CHALLENGES OF IMPLEMENTING FINANCIAL INCLUSION STRATEGIES AMONG COMMERCIAL BANKS IN KENYA

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DECLARATION

STUDENT'S DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature:
……………………………………………..Date:…………………………………

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SUPERVISOR'S DECLARATION

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

Signature……………………………………….….Date…………………………………..

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DEDICATION

I dedicate this work to my beloved family and all those who supported me in the completion of this project.

ACKNOWLEDGEMENTS

I take this opportunity thank the Almighty God for seeing me through the completion of this project.

The work of carrying out this study needed adequate preparation and therefore called for collective responsibility of many personalities. While it is not possible to name all of them, recognition has been given to a few. I am greatly indebted to my supervisor Dr. Justus Munyoki for his professional guidance, advice and unlimited patience in reading through my drafts and suggesting workable alternatives, my profound appreciation to him. A special feeling of gratitude to my loving parents, Mr. and Mrs Moses A. Koech, My husband Mr. Joel Rotich Tangus and my sons Brian, Timothy and Titus for their words of encouragement and daily prayers.

Thank you all. May the Almighty God bless you abundantly.

ABSTRACT

Financial inclusion is a necessary condition for financial deepening, which helps to address the basic issue of growth with equity. An inclusive financial system facilitates efficient allocation of productive resources and reduces cost of capital. A well-functioning financial system serve a vital purpose, offering savings, credit, payment, and risk management products to people with a wide range of needs. This study sought to determine the challenges of implementing financial inclusion strategies among commercial banks in Kenya. The study was guided by two objectives: to establish the extent to which the financial inclusion strategy has been adopted by Kenyan commercial banks and to determine the challenges of implementing financial inclusion strategies among Commercial banks in Kenya. This study used cross-sectional survey design because the study included all commercial banks in the study. The target population of the study was the 44 commercial banks operating in Kenya as at December 2013. Primary data was collected using a questionnaire. Prior to processing the responses, the completed questionnaires were edited for completeness and consistency. The analyzed data was presented through percentages, means, standard deviations and frequencies. The study found that the banks in Kenya had adopted mobile banking, internet banking and agency banking. The study also found out that the banks in Kenya had increased the number of their ATM machines as well as increased their branches. The study concluded that banks face challenges in the resource availability, organizational structure and culture and advancements in the information technology. This study recommended that in the banks involve the employees in the formulation of the strategies as well as orientation on the strategies to be implemented. This study also recommended that the commercial banks in Kenya adopt new infrastructure so as to keep up with the emerging trends in ICT.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Organizations worldwide do not exist in a vacuum but do operate within a large environment, which as a result causes major challenges or presents great opportunities for an organization's overall performance. An understanding of the environment in which an organization is operating is therefore of great importance in its choice of strategies. An estimated 2.5 billion working-age adults globally have no access to the types of formal financial services delivered by regulated Commercial Banks and Financial Institutions (FI's) (Blair, 2013). The members of society who do not have access to the financial information may be due to not being able to afford or for lack of guidance on financial services are said to be financially excluded. Auto mobile buyers were known not to have any form of funding options available and therefore had to source for financing and ended up being financially excluded infosys partners. Financially excluded people are exposed to the informal sources of credit with high interest rates and often with unethical recovery practices. An all-inclusive financial system thus enhances human welfare (Sarma, 2010).

The study was guided by two theories namely: open systems theory and institutional theory. The open systems theory advocates that in order for commercial banks to remain relevant and competitive, they have to be responsive to the financial needs of their customers. Through responding to the changes in the operating environment, the

commercial banks are able to increase the level of financial inclusion in the country. On the other hand, the institutional theory advocates that financial inclusion needs to be conducted within the provisions of the regulations and provisions of the financial regulators. These two theories will guide the operations of financial institutions in the implementation of financial inclusion strategies.

Kenya's financial services market is relatively well-developed with strong competition amongst a diverse group of service providers that have moved deeper into the low-income market over the last five years, in part thanks to Kenya Financial Sector Deepening programme (FSDK), interventions (FinAccess, 2013). From 2006 to 2009, overall financial inclusion increased from 58.7% to 67.3% and reached 76% by the year 2013. Kenya's improvement in financial access is mainly attributable to the positive development in the financial sector, introduction of mobile financial services and agency banking, which have taken financial services to the door steps of most Kenyans. In addition, completing the financial infrastructure no doubt has driven its growth and dynamism. Banking has been a preserve of the rich in society. The poor in society have for a long time been excluded from the formal financial services because of various challenges. However, the same is changing with the advancements in information technology and increased competition among financial institutions. Commercial banks have now employed several strategies to boost their reach and accessibility.

1.1.1 Concept of Strategy

It has been defined differently by several scholars. For instance, Mintzberg (1994) defines a strategy as a plan, a direction or a guide used by an organization to achieve organizational goals while Porter (1996) defines strategy as being different by deliberately choosing to do a different set of activities in order to deliver a unique mix of value. It involves to doing activities differently than the competitors in order to gain competitive advantage. These rapid changes in the environment were attributed to application of science and technology in management of firms and accelerated change emanating from within business firms.

Johnson and Scholes (2002) argues that the major significance of strategy is that it gives organizations a framework for developing abilities for anticipating and coping with change in the environment. They further indicate that a strategy helps an organization to deal with future uncertainty by defining goal accomplishing procedures. Many authors including Porter (1980) have written about the concept of strategy since its inception.

1.1.2 Concept of Financial Inclusion

Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players (Sarma, 2010). An inclusive financial system facilitates efficient allocation of productive resources and reduces cost of capital. Financial inclusion has two main components that

include literacy and inclusion with literacy representing the demand side and inclusion representing the supply side.

A well-functioning financial system serve a vital purpose, offering savings, credit, payment, and risk management products to people with a wide range of needs (Sarma, 2010). Inclusive financial systems allowing broad access to financial services, without price or non-price barriers to their use are especially likely to benefit poor people and other disadvantaged groups. Without inclusive financial systems, poor people must rely on their own limited savings to invest in their education or become entrepreneurs and small enterprises must rely on their limited earning to pursue promising growth opportunities. This can contribute to persistent income inequality and slower economic growth

1.1.3 Strategy Implementation

Strategy implementation is the process of allocating resources to support the chosen strategies. It involves putting strategy into action. The way in which the strategy is implemented can have a significant impact on whether it will be successful or not. In most cases, different people from those who formulated it do the implementation of the strategy. For this reason, care must be taken to communicate the strategy and the reasoning behind it. Otherwise, the implementation might not succeed if the strategy is misunderstood or if the affected parties resist its implementation because they do not understand why the particular strategy was selected (Thompson, 1993).

This process includes the various management activities that are necessary to put strategy in motion, institute strategic controls that monitor progress and, ultimately, achieve organizational goals. According to Pearce and Robinson (2007), the implementation process covers the entire managerial activities, including such matters as motivation, compensation, management appraisal, and control processes which entail cascading strategy to all functional areas in such away as to achieve both vertical and horizontal logic and enhance implementation of policies.

Simons (1994) pointed out that almost all the management functions to some degree, applied in the implementation process. Hendry & Kiel (2004) also posit that to effectively direct and control the use of the firm's resources, mechanisms such as organizational structure, information systems, leadership styles, assignment of key managers, budgeting, rewards, and control systems are essential strategy implementation ingredients. There should be specific interim or ultimate time-based measurements to be achieved by implementing strategies in pursuit of the company's objectives. The implementation activities are in fact related closely to one another and decisions about each are usually made simultaneously.

What tends to be absent from these programmes is attention to any higher order competencies which enable managers to use these educational or technical abilities to make a difference to the organization (Hammer & Champy, 1993). As an example, better financial management may require senior managers not only to have a good grasp of financial principles but also to “remain open minded” or to “lead by example” under the difficult circumstances of trying to get other managers to keep a closer eye on

expenditure. Similarly, improved chairmanship may demand qualities of "self confidence" and the ability to "read interpersonal or political situations" which often crop up in management meetings, as well as learning about techniques for running meetings. Exactly the same is argued to be true for organizational strategy and other areas of business improvement (Thompson, 1993).

1.1.4 Challenges of Strategy Implementation

There are a number of challenges that organizations encounter while implementing strategies. They emanate both from the internal and external environment of the organization. Some of these challenges include: Availability of resources; leadership style; and organization culture (Johnson & Scholes, 2003). Alexander (1991) acknowledges the challenge and the need for a clear fit between strategy and structure and claim the debate about which comes first is irrelevant provided there is congruence in the context of the operating environment.

Al Ghamdi (1998) replicated the work of Alexander (1991) in the UK and found that 92 percent of strategy implementation by firms took more time than originally expected, that major problems surfaced in 88 percent of companies, again showing planning weaknesses. He found the effectiveness of coordination of activities as a problem in 75 percent and distractions from competing activities in 83 percent cases. In addition key tasks were not defined in enough detail and information systems were inadequate in 71 percent of respondents. What is interesting is that there is congruence between these findings, which implies that lessons have still not been learned; as Al Ghamdi states, "the drama still continues" (Al Ghamdi, 1998, p. 322).

1.1.5 The Banking Industry in Kenya

The Banking sector in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK) (CBK, 2013). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the National Treasury docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

The Kenyan banking industry has 44 banks; 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise three banks with significant shareholding by the Government and State Corporations, 27 commercial banks and one mortgage finance institution, Housing Finance (Bank Supervision Report, 2012). The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the bank's interests. KBA serves a forum to address issues affecting members. Over the last few years, the Banking industry in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African community region and automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products (CBK, 2012). Players in this industry have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market.

1.2 Research Problem

Financial inclusion is a necessary condition for financial deepening, which helps to address the basic issue of growth with equity. Financial inclusion is mainly concerned with eradication of poverty. Financial inclusion is a step toward inclusive development. Financial inclusion, within the broader context of inclusive development, is viewed as an important means to tackle poverty and inequality and therefore promote economic growth. Yunus and Karl (2007) indicates that a small loan, a savings bank account and an insurance policy can make a great difference to poor and low income family. These financial services enable the poor to have better nutrition, housing, education for children and better health-care and improve standard of living. Financial inclusion therefore serves as an effective way to alleviate poverty in the world.

A number of studies have been done on financial inclusion. For instance, Odhiambo (2008) did a study on financial depth, savings and economic growth in Kenya; he sought to establish a dynamic casual relationship. According to Ndii (2009), the levels of financial inclusion had increased in Kenya though marginally as revealed by the year 2009 according to statistics from FinAccess (2009). Ndii (2009) revealed further that increase in access, with a quarter of the adult population registered as M-PESA users. The MFI customer base grew by 117 percent, while commercial banks registered 92 percent growth in customer numbers. Karen, Lemma and Juan-Pablo (2010) examined financial inclusion, household investment and growth in Kenya and Tanzania and seggested several ways of dealing with the challenges of financial inclusion including reducing costs and increasing availability by supporting such innovations as mobile

banking, cell phone banking, and e-banking, and the use of new channels for financial services, such as local stores.

Decker (2012) did a study by reviewing the effectiveness of Microfinance institutions in financial inclusion in Kenya. Decker (2012) established that MFIs should diversify their credits and savings as key financial products that are critical to empowerment as the first step towards financial inclusion, balancing their operations as commercial, NGOs or Government programs to meet the financial needs of people at different levels. Ndege (2012) did a study on the relationship between financial sector deepening and economic growth in Kenya and established a positive relationship between financial sector deepening and economic growth in Kenya. From the above discussions, the existing studies on financial inclusion have majored on its effects on macroeconomic variables and have not addressed the challenges facing its implementation. Further, the studies are not clear on the extent to which the financial inclusion strategy has been adopted by Kenyan commercial banks. This study sought to determine the challenges of implementing financial inclusion strategies among commercial banks in Kenya. The study sought to answer the question: What are the challenges of implementing financial inclusion strategies among commercial banks in Kenya?

1.3 Research Objective

The study was guided by the following objectives:

i. To establish the extent to which the financial inclusion strategy has been adopted by Kenyan commercial banks

ii. To determine the challenges of implementing financial inclusion strategies among Commercial banks in Kenya.

1.4 Value of the Study

The findings of this study were important to several stakeholders:

First, the findings would be of valuable to researchers and scholars in finance and especially in the area of financial inclusion and strategic management. This study would specifically suggest areas for further research where scholars and researchers can expand knowledge while at the same time act as source of reference material.

The findings of this study would also be important to policy makers in Kenya in the formulation of macroeconomic policies. More specifically, the findings of this study would be valuable to the Treasury and the Central Bank of Kenya staff in their evaluation of policies affecting financial inclusion in Kenya.

This study would also be important to financial institution managers as it gives more insight in the factors that encourage financial inclusion thus increase their market share and financial performance. The level of inclusion in Kenya has been low with the number of banks increasing. By understanding the matrix in financial inclusion, managers would be in a better position to understand what strategies they need to put in place to promote financial inclusion hence their market share.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature on the subject under study presented by various researchers. It will also review literature with respect to the research objective on the challenges of implementing financial inclusion strategies among Commercial banks in Kenya. The specific areas covered here are theoretical perspectives, the challenges of implementing financial inclusion strategies among Commercial banks in Kenya and to establish strategies used by Commercial banks in dealing with challenges of implementing financial inclusion.

2.2 Theoretical Perspective

The study was guided by two theories: The open System theory and Institutional Theory. Open systems theory requires that organizations interact with their environment for resources and release outputs to the environment hence the open system. As such, organizations need to consider their operating environment if they are to be successful in their operations. The operating environment is very dynamic and constantly changing meaning that for organizations to adapt to these changes, they have to develop strategies that will direct their operations.

2.2.1 Open System Theory

This study is built on the open systems theory which provides managers with metaphors, terminology and explanations about how organizations function. Open systems theory

holds that organizations are strongly influenced by their environment made up of other organizations exerting various forces of economic, political, or social nature. The environment provides key resources that sustain the organization and lead to change and survival (Pfeffer and Salancik, 2003). Open systems theory was developed in reaction to earlier theories of organizations, such as the human relations perspective of Elton Mayo and the administrative theories of Henri Fayol, which treated the organization largely as a self-contained entity (Scott, 2002). Open Systems theory is a comprehensive model that describes the elements of an organization and their dynamic interrelationships (Hanna, 1988). It states that organizations are an arrangement of elements that have interdependence on one another.

Environmental influences that affect open systems can be described as either specific or general. The specific environment refers to the network of suppliers, distributors, government agencies, and competitors with which a business enterprise interacts. The general environment encompasses four influences that emanate from the geographic area in which the organization operates (Pfeffer and Salancik, 2003). The open-systems theory assumes that all large organizations are comprised of multiple subsystems, each of which receives inputs from other subsystems and turns them into outputs for use by other subsystems. Learning institutions like any other organization relies on the environment for input resources in form of human capital and at the same time, its customers and competitors are in this environment (Scott, 2002). As such, it has to understand how to manage all these resources and stakeholders for effective financial inclusion strategies.

The rational systems perspective focuses on structure as a significant tool for the efficient achievement of organizational goals. It emphasizes the role of management in deciding such structures and determining the specific goals that are to be achieved. Hence, the focus is on formal structures, the specificity of goals, and the formalization of rules and roles. Open systems reflected the belief that all organizations are unique in part because of the unique environment in which they operate and that they should be structured to accommodate unique problems and opportunities (Scott, 2002). The success of Open Systems depends largely on defining, implementing, and satisfying goals at hand. The goals that are established to accomplish Open Systems must be evolutionary in nature because of the magnitude of systems and their dynamic environment (Scott, 2002).

2.2.2 Institutional Theory

Another relevant theory for this study includes the institutional theory which attends to the deeper and more resilient aspects of social structure in an organization. It considers the processes by which structures such as; rules, norms, and routines, become established as authoritative guidelines for social behavior which is an important aspect in change management. Debate on institutional theory mainly begins with making the distinction between the old and new institutionalism approach.

The pioneer work of Selznick (1949, 1957) established the old institutionalist approach, where the unit of analysis was a single organization. Some of the main issues investigated were values, organization-environment interaction, coalitions, influence, power and informal structures (Greenwood & Hinings, 1996). As any institutions, secondary schools are governed by roles, policies norms which dictate what they ought to do at different

times. As such, institutional framework is key for the proper functioning of any institution including Commercial banks in Kenya.

Meyer and Rowan (1991), DiMaggio and Powell (1983) are some of the institutional theorists who assert that the institutional environment can strongly influence the development of formal structures in an organization, often more profoundly than market pressures. Innovative structures that improve technical efficiency in early-adopting organizations are legitimized in the environment. Ultimately these innovations reach a level of legitimization where failure to adopt them is seen as "irrational and negligent" (or they become legal mandates). At this point new and existing organizations will adopt the structural form even if the form doesn't improve efficiency.

2.3 Financial Inclusion Strategies

Well-functioning financial systems serve a vital purpose, offering savings, credit, payment, and risk management products to people with a wide range of needs. Inclusive financial systems allow broad access to financial services without price or nonprice barriers to their use and are especially likely to benefit poor people and other disadvantaged groups (Thompson, 1993). Different strategies have been adopted by financial institutions in their quest to ensure financial inclusion. Some of these strategies are Mobile banking, computerized accounting system and Internet banking.

Mobile banking, and consequently, mobile payments and mobile money are the latest in a myriad of emerging technological innovations in the banking industry that have revolutionized financial deepening in many countries (Freedman, 2000). The usage of

mobile banking and in particular, payments by means of mobile phones, have increased in recent years in many parts leading to increased level of financial inclusivity across the world. “Mobile money” or “m-money” is a form of electronic money and refers to services that connect consumers financially through mobile phones (Ama, 2004). Mobile money allows for any mobile phone subscriber whether banked or unbanked to deposit value into their mobile account, send value via a simple handset to another mobile subscriber, and allow the recipient to turn that value back into cash easily and cheaply. In this way, m-money can be used for both mobile money transfers and mobile payments.

Another key strategy in financial inclusion includes agency banking. All banking institutions are also consumers of other products which they produce from different channels. By partnering with an agent, banks can participate in these transactions, which may be non-financial in nature but nonetheless involve the exchange of money. For instance, every automobile dealer has a tie-up with a bank or consumer finance institution to provide vehicle loans to their automobile buyers.

According to Ama (2004) computerized accounting system uses specialized machines called calculators and computer in gathering information. It is technically known as Electronic Data Processing (EDP) Accounting System. A computer – based accounting system processes data in basically the same manner as does a manual system. Transactions are initially recorded manually on sources documents, the data from these source documents are then key punched into punched cards, which can be read by the computer. The computer process the information and performs such routine tasks as printing journals, posting to ledger accounts, determining account balances and printing

financial statements and other reports. A computerized accounting system according to free online Merriam is system which allows the user to enter the transaction into the program once and all accounts are updates as necessary.

Internet banking equates internet money with the substitution of currency with internet gadget. For instance Freedman (2000) suggests that internet banking and internet money consists of three devices; access devices, stored value cards, and network money. Internet banking is simply the access to new devices and is therefore ignored. Internet money is the sum of stored value (smart cards) and network money (value stored on computer hard drives. Prinz (1999) and Shy and Tarkka (2002) present models that identify conditions under which alternative payments substitute for currency. Most of these models indicate that there is at least a possibility for internet substitutes for currency to emerge and flourish on a wide scale depending on the characteristics of the various technology and those of the potential users. Friedman (2000) intimated that internet banking presents the possibility that an entire alternative payment system not under the control of the Central Bank may arise. Today computers make it at least possible to bypass the payment system altogether, instead using direct bilateral clearing and settlement (Friedman, 2000).

2.4 Challenges Faced in Strategy Implementation

While implementation of strategy is such an important activity, is not easy. Strategy should be effectively operationalized and insitionalized in the organization for effective implementation. Operationalization of strategy is concerned with working out the strategy by ensuring that the organizations daily activities, work efforts and resources are

directed as much as possible toward implementing the strategy. Operationalizing strategy involves developing operational plans and tactics though which otherwise abstract strategy will be implemented. The plans and tactics are developed at operational and functional level of strategic management. It is more specific, concrete and short term in nature.

There are a number of challenges that organizations encounter while implementing strategies. They emanate both from the internal and external environment of the organization. Alexander (1991) discusses problems associated with strategy implementation identifying four key areas for discussion to include: availability of resources; leadership style; organization culture; corporate structure; lack of focus and failure of buy in by implementing team. Beer and Eisenstat (2000) revealed a number of problems in strategy implementation as including weak management roles in implementation, lack of communication, lack of commitment to the strategy, unawareness or misunderstanding of the strategy, unaligned organizational systems and resources, poor coordination and sharing of responsibilities.

Organizational behavior literature defines organizational culture as a set of values, beliefs, and behavior patterns that form the core identity of organizations and that help in shaping their employees' behavior (Pool, 2000). Organizational culture is not just any thoughts, values, and actions, but rather the unifying patterns that are shared, learnt, aggregated at the group level, and internalized only by organizational members. The manner in which operations are carried out in the history of the organization plays an important role in strategy implementation. A hard working and innovative organization

culture promotes strategy implementation while a relaxed and lazing around culture negatively affects strategy implementation.

Strategy implementation challenges are also found in sources external to the organization. The challenges emanate due to the changes in the macro-environment context, namely Economic, Politico-legal, social, technological and environmental (Macmillan & Tampoe, 2000). In the rapidly changing social environment of the highly interdependent spaceship earth, businesses feel great pressure to respond to the expectations of society more effectively. Therefore, any changes in social values, behaviours and altitudes regarding childbearing, marriage, lifestyle, work, ethics, sex roles, racial equality, and social responsibilities among others will have effects on firms development (Pearce and Robinson, 1994). Inadequacy of any form of resources, such as inadequate funds, equipment and facilities, and human resources skills and experience, is often a big challenge during strategy implementation. Swartz (1995) argues that the challenge to management is that it might need to recruit, select, train, discipline, transfer, promote and possibly even lay off employees to achieve the organizational strategic objectives.

Top management commitment is believed to be essential for any strategy implementation success (Wixom and Watson, 2001). It has been found that top management commitment significantly affects user beliefs for instance perceived ease of use, perceived usefulness, organizational implementation success (Wixom and Watson, 2001), progressive use of systems, and organizational strategy adoption (Bruque-Ca´mara et al., 2004). The level of top management commitment to the strategy and the kind of leadership styles employed in the management of strategic management process affects the rate of strategy

implementation. Successful strategies call for full top management support and ownership so as to provide direction to other staff.

Another challenge in strategy implementation involves management of change. Strategy implementation involves change which distablizes the status quo in the organization thereby leading to resistance. Hrebiniak (2006) notes that the overreaching issues that impede strategy implementation is related to organizational change. He notes that managers are often trained to plan and not to execute strategies; the top managers are therefore always reluctant to soil their hands in the messy tasks of implementation. Strategy implementation always creates the need to manage change in complex organizational contexts (Kazmi, 2008). Many of these areas of change are behavioral in nature and are therefore multifaceted and messy in nature. For instance, leadership style changes required to implement different kinds of strategies or the cultural changes to be brought about to facilitate new strategy implementation are intricate matters that call for careful handling (Kazmi, 2008).

The success of any strategy depends heavily on its fit with organizational structure (Paterson, 1988). There has been increased emphasis on the importance of organizational structure in ensuring successful strategy implementation. Change in strategy often requires changes in the way an organization is structured because structure dictates how objectives and policies will be established and how resources will be allocated (Sababu, 2007). The identification of structures that support strategy implementation has, however, been a highly complicated issue. This complication may be due to lack of consensus on

what strategy and sometimes to the confusion about which component of the strategy to focus on.

The main barriers to the implementation of strategies include lack of coordination and support from other levels of management and resistance from lower levels and lack of or poor planning activities (Okumu, 2003). Freedman (2003) lists out a number of implementation pitfalls such as isolation, lack of stakeholder commitment, strategic drift, strategic dilution, strategic isolation, failure to understand progress, initiative fatigue, impatience, and not celebrating success. Sterling (2003), identified reasons why strategies fail as unanticipated market changes; lack of senior management support; effective competitor responses to strategy application of insufficient resources; failure of buy in, understanding, and/or communication; timeliness and distinctiveness; lack of focus; and bad strategy poorly conceived business models. Sometimes strategies fail because they are simply ill conceived. For example business models are flawed because of a misunderstanding of how demand would be met in the market.

According to Kaplan and Norton (2004), the main causes of poor strategy implementation are; vision and strategies that are not achievable, not linked to departmental, team and individual goals, long and short term resource allocation and feedbacks that are tactical but not strategic. They do not mention leadership style as a barrier. Beer and Eisenstat (2000) state that leadership influences strategy implementation. Galpin (1998) points out that what makes the difference between successful and unsuccessful strategy implementation is the way management motivates and educates its people. Kaplan and Norton (2004), argue that the most important driver

of success in strategy is top management leadership style, and not the tool itself, that leadership style has a larger effect than the analytical and structural strength of the tool.

Cocks (2010) pointed out that implementation is not merely a matter of operationalizing the strategy by exercising command over resources, employees and their work. Forster and Browne (1996) point out that this approach assumes a logical and hierarchical distinction between strategy formulation and implementation, with implementation delegated to a subordinate status as the responsibility of "middle management" (Cited in Cocks 2010). Here, implementation is seen as more mundane and detailed compared with creating a grand design and vision of the future.

Successful strategy execution depends on doing a good job of working with and through others, building and strengthening competitive capabilities, motivating and rewarding people in a strategy- supportive manner, and instilling discipline of getting things done (Arthur et al., 2007). Li et al. (2008) view strategy implementation as a dynamic, iterative and complex process, which is comprised of a series of decisions and activities by managers and employees affected by a number of interrelated internal and external factors to turn strategic plans into reality in order to achieve strategic objectives. Al-Ghamdi (1998) researched 15 implementation problems and found that six strategy implementation problems were experienced by over 70% of the sample group of firms. He further states that problems with implementation often occur when companies concentrate on new strategy development and in the process forget their main line of business that underlie within previously formulated business strategies.

Downes (2001) states that the kinds of execution obstacles most companies run into fall into two categories: problems internal to the company and problems generated by outside forces in its industry. These internal and external issues are affected by the extent of flexibility companies have to launch strategic initiatives successfully. Hrebiniak (2005) recognized the difficulty of strategy execution and the reward from doing that correctly. He discussed various factors that can lead to incorrect implementation of any strategy. Additionally, Hrebiniak's research survey of 400 managers contributed to the identification of additional factors that may cause challenges to successful strategy implementation included: Lack feelings of "ownership" of a strategy or execution plans among key employees; not having guidelines or a model to guide strategy- execution efforts; lack of understanding of the role of organizational structure and design in the execution process; inability to generate "buy-in" or agreement on critical execution steps or actions; lack of incentives or inappropriate incentives to support execution objectives; insufficient financial resources to execute the strategy (Al- Ghamdi, 2005).

Corboy and O'Corrbui (1999) views the challenges as "deadly sins of strategy implementation" and go on explaining them as follows: a lack of understanding of how the strategy should be implemented, customers and staff not fully appreciating the strategy, unclear individual responsibilities in the change process, difficulties and obstacles not acknowledge, recognized or acted upon, and ignoring the day-to-day business imperatives.

Okumus (2003), cited in Muniu (2010), found that the main barriers to the implementation of strategy include; lack of coordination and support from other levels of management and resistance from lower levels and poor planning activities. Sterling (2003 identified various reasons why strategies fail as such as unexpected market changes, lack of senior management support, effective competitor responses to strategy, application of insufficient resources, failure of buy-in, understanding and or communication, timeliness and distinctiveness, lack of focus, and bad strategy poorly conceived business models. Sometimes strategies fail because they are simply ill conceived. For example business models are flawed because of a misunderstanding of how demand would be met in the market.

Companies do not find difficulty with formulation of a strategy; the difficulty comes with implementation as it is not easy to implement a strategy (Sterling (2003) cited in Koyana (2009). As a result Sterling (2003) states that a study that was undertaken showed that only 30% of strategies are properly implemented by companies and this obviously needs improvement. One of the key impediments to strategy execution lies in the shortcomings and challenges of functionally based organisations where cooperation among many, if not all, functions is necessary (Cocks, 2010).

Challenges that occur during the implementation process of a strategy are an important area of research because even the best strategy would be ineffective if not implemented successfully (Nyaumao, 2010). There are many organizational characteristics which act to constrain in strategy implementation. Insufficient leadership attention poses a great

challenge to implementation of strategy. Much of the time firm managers view the strategy development process as a linear or finite initiative. Ineffective leadership may, also, contribute to a large extent a challenge to strategy implementation. Leading strategy implementation requires a balancing act - the ability to work closely with partners in order to build cohesion and support for the firm's strategy, while maintaining the objectivity required in order making valuable decisions. Strategy implementation frequently fails due to weak leadership, evidenced by firm leaders unable or unwilling to carry out the difficult decisions agreed upon in the plan. To compound the problem, partners within the firm often fail to hold leaders accountable for driving implementation (Noble, 1994).

The challenge that most organizations face is the transition from strategy formulation to strategy implementation. David (2009) draws attention to the fact that, "the transition from strategy formulation to strategy implementation requires a shift in responsibility from strategists to divisional and functional managers. It is therefore obvious that strategy implementation is the key challenge to the organizations today. According to Johnson et al. (2003) some of the challenges include: availability of resources; leadership style; organization culture; corporate structure; lack of focus and failure of buy in by implementing team.

For strategy implementation to be successful, Thompson et al. (2006) proposed a nine staged process. These are: Staffing the organization with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organizing the work effort. Creating a company culture and

work climate conducive to successful strategy implementation. Developing budgets that steer ample resources into those activities critical to strategic success. Ensuring that policies and operating procedures facilitate rather than impede effective execution. Using the best-known practices to perform core business activities and pushing for continuous improvement.

The most important problem experienced in strategy implementation in many cases is lack of sufficient communication. Clear understanding of a strategy gives purpose to the activities of each employee and allows them to link whatever task is at hand to the overall organizational direction (Nyaumao, 2012). Resource allocation of an organization is dependent on the kind of structure the organization has. There is no one optimal organization design or structure for a given strategy or type of an organization (David, 2003). Pearce & Robinson (2003) identified reasons why strategies fail. These include; anticipated market changes, lack of senior management support, effective competitor responses to strategy, application of insufficient resources, failure for buy in, understanding and communication, timeliness and distinctiveness, lack of focus and bad strategy as well as poorly conceived business models.

Sometimes strategies fail because they are simply ill conceived. At the basic level, strategy is about managing change and resistance to change can be considered the single greatest threat to successful strategy implementation. Strategic change constitutes the movement of an organization from its present state towards some desired future state to increase its competitive advantage (Hill and Jones, 1999). The behaviour of individuals

ultimately determines the success of failure of organizational endeavours and top management concerned with strategy and its implementation must realize this. Change may also result to conflict and resistance People working in organizations sometimes resist such proposals and make strategy difficult to implement (Lynch, 2000).

Failure to align management processes and structures with a newly adopted strategy frequently results in a stall out of implementation efforts, as members of the firm direct individual behaviours to align with the firm's historic rewards system, and not the newly stated strategy. Organizational politics and unavoidable aspects also remain another key challenge in strategy implementation. Porter (1985) states that it is important to overcome the resistance of powerful groups because they may regard the change caused by new strategy as a threat to their own power. The implementation of strategy often encounters rough terrain because of deeply rooted cultural biases. Creating an organizational culture which is fully harmonized with strategic plan offers a strong challenge to the strategy implementer’s leadership abilities.

Resource insufficiency is another common strategy implementation challenge. David (2003) argues that allocating resources to particular divisions and departments does not mean that strategies would be successfully implemented. This is because a number of factors commonly prohibit effective resource allocation. These includes overprotection of resources, too great emphasis on short run financial criteria, organizational policies, vague strategy targets, reluctant to take risks and lack of sufficient knowledge. Structure,

culture, procedures and processes, resistance to change, inadequate motivational tools among others are some of the challenges to strategy implementation (Nyaumao, 2010).

2.5 Responses to Challenges of Strategy Implementation

For successful strategy implementation organizations should evaluate the challenges, failures and obstacles as well as strengths then address them without bias. Organizations should take appropriate measures to mitigate the challenges they face in implementing strategies. There should be tight fit between the strategy and how an organization does things. These involves creating a series of tight fit between organizational skills, competencies, strategy and organizational culture, strategy and reward systems, strategy and budgets, strategy and internal policies and procedures, leadership and support systems.

Organizations should train their strategy implementers on strategy formulation and implementation. The training should focus on management staff because if an organization is to realize successful strategy implementation, the people involved should be of relevant and right skills. Proper analysis should be done to determine the relevance, type, frequency and length of training as well as the costs involved. Management should undergo continuous training to be updated on new developments in the business environment. Those with specialized roles in various areas should be given a leading role to play, in order to improve the performance and competitiveness of organizations.

On resources, organizations should be linked to budgets and allocation of resources should be based on key issues and priorities identified. According to Thompson et al. (2007), the funding requirements of a new strategy must drive how capital allocations are made and the size of each unit's operating budget. Underfunding organizational activities central to strategic success impedes strategy implementation. Resources needed for implementation should be readily available, ranging from finance, material to human. Control measures should be taken during implementation. Organizations should realize the importance of realigning organizational culture with what is needed for strategic success. Culture therefore has to be changed. Successful culture change has to be led by management since this task cannot be delegated to other staff. What management say and do plant the seeds of culture change. It is therefore only management that has the power and organizational influence to bring about change in culture.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methods that were used in collection or gathering of data pertinent in answering the research questions. The chapter comprises the following sub-topics; research design, target population, data collection and data analysis procedures.

3.2 Research Design

This study used descriptive cross-sectional survey design because the study included all commercial banks in the study. Cross-sectional research design was chosen because it appeals for generalization within a particular parameter (Mugenda and Mugenda, 2003). The data obtained was standardized to allow easy comparison by incorporating closed ended questions. Moreover, cross-sectional survey design explores the existing status of two or more variables at a given point in time. This design is meant to enhance a systematic description that is accurate, valid and reliable as possible regarding the challenges of implementing financial inclusion strategies among commercial banks in Kenya.

3.3 Population of the Study

According to Bryman and Bell (2003), a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated. The target population of the study was the 44 commercial banks operating in Kenya as at December 2013. Following the small number of commercial banks and the fact that all have an office within the Nairobi area, the study included all commercial banks in the

study hence a census study. The exact officer that was approached was the marketing manager.

3.5 Data Collection

Primary data was collected using a questionnaire. The researcher administered a questionnaire to each member of the target population. The questionnaire had both open and close-ended questions. The close-ended questions provided more structured responses to facilitate tangible recommendations. The open-ended questions provided additional information that may not have been captured in the close-ended questions. The questionnaire was carefully designed and tested with a few members of the population to ensure reliability and validity of the data collected. Piloting was done in order to enhance its validity and accuracy of data to be collected for the study. Secondary data was also collected for this study from published magazines and annual reports from both the banks and the regulator -CBK. The questionnaire will be administered using a drop and pick later method.

3.6 Validity and Reliability Tests

The researcher carried out a pilot study to pre-test the validity and reliability of data collected using the questionnaire. According to Berg (2001), validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity was employed by this study as a measure of the degree to which data collected using a particular instrument represented a specific domain or content of a particular concept. Mugenda and Mugenda (1999) contend that the usual procedure in

assessing the content validity of a measure is to use a professional or expert in a particular field (Cronbach, 1971).

According to Ngechu (2004), reliability refers to the consistency of measurement and is frequently assessed using the test–retest reliability method. Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. The researcher selected a pilot group of 3 officers each from 2 commercial banks in Kenya. The aim is to correct any inconsistencies arising from the instruments, which will ensure that questionnaires measured what was intended to measure. The survey instrument was subjected to overall reliability analysis. A coefficient of 0.70 or more implies that there is a high degree of data reliability.

3.7 Data Analysis

Prior to processing the responses, the completed questionnaires were edited for completeness and consistency. Quantitative data collected was analyzed by the use of descriptive statistics using Statistical package for Social Sciences (SPSS) and presented through percentages, means, standard deviations and frequencies. The data was broken down into different aspects of strategy implementation challenges. This offered a systematic and qualitative of the study objectives.

The information was presented by use of bar charts, graphs and pie charts and in prose-form. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of statistical package for social sciences (SPSS). Mugenda

and Mugenda (2003), explains that SPSS is a comprehensive, integrated collection of computer programme for managing, analyzing and displaying data. The qualitative data was coded thematically and then analyzed statistically.

CHAPTER FOUR

DATA ANALYSIS AND RESULTS

4.1 Introduction

The study sought to establish the extent to which the financial inclusion strategy has been adopted by Kenyan commercial banks and to determine the challenges of implementing financial inclusion strategies among Commercial banks in Kenya. The findings analysis and interpretation of the study data are represented in this chapter. The study targeted 44 marketing managers across all the commercial banks in Kenya. Out of the 44 distributed questionnaires, 39 were filled and returned. This translated to a response rate of 89%. According to Mugenda and Mugenda (2003) the statistically significant response rate for analysis should be at least 50%.

4.2 Background Information

In this section, the study presents background information of the respondents so as to affirm their suitability in the provision of data required to meet the requirements of research objectives. Specifically, the section covers the position that the respondents held in their respective banks, period worked with the banks and the period that the bank has been in operations. These are discussed below:

The study sought to establish the position the respondents held in the bank. The responses are shown in the Table 4.1

Table 4.1: Position in the bank

	Frequency	Percentage
Top level management	15	38
Middle level management	13	33
Lower level management	11	28
Total	**39**	**100**

From the findings above, majority of the respondents 38% (15) were in the top level management, 33% (13) of the respondents were in middle level management while 28% (11) were in lower level management. These findings show that the study involved different level managers and thus each brought their own experience and expertise in the study. Therefore the findings are more representative of the challenges of implementing financial inclusion strategies among commercial banks in Kenya.

The study further sought to establish how many years the respondents had worked with this Bank. The findings are shown in the Table 4.2.

Table 4.2: Years worked in the bank

	Frequency	Percentage
Below 5 years	9	23
6-10 years	11	28
11-15 years	6	15
Above 16 years	13	33
Total	**39**	**100**

The respondents who had worked for their respective banks for less than 5 years were 23%, 28% had worked for between 6-10 years, 15% had worked for 11-15 years and 33 had worked for above 16 years. All the respondents involved in the study had worked for

their banks for a number of years and thus were familiar with the banks operations and were in a position to answer the questions effectively.

The study further sought to establish the number of years the bank has been in operations. The findings are shown in Table 4.3

Table 4.3: Number of years the bank has been in operation

	Frequency	Percentage
Below 5 years	3	8
6-10 years	5	13
11- 15 years	4	10
16-20 years	6	15
21-25 years	8	21
26 years and above	13	33
Total	**39**	**100**

From the findings in Table 4.3 above, majority of the banks had been in operations for over 26 years. This is represented by 33%. 21% (8) of the banks had been in operational for between 21-25 years. 15% (6) banks had been in operation for between 16-20 years. 10% (4) of the banks had been in operational for 11- 15 years. 13% (5) of the banks had been in operation for between 6-10 years while 8% (3) of the banks that had been in operations for below 5 years. These findings show that majority of the banks that participated in the study had been in existence for long enough to understand matters concerning financial inclusion.

4.3 Extent of Financial Inclusion Strategy Adoption

The study sought to establish the extent to which the respondents agreed on the statement below on financial inclusion strategy adoption by commercial banks. The responses are shown in Table 4.4

Table 4.4: Extent of financial inclusion strategy adoption

Component of Financial Inclusion	Mean	Std. Dev
Mobile banking	4.562	0.001
Internet banking	4.321	0.231
Agency banking	3.987	0.421
Automated Teller machine	4.789	0.621
Credit information sharing	4.012	0.213
Opening more branches	4.725	0.145
Forming collaborations with other organizations	3.251	0.325
Grand mean	**4.235**	**0.278**

As indicated in Table 4.4 above, on the adoption of mobile banking, majority of the respondents strongly agreed with a mean of 4.562 and a deviation of 0.001. These findings show that the mobile banking had been adapted to a very great extent. This could be attributed to the fact that there is a high rate of mobile phone handset ownership in the country. In addition, mobile phones are highly portable and thus provide convenience that other modes of financial inclusion may not avail.

On internet banking adoption, majority of the respondents agreed with a mean of 4.321 and a deviation of 0.231 and also agreed on agency banking with a mean of 3.987. On the adoption of automated Teller machine the respondents strongly agreed with a mean of 4.789 and agreed on credit information sharing with a mean of 4.012. The respondents

also strongly agreed on the opening more branches with a mean of 4.725 and agreed on forming collaborations with other organizations with a mean of 3.551. ATM scored the highest followed by mobile banking. The least adopted strategy by the respondents was forming collaborations with other organizations.

The respondents were asked what other financial inclusion strategy the banks used to reach to its customers. The respondents highlighted that the banks had adopted the making of Visa card for their customers that enabled them to withdrawal money across all ATM machines. The respondents also cited that they had partnered with major telecommunication companies to devise simple number codes that can be used on the phone and thus allowing the customers to access their accounts. Some of these strategies are Mobile banking, computerized accounting system and Internet banking.

From the findings the grand mean was 4.235. This shows that the financial inclusion strategies in the table 4.4 had been adapted to a great extent in the banks. The findings reveal that Mobile banking, Internet banking, Agency banking, Automated Teller machine, Credit information sharing, Opening more branches, Forming collaborations with other organizations had been adopted to a great extent in the banks. ATM had been the most adopted strategy while forming collaborations with other organizations was the least adopted strategy. Thompson (1993) concluded that well-functioning financial systems serve a vital purpose, offering savings, credit, payment, and risk management products to people with a wide range of needs. Inclusive financial systems allow broad access to financial services without price or non price barriers to their use and are especially likely to benefit poor people and other disadvantaged groups. Different

strategies have been adopted by financial institutions in their quest to ensure financial inclusion. Some of these strategies are Mobile banking, computerized accounting system and Internet banking (Thompson, 1993).

4.4 Challenges of Implementing Financial Inclusion Strategy

The respondents were asked to rate the extent to which they agreed on the challenges they face in the implementation of financial inclusion strategies. The responses are shown in the Table 4.5.

Table 4.5: Challenges of Implementing Financial Inclusion Strategy

	Mean	**Std. Dev**
Availability of adequate skilled human capital to execute the financial inclusion strategy	4.201	0.355
The advancements in information technology and communication	4.121	0.242
The manner in which communication is managed in the process of financial inclusion strategy implementation	4.012	0.124
The hierarch in the bank (organization Structure)	3.875	0.452
Changes in the scope of services offered by the Bank	3.821	0.301
Changes management	3.651	0.145
Entry of new financial institutions in the industry	3.621	0.006
Availability of adequate resources to finance the financial inclusion strategy	3.521	0.621
The culture of the Bank	3.521	0.352
Commitment from senior management in the Bank	3.452	0.002
The security levels of our customers	3.452	0.621
The values of the Bank	3.421	0.008
Market segmentation and targeting by the Bank	3.269	0.159
Customers' perception of the Bank	3.265	0.382
The leadership style used by managers	3.125	0.321
Past reputation of the Bank	3.114	0.224
Changes in the regulatory framework	3.012	0.421
Grand Mean	**3.556**	**0.278**

As indicated in the Table 4.5, commitment from senior management in the Bank the respondents were neutral with a mean of 3.452 and a deviation of 0.002. Majority of the respondents were also neutral on leadership style used by managers as shown with a mean of 3.125 and a deviation of 0.321. Majority of the respondents agreed that a change in management was a challenge with a mean of 3.651 and a deviation of 0.145. Majority of the respondents agreed that availability of adequate resources to finance the financial inclusion strategy was a challenge with a mean of 3.521 and a deviation of 0.621. On whether there was a availability of adequate skilled human capital to execute the financial inclusion strategy, majority of the respondents agreed with a mean of 4.201 and a deviation of 0.355. The respondents further agreed on the manner in which communication is managed in the process of financial inclusion strategy implementation with a mean of 4.012 and a deviation of 0.124. The respondents agreed that hierarch in the bank (organization Structure) was also a challenge as shown with a mean of 3.875 and a deviation of 0.452.

Majority of the respondents agreed that the culture of the Bank was a challenge with a mean of 3.521 and a deviation of 0.352. On the changes in the regulatory framework, majority of those interviewed were neutral with a mean of 3.012 and a deviation of 0.421. The respondents were also neutral on the values of the Bank with a mean of 3.421 and a deviation of 0.008. Majority of the respondents agreed that entry of new financial institutions in the industry was a challenge with a mean of 3.621 and a deviation of 0.006. On changes in the scope of services offered by the bank, majority of the respondents agreed with a mean of 3.821 and a deviation of 0.301 and on the advancements in

information technology and communication, majority of the respondents agreed with a mean of 4.121 and a deviation of 0.242.

On the past reputation of the bank, majority of the respondents were neutral with a mean of 3.114 and a deviation of 0.224. Majority of those interviewed were also neutral on customers' perception of the Bank with a mean of 3.265 and a deviation of 0.382. On the security levels of our customers the respondents were neutral with a mean of 3.452 and a deviation of 0.621 and on market segmentation and targeting by the Bank, majority of those interviewed were neutral with a mean of 3.269 and a deviation of 0.159. The respondents were asked what other challenges they faced apart from those identified above affect financial inclusion strategy implementation in your Bank. They listed the lack of employee involvement in the strategy formulation which made the implementation hard since they had no prior training or involvement on the same. The respondents also stated that the banks faced challenges in strategy implementation due to the lack of proper infrastructure in IT and orientation on using the same.

The grand mean on the challenges of implementing financial inclusion strategy scored a mean of 3.556. This can be interpreted as that the majority of the challenges in the table 4.5 were faced by commercial banks in implementing the financial inclusion challenge. Alexander (1991) pointed out that there are a number of challenges that organizations encounter while implementing strategies that emanate from both the internal and external environment of the organization.

The greatest challenge was that of availability of adequate skilled human capital to execute the financial inclusion strategy and the least faced challenge was that of changes in the regulatory framework. Alexander (1991) further discussed the problems associated with strategy implementation identifying four key areas for discussion to include: availability of resources; leadership style; organization culture; corporate structure; lack of focus and failure of buy in by implementing team.

4.5.1 Challenges affect financial inclusion strategy implementation in banks

The study sought to establish to what extent these challenges affect financial inclusion strategy implementation in banks. The responses are shown in Table 4.6.

Table 4. 6: Influence of challenges on financial inclusion strategy Implementation

	Frequency	Percentage
Very great extent	17	44
Great Extent	13	33
Moderate extent	5	13
Little extent	3	8
No extent	1	3
Total	**39**	**100**

As indicated from the findings in Table 4.6, 44% (17) of the respondents stated that challenges influence the implementation of strategy to a very great extent, 33% (13) of the respondents indicated to a great extent, 33% (13) of the respondents 13% (5) of the respondents indicated to a moderate extent that challenges affect financial inclusion strategy implementation in banks, 8% (3) of the respondents indicated to a little extent that challenges affect financial inclusion strategy implementation in banks while 3% (1) respondent stated to no extent at all. Johnson and Scholes (2003) cited that there are a

number of challenges that organizations encounter while implementing strategies. They emanate both from the internal and external environment of the organization and can affect the success of the implementation of the strategy.

The highest number of the respondents highlighted that these challenges affect financial inclusion strategy implementation in banks to a great extent. From the findings it can thus be interpreted that majority of the banks in Kenya are facing these challenges and thus the effects are reflected in the performance of the banks.

4.6 Discussions

On the extent to which financial inclusion strategy has been adopted by Kenyan commercial banks, the findings revealed that there has been adoption of mobile banking. Mobile banking, and consequently, mobile payments and mobile money are the latest in a myriad of emerging technological innovations in the banking industry that have revolutionized financial deepening in many countries (Freedman, 2000). The findings also established that there is internet banking adoption and also agency banking adoption among commercial banks of Kenya. Freedman (2000) suggested that internet banking equates internet money with the substitution of currency with internet gadget. He further argued that internet banking is convenient and easier to use but also challenging due to the need for internet.

On the adoption of automated Teller machine the findings showed that commercial banks had adopted the strategy as well as credit information sharing among financial institutions. The findings revealed that banks in Kenya are opening more branches as well

as forming collaborations with other organizations. According to Ama (2004) computerized accounting system uses specialized machines called calculators and computer in gathering information. This form of system makes it easier for transactions to be conducted across different agents, in the use of ATM machines and also makes it easier for credit information sharing among financial institutions.

On what other financial inclusion strategy the banks have used to reach to its customers. The responses show that the banks had adopted the making of Visa card for their customers that enabled them to withdrawal money across all ATM machines. The respondents also cited that they had partnered with major telecommunication companies to devise simple number codes that can be used on the phone and thus allowing the customers to access their accounts. Thompson (1993) concluded that different strategies have been adopted by financial institutions in their quest to ensure financial inclusion. Some of these strategies are Mobile banking, computerized accounting system and Internet banking

On the challenges faced by the banks in implementing financial inclusion strategies, Alexander (1991) cited that challenges faced by an organization emanate both from the internal and external environment of the organization. The findings showed that change in management was a challenge and that availability of adequate resources to finance the financial inclusion strategy was a challenge Beer and Eisenstat (2000) revealed a number of problems in strategy implementation key among them lack of resources. The finding also showed that the manner in which communication is managed in the process of financial inclusion strategy implementation is a challenge and that the hierarch in the

bank (organization Structure) was also a challenge For successful strategy implementation there needs to be communication among all levels of hirerachy in the bank as well as across all the departments of an organization (Beer and Eisenstat, 2000). The findings showed that the culture of the Bank was a challenge. According to Alexander (1991), the culture of the bank influences the success of strategy implementation since it depicts how employees behave in an organization. Another challenge that the banks faced was the entry of new financial institutions in the industry changes in the scope of services offered by the Bank and the advancements in information technology and communication.

The respondents identified lack of employee involvement in the strategy formulation which made the implementation hard since they had no prior training or involvement on the same. The respondents also stated that the banks faced challenges in strategy implementation due to the lack of proper infrastructure in IT and orientation on using the same. According to Freedman (2000) the latest in a myriad of emerging technological innovations in the banking industry have revolutionized financial deepening in many countries.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the summary of the study findings and the conclusion from the findings highlighted and recommendations. The study sought to to establish the extent to which the financial inclusion strategy has been adopted by Kenyan commercial banks and to determine the challenges of implementing financial inclusion strategies among Commercial banks in Kenya.

5.2 Summary

The general objective of the study was to establish the challenges of implementing financial inclusion strategies among commercial banks in Kenya. Regarding the extent of financial inclusion strategy adoption, the study established that majority of the respondents strongly agreed on the adoption of mobile banking. The study findings revealed that mobile banking had been adapted to a very great extent. The respondents agreed that indeed internet banking and agency banking had been adopted by the bank. On the adoption of automated Teller machine, the study found out that respondents strongly agreed and the respondents also agreed on credit information sharing. The study further revealed that the least adopted strategy by the respondents was forming collaborations with other organizations.

The study established that the respondents highlighted that the banks had adopted the making of Visa card for their customers that enabled them to withdrawal money across all ATM machines. The study also established that the respondents cited that they had

partnered with major telecommunication companies to devise simple number codes that can be used on the phone and thus allowing the customers to access their accounts. From the findings the grand mean, the study revealed that financial inclusion strategies in the banks had been adapted to a great extent. The findings revealed that mobile banking, internet banking, agency banking, automated teller machine, credit information sharing, opening more branches; forming collaborations with other organizations had been adopted in the banks to a great extent. The findings further revealed that ATM had been the most adopted strategy while forming collaborations with other organizations was the least adopted strategy.

Regarding the **c**hallenges of implementing financial inclusion strategy, the study revealed that the respondents were neutral on whether there was commitment from senior management in the Bank. The study findings indicated that the respondents were also neutral on leadership style used by managers. On whether there was availability of adequate skilled human capital to execute the financial inclusion strategy, the study revealed that majority of the respondents agreed with the statement. Also, the study findings showed that the respondents were neutral on the past reputation of the bank. The study found out that the greatest challenge was that of availability of adequate skilled human capital to execute the financial inclusion strategy and the least faced challenge was that of changes in the regulatory framework.

The findings showed that on the influence of challenges on financial inclusion strategy implementation, majority of the respondents indicated that these challenges affect financial inclusion strategy implementation in banks to a great extent. From the summary of findings, it can thus be interpreted that majority of the banks in Kenya are facing these challenges and thus the effects are reflected in the performance of the banks.

5.3 Conclusion

The study made the following conclusions.

Commercial banks in Kenya had adopted financial inclusion strategies in their operations. These included agency banking, internet and mobile banking, offering points of sale, opening branches in rural areas and offering automated teller machine services. The study concludes that the banks in Kenya have adopted mobile banking, internet banking and agency banking. The study also concludes that the banks in Kenya have increased the number of their ATM machines as well as increased their branches. The study also concludes that banks have embraced credit information sharing and forming collaborations with the other organizations.

The study also concludes that the banks face a number of challenges in the implementation of financial inclusion strategies. These challenges ranged from Commitment from senior management in the Bank, leadership style used by managers, inadequacy of resources to finance the financial inclusion, availability of adequate skilled human capital to execute the financial inclusion strategy, culture of the Bank. The study

concludes that the banks face challenges in the resource availability, organizational structure and culture and advancements in the information technology.

5.4 Recommendations

The study made the following recommendations:

The study established that commercial banks faced challenge in the implementation since they were not involved in the formulation of the strategies. This study recommends that banks involve the employees in the formulation of the strategies as well as orientation on the strategies to be implemented. This makes the implementation easier since the employees know what is expected and are familiar with the expected outcome.

Another challenge that was listed was the advancements in ICT. This study therefore recommends that the commercial banks in Kenya adopt new infrastructure so as to keep up with the emerging trends in ICT. The study also recommends that the bank offers training to its employees on the new information infrastructure.

5.4 Limitations of the Study

Foremost, the study faced time constraints since the time within which the study was to be conducted was limited. However, the researcher countered this limitation by carrying out the research across the department and management level in the organization to enable a generalization of the study findings.

Some of the respondents were afraid in providing the data fearing that the information provided may be used for other purposes other than academic. The researcher went about dealing with this limitation by assuring the respondents of the strict confidentiality of the

information obtained which would only be used for academic study purposes. The respondents also raised the issue of anonymity which the researcher overcame by assuring them of the coding of each interview guide and use of pseudo names to avoid identification of the respondents.

5.5 Suggestions for Further Research

The study found that banks in Kenya are opening more branches as well as forming collaborations with other organizations. The study recommends that in the future a study be conducted across all financial institutions. This study concentrated on the commercial banks and thus the findings cannot be generalized for the study.

The study also found that the banks had adopted the making of Visa card for their customers that enabled them to withdrawal money across all ATM machines. The study also recommends that in the future a study be conducted on the influence of financial inclusion adoption on customer satisfaction. This study will be important in evaluating how effective the strategies are in the ensuring that the customer are satisfied with their banks .

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APPENDICES

APPENDIX I: LIST OF COMMERCIAL BANKS IN KENYA

1. Africa Banking Corporation Bank Ltd(Kenya)
2. Bank of Africa Ltd
3. Baroda Bank Ltd
4. Bank of India Ltd
5. Barclays Bank of Kenya Ltd
6. CFC Stanbic Bank Ltd
7. CharterHouse bank Ltd
8. Chase Bank Ltd (Kenya)
9. Citibank N.A Ltd
10. Commercial Bank of Africa Ltd
11. Consolidated Bank of Kenya Ltd
12. Cooperative Bank of Kenya Ltd
13. Credit Bank Ltd
14. Development Bank of Kenya Ltd
15. Diamond Trust Bank Ltd
16. Dubai Bank Kenya Ltd
17. Ecobank Ltd
18. Equatorial Commercial Bank Ltd
19. Equity Bank Ltd
20. Family Bank Ltd
21. Fidelity Bank Limited Ltd
22. Fina Bank Ltd
23. First Community Bank Ltd
24. Giro Commercial Bank Ltd
25. Guardian Bank Ltd
26. Gulf African Bank Ltd
27. Housing Fin. Co. of Kenya Ltd
28. Habib Bank Ltd
29. Habib Bank A.G Zurich Ltd
30. I&M Bank Ltd
31. Imperial Bank Kenya Ltd
32. Jamii Bora Bank Ltd
33. Kenya Commercial Bank Ltd
34. K-Rep Bank Ltd
35. Middle East Bank Kenya Ltd
36. National Bank of Kenya Ltd
37. NIC Bank Ltd
38. Oriental Commercial Bank Ltd
39. Paramount Universal Bank Ltd
40. Prime Bank Ltd (Kenya)
41. Standard Chartered Kenya (K) Ltd
42. Trans National Bank Kenya Ltd
43. United Bank for Africa Ltd
44. Victoria Commercial Bank Ltd

(SOURCE: CBK, 2014)

APPENDIX II: QUESTIONNAIRE

Please fill out the questionnaire in the spaces below. Kindly tick only one response

SECTION A: GENERAL INFORMATION

5 What position do you hold in the bank?

Top level management ( )

Middle level management ( )

Lower level management ( )

6 How many years have you worked with this Bank?

Below 5 years ( ) 6-10 years ( ) 11-15 years ( ) Above 16 years ( )

7 Name of the Bank (Optional)____

8 Number of years that the Bank has been in operations

Below 5 years ( ) 6-10 years ( ) 11- 15 years ( )

16-20 years ( ) 21-25 years ( ) 26 years and above ( )

SECTION B: EXTENT OF FINANCIAL INCLUSION STRATEGY ADOPTION

9 Below are some of the key elements of the extent of financial inclusion strategy adoption by commercial banks. Use a scale of 1-5 where 1= no extent, 2= little extent, 3 moderate extent, 4= great extent and 5= Very great extent; please indicate the extent to which each of the following financial inclusion component has been adopted in your Bank

Component of Financial Inclusion	**1**	**2**	**3**	**4**	**5**
Mobile banking					
Internet banking					
Agency banking					
Automated Teller machine					
Credit information sharing					
Opening more branches					
Forming collaborations with other organizations					

10 What other financial inclusion strategy has your bank used to reach to its customers?

____

____

____

SECTION C: CHALLENGES OF IMPLEMENTING FINANCIAL INCLUSION STRATEGY

11 Below are some of the common challenges in the implementation of a strategy. Kindly identify the extent to which each of these challenges has affected branding strategy in your bank. Use a scale of 1-5 where 1= no extent, 2= little extent, 3 moderate extent, 4= great extent and 5= Very great extent.

	1	**2**	**3**	**4**	**5**
Commitment from senior management in the Bank					
The leadership style used by managers					
Changes management					
Availability of adequate resources to finance the financial inclusion strategy					
Availability of adequate skilled human capital to execute the financial inclusion strategy					
The manner in which communication is managed in the process of financial inclusion strategy implementation					
The hierarch in the bank (organization Structure)					
The culture of the Bank					
Changes in the regulatory framework					
The values of the Bank					
Entry of new financial institutions in the industry					
Changes in the scope of services offered by the Bank					
The advancements in information technology and communication					
Past reputation of the Bank					
Customers' perception of the Bank					

The security levels of our customers					
Market segmentation and targeting by the Bank					

12 What other challenges apart from those identified above affect financial inclusion strategy implementation in your Bank? Please indentify them.

____

____

____

13 To what extent do these challenges affect financial inclusion strategy implementation in your bank?

Very great extent ( )

Great Extent ( )

Moderate extent ( )

Little extent ( )

No extent ( )