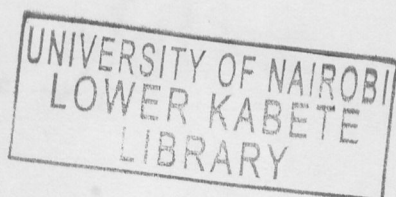


**FACTORS INFLUENCING THE ADOPTION OF AGENCY BANKING
STRATEGY BY THE KENYA POST OFFICE SAVINGS BANK**

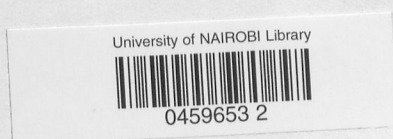
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TECLA KIGEN



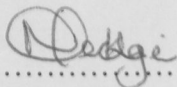
**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF THE
UNIVERSITY OF NAIROBI**

OCTOBER 2012



DECLARATION

I declare that this is my original work and has not been presented for a degree in any other university or institution.

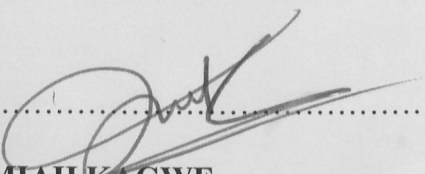
Sign: 

Date: 7th November 2012

TECLA KIGEN

D61/ 60128/2011

This project has been submitted for examination with my approval as university supervisor

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ACKNOWLEDGEMENT

First, I thank the Almighty God for giving me the chance to see the fruits of my hard work.

I dedicate this project to the members of my family especially my loving husband

Kenneth, son Trevor and daughters Tracy, Terri and Tamara.

I gratefully acknowledge the insightful guidance, positive criticism, encouragement and valuable advice from my supervisor, Mr. Jeremiah Kagwe, which enabled completion of this project.

Honours go to all my lecturers and fellow students at the University of Nairobi MBA programme for rendering an enriching experience to share and procure knowledge. I also wish to express my profound gratitude to all my friends for their encouragement during the course of the study.

I owe profound intellectual debt to those who enriched this project with much needed information and made it a success. Due to the limitations of trying to include everyone's name on this paper, I cannot name them all. I humbly request that those concerned accept my expression of gratitude for their support. Special thanks to all those who assisted me in any way. May God bless you abundantly.

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ABSTRACT

The purpose of the study was to identify factors influencing the adoption of agency banking strategy by Postbank and to establish challenges that Postbank is facing in adopting the agency banking strategy.

The purpose of strategy is to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment. Agency banking strategy was introduced in Kenya in 2010 where retail outlets such as shops or post offices act as agents for banks in areas where banks and other financial institutions do not have sufficient incentive or capacity to establish formal branches. Kenya Post Office Savings Bank (Postbank) has started rolling out its agency banking.

The case study design was used to carry out this study. Primary data was collected through face to face interviews with four senior employees at Kenya Post Office Savings Bank at Post Bank House. The interviewed employees were banking services director, head of information and communication technology, head of retail banking and head of marketing and business development. Data collected through the interviews was analyzed through content analysis and presented in explanations and a discussion.

Findings indicated that factors that Postbank puts into consideration in adopting the agency banking strategy include regulations from the CBK, ability to build an agent network, competition from other banks and the reputation of the bank in the market. Financial and human resources commanded by the bank, availability of retail outlets with qualities required to be agents, technology commanded by the bank and infrastructure by potential agents were other major factors. Strategic focus of the bank, banks management structure, strategic orientation and diversity of services to be provided by agents were other factors affecting adoption. Challenges faced in adoption of agency banking include finding the right partners, managing the agent network, setting up the infrastructure, and management structure to incorporate agency model and competition from other banks.

Other challenges include making the agents to offer quality customer service, financial and human resources, confidentiality, security, customer service and issues of fraud. 11

DEDICATION..... 11

The study makes the following recommendations. First, banks should move quickly in the adoption process to capture early-entrant advantages. Secondly, banks should build the agent network rigorously. Third, banks should create diversified product offerings and lastly, should conduct reviews which can inform future strategies and refinements. 11

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Great strategies are worth nothing if they cannot be adopted successfully. There are various factors that have a considerable deterrent role in adopting strategies. These factors include individual (personnel) obstacles, obstacles related to the consequences of planning, organization obstacles, environmental obstacles and management obstacles.

Agency banking which is the use of retailers to facilitate product origination and customer service on behalf of the bank is emerging as a viable distribution option for lower income markets (Mas, 2008). This form of banking has been booming in the last few years and it has the potential to provide financial services to low-income households who are not reached by traditional bank networks, especially those living in remote and rural areas. Early experiences have shown that branchless banking through agents can significantly reduce set-up and delivery costs, offering cash-in/cash-out operations only or a broader range of financial services to customers who usually feel more comfortable banking at their local merchants than at traditional bank branches.

In June 2009, the Minister for Finance in Kenya proposed amendments to the Banking Act to allow commercial banks to use agents to offer agency banking in Kenya. As a result, the financial landscape in Kenya has begun to change dramatically as more banks are enabled to enhance their reach. It is envisaged that this model will enable banks to leverage on additional cost effective distribution channels to offer financial services. The

guidelines to facilitate the rolling out of agency model were issued by the Central Bank of Kenya and took effect from May 2010. In the agent banking strategy, retail outlets such as shops or post offices act as agents for banks in areas where banks and other financial institutions do not have sufficient incentive or capacity to establish formal branches (Mas, 2008).

1.1.1 Concept of Strategy

Strategy is a multi dimensional concept and various authors have defined strategy in different ways. Linn (2007) depicted strategy as the match between an organization's resources and skills and the environmental opportunities as well as the risks it faces and the purposes it wishes to accomplish. The purpose of strategy is to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment (Pearce and Robinson, 2001). Porter (2005) describes strategy as the search for a favorable competitive position in an industry. According to Porter (2005), competitive strategy is about being different. This means deliberately performing activities differently and in better ways than competitors.

Ansoff (1965) viewed strategy in terms of market and product choices. According to his view, strategy is the "common thread" among an organization's activities and the market. Johnson and Scholes (2002) defined strategy as the direction and scope of an organization that ideally matches the results of its changing environment and in particular its markets and customers so as to meet stakeholder expectation. According to Delmar and Shane (2003), strategy is a unified and integrated plan that relates the strategic

advantages of the firm to the challenges of the environment and that is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization.

Eisenhardt and Martin (2000) perceive strategy as a pattern or a plan that integrates organization's major goals, policies and action into a cohesive whole. Pearce and Robinson (2001) defined strategy as the company's "game plan" which results in future oriented plans interacting with the competitive environment to achieve the company's objectives. This definition of strategy is important in this study as it reflects competitiveness in the environment and the game plan aspects, which organizations put into place to be able to compete effectively. Lambert and Knemeyer (2004) stated that managers develop strategies to guide how an organization conducts its business and how it will achieve its objectives.

1.1.2 Factors Influencing Adoption of Strategy

Rogers (1995) emphasized that getting a new strategy adopted, even when it has obvious advantages, is often very difficult which may normally take quite a lengthy period and may fail in the process of adoption. For strategies that have been developed, a number of barriers to adoption exist. A review of the strategy adoption literature shows that perceived characteristics of the strategy, characteristics related to the individual entity and management, as well as the social system are important. Given the variability in organizations, management and location-related factors, different barriers will be most limiting and one-size-fits-all adoption and policies will not be appropriate.

There are various factors that influence adoption of strategy. These factors include: structural issues such as organization structure, organizational architecture, organization design, controls and rewards; behavioral issues such as leadership, culture, business ethics and managing change; governance issues such as corporate governance and strategic control; functional issues such as marketing, finance, operations, research and development and supply-chain management and operational issues such as resource allocation, technology, innovation and outsourcing (Aaltonen and Ikavalko, 2002).

1.1.3 Agency Banking Strategy

Agency banking is a form of branchless banking where banks use existing retail points as cash merchants to provide basic banking services such as taking deposits and withdrawals on behalf of the banks (Mas, 2008). This form of banking has been booming in the last few years and it has the potential to provide financial services to low-income households who are not reached by traditional bank networks, especially those living in remote and rural areas. Early experiences have shown that branchless banking through agents can significantly reduce set-up and delivery costs, offering cash-in/cash-out operations only or a broader range of financial services to customers who usually feel more comfortable banking at their local merchants than at traditional bank branches.

The use of retailers to facilitate product origination and customer service on behalf of the bank is emerging as a viable distribution option for lower income markets. From the inception of agent banking in Kenya in 2010, the financial landscape in Kenya has begun

to change dramatically as more banks are enabled to enhance their reach adopting branch banking through the agent banking strategy. This strategy has been conceptualized to enable banks to leverage on additional cost effective distribution channels to offer financial services. In the agent banking strategy being applied by financial institutions in Kenya, retail outlets such as shops or post offices act as agents for banks in areas where banks and other financial institutions do not have sufficient incentive or capacity to establish formal branches (Lyman, Mark and David, 2010). However, banks have adopted this strategy in different extents. Agency banking has the potential of increasing the banking population, currently estimated at slightly above 20% of Kenyans over 18 years. This strategy also reduces costs for banks and improves operational efficiency.

Kenya post office savings bank (Postbank) has started rolling out its agency banking model having already registered close to 100 agents to kick off the service. The bank's agency service strategy dubbed 'Postbank Mashinani' is expected to go a long way in complementing the current network of 94 branches. Postbank is targeting to grow the number of its agents to 500 by the end of 2012 (www.postbank.co.ke). However, the bank's process of implementing the agency banking strategy is shadowed by the success of Kenya Commercial Bank, Cooperative Bank and Equity Bank which have implemented the strategy of agency banking with tremendous success.

1.1.4 The Kenyan Banking Industry

As at 30th June 2012, the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage

finance company), 2 representative offices of foreign banks, 5 Deposit-Taking Microfinance Institutions (DTMs) and 126 Foreign exchange Bureaus. Thirty one of the banking institutions are locally owned while 13 are foreign owned. The locally owned financial institutions comprise of 3 banks with public shareholding, 27 privately owned commercial banks, 1 mortgage finance company (MFC) while 5 Deposit taking Microfinance Institutions and 126 foreign exchange bureaus are privately owned.

1.1.5 The Kenya Post Office Savings Bank

The Kenya Post Office Savings Bank (Postbank) was established in 1910. Postbank is primarily engaged in the mobilization of savings for national development and operates under the Kenya Post Office Savings Bank Act Cap 493B. In addition, the Bank offers local and international credit cards under the sponsorship of a commercial bank, Local and International Money Transfer Services (MTS), collections and disbursement services (www.postbank.co.ke). The bank is wholly owned by the Government of Kenya and reports to the Ministry of Finance. The board of directors is responsible for the long term strategic direction for profitable growth for the bank while being accountable to the shareholders for ensuring that Postbank complies with the law and the highest standards of corporate governance and business ethics (www.postbank.co.ke).

Postbank was established primarily to encourage thrift and mobilize savings, and has carried out this mandate successfully, through expansion of its outreach and development of products and services that meet the expectations of its customers. In 2008, the bank rolled out a new service delivery system-The New Business Model - that enables the

customers to use a Debit card to transact both at the Point of Sale Terminals and ATM machines. In this system, Postbank offers paperless banking as no forms are completed for debit and credit card transaction. The card and PIN number are all the customer needs to make a transaction.

As a savings bank Postbank offers 25 products and services including savings accounts for businessmen, salary payments, the youth, pensioners and children. They also sell stocks at the Nairobi Securities Exchange on agency basis for individual and household savers; safe custody and international money transfer services such as Western Union, MoneyGram and M-Pesa. Postbank also offers credit access through the Postbank Visa Card. Postbank customers also access banking services at their convenience by using the SMS banking service.

Postbank is ISO 9001:2008 certified in line with initiatives by the bank to improve service quality to their customers within the requirements by the Ministry of Finance. To their customers, this means quality of services and high standards that meet their expectations. Postbank also has a service charter that entails the banks commitment to high standard of service in all aspect of business and initiatives feedback from those who use our services.

1.2 Problem Statement

Factors which have been indicated to affect strategy adoption are market changes, competitor responses to strategy, resources applied, buy-in, understanding, and/or

communication. Other factors include timeliness and distinctiveness, the strategy itself (whether it is properly conceived) and focus. Excellently formulated strategies fail if they are not properly implemented. Also, it is essential to note that strategy adoption is not possible unless there is stability between strategy and each organizational dimension such as organizational structure, reward structure and resource-allocation process.

Kavangwe et al. in Nairobi – Kenya. His study investigated what factors enabled or

As agency banking takes root in Kenya, there are benefits that the banking sector aims to reap from this model. However, some factors will need to be considered by banks as they recruit agents and use them to expand their services. Kenyans seem to appreciate the convenience associated with agency banking so long as controls are observed and trust is maintained. Banks in Kenya also rejoice at the opportunity of expanding banking business without the necessity of investing in expensive, traditional brick and mortar facilities. However, as banks continue to uptake this model, a strategic question would be to analyze the factors that influence the adoption of this strategy of bank expansion.

The objectives of this study were:

Though, agency banking is not an old concept, some empirical studies have been done in this area. Studies done in South America form much of empirical evidence of agency banking (Ivatury and Mas, 2008; Kumar et al, 2006). Locally, Wambugu (2011) assessed factors influencing the adoption of agency banking by commercial banks in Kenya. His study revealed that integrity of agents, competence of agent's employees and infrastructure capacity by the agents were major factors. Kiriimi (2011) did a study focusing on the extent of implementation of agency banking among commercial banks in Kenya. Her study established that only a few banks have adopted the model to a great

extent. This study is different from her study since it will focus on Postbank. Another study by Wairi (2010) investigated the factors influencing the adoption of agent banking innovation among commercial banks in Kenya. This was a survey of all commercial banks in Kenya. The current study is different from Wairi's (2010) since it will be a case study. Ndome (2010) studied the adoption of agent banking services among residents of Kawangware area in Nairobi – Kenya. His study investigated what factors enabled or hindered adoption of agency banking by residents of the area. This study however will be investigating adoption of agency banking by Kenya Post Office Savings Bank around the country. Since agency banking is new in this country, there is a dearth of empirical review of agency banking. The study therefore aimed at establishing the factors that influence uptake of agency banking strategy by Postbank and challenges of adopting this strategy that Postbank has faced.

1.3 Research Objectives

The objectives of this study were:

- i) To identify factors influencing the adoption of agency banking strategy by Postbank
- ii) To establish challenges that Postbank is facing in adopting the agency banking strategy

1.4 Value of the Study

The findings from this study will prove to be important to Postbank, commercial banks in Kenya, other organizations, policy makers in banking and financial services, and in scholarship.

The study findings will add more knowledge on the concept of agency banking and give more empirical findings on the factors affecting the adoption and the challenges thereof.

This will provide more literally material which will be of value to scholars, students and researchers. This study can also be used as a basis of further research and also in academics in the area of agency banking, financial inclusion and financial deepening in developing nations.

The study findings will provide more insight on the drivers and the effect of agency banking not just to the banks but to the economy. This will provide management of Postbank, other commercial banks and firms in financial services with more insight on the importance and challenges in agency banking and therefore providing areas that need further analysis to make agency banking a success.

The findings can further be applied by policy makers in the area of financial services innovation and banking. Financial innovations like agency banking are touted as the way to improve financial inclusion to drive economic development towards attainment of vision 2030. Policy makers can hence use the study findings to design policies that will encourage agency banking adoption but at the same time instilling effective regulatory environment.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is devoted to reviewing literature relevant to the current study. It provides a critical look at the work that has been done by other researchers which are related to strategy adoption, factors affecting strategy adoption and challenges in the process of strategy adoption. The section also presents a review of literature on agency banking strategy.

2.2 The Concept of Strategy

Strategy is a multi dimensional concept and various authors have defined strategy in different ways. Linn (2007) depicted strategy as the match between an organization's resources and skills and the environmental opportunities as well as the risks it faces and the purposes it wishes to accomplish. The purpose of strategy is to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment (Pearce and Robinson, 2001). Porter (2005) describes competitive strategy as the search for a favorable competitive position in an industry. According to Porter (2005), competitive strategy is about being different. This means deliberately performing activities differently and in better ways than competitors.

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2.3 Factors Influencing Adoption of Strategy

A good strategy needs to be effectively and successfully adopted by the organization for the whole strategic process to be a success. Adoption is incorporating the strategy to be a part of the business culture. The utility of any tool lies in its effective usage and so is the case with strategy. Strategy is the instrument through which a firm attempts to exploit opportunities available in the business environment. Adoption involves the design or

adjustment of the organization through which the administration of the enterprise occurs. This includes changes to existing roles of people, their reporting relationships, their evaluation and control mechanisms and the actual flow of data and information through the communication channels which support the enterprise (Hrebiniak and Joyce 2005). There are various factors that influence adoption which include individual (personnel) factors, factors related to the consequences of planning, organizational factors, environmental factors and management factors (Bower and Gilbert 2005).

Individual (personnel) factors have the highest role amongst the factors affecting adoption of strategy. In addition, among the 5 elements of individual obstacles, people and employees' inadequate understanding of the business strategies has the most roles in affecting the effective adoption and the adoption process of strategy adoption. If the strategic decisions are made by top managers of companies and then forced to lower levels of the company and low level managers and non-manager personnel for the operation processes in adoption, this may lead to creating an obstacle for successful adoption of the laid down strategies (Gronroos, 1985). The existence of manager-centric and hierarchical and most important of all bureaucratic management atmospheres causes the plans to be written by managers on the process of adoption and dictated to staff without any explanation and attention to its execution requirements. Therefore, it is necessary that companies justify to their staff regarding the strategy, prior to any activity.

The second important element which if not considered well may endanger the process of adoption of strategies is employees' fear of endangerment of their job security (Linn,

2007). Employees may feel less job security if they adopt a certain strategy and hence will be reluctant to effectively adopt it. If employees feel that adopting a certain strategy may cause endangerment, omission or justification of their jobs, therefore they show less desire and effort in the strategy adoption process. In this regard, the companies and their managers, by holding educational seminars and clarifying the advantages of adopting the strategies for the company as well as for staff and utilizing motivational mechanisms may eliminate this feeling in the staff and convert this weak point to strength.

Factors related to the consequences of planning involve the decision makers and managers. Insufficient consensus among decision makers and business strategy executers is the most important element related to consequences of planning. Therefore, in order to eliminate this obstacle and enable successful adoption of strategy inside and outside organization, consensus must be gained. Before any strategy is adopted, top decision makers must reach a consensus for the adoption process to be effective and fast. Johnson and Scholes (2008) have shown that if the members of a company are not aware of the common strategies of the organization or if the information flows inside the organization through different levels, a low level consensus would be gained. This lack of common understanding may act as a major obstacle in adopting a strategy and can lengthen the strategy adoption process. Existence of weakness and ambiguity in developed strategies, inadequate relation of developed strategies with short term goals, improper conversion of business strategies plans to short term and operational plans and distribution of these goals among different divisions, inaccuracies in business strategies planning, inadequate

attention to customers and other beneficiaries needs and requirements are the other major planning factors that affect strategy adoption.

Lack of proper information systems has the highest role among the elements of organization obstacles. Information technology, management information system and system applied for knowledge management have the highest role in success of business strategies. Banking industry is one of the industries with a lot of variety and complexity, therefore it is normal for success of strategies and projects ahead of the companies of this industry, the information technology issue would be an important one. In addition, existence of a management information system in the companies may cause that information necessary for decision making and improving the quality of plans and strategies being prepared. Organization culture and structure, inconsistent and non-conforming with company's strategies is another factor. Heed (2002) has shown that 86% of successful companies have a culture aligned with the company strategies. The organization culture must be aligned with the business strategy. Certainly, a culture which has been pre-defined related to the business strategy is very important for successful alignment with business strategy (Brens, 2008).

2.4 Agency Banking Strategy

One of the most important factors in adopting a business strategy is proper attention to the effects of competitive environment (e.g. competitors' status, market) in developing and implementing the strategy (Pearce and Robinson, 2001). Therefore, a company adopting a strategy must monitor the status of market and competitors constantly, in order to be able to react properly. Other important environmental factors that affect adoption of strategy include political factors and changes, cultural and social factors, economic

factors (e.g. inflation, down turn of the market) and finally national laws and regulations related to company activities.

Management factors have a role in adoption of strategy. Top management and leadership behavior affect the success and the pace of adoption of any strategy. Managers' understanding of company strategies and future outlook, as well as attention and support of managers and other influencing people in the organization toward the business strategies are identified as factors with strongly affect the success and length of adoption of a strategy (Welch and Welch, 2005). The managing staff of companies should be equipped with better leadership and management skills to lead and motivate their staff in the strategy adoption process. This allows them to relate the daily activities of personnel with business priorities in high levels. The top managers of a business must develop adequate commitment in middle managers and operational levels. For proving this matter, according to Heed (2002), he states that 91% of successful companies feel that having a proper and committed managing team, plays an important role in successful strategy adoption.

2.4 Agency Banking Strategy

Agency banking is branchless banking through agents which significantly reduce set-up and delivery costs. This entails offering cash-in/cash-out operations only or a broader range of financial services to customers who usually feel more comfortable banking at their local merchants than at traditional bank branches (Ivatury and Ignacio, 2008). At present, a group of major banks is using branchless banking channels to deliver services and reach new clients through retail outlets. However, the users of these financial

services depend on the location of these agent merchants and the adoption of the agency banking strategy has been slower than in other countries like Brazil, which has the largest agent network in the world and has already influenced other Latin American markets. The Brazilian model of bank-based projects that use cards and POS terminals is predominant in many Latin American countries.

Technology is an overriding factor in adopting the agency banking strategy (Ignacio, 2008). Technology can enable banks and their customers to interact remotely in a trusted way through existing local retail outlets. Adopting the agency banking strategy and developing an agent channel for a bank presents a range of technological and operational challenges that may be new for a bank. However, the main challenge is strategic. This entails understanding specifically how this new channel fits within its customer segmentation, service proposition, and branding objectives. The challenge is particularly important for banks pursuing agents as a way to offer banking services to those previously with no bank account. To deal with this challenge and pave way for a successful adoption, banks need to tackle basic financial education, barriers of these potential customer, develop appropriate products that target their needs and economic means, find efficient ways to reach them with effective marketing messages and put in place a mechanism for checking customer identities (because many of them may not have any formal form of identification). The agent, by itself, cannot do these things. It needs adequate support from the bank in all of these aspects. Otherwise, the bank may have outposts, but there will be no outreach.

In its most basic form, a retail outlet serving as an agent for a bank is a transactional channel permitting bank customers to deposit and withdraw cash into or from their account, as well as to perform a range of electronic transactions, including inquiries on account balances or recent movements and money transfers between accounts. The agent business can be set up so that neither the customer nor the bank needs to incur settlement risk with, or otherwise financially trust, the agent when transacting through it. Trust between the bank and the customer can be created through various transaction processes including electronic recording of all transactions, authentication of all parties, customer cash transactions are offset against the agent's bank account, automatic receipt generation and real-time authorization of transactions.

Banking agents must fit within the distribution strategies of banks, alongside other channels, such as branches or automatic teller machines (ATMs) (Ivatury and Ignacio, 2008). Agents can provide multiple benefits including increase in client convenience, reduction of transaction costs, and reaching out to new customers. However, it is important that the bank has a clear strategic rationale for each agent it sets up, to drive decision making, ensure appropriate agent setup and channel support, and permit subsequent performance evaluation against the original strategic intent.

Adopting the agency banking strategy is premised on banks being allowed to outsource certain functions along the financial service delivery chain (Lyman et al, 2008). From a policy perspective, a certain and conducive regulatory environment is the foundation of all legal banking agent activity. Agents should benefit from a different, lighter sort of

regulation than bank branches, because there are no issues of security of cash balances held by the agent (from the point of view of the bank and its customers). Moreover, there is an obligation to maintain an end-to-end technology platform with stringent security features to ensure the integrity of transactions happening through the agent. In fact, in some countries like Brazil, it was the stringent regulation of branches that increased the relative attractiveness for banks to use banking agents (Kumar et al, 2006).

A banking agent network is fundamentally a technology play for a bank. With appropriate technology, the bank can afford to be a little bit more relaxed about how customer transactions are captured (Lyman et al, 2008). The costs of the bank's distribution network can be reduced, while still effectively controlling banking risks. But installing the appropriate technology is often the easy part as long as agent outlets have electricity and telecommunications coverage. The main challenge is strategic which entails understanding the main purpose of this new channel and how it fits within the bank's other customer segmentation, service proposition, and branding objectives. Especially for banks looking to target new client segments or new geographies, there are three issues that need to be addressed. First, a bank will have to learn how to establish and run a banking agent network, overcoming the technological and operational challenges described. Second, a bank will have to adapt sales and marketing activity, as well as product design and customer service, to its new clients. Lastly, a bank might have to tackle basic financial literacy barriers and develop ways to effectively identify clients who do not possess a formal form of identification.

2.5 Challenges to Strategy Adoption

Companies often fail to operationalize their strategies in ways that improve the likelihood that they will be adopted effectively. Arguably, many of the most commonly cited causes for failure to adopt a strategy effectively are either myths or excuses that have gained credibility from being repeated often (Kim and Mauborgne, 2005). The myths should be discredited to have the real challenges that hinder effective strategy adoption. The real reasons that strategy adoption fail are varied. Fortunately, the causes can often be anticipated and the pitfalls can be avoided. The different challenges are discussed hereunder.

The first challenge is unanticipated market changes (Lane, 2003). Strategies often fail because the market conditions they were intended to exploit change before the strategy takes hold. Product life cycles are shorter, disruptive technologies emerge with greater frequency, and financial markets can be volatile. Many markets are experiencing rapid, discontinuous change. Specifically, technology challenges the old rules and assumptions and creates daunting external obstacles to strategy adoption.

Another challenge to effective strategy adoption is effective competitor responses to the entity's strategy (Kim and Mauborgne, 2005). Fundamentally, strategy is about outperforming the competition. However, a strategy can be foiled by a highly effective response by a key competitor. Ultimately, to effectively anticipate competitors' reactions to a strategy, a company needs a solid competitive intelligence capability. This does not require one to conduct corporate espionage to access competitive secrets. Rather, it

requires that companies understand competitors' market positions, their relative competitive advantages and disadvantages, their historical behavior compared to competitive strategy, and the general disposition of their respective management teams.

Another major challenge is application of insufficient resources (Lane, 2003). Some strategies fail because not enough resources were allocated to successfully ensure their adoption. Lack of resources is generally a bigger threat to capital intensive strategies. It is generally a good idea to include financial evaluation of a draft strategic plan in the process. This is in part to ensure the strategy does not inadvertently destroy shareholder value and in part to ensure that sufficient resources will be available to achieve the strategic goal.

Strategies fail in adoption due to failures of buy-in, understanding, and/or communication (Kim and Mauborgne, 2005). Some strategies fail because there is insufficient buy-in to or understanding of the strategy among those who need to make it work. Strategy adoption fails when the company's employees do not own the strategy. There is a strong belief in the organization's goals and values, willingness to exert effort on behalf of the organization, and strong desire to maintain membership in the organization and employees' support of the organization's strategic plan. The surest way to ensure someone understands a strategy is to involve him or her in its creation. Effective communication of the strategy and its underlying rationale are also critically important particularly when reaching out beyond the group directly involved in the development of the strategic plan.

Timeliness and distinctiveness is another challenge in strategy adoption. Some strategies fail because someone beats the company to market with a similar idea or strategy. Similarly, some strategies fail because they leave the company undistinguished in the market. This implies that others are pursuing the same strategy and/or market position. Effective strategy adoption requires understand the company's genuine strengths (particularly those that span multiple functions), examining the marketplace to understand what market positions are or may be unoccupied and focusing the company's strategies on bringing its verifiable strengths to bear in capturing those unoccupied strategic positions.

Lack of focus is another major challenge affecting strategy adoption (Lane, 2003). A corollary to the need for timeliness and distinctiveness is the need for strategic focus. Some companies try to be all things to all people. As a result, they lack distinctiveness, but importantly, they also lack focus. As a result, resources are dissipated and priorities are never clearly articulated. With little sense of prioritization, employees are always frantically working to keep things from collapsing, but never really making progress. Lastly is having a bad strategy which involves poorly conceived business models. Sometimes strategies fail because they are simply ill conceived.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to carry out the study. The chapter discusses the researcher discusses the research design, population size and sample that were used. The chapter also discusses how this data was analyzed.

3.2 Research Design

The case study design was used to carry out this study on Kenya Post Office Savings Bank. According to Cooper and Schindler (2006), a case study design gives an in-depth report on a single subject or a small group of subjects. The case study approach was selected since it has an important role in research since it gives details of description, explanation and analysis of the factors under study. In this case, it was important to give in-depth analysis of factors affecting adoption of agency banking at Kenya Post Office Savings Bank. This design involved using of primary sources of data which involved interviews with senior employees involved in strategy at Kenya Post Office Savings Bank.

3.3 Data Collection

Primary data was collected through face to face interviews with four senior employees at Kenya Post Office Savings Bank at Post Bank House. The interviewed employees were banking services director, head of information and communication technology, head of retail banking and head of marketing and business development. The interview method

was adopted in this study due to the high response rate it brings, flexibility, ability to have in-depth data and the ability to develop rapport with interviews which leads to more valuable information from the respondents.

Semi-structured interview techniques was applied which provided greater scope for discussion and learning about the subject, opinions and views of the respondents. While there were some fairly specific questions (closed questions) in the interview schedule, each of which were probed or prompted, there were lot more questions which were completely open-ended. The latter questions mainly served to explore different facets of the issue. The information thus collected was both qualitative and quantitative. The semi-structured interview method allowed greater control over the sample of respondents.

3.4 Data Analysis

Data collected through the interviews was qualitative. Qualitative data consisted of opinions, views or any other response to the open questions in the interviews. The data and information obtained through the open questions was analyzed through content analysis and presented in explanations and a discussion.

Data analysis mostly involved exploring the data in order to become familiar with the interview information. This entailed reading the written notes and transcripts multiple times. From this initial review of the transcript, the researcher began to see themes emerging from the data. Sections of the transcripts that reflected a theme were identified. Notations were made to record ideas that the researcher identified while reading the data.

The next step in analysis involved describing and further developing the themes from the data to answer the major research questions. The themes identified were revisited with the major research questions as the lens for analysis.

4.1 Introduction

This chapter discusses data analysis, findings and a discussion of the findings. Section 4.2 discusses data collection and analysis while section 4.3 discusses the findings.

4.2 Data Collection and Analysis

Data was collected through interview method. The interviewed employees were banking services director, head of information and communication technology, head of retail banking and head of marketing and business development. These were top employees involved in strategy and also involved in agency banking in relation to the docket they hold. All the four interviews arranged materialized. They were conducted at the Post Bank House which is the headquarters of Kenya Post Office Savings Bank.

4.3 Findings

4.3.1 General Information

Post Bank had just over one million active accounts at the time of the study and they targeted to have more customers through agency banking strategy and other promotional activities. The interviews revealed that Post Bank has rolled out agency banking across the country. However the study revealed that they have not rolled agency banking in a similar scale to the leaders in agency banking in Kenya and have faced diverse challenges

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter discusses data analysis, findings and a discussion of the findings. Section 4.2 discusses data collection and analysis while section 4.3 discusses the findings.

4.2 Data Collection and Analysis

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in the process. The study also revealed that Postbank has 630 agents across the country with most of them being in the major urban centres in the country.

The study also revealed that Postbank has not only partnered with retail outlets but have moved upwards to partner with NIC bank in the agency model. The study revealed that the NIC Bank Group has partnered with Postbank to roll out agency banking services as part of an aggressive diversification program. In this model, NIC Bank Group customers are able to use Postbank's network of 97 branches nationwide, to access NIC Bank services like cash deposits and withdrawals.

The interviews revealed that geographic diversification is one of the pillars of Postbank's growth strategy with the overall objective of achieving significant and sustainable earnings in each business line in the medium and long term. Agency banking model was touted as an enabler to have one of the widest reaching and most secure networks in agency banking, while saving the institution millions of shillings. This was revealed due to the fact that currently, it is very difficult to establish branches across the country and because Postbank has already established infrastructure amounting to 97 branches across Kenya, NIC is basically taking advantage and leveraging on their network while on the down side Postbank leverages the established retail outlets to establish a wider reach.

The study revealed that today, because of inflation, setting up a branch costs about Sh40 million so if Postbank were to set up an additional 100 branches it would be prohibitive hence taking agency banking model is the way to move. Respondents indicated that

partnership with retail outlets allow for more Kenyans in rural areas to gain access to quality banking.

The study revealed that in an effort to take banking services closer to the un-banked and under-banked Kenyans, Postbank's agency banking strategy which they call 'Postbank Mashinani' was taking shape in the whole country. This according to the respondents has enabled customers in the rural areas access a wide range of banking services at their doorstep and hence increased convenience, customer loyalty and satisfaction. More so, respondents indicated that Postbank services are now available to remote and rural areas which could not have been possible without agency banking.

The respondents also revealed that the main objective of the agency banking strategy adoption partnership is to enrich the customer experience and one respondent indicated that, 'we are improving Postbank Mobile and Online Banking by enhancing service features such as M-Pesa connectivity in both channels. A Postbank customer in Hola where Postbank may not have a branch will be able to go to the agent at Hola to do their banking instead of flying to Wajir or sending their money through mail'.

However, the study revealed that most of the agent outlets by Postbank were established in the last quarter of 2011 and the first half of 2012. This was due to many challenges that faced the adoption process. By September 2011, Postbank had only 96 agents all over the country. However a change in strategic focus in October of 2011 saw agency banking as

a route for more geographical coverage and competitiveness. This was reported to have internalized agency banking to complement network of 94 branches.

4.3.2 Factors Affecting Adoption of Agency Banking Strategy

The study had an objective of establishing the factors that affected adoption of agency banking by Postbank. The major factors which received consideration by the respondents were regulations, financial and human resources, the adoption model selected, strategies applied by other banks and competitiveness of Postbank in the Kenyan banking sector.

Respondents indicated that to implement agent banking strategies, some major factors need to be considered. The first major consideration was mentioned by respondents to be regulations from the CBK regarding agency banking. In February 2011, respondents indicated that the Central Bank of Kenya (CBK) released regulations to govern a new agency banking model. The regulations allowed banks to offer services through third party agents approved by the CBK. Agents could be telcom outlets, SMEs, retail chains, savings and credit co-operatives (SACCOs), or even 'dukas' (corner shops). Respondents indicated that essentially any profit-making entity that has been in business for at least 18 months and can afford to fund a float account to facilitate payments. The regulations must be fully met to ensure that agents are registered. The study revealed that agency banking is premised on banks being allowed to outsource certain functions along the financial service delivery chain. From a policy perspective, a certain and conducive regulatory environment is the foundation of all legal banking agent activity. Results from the study indicated that agents should benefit from a different, lighter sort of regulation

than bank branches, because there are no issues of security of cash balances held by the agent from the point of view of the bank and its customers. Moreover, there is an obligation to maintain an end-to-end technology platform with stringent security features to ensure the integrity of transactions happening through the agent. In fact, it is the stringent regulation of branches that increase the relative attractiveness for banks to use banking agent.

Respondents indicated that another major factor considered in agency banking adoption was building a network. The major factor was mentioned as building networks of partners that can fulfill the agent role. An agent needs to have enough cash flow to maintain a float for business. If a customer wishes to make cash withdrawal, the agent provides cash from the till, but is compensated by an equivalent increase in its bank account. In effect, bank customers have delegated to the store managers the bothersome (and, in some cases, risky) job of having to go to the bank to balance the community's net cash requirements, and for that the store managers get a commission based on the number of transactions. The study revealed that Postbank was still uncertain for players that don't offer a range of services. Further, the agent banking model is relatively new for financial-services providers, hence making it difficult to know exactly what will work in each particular situation. The study revealed that the credibility of the agent on the area of operation was a major factor that needed consideration before an agent was enrolled. This was revealed to be important in that the agent credibility was important as was the bank's credibility in attracting clients and making clients confident in transacting with it. Respondents

indicated that agency employees need to be of high integrity, honest and of high professionalism for an agency to pass the test.

The study also revealed that a bank's reputation among target markets was another factor that largely influences the opening of agent networks. A bank's reputation was reported to largely determine whether people will use the bank's agent. The respondents indicated that the success of the agency banking model is in a huge way hinged on customer trust in the principal bank, which dictates on their willingness to use a bank agent. The study revealed that the reputation of the principal bank matters more than the agent, with important factors being a positive image, a bank's perceived stability and duration of its operation, as well as a customer's past experience with it. A bank needs to first build a good reputation in its branches before it starts opening agent branches.

In selecting agents, factors that need to be considered include trust by clients. This includes history of the business, personal reputation, leadership of the store owner within the community, level of the population's awareness about the store, nature of the business of the store and safety of area where store is located. Convenience is another factor. Convenient for clients is based on size, location, and cleanliness of the store, number and friendliness of staff and range of client needs the store can fulfill. Another major factor mentioned by respondents was trust by the bank. This factor includes credit history, track record of store's commercial operations, store owners' police record, quality of existing cash handling and control mechanisms. The study also revealed that ease of installation for the bank was another factor which was indicated by the fact of whether the store

already has bank account, level of staff's comfort with technology, availability or possibility of telephone line or other communication link, availability of suitable space within the store and openness to the bank's co-branding preferences. Another agent selection factor includes existence of potential synergies between the store's existing business and the new agent business. This involves potential for generating additional foot traffic and triggering additional sales which help ensure commitment and might help the business case as well. Many stores which report increase in sales because of their newly offered banking agent service are more successful as agents. The synergy between the agent business and the banking services are therefore an important consideration before the partnership.

The study revealed that another factor considered in adopting the agency banking strategy is technology and infrastructure capabilities of the potential agents. The CBK regulations require that agents have secure operating systems capable of carrying out real time transactions, generating an audit trail, and protecting data confidentiality and integrity. This is all driven by technology since transactions can be made through mobile phone, a point of sale (POS) system, or internet banking, and must be reflected immediately on the bank's side in the core banking system. Postbank, respondents indicated have found mobile connectivity and electricity supply in rural areas to have no interference with the real time system. Respondents indicated that The GPRS system is working very well for the agents in very remote locations, other than a very few pockets in the northern frontier where there is no mobile connectivity. All transactions according to the respondents are currently conducted via the mobile banking platform, which means no need for a constant

power supply. However, respondents indicated that when POS systems are put in place, those will also connect through the mobile network. With appropriate technology, the bank can afford to be a little bit more relaxed about how customer transactions are captured. The costs of the bank's distribution network can be reduced, while still effectively controlling banking risks. However, results from respondents indicated that installing the appropriate technology is often the easy part as long as agent outlets have electricity and telecommunications coverage. The main consideration is strategic. This was revealed as understanding the main purpose of this new channel and how it fits within the bank's other customer segmentation, service proposition, and branding objectives.

Respondents further indicated that some strategic considerations need to be addressed before agency banking is adopted. This is especially so for banks looking to target new client segments or new geographies. Respondents indicated that a bank will have to learn how to establish and run a banking agent network, overcoming the technological and operational challenges described. A bank will have to adapt sales and marketing activity, as well as product design and customer service, to its new clients. This means changing and aligning the organizational structure to integrate agency banking and any new clients that may join through agency banking model. Further, respondents indicated that a bank might have to tackle basic financial literacy barriers and develop ways to effectively identify clients who do not possess a formal form of identification. Respondents indicated that Postbank focuses primarily on the first issue, setting up the infrastructure, and leave the other challenges for agents to resolve on their own for now.

The study revealed that another factor considered by Postbank in the decision to adopt agency banking is diversity of services to be provided by agents. At present, respondents indicated that most agents only process deposits and withdrawals, which offers minimal value beyond M-PESA, the Safaricom's mobile money service. However, respondents indicated that plans are under way to include banking services that break the mobile money mould. Key amongst these may be the collection of loan applications when Postbank starts offering credit facilities in conjunction with partners.

Another factor that was mentioned that needs consideration in adopting agency banking was managing risks remotely. Respondents indicated that there is still some skepticism regarding how well banks can manage risks remotely. Liability between the agent and bank must be well established and liquidity and credibility of the agent ensured, which means banks are keen to work with SACCOs and large well-known companies that have solid cash flows. The study revealed that the CBK regulations are also quite clear about the need for agent training and enforcement of anti-money laundering standards. The former in particular has been an enormous investment in building extensive agent network, and monitoring and policing agents requires continuous efforts.

4.3.3 Challenges in Adoption of Agency Banking

The study aimed at determining challenges faced by banks in adopting the agency banking strategy. Respondents indicated that there were major challenges that Postbank had to contend with in developing its agent network. These included creating relationships to establish and expand the network, Managing cash and liquidity by incentivizing agents, creating the right cost and revenue model in which clients, agents

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and the bank benefit and training and educating the Agents to build a homogenous network. Other challenges that were revealed from the study included managing controls and compliance to ensure banking standards are met and use of effective marketing tools, tailored products, and partnerships to rapidly set up and grow the network.

Respondents indicated that correspondent banking can have a significant impact. But in many markets, the window of greatest opportunity may be open for only a short time, and the uncertainties related to adoption are not trivial. The study revealed that some small communities have very few retail outlets, for example, and those few may belong to small operators with little or no reach across regions thus opportunities to strike partnerships may be limited.

Further, the study revealed that identifying the right retail partner can be hard, in particular because most financial institutions have no experience operating in non-financial retail contexts. As a result, a bank may find it difficult to determine which retailers have the necessary relationships with customers or struggle with how to build the reach that would deliver sufficient volume to justify the investment. Post bank however was found to have a unique challenge in selecting and sustaining partnerships since it is not a well known bank and many retail outlets preferred to be agents of the well known banks. This made it very challenging for Postbank to establish a network of agents.

Another major challenge mentioned by respondents was making the agents to offer quality customer service. One respondent indicated that, 'We are facing problems converting these outlets into what we would be comfortable to call outsourced banks. Our agency selection criterion is showing some weaknesses, and we are now re-organizing what we demand of agents in order to favour cash heavy operations in order to meet this demand.' However, keen to take advantage of the cost-saving and accessibility brought about by the agency banking model, Postbank has over the past year embarked on an aggressive entry into the segment. However, the findings revealed that Postbank is finding that agents lack capacity to handle large transactions of cash and under-spend on security measures. This indicates that identifying agencies that are able to provide cash to customers is becoming an industry challenge. Identifying agents who are capable of handling cash transactions efficiently has been a challenge for Postbank, with consumers reporting that cash is often scarce even as rising fears of security mount at the outlets. However this fact is exacerbated by the fact that many of the available outlets have already been snagged by frontrunners like KCB, Equity and Cooperative Bank.

Another challenge that was reported from the study was financial. In adopting the agency strategy, banks require financial resources to recruit, assess and train agents throughout the country. It also requires financial resources to have an integrated IT infrastructure to incorporate the agency model. Respondents indicated that an effective agent is well trained; trusted by customers; strategically and conveniently located; and properly incentivized to follow procedures, keep sufficient float on hand, and serve customers. Postbank typically select established retail outlets and in some cases chooses to outsource

agent recruiting and training. Either way, the size and growth of the network has to be carefully planned to ensure there are enough agents to serve the customers and that there are enough customers to keep the agents interested in providing the service. This calls for a good IT infrastructure and financial base for the adoption.

Another challenge mentioned by the respondents was agent supervision which is not easy due to how the agents are dispersed geographically. Respondents indicated that agents will not provide quality service to customers without ongoing, on-site supervision and in-store training to ensure the agents are liquid, consistently branded, and following the prescribed business processes. The study further revealed that Postbank needs to continuously decide how to divide the varied management functions and whether to keep those functions in house or outsource to an independent service provider. As the networks grow, it is increasingly difficult for the provider to cover the "last mile" of the distribution chain, as one respondent put it. For a good service from the agents, Postbank need a system of regular agent site visits to ensure that agents are in compliance with the business processes and maintain proper branding and merchandising. Postbank was reported to be considering outsourcing agent management. There are banks that respondents indicated that provide a range of services, from only a technology platform to a full package that includes agent selection and contracting, agent installations and training, marketing support, and even handling legal disputes if something goes wrong. Respondents indicated that agent management was very important and Postbank needs to address the challenge to avoid losing customers and maintaining the bank - customer relationship. The customer, according to the respondents, was still the responsibility of the bank and the same has not been delegated to the agents.

In agent management confidentiality, security, customer service and issues of fraud were important challenges that need to be addressed. On confidentiality, respondents indicated that agency employees need to be taught how to observe secrecy and maintain confidentiality for all customer information. On security, the study revealed that most of the agencies are in areas that are what would be considered 'high risk'. The bank therefore needs to audit the security measures being taken by the agencies to ensure the customer can transact confidently without having to look behind their backs. On customer service to the bank customer, the respondents indicated that this was a huge challenge for the bank as it needs to train and retrain the agents so as to maintain high levels of customer service. Further, findings indicated that issues of fraud were another challenge. The agency staff may be a target by fraudsters as they are aware that they are not able to easily identify fraudulent transactions for example identification of documents for originality or if they are fake. The bank therefore was forced to address the challenges that are posed by having agency banking while at the same time taking advantage of all the benefits of having this channel of banking.

4.4 Discussion

Study findings revealed that Postbank is improving on its strategy to adopt agency banking as a form of banking to reach more customers. This agrees with the finding by Mas (2008) which established that many banking organizations and regimes in the developing countries are adopting agency banking to improve financial inclusion.

Regulation from CBK was the overriding factor that must be considered in agency banking adoption according to the study results. Lyman et al (2008) had similar results that adopting the agency banking strategy is premised on banks being allowed to outsource certain functions along the financial service delivery chain. Lyman et al (2008) established that from a policy perspective, a certain and conducive regulatory environment is the foundation of all legal banking agent activity. In fact, Kumar et al (2006) established that in some countries like Brazil, it was the stringent regulation of branches that increased the relative attractiveness for banks to use banking agents.

Results further indicated that some strategic considerations need to be addressed before Study results revealed that building a network of partners that can fulfill the agent role is an important factor. The study also revealed that a bank's reputation among target markets was another factor that largely influences the opening of agent networks. A bank's reputation was reported to largely determine whether people will use the bank's agent. The respondents indicated that the success of the agency banking model is in a huge way hinged on customer trust in the principal bank, which dictates on their willingness to use a bank agent. These findings concur with findings by Rogers (1995) who established that getting a new strategy adopted, even when it has obvious advantages, is often very difficult which may normally take quite a lengthy period and may fail in the process of adoption. Rogers (1995) indicated that common factors affecting adoption are characteristics related to the individual entity and management, as well as the social system.

The study revealed that another factor considered in adopting the agency banking strategy is technology and infrastructure capabilities of the principal bank and potential agents. A study by Ignacio (2008) in South American agency banking models revealed that technology is an overriding factor in adopting the agency banking strategy. Technology can enable banks and their customers to interact remotely in a trusted way through existing local retail outlets. However, without technology, agency banking cannot be actualized.

Results further indicated that some strategic considerations need to be addressed before agency banking is adopted. This is especially so for banks looking to target new client segments or new geographies. Respondents indicated that a bank will have to learn how to establish and run a banking agent network, overcoming the technological and operational challenges described. A bank will have to adapt sales and marketing activity, as well as product design and customer service, to its new clients. This means changing and aligning the organizational structure to integrate agency banking and any new clients that may join through agency banking model. A study by Hrebiniak and Joyce (2005) had similar findings. Hrebiniak and Joyce (2005) established that strategy adoption involves the design or adjustment of the organization through which the administration of the enterprise occurs. This includes changes to existing roles of people, their reporting relationships, their evaluation and control mechanisms and the actual flow of data and information through the communication channels which support the enterprise. Without this, the adoption of the strategy can be compromised. Another study by Heed (2002) indicated that 86% of successful companies have a culture aligned with the company

strategies for successful strategy adoption. Brens (2008) also established that a culture which has been pre-defined related to the business strategy is very important for successful alignment with business strategy and successful strategy adoption.

The study revealed that another factor considered by Postbank in the decision to adopt agency banking is diversity of services to be provided by agents. Another factor that was mentioned that needs consideration in adopting agency banking was managing risks remotely. Respondents indicated that there is still some skepticism regarding how well banks can manage risks remotely. Liability between the agent and bank must be well established and liquidity and credibility of the agent ensured, which means banks are keen to work with SACCOs and large well-known companies that have solid cash flows. Another study by Bower and Gilbert (2005) which agrees with these findings indicated that there are various factors that influence adoption which include individual (personnel) factors, factors related to the consequences of planning, organizational factors, environmental factors and risk factors due to the changes in strategy.

Challenges faced by Postbank in developing its agent network included creating relationships to establish and expand the network, managing cash and liquidity by incentivizing agents, creating the right cost and revenue model in which clients, agents and the bank benefit and training and educating the agents to build a homogenous network. Other challenges that were revealed from the study included managing controls and compliance to ensure banking standards are met and use of effective marketing tools, tailored products, and partnerships to rapidly set up and grow the network. Hrebiniak and

Joyce (2005) established that common challenges affecting strategy adoption include managing partnerships, managing stakeholders and their expectations and managing costs and targets as indicated in the plans.

Another major challenge mentioned by respondents was making the agents to offer quality customer service. Postbank must ensure that agents offer quality service to customers. This requires a lot of communication and buy-in to make the agents understand the effects of the partnership on themselves and the bank. Results from a study by Kim and Mauborgne (2005) had findings that concur to these results. The study established that strategies fail in adoption due to failures of buy-in, understanding, and/or communication. The study further established that some strategies fail because there is insufficient buy-in to or understanding of the strategy among those who need to make it work.

Another challenge that was reported from the study was financial. In adopting the agency strategy, banks require financial resources to recruit, assess and train agents throughout the country. It also requires financial resources to have an integrated IT infrastructure to incorporate the agency model. Respondents indicated that an effective agent is well trained; trusted by customers; strategically and conveniently located; and properly incentivized to follow procedures, keep sufficient float on hand, and serve customers. Lane (2003) had findings that concur with this study. He established that a major challenge in adoption of a strategy was application of insufficient resources. Lane (2003) established that some strategies fail because not enough resources were allocated to

successfully ensure their adoption. Resources are required in operations, communication, motivation and control.

RECOMMENDATIONS

Another challenge revealed from the study was agent supervision which is not easy due to how the agents are dispersed geographically. Respondents indicated that agents will not provide quality service to customers without ongoing, on-site supervision and in-store training to ensure the agents are liquid, consistently branded, and following the prescribed business processes. A study by Aaltonen and Ikavalko (2002) had similar findings in that various challenges influence adoption of strategy. Aaltonen and Ikavalko (2002) indicated that these challenges included strategic control and supply-chain management and operational issues such as resource allocation, technology, innovation and managing partners.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section provides the summary of findings. In section 5.2, summary of findings are presented while in section 5.3 conclusions are provided. Section 5.4 presents recommendations that are made in the study after considering the study findings.

5.2 Summary of Findings

The study findings revealed that Postbank has 97 branches nationwide and 630 agents across the country with most of them being in the major urban centres. Postbank's strategy of geographic diversification is one of the major factors that have spurred their agency banking adoption. Cost is another major factor that Postbank considers in adopting agency banking according to study findings. Setting up a branch costs about Sh40 million so if Postbank were to set up an additional 100 branches it would be prohibitive hence taking agency banking model is the way to move. Respondents indicated that partnership with retail outlets allow for more Kenyans in rural areas to gain access to quality banking and at the same time making Postbank access more customers and serve their customers conveniently and cost effectively.

Study findings revealed that Postbank's agency banking strategy which is called 'Postbank Mashinani' was taking shape in the whole country. This has enabled customers in the rural areas access a wide range of banking services at their doorstep and hence

increased convenience, customer loyalty and satisfaction. More so, respondents indicated that Postbank services are now available to remote and rural areas which could not have been possible without agency banking. Postbank's agency banking adoption was aimed at enriching the customer experience.

Factors which were mentioned to affect adoption of agency banking were regulations, financial and human resources, the adoption model selected, strategies applied by other banks and competitiveness of Postbank in the Kenyan banking sector. Regulations from the CBK regarding agency banking were a major consideration for banks as they have to adhere to the bank regulations.

Another major factor considered in agency banking adoption is network building. To adopt the model, findings indicated that a bank needed agents with enough cash flow to maintain a float for business, have employees with high integrity, honest and of high professionalism for an agency to pass the test.

The bank's reputation in the market was another factor that was revealed to affect adoption. Respondents indicated that banks that were well known attracted established and credible agents than other banks who were not very competitive in the market.

The study revealed that another factor considered in adopting the agency banking strategy is technology and infrastructure capabilities of the potential agents. Banks require agents to have secure operating systems capable of carrying out real time transactions,

generating an audit trail, and protecting data confidentiality and integrity. The availability of retail outlets in area with such qualities determines whether a bank will open an agency branch in that area.

Strategic considerations of the banks are another factor. A banks needs to learn how to establish and run a banking agent network, overcoming the technological and operational challenges. A bank will have to adapt sales and marketing activity, as well as product design and customer service, to its new clients. This means changing and aligning the organizational structure to integrate agency banking and any new clients that may join through agency banking model.

Postbank also considers the diversity of services to be provided by agents before partnering with an agent. At present, respondents indicated that most agents only process deposits and withdrawals, which offers minimal value beyond other mobile money services. However, respondents indicated that plans are under way to include banking services that break the mobile money mould thus making agency banking preferable to competing services.

Ability to manage risks remotely is another factor which needs to be considered since it affects agency banking. Banks need to be able to manage risks that are not in their traditional banks. Ability to train, manage and integrate with agents is an enormous investment in building extensive agent network. Monitoring and policing agents requires continuous efforts.

Challenges in adopting agency banking include creating relationships to establish and expand the network, managing cash and liquidity by incentivizing agents, creating the right cost and revenue model in which clients, agents and the bank benefit and training and educating the agents to build a homogenous network. Other challenges that were revealed from the study included managing controls and compliance to ensure banking standards are met and use of effective marketing tools, tailored products, and partnerships to rapidly set up and grow the network.

Respondents indicated that correspondent banking can have a significant impact. But in many markets, the window of greatest opportunity may be open for only a short time, and the uncertainties related to adoption are not trivial. The study revealed that some small communities have very few retail outlets, for example, and those few may belong to small operators with little or no reach across regions thus opportunities to strike partnerships may be limited. Further, the study revealed that a bank may find it difficult to determine which retailers have the necessary relationships with customers or struggle with how to build the reach that would deliver sufficient volume to justify the investment. Postbank however was found to have a unique challenge in selecting and sustaining partnerships since it is not a well known bank and many retail outlets preferred to be agents of the well known banks.

Another major challenge mentioned is making the agents to offer quality customer service. Postbank has over the past year embarked on an aggressive entry into the

segment educating, and equipping agents on customer service skills. Identifying agents who are capable of handling cash transactions efficiently has been a challenge for Postbank, with consumers reporting that cash is often scarce even as rising fears of security mount at the outlets.

In adopting the agency strategy, Postbank requires financial resources to recruit, assess and train agents throughout the country which is another major challenge. Postbank typically select established retail outlets and in some cases chooses to outsource agent recruiting and training. Either way, the size and growth of the network has to be carefully planned to ensure there are enough agents to serve the customers and that there are enough customers to keep the agents interested in providing the service.

Agent supervision was another challenge due to the wide geographical dispersion of agents. Respondents indicated that agents will not provide quality service to customers without ongoing, on-site supervision and in-store training to ensure the agents are liquid, consistently branded, and following the prescribed business processes.

Confidentiality, security, customer service and issues of fraud were important challenges that need to be addressed. On confidentiality, respondents indicated that agency employees need to be taught how to observe secrecy and maintain confidentiality for all customer information. On security, the study revealed that most of the agencies are in areas that are what would be considered 'high risk'. The bank therefore needs to audit the

security measures being taken by the agencies to ensure the customer can transact confidently without having to look behind their backs.

5.3 Conclusions

Postbank has enabled to open 630 agents across the country amid competition and various challenges. Factors that Postbank puts into consideration in adopting the agency banking strategy include regulations from the CBK, ability to build an agent network, competition from other banks and the reputation of the bank in the market. Financial and human resources commanded by the bank are other factors since adopting agents requires resources. Availability of retail outlets with qualities required to be agents was another factor that is considered before partnering with an agent.

5.4.1 Recommendations for Policy and Practice

Technology commanded by the bank and infrastructure by potential agents were other major factors. Strategic focus of the bank and the banks management structure and orientation were also factors affecting adoption of agency banking. Another factor considered in the decision to adopt agency banking is diversity of services to be provided by agents. Banking services to be provided by agents need to be considered and agreed on before hand. Another factor that affects adoption of agency banking is ability to manage risks remotely. Liability between the agent and bank must be well established and liquidity and credibility of the agent ensured, which means banks are keen to work with large well-known companies that have solid cash flows.

Challenges faced in adoption of agency banking include finding the right partners, managing the agent network, setting up the infrastructure, and management structure to

incorporate agency model and competition from other banks. Other challenges include making the agents to offer quality customer service, financial and human resources, confidentiality, security, customer service and issues of fraud.

5.4 Recommendations

From the study findings about the adoption of agency banking at Postbank, recommendations were made. Recommendations were made for policy and practice and also for future studies in the area of agency banking. These recommendations follow here below.

5.4.1 Recommendations for Policy and Practice

First, banks should move quickly in the adoption process to capture early-entrant advantages. Moving early is risky, particularly because the pioneers often incur hefty development costs that laggards avoid. But the risks, which must be managed, are justified in the case of agency banking because early entrants may sew up the most attractive partners before later competitors arrive.

Success in agency banking depends on the ability to develop an extensive network of retail outlets in under-served markets. The fewer partners the better, since complexity can overwhelm institutions that must manage too many relationships. The most efficient agency banking operations involve partnerships between one financial institution and one distribution network that has extensive reach across the entire relevant geography. Early entrants often have the greatest freedom to select the best partners, leaving followers to

patch together networks of smaller chains and independents which are more difficult to manage and more expensive to operate. Early entrants also have an opportunity to build the first formal relationships with their low-income customers, which may create loyalty that proves beneficial when competitors emerge.

Secondly, it is recommended that banks should build the agent network rigorously. Banks must take into account a range of factors when picking retail partners. Reach is one of the most important, but others, such as cost-to-serve and local consumer trust, also play a role. This kind of evidence can help financial institutions understand how to configure an agent network so they can find retail partners that provide the appropriate reach into the communities they want to serve. Trust can also be an important factor, particularly early in the effort. Organizations can build trust over time by providing a consistently high-quality experience. Those that already operate agent networks and have a good reputation with the customer base may gain trust more easily when they open new agent locations. Likewise, financial institutions that are starting up networks may benefit from identifying and prioritizing partners that have good relationships with target consumers to increase the likelihood of their using agency services once they are available.

Banks should also create diversified product offerings. Commercial banks must develop product offerings that not only attract consumers but also generate sufficient value to sustain banking operations. Agent partnerships that offer more than bill-payment services and savings accounts are likelier to thrive than those that do not. In addition to savings accounts, providers should consider offering four promising services: bill payments,

domestic remittances, international remittances, and direct deposits. Each offers significant value for customers, and they also enable providers to generate value through transaction fees and lay the basis for them to provide other services in the future. Agents could also create value for consumers by making transactions cheaper and more convenient.

5.5 Limitations of the Study

Lastly, it is recommended that banks should conduct pilots that can be rapidly implemented and continually refined. The learning curve for correspondent banking in the context of financial inclusion is steep. Organizations should expect to make mistakes when they develop their models. The most successful operations design processes that enable them to learn from their mistakes and to develop solutions as they proceed. To promote rapid and continual learning, organizations should develop processes to conduct targeted pilots that can be quickly revised through customer feedback and then re-launched. By enabling organizations to learn as they go, this approach minimizes the risks they run while experimenting to find the best way forward.

5.4.2 Recommendations for Future Studies

This study aimed at establishing factors that affect adoption of agency banking by Postbank and also established challenges encountered by Postbank in adopting agency banking. The study was a case study of Postbank. For future studies on agency banking, it is recommended that studies that focus on effect of agency banking on financial deepening in the economy and its effect on financial performance of the banks should be conducted. Future studies also should do a comparative analysis of the banks that have

adopted agency banking and the others that have not to find out whether there is any significant difference in their competitiveness. Further, as agency banking is a new concept in Kenya, future studies should also look at whether agency banking brings any competitive advantage to the banks that adopt the strategy.

5.5 Limitations of the Study

As in the development of any social construct, methodology, or theory, certain aspects may be emphasized regarding relationships while unintentionally ignoring others. The qualitative research approach assumes a degree of limitations and constraints due to the subjective and interpretive variability of dynamic, open, human, active systems. This research is no exception as it becomes subjective in numerous respects. However, the four interviews were arranged to minimize the bias of subjectivity and make the data collected more objective by getting information from many respondents. Consequentially, repeatability and consistency may become challenges for future researchers who may wish to derive alternate interpretations.

Another limitation was in arranging the interviews with the respondents. This was a challenge since it took much time to convince the respondents of the importance of their participation. However, after much persistence from the researcher, all interviews succeeded.

Another limitation is in generalizability of the findings to other banks other than Postbank. This is due to the fact that though a case study provides in-depth information

about a single entity, the results cannot be readily generalized to other cases. However, the advantage of the case study approach outweighs this limitation.

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APPENDIX: INTERVIEW GUIDE

SECTION A: GENERAL INFORMATION

1. When was the bank incorporated?.....
2. How many branches does this bank have?
3. How many employees does the bank have?.....
4. How many agents does the bank have using the agency banking strategy?
.....

SECTION B: FACTORS INFLUENCING ADOPTION OF AGENCY BANKING STRATEGY BY POSTBANK

1. When did the bank open its first agency after introduction of agent banking?
.....
2. Did the bank adopt agency banking fast enough according to you?
Yes []
No [✓]
3. How has the following factors affected adoption of agency banking strategy?
 - Cost of equipment and information systems required
 - Profitability of the agency model
 - Investment in time in adopting the agency model
 - Uncertainty of potential costs and benefits
 - Structural issues such as organization structure
 - Proper attention to the effects of competitive environment in the market
 - Laws and policies relating to agent banking
 - Security issues are a major concern in opening any agent outlet
 - Customer service by agents
 - Integrity of an agent

- Any other.....

4. In your view, of the above mentioned factors, what can you recommend to the bank on how to handle them?

SECTION C: CHALLENGES THAT POSTBANK IS FACING IN ADOPTING THE AGENCY BANKING STRATEGY

1. Has the bank faced challenges in adopting the agency banking strategy?

2. What are the major challenges?

- Complexity of agency banking
- Employees' inadequate understanding of agency banking strategy
- Top managers of the bank seem reluctant to adopt the strategy
- Bureaucratic management atmospheres in the bank
- Employees' fear of endangerment of their job security
- Lack of team spirit among employees
- Insufficient consensus among top management
- Poor coordination among the different management levels
- Lack of proper information systems at post bank
- Organization culture and structure
- Any other challenge

3. What can you recommend the bank to do to deal with the major challenges of agency banking adoption?

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