research variables so as to effectively answer the research question. Therefore through this chapter, the research objectives will be examined in conjunction with the collected data so as to establish the way and to what level the research questions are met.

### **4.2 Questionnaire Analysis**

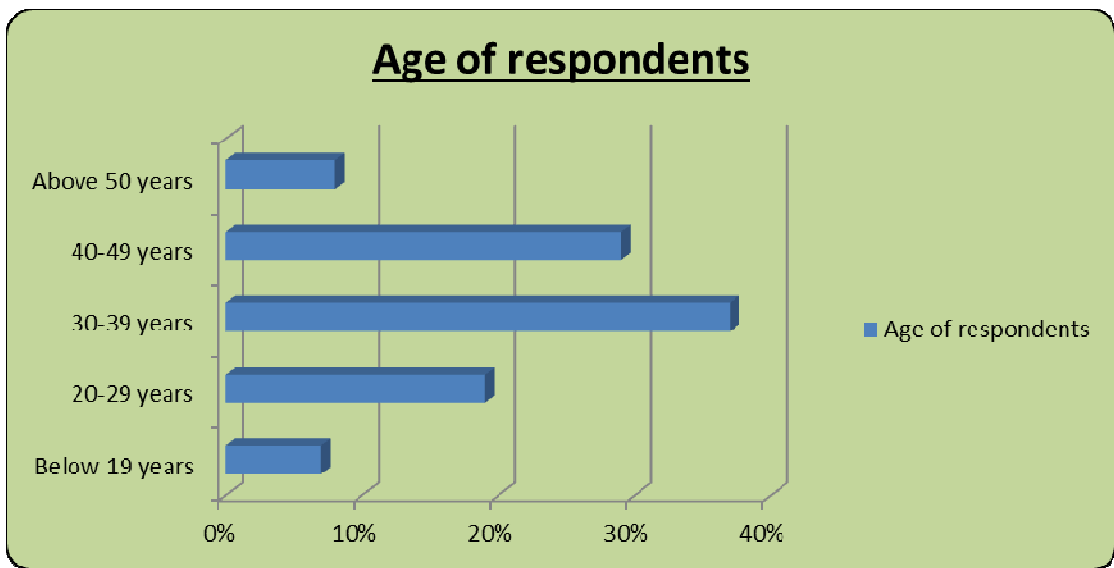
#### **4.2. 1 Demographic Analysis**

As depicted in Figure 4.1 below relating to the respondents' gender, 35% comprised of females and 65% of the respondents were male. The percentages figures are quite far apart mainly as a result of the cultural inclinations to the fact that many women will not be business owners but rather are expected to be taking care of household chores while their dominating male counterparts take care of family business like running the SMEs.



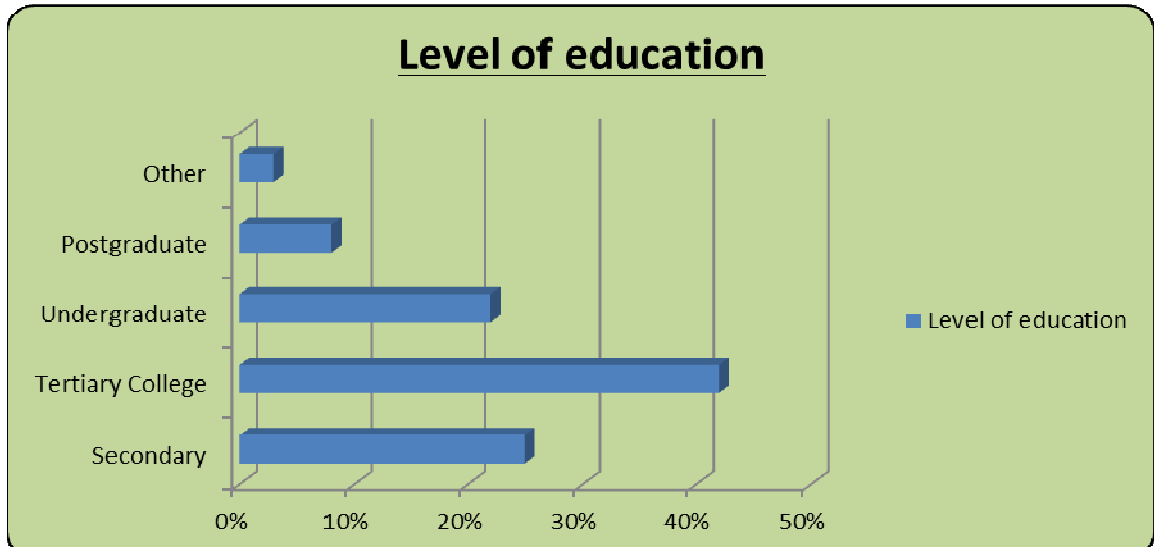
*Figure 4. 1: Respondents' Gender*

As depicted in Figure 4.2 below relating to respondents' age, it's clear to see that majority are aged between 30-39 years with those aged between 40-49 years following closely. This depicts that most of the respondents are middle aged meaning who have had the capability to work in other jobs in order to be in a position to start their own business ventures. The lowest number of SME owners are aged below 19 years meaning that majority of this population within Igembe North Sub-County are still undergoing high school education, which covers most Kenyans life span to 18 years of age for majority.



**Figure 4. 2: Age of Respondents**

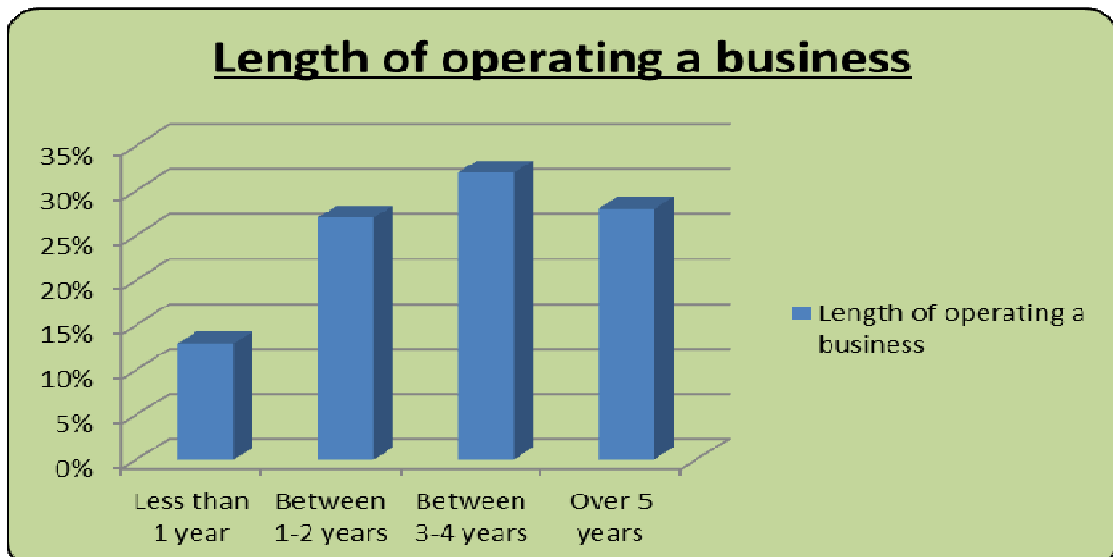
As shown in Figure 4.3 below in regard to respondents' level of education, majority of the respondents seem to have attended tertiary college followed by those who have attended secondary education as the maximum level of education. Accordingly, this depicts that majority of these respondents turned to open SMEs since they might not have adequate education to get them competitive chances to be employed an aspect further supported by the more educated undergraduates and post graduates taking lesser part in running these business ventures, hinting that they might be in a better position to get employed considering their relatively higher level of education.



**Figure 4. 3: *Level of education of respondents***

#### **4.2.2 Analysis of Introductory Questions**

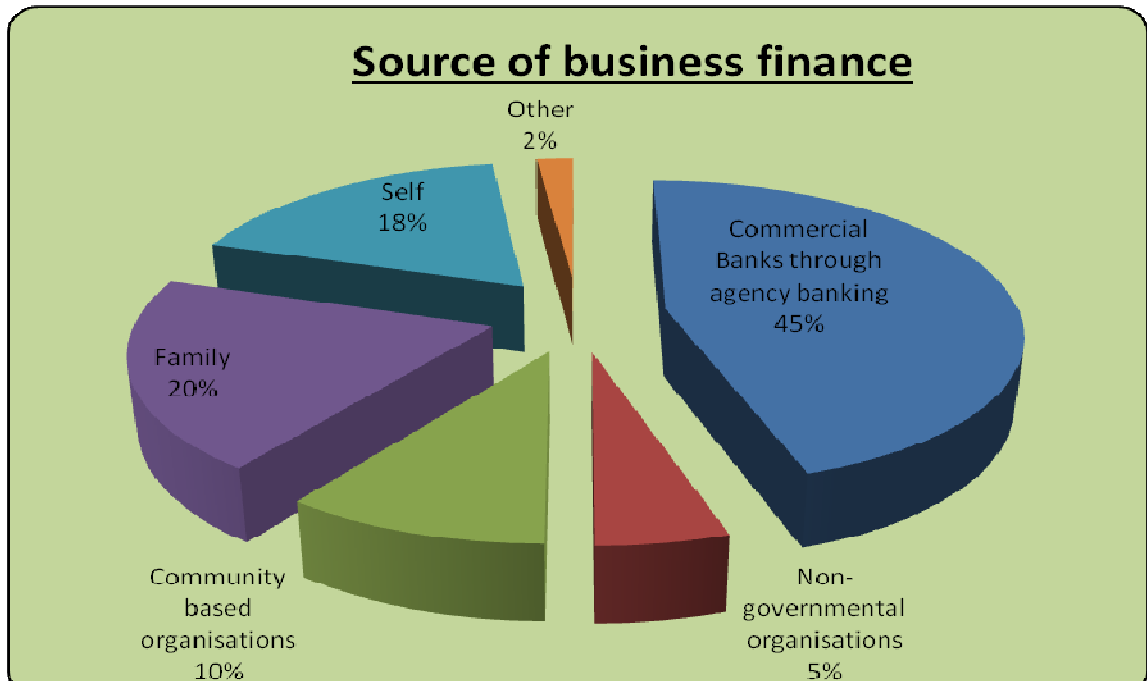
Figure 4.4 below in relation to how long the respondents have been operating their businesses, majority said that they have been doing so between 3 and 4 years followed by those stating that they have been running their businesses for over 5 years. These findings depict that the SMEs have been operating for quite a while meaning that the respondents have adequate knowledge and experience to effectively depict the contribution agency banking has had on the growth of its operations, since they must have used it for as a substantial amount of time. Adequate time of operations means that only valid data can be offered by the respondents in regard to the phenomenon under study making it successful.



**Figure 4. 4: Length of operating a business by respondents**

As indicated in Figure 4.5 below in regard to what is the major source of business finance for the respondent's businesses, over half of the respondents making 45% stated that the major source of their finance is through commercial banking is through agency banking while family sources seems to be one of the least as acknowledged by the respondents. These findings depict that agency banking plays a major role in financing SMEs within Igembe Northsub-county mainly because of the benefits including convenience of accessing financial services without necessarily going to visit the major banks, making the entire exercise quite tedious and time consuming. This therefore, makes the respondents take less time to access exactly the same services it would have should they have visited the main bank, making them very comfortable to use agency banking as the major source of financing for their SMEs. More so, with the ability of banks reaching the SMEs through the agency banks, this means that adequate monies can also be availed to the SMEs through these outlets, with much more simplified means of loans applications thus greatly contributing to their growth. The other major source of income as indicated by the table is in regard to family standing at 20% and also from self at 18%, considering that most of the families within Igembe Northsub-county have ventured into miraa farming which offers them adequate funds to be able to fund their family members as well as themselves thus spurring the growth of their SMEs.





**Figure 4. 5: Source of business finance**

#### 4.2.3 Factors Influencing Growth of SMEs in Igembe North Sub-County

| No. | Constraint                               | <i>Strongly disagree</i> | <i>Disagree</i> | <i>Neutral</i> | <i>Agree</i> | <i>Strongly agree</i> | <i>Total</i> | <i>Mean</i> | <i>Std. Deviation</i> |
|-----|--|--------------------------|-----------------|----------------|--------------|-----------------------|--------------|-------------|-----------------------|
| 1   | Access to credit facilities              | 10                       | 15              | 0              | 33           | 46                    | 104          | 3.7810      | 1.12644               |
| 2.  | Age of the firm (experience in business) | 14                       | 14              | 0              | 32           | 44                    | 104          | 3.6381      | 1.14458               |
| 3.  | Access to markets                        | 12                       | 19              | 0              | 32           | 41                    | 104          | 3.4857      | 1.33816               |
| 4.  | Education and training                   | 13                       | 24              | 0              | 29           | 38                    | 104          | 3.2286      | 1.51440               |
| 5.  | Adaptiveness to technology               | 13                       | 24              | 0              | 29           | 38                    | 104          | 3.2286      | 1.51440               |

*Table 4-1a:*

In accordance to *Table 4.1a above* in regard to which factor contributes most to the growth of SMEs within Igembe North Sub-County and access to credit facilities seem to be contributing the most with the highest number in which out of 104 respondents, 46 strongly agreed and 33 agreed making a mean score of 3.7810. The aspect that the age of the firm was vital also came out with 44 respondents alluding to a strong agreement, while 32 presented an agreeing perspective, amounting to a mean score of 3.6381. Additionally, education and training and adaptiveness to technology change achieved a tie of 38 strongly agreeing and 29 agreeing, representing 3.2286 mean scores respectively.

In general gauging of the factors, access to credit is a critical aspect which highly determines the success of the SMEs within Igembe North sub-county since it affects the ability of the business to access required levels of human capital, physical stock and even innovative technology which are all aspects which will affect its ability to perform effectively. This will therefore stagnant the growth of the SME finally. This is supported by Bigsten *et al.* (2000); Buatsi (2002) & Liedholm, MacPherson & Chuta (1994) who supported the fact that accessing of funds marks the major challenge that faces SMEs development since it incapacitates the availability of finance to resources like human, information and physical resources. Lack of financing makes SMEs not able to adequately cater for production and then affects sales and profits, affecting its growth.

*The Banking method most relied by SMEs in Igembe North Sub-County*

| No. | Description              | <i>Strongly disagree</i> | <i>Disagree</i> | <i>Neutral</i> | <i>Agree</i> | <i>Strongly agree</i> | <i>Total</i> | <i>Mean</i> | <i>Std. Deviation</i> |
|-----|--------------------------|--------------------------|-----------------|----------------|--------------|-----------------------|--------------|-------------|-----------------------|
| 1   | Branch banking           | 15                       | 18              | 0              | 24           | 47                    | 104          | 3.4095      | 1.12400               |
| 2.  | Agency banking           | 14                       | 16              | 0              | 22           | 52                    | 104          | 3.5429      | 1.09830               |
| 3.  | Mobile phone banking     | 12                       | 20              | 0              | 23           | 49                    | 104          | 3.4381      | 1.11607               |
| 5.  | Internet banking         | 17                       | 23              | 0              | 23           | 41                    | 104          | 3.0905      | 1.21277               |
| 6.  | No banking method at all | 32                       | 22              | 0              | 15           | 35                    | 104          | 2.3810      | 1.16401               |

*Table 4-2a:*

In regard to *Table 4-2a* above in regard to the banking method which the respondents feel it effects growth of SMEs within Igembe North Sub-County, agency banking scored the highest with 52 respondents alluding to the strongly agreeing, while 22 were of the opinion of agreeing, making a mean score of 3.5429. this was closely followed by mobile phone banking in which 49 respondents strongly agreed, as 23 of them agreed, thus a mean of general positive respondents stood at a mean score of 3.4381. Then branch banking at a mean score of 3.4095 presented a 47 and 24 respondents on the strongly agree and agree levels respectively. The lowest score below the mean score of 2.5, stood at 2.3810 and was attained by the aspect that there are those respondents who don't prefer using any banking method at all in which 35 strongly agreed as well as 15 agreed as shown in table 4-2a below.

These findings depict the fact that agency banking is the most preferred form of banking within Igembe North Sub-County because of the convenience it offers the users as the banking services from the principal banks are then availed in the neighbor-hood of the SME. With this agency banking being made available, then the SMEs can easily access financial assistance through credit facilities, which is the major aspect which increases their performance subsequently as they get to have enough funds to increase their ability to financially cater for the business daily needs. This is supported by HFC Bank (2004), when he stated that agency banking comes in handy to increase performance of SMEs by offering them services which they would have otherwise have wasted lots of time and resources trying to access from major commercial banks, by having them within their environs of operations and much less procedures, making the businesses focus more on improving their performance. Internet banking scored quite low marks since internet technology has not adequately penetrated into Igembe North Sub-County, making it quite accessible to the SMEs living there. Additionally, majority of the SME owners have limited knowledge regarding internet usage incapacitating them from using internet banking effectively.

*Ways through which agency banking has helped the performance of your enterprise over the last three year*

| <b>No.</b> | <b>Description</b>                                  | <b>Strongly disagree</b> | <b>Disagree</b> | <b>Neutral</b> | <b>Agree</b> | <b>Strongly agree</b> | <b>Total</b> | <b>Mean</b> | <b>Std. Deviation</b> |
|------------|---|--------------------------|-----------------|----------------|--------------|-----------------------|--------------|-------------|-----------------------|
| 1          | Sales have increased                                | 11                       | 14              | 0              | 34           | 45                    | 104          | 3.8080      | 1.09400               |
| 2.         | My profits have gone up                             | 12                       | 16              | 0              | 38           | 38                    | 104          | 3.6449      | 1.24830               |
| 3.         | I have been able to record an increase in capital   | 10                       | 17              | 0              | 37           | 40                    | 104          | 3.7138      | 1.15607               |
| 5.         | My stocks have been on an upward trend              | 9                        | 16              | 0              | 31           | 48                    | 104          | 3.8104      | 1.01277               |
| 6.         | I have been able to increase my number of employees | 12                       | 15              | 0              | 35           | 42                    | 104          | 3.6820      | 1.19401               |

*Table 4-3a:*

In regard to *Table 4-3a* above in regard to which aspect of performance does the respondents feel their enterprises have been improved through utilization of agency banking over the last three years. Majority of the respondents amounting to 48 strongly agreed and while 31 agreed, which is represented by 3.8104 mean score that stated that their stocks have been on an upward trend. This was followed closely by the aspect that they have realized their sales increasing at a mean of 3.8080 and 45 respondents strongly agreeing as 34 showed the level of agreeing. Of the 104 respondents, 38 strongly agreed to the increasing on profits while another 38 agreed making the least mean of 3.6449.

Generally, all the mean scores in *Table 4-3a above* represent strong positive mean scores showing a general positive increase in all aspects, sales, profits, capital, stocks and finally increase in employees which are all performance indicators of any business unit. Additionally, this is supported by the fact that more than half of the respondents as depicted in *Table 4-3a above* also alluded to the fact that they generally inclined towards the positive perspective of agreeing and strongly agreeing, thus making the narrative even more elaborate. Accordingly, for them to be reported to have increased over the last three years by majority of the respondents can only mean that SMEs have indeed increased in performance an aspect which can be attributed to them using agency banking. This increase can linked to the fact that agency banking has enabled these entities to effectively access credit facilities which has then increased their financial muscle to access new physical resources, human capital and even innovative technologies which have then spurred their performance over the three years. This is in line with researches carried out by Arthur (2003); Mensah (2004); Deakins, North, Baldock, & Whittam (2008) who illustrated that in economies that are developing the key challenge facing SMEs making different countries with Kenya included to take up the measures to ensure there is financial inclusion is the establishment of agency banking laws which came into existence in the year 2010 whereby many banks have established agencies in several areas of the nation and have increased access to financial services on the SMES thus spurring their speedy development in the subsequent years.

*Benefits derived from use of agency banking*

| <b>No.</b> | <b>Description</b>   | <b><i>Strongly Disagree</i></b> | <b><i>Disagree</i></b> | <b><i>Neutral</i></b> | <b><i>Agree</i></b> | <b><i>Strongly Agree</i></b> | <b>Total</b> | <b>Mean</b> | <b>Std. Deviation</b> |
|------------|--|---------------------------------|------------------------|-----------------------|---------------------|------------------------------|--------------|-------------|-----------------------|
| 1          | Payments of goods and services to my suppliers has become faster                           | 12                              | 20                     | 0                     | 30                  | 42                           | 104          | 3.4381      | 1.14200               |
| 2.         | Reduction in transport costs used to access banking services                               | 14                              | 24                     | 0                     | 32                  | 34                           | 104          | 3.1905      | 1.25530               |
| 3.         | Cash is secure since I don't have to carry it for long distance to access banking services | 13                              | 17                     | 0                     | 30                  | 44                           | 104          | 3.5429      | 1.08707               |
| 5.         | It saves time used to travel to access the banking services at branch                      | 10                              | 24                     | 0                     | 31                  | 39                           | 104          | 3.3810      | 1.19277               |
| 6.         | Increased cash turnovers in the bank   | 12                              | 21                     | 0                     | 31                  | 40                           | 104          | 3.4095      | 1.17401               |
| 7.         | I have been able to access credit facilities from the bank.                                | 10                              | 19                     | 0                     | 28                  | 47                           | 104          | 3.6095      | 1.03845               |

*Table 4-4a:*

As shown in *Table 4-4a* above in line with benefits derived from use of agency banking, the respondents inclined their thoughts towards being able to access credit facilities from the bank which was supported by 47 respondents who strongly agreed as 28 of them just

agreed, thus conglomerating a mean of 3.6095. Additionally, the fundamental aspect of security associated to proximity of the SMEs accessing outlets in a more secure manner merited with 44 respondents strongly agreeing while 30 agreed (making mean of 3.5429) as indicated in the descriptive statistic table 4.4b below. Reduction in transport costs used to access banking services was the lowest at a mean of 31905 which translated into a 34 strongly agreeing and 32 agreeing.

From these aspects, it's fair to note that growth of SMEs is dependent on the ease to access loans and proximity aspect to securely and fast access to a financial institution, a fact that agency banking has aided effectively in Igembe North Sub-County. Further, the ease of transacting to suppliers and increased cash turnover depicted by the frequency of banking has also been enhanced, thus enabling the SMEs ease to access the services they could have otherwise sort from principal banks only. This movement of services closer to the SMEs according to Dzama (2015) can be deemed to have a positive growth and development to the SMEs owing to availing financial support as well as advice to best banking and saving options.

*How often the respondents utilize agency-banking services*

| <b>No.</b> | <b>Description</b>          | <b>Not at all</b> | <b>1 day in a week</b> | <b>2-3 times a week</b> | <b>4-6 days a week</b> | <b>Daily basis</b> | <b>Total</b> | <b>Mean</b> | <b>Std. Deviation</b> |
|------------|-----------------------------|-------------------|------------------------|-------------------------|------------------------|--------------------|--------------|-------------|-----------------------|
| 1          | Cash deposits/cash withdraw | 0                 | 14                     | 13                      | 32                     | 45                 | 104          | 3.7143      | 1.09443               |
| 2.         | Utility payments            | 0                 | 4                      | 18                      | 30                     | 52                 | 104          | 3.9425      | 1.00870               |
| 3.         | Payments of bills           | 0                 | 30                     | 23                      | 17                     | 34                 | 104          | 2.4382      | 1.18607               |
| 4.         | Savings                     | 0                 | 20                     | 11                      | 31                     | 42                 | 104          | 3.4902      | 1.14235               |
| 5.         | Cash transfer               | 0                 | 14                     | 22                      | 29                     | 39                 | 104          | 3.2810      | 1.24401               |
| 6.         | Loan repayment              | 0                 | 7                      | 17                      | 31                     | 49                 | 104          | 3.8436      | 1.04342               |

*Table 4-5a:*

In regards to how often the respondents utilize agency banking services (shown in *Table 4-5a above*), it was established that the aspect of loan borrowing was the most probable activity with 52 of the respondents sighting they use it daily as compared to an almost equal measure at 49 for loan repayment on a daily basis. Elsewhere, 45 and 32 respondents utilize agency banking daily and 4-6 times a week through Cash deposits/cash withdraw. Finally, payments of bills merited with only 34 respondents alluding to utilising agency banking daily and 30 respondents on a weekly basis since the bills are not paid mostly on a daily basis.

This shows that many SMEs utilize agency banking to access loans for growing their business entities. This is a direct benefit in the development of SMEs since effective development will need the SMEs to repay the loans in almost the same scope to keep the relationship moving. This is in line with Irwin and Scott (2010) who opines that as a linkage to the SMEs, agency banking will be ready to relate to the SMEs through aiding their development poised financial disposition. The aspect of Cash deposits/cash withdraw takes a considerable share in the importance of services frequently used on the basis that many of the SMEs growing based on their savings as well as creating a considerable impression of their traceable development espoused through the frequency of banking as a prerequisite requirement for a loan facility should they need one. Finally, payment of bills rated the lowest, a fact that can be attributed to the low need of bills in the case study area (Igembe North Sub-County) since most of the livelihoods are of a rural setting.



#### 4.2.4 Challenges Influencing Growth of Agency Banking within SMEs in Igembe North Sub-County

##### *Responses to Challenges affecting the use of agency banking by SMEs*

| No. | Description  | <i>Strongly Disagree</i> | <i>Disagree</i> | <i>Neutral</i> | <i>Agree</i> | <i>Strongly Agree</i> | <i>Total</i> | <i>Mean</i> | <i>Std. Deviation</i> |
|-----|--|--------------------------|-----------------|----------------|--------------|-----------------------|--------------|-------------|-----------------------|
| 1   | Training highly affects the ability of agency banking to perform   | 14                       | 15              | 0              | 31           | 44                    | 104          | 3.6146      | 1.14435               |
| 2.  | Security issues greatly affects use of agency banking by SMEs      | 10                       | 14              | 0              | 29           | 51                    | 104          | 3.8668      | 1.08052               |
| 3.  | Liquidity is a major issue affecting use of agency banking by SMEs | 15                       | 20              | 0              | 33           | 36                    | 104          | 3.3232      | 1.22741               |

*Table 4-6a:*

From the figures shown in *Table 4-6a* above that was illustrating the challenges affecting the use of agency banking by SMEs, aspects of security was depicted to have the highest impact on the effect of agency banking towards SMEs with 51 respondents alluding to the strongly agree while 29 agreed, making a mean of 3.8668. Additionally, training highly affects the ability of agency banking to perform as a challenge was represented by 44 and 31 respondents holding to a mean of 3.6146. Finally, whether liquidity is a major issue affecting use of agency banking by SMEs, 36 and 33 supported strongly agree and agree forming the lowest perspective by a mean of 3.3232.

From these depictions, it is clear that SMEs are keen to understand that they are using an agency banking option in which they have security of their money and the transaction process. Additionally this can be taken to mean that the SMEs are keen to consider an option that reduces the travelling time to the principal bank since long distance travelling

may affect security of money on transit. In line with findings of Lin (2014) some SMEs may be transacting smaller amounts of money that they may only feel comfortable and meaningful to transact through agency banking as opposed to travelling and using more money to the principal bank. Finally this depictions bring forth the fact that agency banking rides on technology aspects that needs to be improved and protected from hackers so as to ensure that clients money and transfer mechanisms are safe thus security presenting the highest pedestal as alluded by Arora & Ferrand (2007). Meanwhile training of the personnel or agent banking managers from principal banks will mean that the services will include effective customer management skills and the general ease of customer and transactional process, thus inducing an effective need for the SME to prefer agency banking.

#### 4.4 Interview Analysis

##### Interview Respondent Profile

| <b>Respondent Job Description in the bank</b> | <b>Respondent Code</b> |
|---|------------------------|
| Family Bank Agency Banking Manager            | P1                     |
| Equity Bank Agency Banking Manager            | P2                     |
| National Bank Agency Banking Manager          | P3                     |
| Co-operative Bank Agency Banking Manager      | P4                     |
| Eco Bank Agency Banking Manager               | P5                     |
| KCB Bank Agency Banking Manager               | P6                     |

##### **4.4.1 Factors Influencing Growth of SME'S**

In response to Question 1: **Which bank agency services do you offer?** P1 acknowledged,

*“I have several services notably cash deposits and cash withdraw, payment for utilities, savings, cash transfers, offering of loans and also ensure loan repayment has been done.”*

P2, P3, P4, P5 and P6 also were in agreement that they offer same services across board, signifying standardization of services by the agency banking services providers and also in accordance to the pre-dominant needs of what they feel the customers' needs are. This also depicts that all SMEs in Igembe North Sub-County depend on agency banking to offer them all these services equally, depicting that their provision is a necessity for all mainly attributed to the convenience the banking method is offering to them by making the much needed banking services by their small businesses easily accessible from their neighborhoods. This is very critical for the performance and survival of their businesses. This perspective is supported by Ivatury (2006) who stated that SMEs can now easily access banking services ranging from withdrawals to deposits, bill payments, cash transfers, account balance inquiry as well as receiving deposits at the comfort of a few meters as a result of the implementation of Agency banking. This has effectively reduced the cost of accessing financial services

In response to Question 2: *What do you think are the aspects which influence the growth of small and medium sized businesses within your locality*, P1 and P6 said,

*“Access to credit is one major aspect which highly affects the growth of SMEs within Igembe North sub-county.”*

This response depicts that access to credit greatly affects the growth of the SMEs in Igembe North sub-county since lack of credit for increasing liquidity of the SMEs affects the ability of these enterprises to effectively access human capital, physical resources and even technology which can all be used for improving the performance of the enterprise. Buatsi (2002) supported this when he alluded that ability to access funds enhances SMEs' ability to access other important resources such as human, information and physical resources, spurring speedy growth of small businesses in developing economies including Kenya. P2 on the other hand pointed out,

*“Age of the firm affects the growth pattern of SMEs in my locality.”*

These findings indicate the fact that age of an SME determines the experience level enjoyed by the owner in regard to the market dynamics in terms of the best operations to

incorporate in the business and which ones to mitigate in order to achieve ultimate performance; therefore, the older the firm, the higher the chances of the firm performing well. This is supported by Jovanovic (1982) who stated that firms that are efficient in their operations survive the market and get the opportunity to grow, while over optimistic firms eventually end up shutting down. The length of time a firm stays in the industry is directly proportional to the knowledge it establishes about its operations and abilities. This means that in this model the capacity of a firm to survive is directly proportional to its age in the industry. P3 also illustrated,

*“Access to markets determines the success an SME will have in regard to performance.”*

These findings depict that access to markets can highly limit the growth of SMEs as a result of lack of adequate access to international partners and markets for selling their produces mainly propagated by lack of adequate access to financing by banks. Additionally the findings can also depict that poor infrastructure can also impede access to markets within areas dominated by the SMEs in terms of roads, power, water, sewerage and telecommunication thus affecting its performance. This is supported by Aryeetey et al. (1994) outlines that the performance of SMEs can be greatly affected by the lack of their access to wider markets, adequate capital as well as proper infrastructure inhibiting SMEs' expansion into markets. P4 further alluded that,

*“Education and training level of the entrepreneur also affects the performance exhibited by the SME in my region.”*

These findings depict that the level of education actually determine the human capital, in regard to education and training, are advantaged to ensure that their SMEs can effectively adapt to dynamic business environments especially in regard to accessing financing and bringing forth innovation, hence fostering a business to grow more. Besides, Coleman (2000) supported this aspect when he stated that among other factors gender, education, number of years of experience and access to external finances, he conveniently concluded that level of education possessed by the entrepreneur is positively related to their chances of being able to secure external loans. Lastly, P5 illustrated,

*“Adaptiveness to technology change is yet another key factor that affects the growth patterns of SMEs in my sub-county.”*

These findings depict that, the ability of an SME to take up latest technology methods can easily bring about automation and creativity to the business thus increasing efficiency which in turn increases their economies of scale and subsequently performance. This can be supported by Jovanovic and MacDonald (1994) who affirmed that firms which easily adapt to technological changes are more able to pursue innovations, and when technological changes occur weak SMEs exit since the competitive players force down prices.

#### **4.4.2 Factors Influencing Growth of Agency Banking Within SMEs**

In response to Question 3: **Do you feel that the agency banking services you offer have contributed greatly to the growth of SMEs in your locality?** P1 stated,

*“Yes, indeed it has contributed hugely to the growth of SMEs.”*

P2, P3, P4, P5 and P6 were all in agreement that the presence of agency banking has indeed contributed to the growth of their SMEs. These responses illustrate that agency banking is playing a key role in spurring growth in performance of SMEs in Igembe North sub-county mainly as a result of bringing the services which could actually be offered by commercial banks within the SMEs reach and with much less procedures. This in turn seems to be saving the SMEs time and even costs at unimaginable convenience thus increasing their ability to focus on their businesses more, making them more profitable. HFC Bank (2004) supported this viewpoint when he stated that agency banking comes in handy to increase performance of SMEs by offering them services which they would have otherwise have wasted lots of time and resources trying to access from major commercial banks, by having them within their environs of operations and much less procedures, making the businesses focus more on improving their performance.

In response to 4: **In your own opinion why do you think SMEs prefer the above agency banking services over the other modes of banking?** P1 pointed out that,

*“My business incurs lower transactional costs when using agency banking as compared to visiting a commercial bank for the same service.”*

These findings depicted those owners of SMEs in Igembe North sub-county prefer agency banking as a result of the low transactional costs they incur which comes about by the fact that agency banking makes the same banking services to be more accessible to the businesses by having them located within their environs, cutting down on the costs incurred by the owners to travel over distances to access the services. Furthermore, due to the reduced sizes of the agency banking outlets as compared to the principal banks, there is need for lesser branches and related resources like human capital or even technology for running the business lowering costs of operations; this leads to lower prices to be passed to the customers too hence making agency banking quite affordable to SMEs within Igembe North sub-county. This is supported by Bean (2009) who affirms that merchant banking are capable and the introduction of capital utilities as well to buyers at a reduced amount. This has also improved the ease of banks to increase and reach a larger market for customers. P2 on the other hand said,

*“Agency banking ensures that I can easily and safely save my money from a place which is nearer to my business than my principal bank, making the transaction more secured.”*

These findings depict the fact that by the fact that agency banking have seen the bringing of banking services nearer to the SMEs, then it becomes easy for them to either access and equally deposit money to their bank accounts via these agencies. This means that the business owners won't have to risk travelling far to save or access monies which can otherwise be stolen on the way. This is supported by Lyman *et al* (2008) who said that by having the distance made shorter for withdrawals and deposits for the entrepreneurs of SMEs while taking their cash to the bank, agency banking then highly mitigates insecurity issues of having business monies stolen in transit. P3 and P6 on the other side elucidated,

*“Convenience of services accessibility has made agency banking to be the best tool for growth enhancement amidst many SMEs in Igembe North sub-county.”*

These findings depict that agency banking in Igembe North sub-county is innovative and ultimately significant in the quest to take customers out of the banking halls that are usually very long to local kiosks and dukas where agents of banks offer similar services notably; deposits, withdrawals, funds transfers, bill payments, account balance inquiry, receiving deposits, much faster and at a cheaper rate. This is supported by Muluki (2011) who opined that the traditional barriers that have previously offended entrepreneurs such as lack of access to banks near their places of work, the cost and time used to go to the bank to deposit or withdrawal cash have adequately been solved by the revolution of agency banking to both semi-banked and non-banked consumers. Moreover, Mas *et al* (2008) added that economic advancement is bound to increase the independence, real-time and uninterrupted ability to access financial services via the agent bankers who are close to the entrepreneurs. P4 and P5, finally pointed out,

*“Agency banking offers SMEs effective customer relationship management which makes them enjoy good customer service and effective resolution of any query they have over the services offered.”*

These findings depict that customer relationship management is one aspect which makes SMEs owners to prefer using agency banking since with the small sizes of such outlets, they are able to be offered personalized customer service and at a faster rate than in the principal banks. Such personalized services can only mean that, most of the queries offered by the customers will be amicably solved, as the number of customers served per unit time is less for the agencies in Igembe North sub-county, resulting into high customer loyalty. According to Veniard, Bill and Gates foundation (2010) stated that agency banking adds value to any mainstream bank by ensuring convenience and accessibility perspectives in turn increasing quality and customer loyalty to the respective principal banks

#### **4.4.3 Challenges Influencing Adoption of Agency Banking by SMEs**

In response to Question 5: **What are the most common problems that you experience with the agency bank services?** P1 stated,

*“Majority of the agency banking workers are not adequately trained to offer banking services to the customers.”*

These findings depict that some of the agents working within agency banking outlets are not well trained to offer competitive services to the customers, mainly because of them having inadequate knowledge pertaining what the banking services exactly require. This is supported by Tabash (2017) who pointed out that agents offering financial support to small businesses need to offer training to their employees to perform their duties efficiently as training has become a problem that most of the financial agencies are experiencing since they have no quality measures to offer training to their workers. Additionally, Tabash (2017) further asserts that with this challenge being experienced by financial agencies, SMEs are being affected negatively in getting of financial assistance from the agencies. In the business of financial agencies, transactions need to be carried out, and not many employees know how to perform these tasks. On the other hand, P2, P3, P4 and P5 making the majority of the respondents were all in agreement when they said that,

*“Security concerns is a major shortcoming in agency banking especially with the integration of technology into this form of banking.”*

These findings depict that as technology alters fast, the banking realm gets greatly affected within open operations, as banking entities hardly change their systems as often as they are supposed to leading to system failure thus leading to customer inconvenience and loss of trust over the security of transaction undertaken through agent banks. Additionally, such continuous systems failure leads to transactions undertaken by banking agents to be vulnerable to fraud. Lyman *et al* (2008) supported this when they stated that agents should also strive to enhance their security as the agents' performance is also influenced and can be limited due to the amount of cash they get to hold on to and



keep at their various outlets. This amount of cash is directly tied to the level of security available for them at their outlets as instances of cyber-crime which leads to loss of funds have been reported highly nowadays. Lastly, P6 pointed out that,

*“Liquidity issues is a major challenge experienced by some SMEs within my locality thus affecting the efficiency expected by such businesses from agency banking outlets.”*

These findings depict that there are some outlets which do not have adequate float that can effectively satiate the needs of the SMEs, thus affecting their capability of funding such businesses effectively for their subsequent business growth. Keung (2013) supported this perspective by alluding that having low float in an agency affects the small business community in that they cannot be able to access the capital to keep their business afloat. Keung (2013) further said that having liquidity in an agent is the one thing that can make the continuous operation and running of SMEs and the benefiting of the entrepreneurs without having to experience any challenges.

In response of Question 6: **In your own opinion how best can the bank improve on the services offered through the agency bank.** P1 suggested that,

*“Banks need to undertake frequent training of the agents working in the agency banking outlets to ensure that they are adequately equipped with the right knowledge and customer service to ensure that they have served customers well hence ensuring the required customer service by the principal bank.”*

P2, P3, P4 and P5 further suggested that,

*“Security features of the agency banking system ought to be developed to take up latest techniques of advanced security measures.”*

P6 finally suggested that,

*“Liquidity issues can be solved by the principal banks going for unexpected visits to the agents and any agent found not to have met the lowest agreed threshold punished by closing the outlet for a while.”*

#### **4.5 Discussion of the Contribution of Agency Banking towards the Growth of SMEs in Igembe North Sub-County**

In relation to how and to what extent agency banking has contributed to the growth of SMEs, this research established that the components of agency banking that relate to why an SME can desire to use agency banking will make the best fit variables to consider. The rationale to utilise these factors was as for the fact that it's through them that an SME can consider it fit to adopt the agency banking route as a way to steer its development. Therefore, following the analysis and behavioral characteristics of Cost of transaction, Effectiveness of customer relationship management, Convenience of service accessibility and Security of service, it was clear to note that each factor affects growth of SMEs in different ways depending on their impact levels as well as their footing in regards to the consideration of the SME owners.

Further through the data findings, it's worth to note that; Cost of transaction, Convenience of service accessibility and Security of service were noted to have a higher impact towards the growth of SMEs in Igembe North Sub-County. Despite these factors possessing a strong and positive impact towards the SME growth, security of service variable seemed to present the highest strength and impact towards the way SMEs grow. This can be attributed to the need for customers SMEs owners needing security issues to be catered for to ensure that their monies are safe.

Firstly in line with Lyman et al (2008), the fact that security becomes a vital consideration for any business, especially in money transfer, the SMEs will need to understand that the agency banking option will not only be a shorter and convenient option. This is in comparison to the conventional over the counter banking method that needed the customers (SMEs owners) to travel physically to make transactions. This factor as well cubs the chances of burglary and other theft issues associated with cash on transit since the SMEs will be transacting within a shorter distance and in a more effective way. Additionally, by the fact that agency banking rides on the technology advancement, then effective adoption of secure services can only run if the system is

constantly updated and anti-fraud firewalls put in place to ensure that its secure to guarantee the SMEs a secure platform as noted by Owens (2006).

Secondly in terms of Convenience of service accessibility variable, this was established to have the second highest significance, strength and impact towards the growth of SMEs, it's fair to note that Igembe North Sub-County area is a versed area with few banking options. Therefore, SME owners will opt to consider the fact that they need to have an option that enables them access services for their SME development not only closer to them, but also reliable and convenient manner. Following this need, this research established that SMEs in Igembe North have benefited from the faster and reliable service provision brought about by the availability of agency banking outlets. Mas et al. (2008) whose research asserts that unlike banking halls that make the customers queue and the synonymous long time needed Agency banking cuts the time and the availability of many agents necessitates the faster service provision and time saving. Additionally, the fact that the customers have to travel to the banks is saved through agency banking and as a matter of fact, the cost used in the agency banking is way lower than the time wasted and the money spent to access the branch. From the research, it was established that the agency banking has let to development of SMEs through providing the owners with the reliability as well as the option to totally replace the traditional banking main services including deposits, withdrawals, funds transfers, bill payments, account balance inquiry, receiving deposits among others.

This makes the need to conveniently prefer agency banking a reality among the SMEs in Igembe North thus enabling them to enable growth on the fact that the owners can engage in other productive activities as well as their primary service provision. Additionally, as perceived by Mas *et al.* (2008) the economic development of the region will be deemed to receive a boost in the positive way through the quick availability of the funds needed to expand the SMEs as a result of the fast, reliable and available agent banking outlets

In the aspect of Cost of transaction which according to this research was established to have a relatively strong relationship and impact towards growth of SMEs in the case region of Igembe North is pegged on the need established by the respondent that the

befitting alternative to the conventional banking system should have more benefits than the existing method. Indeed to this expectation, agency banking was found to present a cheaper option in terms of not only the transactional fee, but also the aggregate cost of travelling to the bank in addition to the lower transactional costs associated with agency banking.

Despite the positive aspect of agency banking aiding reduced expenses for banks to open more branches, which induces more operational costs that are passed down to the agents in form of cost of business, this aspect according to Bean (2009) saves the SMEs through ensuring that they reduced service costs owing to the generally reduced operational costs on the principal banks. Accordingly, this research established that the development and growth of SMEs through reduced cost of transactions in the agency banking outlets enables the SMEs to focus on meeting their monetary operations through reducing the fixed charges that are always imposed on operating a principal bank, but rather the cost are only incurred during the transacting period. According to Bold (2011), development and growth of SMEs is meant to experience an upward trend through promotional aspects and incentives that the presented to the agency banking as a way to ensure that there are more customers register to the banking services through agency banking.

Finally through this data, the research established that Effectiveness of customer relationship management variable was the lowest in terms of the contribution of agency banking towards the growth of SMEs in Igembe North Sub-County. This was attributed to the fact that many of the SMEs happen to be in an area where many people know each other personally, thus reducing the need for the need for inducing customer relationship to increase the relationship of the agency making outlet and the SME. Accordingly, the cultural fabric in this area is well knit to the way business is done, thus enables the relationship to be on a personal ground, a factor that makes it easy for a good rapport to be established between the two faction in this business front. Further, the smaller size of the agency banking outlets makes it possible for the higher effectiveness in terms of customer relationship to be enhanced, owing to availability of enough time to solve all customer inquiries and concerns as alluded by Gee et al. (2008).

Additionally, this research data pointed to the fact that SMEs will benefit from agency banking in enhancing their growth orchestrated from the loyalty proceeds which include the relationship that can ease the way transactions can be done. This includes the reception and the general way the agency banking managers from principal banks understands that an SME with intricate issues like the fact that the SME may be a good marketing outlet through word of mouth and therefore treat the SME in a cordial manner, thus inducing loyalty. Finally, in line with Baker (2004), this research established that the relationship grows the development of SMEs through provision of valid and easily available tracking and monitoring their account developments, profits and growth paradigms through an easier and convenient way.

## **CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.0 Introduction**

This chapter will offer conclusions of findings and analysis undertaken in Chapter 4 above and in line to the objectives of this research. Accordingly, valid recommendations will then be offered and lastly suggestions for similar future studies further elaborated upon.

### **5.1 Summary**

#### **5.1.1 Establishment of the General Characteristics of SMEs in Igembe North Sub County**

In conclusion, objective 1 was actually meant in the literature review whereby the general characteristics of SMEs were adequately analysed and elaborated upon to an extent that they did not require the researcher to go out and gather more information to ascertain on them again. Conclusively through chapter 2 it was established that for a firm to have qualified as an SME and take part in this study adequate information in regard to the characteristics had been elaborated by past studies to an extent that primary research in Igembe North sub-county could not add any value to the characteristics already researched upon by previous scholars.

Summarily, for an entity to be appreciated to be an SME the study found out through chapter 2 that it must firstly it must have few workers making the very able to still perform all their other tasks. This is supported by Ahn, Mortara and Minshall (2013), who stated that just like any other large business, an SME has the manufacturing, marketing and the accounting department among other departments in business and actually, the departments can easily be handled by either one or two persons. Secondly, the SME is expected to cover a small geographical coverage to serve communities within where the business thrives. Dzama (2015) he affirmed this with a good example being illustrated through a mini-market or convenience store located in a rural area which is meant to serve the people of that particular area since its services are not recognized in a large-scale area (Dzama, 2015). Lastly, the study concluded that SMEs actually pat a lot

of attention to delivery of few products and services thus helping them to build a long-lasting and strong relationship with its business partners. Strong relationships helping the building of the enterprises stability for the future of the business it operates (Zoghi, 2017).

### **5.1.2 Determination of Factors Influencing the Growth of SMEs in Igembe North Sub-County**

Summarily, in regard to chapter 2 and as analysed in the previous chapter it can be concluded that accessibility to credit facilities is the major factor affecting growth of SMEs as compared to other factors which were analysed in chapter 4 above. Notably age of the business, education and training level of owner, adaption rate to technological change and access to markets. Accessibility to credit can be rated to affect the growth of SMEs the most since it determines the financial ability for the businesses to effectively access physical resources, human capital and even latest technologies which all play a major role in determining the performance of the SMEs. Accordingly, the study concluded that as the enterprises are small and medium, they are hardly recognizable in other market areas other than where it is located and where it operates. With the small market area, they have a limitation of resources where the ability to market their services is difficult since they cannot get into new markets as they have no sufficient capital for their business, hence making accessibility to credit to be such a big shortcoming. This is supported by Buatsi (2002) supported this viewpoint when he said that it should be noted that the availability of funds could improve SMEs' access to other resources such as human, information and physical resources, spurring speedy growth of small businesses in developing economies including Kenya. Researches carried out by Arthur (2003); Mensah (2004); Deakins, North, Baldock, & Whittam (2008) further supported the aspect that accessibility to credit facilities is the most major challenge facing SMEs thus affecting their performance when they alluded that in developing economies. Funding is the major problem of SMEs making different countries with Kenya included to take up the measures to ensure there is financial inclusion through the establishment of agency banking laws which came into existence in the year 2010, whereby many banks have established agencies in different parts of the country and have increased access to financial services to SMES thus spurring their speedy development in the subsequent

years. These sources further illustrate that many banks have established agencies in different parts of the country in Kenya, Igembe North being one of them as illustrated in this study, thus bringing the required growth to these business entities.

### **5.1.3 Analysis of the Factors Influencing the Growth of Agency Banking within SMEs in Igembe North Sub-County**

Concerning objective 2, in regard to the factors influencing the growth of agency banking within SMEs in Igembe North sub-county the study summarized that security of the transactions plays a major role in increasing the uptake of agency banking by SMEs within the location. The study identified Cost of transaction, Customer Relationship management, Convenience of service accessibility and Security of service as the factors affecting the uptake of agency banking by SMEs in Igembe North Sub-County. Despite these factors possessing a strong and positive impact towards the SME growth, the study concluded that security of service variable seemed to present the highest strength and impact towards the way SMEs grow. This could be attributed to the need for customers SMEs owners needing security issues to be catered for to ensure that their monies are safe.

Furthermore, in line with the fact that security becomes a vital consideration for any business and more especially in money transfer, the SMEs will need to understand that the agency banking option will be a shorter and convenient option in comparison to the conventional over the counter banking method, but will offer a secured platform for their financial transactions. Since access to finance is a major challenge to such SMEs, therefore safeguarding it is of paramount importance to such entities. Additionally, for a SME, the customers are significant and essential for the growing of the business so the business owners will do everything possible to please and satisfy their customers through their services and products offered therefore ensuring a safe platform for transaction is very key to the agencies. This will accordingly ensure that cordial business relationship exists between the business and the customers to avoid the downfall of the SME, since most of the financial stability comes from the SMEs clients. This factor as well cubs the chances of burglary and other theft issues associated with cash on transit since the SMEs



will be transacting within a shorter distance and in a more effective way. Lyman et al (2008) & Owens (2006) stated that agency-banking uptake within SMEs can only be effected if the agency banking platform offers a secured platform which has integrated technology advancement, which is constantly updated and anti-fraud firewalls put in place to ensure that it's secure to guarantee the SMEs a secure platform as noted by.

#### **5.1.4 Assessment of the Challenges Faced by SMEs in Using Agency Banking in Igembe North Sub County**

Concerning objective 4 in regard to the challenges faced by SMEs in using agency banking in Igembe North sub-county, the study discovered several shortcomings notably; liquidity issues, security concerns and inadequate training by the agents. Summarily, the study found out that security concerns is the factor posing the highest challenge amongst SME owners as compared to liquidity and training inadequacy problems. From these above findings it was apparent that SMEs are keen to understand that they are using an agency banking option in which they have security of their money and the transaction process. Additionally this can be taken to mean that the SMEs are keen to consider an option that reduces the travelling time to the principal bank since long distance travelling may affect security of money on transit. In line with findings of Lin (2014), some SMEs may be transacting smaller amounts of money that they may only feel comfortable and meaningful to transact through agency banking as they feel this platform can be challenged in terms of being secured, and prefer going to transact bigger volumes when they visit the principal bank.

Additionally, the study concludes that agency banking outlets face such challenges in regard to security majorly in this era of fast advancement in technology as many tend to be associated with data and network related security risks based on applicable models of agent banking have been reported thus creating uncertainty to the clients, which in turn affects the ability of agency banking to be taken up confidently by SMEs as they fear for the security of their money while transacting through aspects like cyber crime. This can be supported by Owens, (2006), who states that financial institutions are required to plan and act for long term development and prosperity of their agents for them to reach the targeted customers at a set population.

Furthermore, (Arora & Ferrand, 2007) further alludes that as the technology changes rapidly, banks have been greatly affected in its open operation, whereby application of the technology ensures quick and effective services to the clients, an aspect made worse by the fact that banking agents do not change their system as frequent often leading to system failure and the consequent delays in transaction execution, endangering the entire agency banking platform as they get exposed to cyber attacks. Finally this depictions bring forth the fact that agency banking rides on technology aspects that needs to be improved and protected from hackers so as to ensure that clients money and transfer mechanisms are safe thus security presenting the highest pedestal as pointed out by Arora & Ferrand (2007).

## **5.2 Conclusion**

From the findings, the study concludes that agency banking has led to the growth of MSMEs and since it has significant positive relationship. From the study it is clear that the access to financial services leads to increased SMEs firms financial performance due to reduction in transaction cost and liquidity advantage. Due to their lower transaction costs, agent-banking is more cost effective for transactional accounts with low balances and frequent transactions, which is the case for small firms. Lack of financial access limits the size of firms, as well as their growth, profits and their scope of operations.

Agency banking has helped the unbanked MSMES incredibly; this is because use of agency banking entails use of technology in SMEs banking, which ensures that firms are able to access financial products and services in a convenient way, reliably and affordably. Getting the banking services to SMEs in rural areas is often prohibitively expensive for financial institutions since transactional numbers and volumes do not cover the cost of a branch operations. The amount of money used by financial service providers that is banks to serve a poor customer with a small balance and conducting small transactions is simply too huge to make such accounts viable. In addition, when financial service providers do not have branches that are close to the customer, the customer is less likely to use and transact with their service.

The further concludes that the main uses of agency banks include cash deposit, payment of bills, withdrawals.

### **5.3 Recommendations**

Following the findings and the analysis of the contributions of agency banking towards growth of SMEs in Igembe North Sub-County, the following recommendations can be fronted in the efforts to enable the agency banking to offer a more conducive environment for growth of SMEs.

1. Firstly, for the purpose of effective service provision to the SMEs so as to induce growth, agency banking ought to ensure that they have invested in training of their staff or the owner in terms of effective aspects that will induce more customer relations so as to ensure they cater for their customer despite the fact that they operate within a community based region. In line with Tabash (2017), customers need to be treated with more decorum and regard so as to feel more obliged to use the same agency banking outlet to the other competitor. This will go a long way to ensure that customer relations management is a vital component since in this research it was established to have a smaller and impact towards growth of SMEs in Igembe.
2. Secondly, the agency banking need to have a fast adoptability to new technology so as to ensure that they minimize the period of down-turns, a character experiences in the region of this research (Igembe North Sub-County). Therefore ensuring that the technology adoption is done will also ensure that the service provision avoids fraud activities that may occur as a result of security breaches. This is in respect to research findings of Agarwal and Audretsch (2001) that alluded that most SMEs are keen to ensure that their monies are safe and that the transactions are done in an environment which inspires adoption of technology solutions that are aimed at averting any security compromises. This can be done through adoption of biometrics and other encrypted options which will reduce the chances of fraudulent access and manipulations.

3. Thirdly, as a matter of recommendation to ensure that the SMEs have a chance of getting enough supply and valid transactional liquidity, the principal bank should make policy to curb minimum liquidity as well as to avail enough money at the need of the SMEs. This will ensure that the money supply is kept at a good pace so as to avoid running down of liquidity at the same time ensuring that only the merited agency banking managers from principal banks with the minimum threshold are allowed to operate in line with Keung (2013).
4. Finally, there ought to be a need for principal bank to invest in research and development as a way to ensure that the agency banking outlets are innovatively served with different products and ideas that can enable them to relate and transact their business in a more effective way. This will ensure that the principal banks gain enough footing of customer base through SMEs who act as their marketing agents on the ground as well as their point of contact to the customers on the ground.

#### **5.4 Areas for Further Research**

Based on the above research, it was established that through the methodology utilized there were a number of limitations. Accordingly, this research used a pragmatic research design where both qualitative and quantitative research data was sourced. Despite the fact that this conglomeration of both designs enabled the research to mitigate for disadvantages of each paradigm, this in the process of doing this research the aspect of seeking data through a case study of Igembe North Sub-County narrowed the strata of information to a location that is in its infancy in terms of the topical issue. This limited the research from attaining versed information but rather concentrated on the market places within the case study area while omitting other SMEs that opt to still utilize conventional principal banking approach.

Though this research was focused on the contribution of agency banking, in future, more research ought to be done on areas of agency banking and its contribution towards SMEs growth through a holistic approach by carrying out a comparative study so as to include more than one case study area as well as widen the scope of data sourcing so as to find a more advanced area in terms of uptake of agency banking.

Additionally, this research dwelt more on the aspects of agency banking; Cost of transaction, Effectiveness of customer relationship management, Convenience of service accessibility and Security of service as the predicting factors that trigger the growth of SMEs in Igembe North Sub-County. Through this approach, this research concentrated on the factors that if utilized well in dissemination of agency banking services will trigger growth of SMEs. This limits the research to only considering one set of factors while omitting other fundamental factors like; Types of services offered by agency banking outlets, Amount of liquidity available in the agency banking outlet and Number and distribution of the agency banking outlets. Therefore in future researches, more of these additional factors should be considered so as to expand the trigger variables towards growth of SMEs.

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## APPENDIX I: QUESTIONNAIRE FOR SMES OWNERS

I, Kenneth Mutuma Muthaura am a Master of Arts sociology student at the University of Nairobi and in my final year of study. As part of the requirements for the award of the degree, I am undertaking a research on

**“The Contribution of Agency Banking to the Growth of Small and Medium Enterprises in Kenya (Igembe North Sub County)”.**

In this regard, I am kindly requesting for your support in terms of time, and providing information, your candid response will be critical in ensuring objective of the research is achieved. The information provided will be treated as strictly confidential and at no instance will your name be mentioned in this research. This research is intended for an academic purpose only.

The questionnaire is to be filled by ONLY those whose firms use agency banking.

### SECTION ONE: DEMOGRAPHIC INFORMATION

1. Gender      Male [  ]                                      Female [  ]
  
2. Age:        Below 19years [  ]      20-29years [  ]      30-39years[  ]  
                  40-49years [  ]                                      Above 50years [  ]
  
3. What is your highest level of education? (Please tick one)
  - i. Secondary [  ]                                      ii. Tertiary College [  ]
  
  - ii. Undergraduate [  ]                                      iv. Postgraduate [  ]
  
  - v. other (specify).....

## SECTION 2: INTRODUCTORY QUESTIONS

4. For how long have you operated this business?

- i. Less than one year [ ]      ii. Between 1-2 years [ ]  
iii. Between 3-4 years [ ]      iv. Over 5 years [ ]

5. What is the major source of your business finance?

- a) = Commercial Banks.  
b) = Non-governmental Organizations (NGOs)  
c) = Community Based Organizations E.g. Merry go rounds.  
d) = Family.  
e) = self  
f) = Other specify.....

6. Have you ever accessed credit from the bank to finance your business?

- a) Yes [ ]      b) No [ ]

## OBJECTIVE 2: FACTORS INFLUENCING GROWTH OF SME'S

7. Below are some of the factors that might have contributed to the growth of your enterprise.

*Please indicate using a tick to show the level to which the items below apply to you as per your experience in your business: 1= strongly disagree, 2= disagree, 3= neutral, 4 = agree, and 5 = strongly agree.*

| No. | Constraint                                  | <i>Strongly disagree</i> | <i>Disagree</i> | <i>Neutral</i> | <i>Agree</i> | <i>Strongly agree</i> |
|-----|---|--------------------------|-----------------|----------------|--------------|-----------------------|
| 1   | Age of the firm<br>(experience in business) |                          |                 |                |              |                       |
| 2.  | Access to credit facilities                 |                          |                 |                |              |                       |
| 3.  | Education and training                      |                          |                 |                |              |                       |
| 4.  | Adaptiveness to technology                  |                          |                 |                |              |                       |
| 5.  | Access to markets                           |                          |                 |                |              |                       |

8. The following banking methods illustrate the best method which your business is mainly relying for enhancing its growth over the past three years.

*Please indicate using a tick to show the level to which the items below apply to you as per your experience in your enterprise: 1= strongly disagree, 2= disagree, 3= neutral, 4 = agree, and 5 = strongly agree.*

| No. | Description          | <i>Strongly Disagree</i> | <i>Disagree</i> | <i>Neutral</i> | <i>Agree</i> | <i>Strongly Agree</i> |
|-----|----------------------|--------------------------|-----------------|----------------|--------------|-----------------------|
| 1   | Branch banking       |                          |                 |                |              |                       |
| 2.  | Agency banking       |                          |                 |                |              |                       |
| 3.  | Mobile phone banking |                          |                 |                |              |                       |

|    |                          |  |  |  |  |  |
|----|--------------------------|--|--|--|--|--|
| 5. | Internet banking         |  |  |  |  |  |
| 6. | No banking method at all |  |  |  |  |  |

9. Do you feel agency banking has helped the performance of your enterprise over the last three years with regards to the following aspects?

*Please indicate using a tick to show the level to which the items below apply to you as per your experience in your business: 1= strongly disagree, 2= disagree, 3= neutral, 4 = agree, and 5 = strongly agree.*

| No. | Description   | <i>Strongly Disagree</i> | <i>Disagree</i> | <i>Neutral</i> | <i>Agree</i> | <i>Strongly Agree</i> |
|-----|---|--------------------------|-----------------|----------------|--------------|-----------------------|
| 1   | Sales have increased                                |                          |                 |                |              |                       |
| 2.  | My profits have gone up                             |                          |                 |                |              |                       |
| 3.  | I have been able to record an increase in capital   |                          |                 |                |              |                       |
| 5.  | My stocks have been on an upward trend              |                          |                 |                |              |                       |
| 6.  | I have been able to increase my number of employees |                          |                 |                |              |                       |

**OBJECTIVE 3: FACTORS INFLUENCING USE OF AGENCY BANKING WITHIN SMEs**

10. The following statements state the benefits derived from use of agency banking by your business. To what extent do you agree with these statements (Please tick where appropriate)

*Please indicate using a tick to show the level to which the items below apply to you as per your experience in your business: 1= strongly disagree, 2= disagree, 3= neutral, 4 = agree, and 5 = strongly agree.*

| <b>No.</b> | <b>Description</b>   | <b>Strongly Disagree</b> | <b>Disagree</b> | <b>Neutral</b> | <b>Agree</b> | <b>Strongly Agree</b> |
|------------|--|--------------------------|-----------------|----------------|--------------|-----------------------|
| 1          | Payments of goods and services to my suppliers has become faster                           |                          |                 |                |              |                       |
| 2.         | Reduction in transport costs used to access banking services                               |                          |                 |                |              |                       |
| 3.         | Cash is secure since I don't have to carry it for long distance to access banking services |                          |                 |                |              |                       |
| 5.         | It saves time used to travel to access the banking services at branch                      |                          |                 |                |              |                       |
| 6.         | Increased cash turnovers in the bank   |                          |                 |                |              |                       |
| 7.         | I have been able to access credit facilities from the bank.                                |                          |                 |                |              |                       |

11. Below are services offered by agency banking, please indicate in the boxes provided on how often do you utilize the below services.

*Please indicate using a tick to show the level to which the items below apply to you as per your experience in your business: 1= Not at all, 2= 1 day in a week, 3= 2-3 times a week, 4 = 4-6 days a week, and 5 = Daily basis.*

| No. | Description                 | Not at all | 1 day in a week | 2-3 times a week | 4-6 days a week | Daily basis |
|-----|-----------------------------|------------|-----------------|------------------|-----------------|-------------|
| 1   | Cash deposits/cash withdraw |            |                 |                  |                 |             |
| 2.  | Utility payments            |            |                 |                  |                 |             |
| 3.  | Payments of bills           |            |                 |                  |                 |             |
| 4.  | Savings                     |            |                 |                  |                 |             |
| 5.  | Cash transfer               |            |                 |                  |                 |             |
| 6.  | Loan repayment              |            |                 |                  |                 |             |

**OBJECTIVE 4: CHALLENGES AFFECTING THE USE OF AGENCY BANKING**

12. What are the main challenges faced by your business during the use of agency banking services?

*Please indicate using a tick to show the level to which the items below apply to you as per your experience in your business: 1= strongly disagree, 2= disagree, 3= neutral, 4 = agree, and 5 = strongly agree.*

| No. | Description  | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|-----|--|-------------------|----------|---------|-------|----------------|
| 1   | Training highly affects the ability of agency banking to perform   |                   |          |         |       |                |
| 2.  | Security issues greatly affects use of agency banking by SMEs      |                   |          |         |       |                |
| 3.  | Liquidity is a major issue affecting use of agency banking by SMEs |                   |          |         |       |                |

*Thank you for your responses.*

**APPENDIX II: KEY INFORMANTS GUIDE**

I, Keneth Mutuma Muthaura am a Master of Arts sociology student at the University of Nairobi and in my final year of study. As part of the requirements for the award of the degree, I am undertaking a research on

**“The contribution of agency banking to the growth of small and medium enterprises in Kenya (Igembe North Sub County)”.**

In this regard, I am kindly requesting for your support in terms of time, and providing information, in which your candid response will be critical in ensuring objective of the research, is achieved. The information provided will be treated as strictly confidential and at no instance will your name be mentioned in this research. This research is intended for an academic purpose only.

Kindly answer the questions by writing a brief statement where applicable.

1. Which bank agency services do you offer?  
.....
2. Do you feel that the agency banking services you offer have contributed greatly to the growth of SMEs in your locality?  
.....
3. If answer to2 above is Yes, kindly elaborate why you seem to be so.  
.....  
.....  
.....
4. In your own opinion why do you think SMEs prefer the above agency banking service over the other modes of banking?  
.....  
.....



5. What are the most common problems that you experience with the agency bank services?

.....  
.....

6. In your own opinion do you think the banks have put control measures to mitigate against the problems experienced above.

.....  
.....

7. In your own opinion how best can the bank improve on the services offered through the agency bank?

.....  
.....  
.....

8. What are the greatest challenges faced during opening of an agency service?

.....  
.....

9. In your opinion how best can the above challenges be overcome.

.....  
.....

**Thank you for your responses**

### APPENDIX III: INTERVIEW RECALL

#### **OBJECTIVE 2: FACTORS INFLUENCING GROWTH OF SME'S**

**In response to Question 1: Which bank agency services do you offer?**

**P1:** *“I have several services notably cash deposits and cash withdraw, payment for utilities, savings, cash transfers, offering of loans and also ensure loan repayment has been done.”*

**P2:** *“I actually offer a number of services which include cash deposits and cash withdraw, payment for utilities, savings, cash transfers and giving out of loans and loan payback.”*

**P3:** *“Cash deposits and cash withdraw, payment for utilities, savings, cash transfers, offering of loans and collection of loan payments.”*

**P4:** *“I give out several different agency banking services which are cash deposits and cash withdraw, payment for utilities, savings, cash transfers, offering of loan credit and also their collection.”*

**P5:** *“My duka offers cash deposits and cash withdraw, payment for utilities, savings, cash transfers, offering of loans and also ensure loan repayment has been done.”*

**P6:** *“This agency of mine gives out cash deposits and cash withdraw, payment for utilities, savings, cash transfers, offering of loans and also make sure I collect the payments back for the loans.”*

**In response to Question 2: What do you think are the aspects which influence the growth of small and medium sized businesses within your locality.**

**P1:** *“Access to credit is a big issue which affects the speed at which an SME can grow in this place.”*

**P2:** *“Age of the firm affects the growth pattern of SMEs in my locality.”*

**P3:** *“Access to markets determines the success an SME will have in regard to performance.”*

**P4:** *“Education and training level of the entrepreneur also affects the performance exhibited by the SME in my region.”*

**P5:** *“Adaptiveness to technology change is yet another key factor that affects the growth patterns of SMEs in my sub-county.”*

**P6:** *“Access to credit is one major aspect which highly affects the growth of SMEs within Igembe North sub-county.”*

**OBJECTIVE 3: FACTORS INFLUENCING GROWTH OF AGENCY BANKING WITHIN SMEs**

**In response to Question 3: Do you feel that the agency banking services you offer have contributed greatly to the growth of SMEs in your locality?**

**P1:** *“Yes, indeed it has contributed hugely to the growth of SMEs.”*

**P2:** *“Agency banking plays an important part in the growth of SMEs in my area.”*

**P3:** *“Yes, indeed.”*

**P4:** *“Yes for sure it does majorly.”*

**P5:** *“For sure it does.”*

**P6:** *“Yes it does for sure play a critical role.”*

**In response to 4: In your own opinion why do you think SMEs prefer the above agency banking services over the other modes of banking?**

**P1:** *“My business incurs lower transactional costs when using agency banking as compared to visiting a commercial bank for the same service.”*

**P2:** *“Agency banking ensures that I can easily and safely save my money from a place which is nearer to my business than my principal bank, making the transaction more secured.”*

**P3:** *“Convenience of services accessibility has made agency banking to be the best tool for growth enhancement amidst many SMEs in Igembe North sub-county.”*

**P4:** *“Agency banking offers SMEs effective customer relationship management which makes them enjoy good customer service and effective resolution of any query they have over the services offered.”***P5:** *“Customer relationship management which is offered by agency banking highly impacts on the customer service offered to businesses.”*

**P6:** *“Convenience of services accessibility has made agency banking to effectively offer agency banking services to SMEs in Igembe North sub-county.”*

### **OBJECTIVE 3: CHALLENGES INFLUENCING ADAPTION OF AGENCY BANKING BY SMEs**

**In response to Question 5: What are the most common problems that you experience with the agency bank services?**

**P1:** *“Majority of the agency banking workers are not adequately trained to offer banking services to the customers.”*

**P2:** *“Security concerns is a major shortcoming in agency banking especially with the integration of technology into this form of banking.”*

**P3:** *“Security is a key issue which affects usage of agency banking by small businesses in my area.”*

**P4:** *“Security is a major concern facing usage of SMEs.”*

**P5:** *“New technology use has brought in security concerns which affects the effective uptake of the agency banking.”*

**P6:** *“Liquidity issues is a major challenge experienced by some SMEs within my locality thus affecting the efficiency expected by such businesses from agency banking outlets.”*

**In response of Question 6: In your own opinion how best can the bank improve on the services offered through the agency bank?**

**P1:** *“Banks need to undertake frequent training of the agents working in the agency banking outlets to ensure that they are adequately equipped with the right knowledge and customer service to ensure that they have served customers well hence ensuring the required customer service by the principal bank.”*

**P2:** *“Security features of the agency banking system ought to be developed to take up latest techniques of advanced security measures, “*

**P3:** *“Security can be catered for by ensuring speedy uptake of latest security features in the market by agency bankers.”*

**P4:** *“Security can be enhanced by ensuring that new technology has been taken up hence avoid disruption to the agency banking services which can then affect the security levels of the system.”*

**P5:** *“New technology like biometrics ought to be integrated into the agency banking platform to enhance security measures.”*

**P6:** *Liquidity issues can be solved by the principal banks going for unexpected visits to the agents and any agent found not to have met the lowest agreed threshold punished by closing the outlet for a while.”*