INFLUENCE OF AGENCY BANKING ON BUSINESS GROWTH: A CASE OF EQUITY BANK EMBU COUNTY, KENYA

By

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DECLARATION

This research project report is my original work and has not been submitted to any other college or university for academic award.

Signed………………………………… Date……………………………………….

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

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DEDICATION

This research project report is dedicated to my mum Selinah Jakaiti, who made me love school, my spouse Faith, my children Angelah and Gabriel, and my siblings for giving me support, motivation, inspiration and exposure to the world of academics.

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ABBREVIATIONS AND ACRONYMS

AFI - Alliance for Financial Inclusion

AML – Anti Money Laundering

ATM – Automatic Teller Machine

CBK – Central Bank of Kenya

CFT - Counter Financing of Terrorism

MFI - Micro-Finance Institutions
MNO – Mobile Network Operator

NGO - Non-Governmental Organizations

PIN - Personal Identification Number

POS – Point of Sale

ABSTRACT

The purpose of this study was out to investigate the influence of agency banking on growth of business and specifically the business run by the agents in Embu, Kenya. The study was guided by the following objectives, to assess how management training of the agents influences agent business growth, to establish how the nature of the agents' businesses influences the business growth, to examine how the location of the business premises influences business growth and to assess to what extent attitude towards the business influences business growth. The study would enable the banks executives and indeed the policy makers of the banks and other financial institutions to be aware of agency banking as a product of electronic commerce with a view to making strategic decisions, it would provide answers to factors against the implementation of agency banking in the Banking industry the study would also assist academicians, institutions, Corporate managers and individuals who may want to know more about agency banking trends especially in Kenya. The study used 113 banking agents as the sample size based in Equity Bank Embu, the researcher used self administered drop and pick questionnaires with closed and open ended questions to ensure consistency and getting the independent respondents view. The researcher edited, coded, classified and tabulated the data. The researcher also used statistical tools in data analysis such as measures of central tendency to reduce large volumes of raw data to an extent to which it can be read easily and used for further analysis. Data collected was analyzed using descriptive statistics. The study concludes that agency banking influence growth of business in Embu County. Management trainings have positive effects on business performance by imparting skills necessary for improvement of agency banking business. Agency banking provides low-income people with an opportunity to use scarce time and save financial resources which they would have used through travelling to distant bank branches. Positioning of agency business near a market, a big town, on the highway, heart of tea growing area and near a market place influences business growth. The availability of multiple outlets across the country implies more points of contact with customers as opposed to the traditional banking hall set up. Customer association and customer loyalty in agency banking business influences business growth to a great extent. The study recommends that agency business should be located near a market, a big town, on the highway, heart of tea growing area and near a market place where there are high number of customers in order to have ensured business growth.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

This introductory chapter contains the background of the study statement of the problem, objectives of the study, research questions, significance of the study, and justification of the study, scope and limitations of the study.

The revolution of information technology has influenced almost every facet of life, among them is the banking sector. The introduction of electronic banking has revolutionized and redefined the way banks were operating. As technology is now considered as the main contribution for the organizations' success and as their core competencies. So the banks, be it domestic or foreign are investing more on providing customers with the new technologies through mobile banking.

Technological advancement has not only affected the way of living but has had an effect on the way people do their banking. The last decade, has seen an incredible upsurge in mobile penetration in the developing world. However of great interest is that while the mobile phone offers several features including the possibility of mobile banking, almost half of the world populations have either failed to embrace mobile banking and financial services or they have been deprived of the same. Back in Kenya the scenario is no better. Astonishingly half of the Kenyan populations especially the rural folk do not have a clue on mobile banking. However, the outreach of the mobile banking sector has been found to vary across country (Ivatury & Mas, 2008).

The Kenya Bureau of Statistic Report (2011) indicates that more than 7 million adult rural Kenyans are either under-banked or unbanked. This is partly because of the high cost of maintaining the bank branches and the low nature of business transactions in rural Kenya - a situation which makes opening of new branches in the rural areas a less productive venture. At yet another level mobile technology has substantially penetrated rural Kenya and is likely to be on an upward trend in the near future. Banks and other financial institutions which have traditionally relied on physically established branches to provide banking services are now gearing towards the adoption of mobile banking services (MBS) as a form of branchless banking. This has the consequence of lowering cost of banking. Technology has therefore created greater opportunities to service providers to offer great flexibility to the customers. To this end banks are fast developing branchless banking such as ATM, internet and mobile banking among others (Laukkanen & Pasanen, 2007).

1.1.2 Agency Banking

Agency banking refers to contracting of a retail or postal outlet by a financial institution or a mobile network operator to process bank clients' transactions. It is different from a branch teller, since it is the owner or an employee of the retail outlet who conducts the transactions, ranging from: deposits, withdrawals, funds transfers, bill payments, account balance inquiry, receiving government benefits or direct deposits from employers.

Banking agents may include: pharmacies, supermarkets, convenience stores, lottery outlets and post offices (CGAP, 2006). The trend of agent banking is evident in many nations all over the globe, such as in Australia where post offices are used as bank agents, France utilizing corner stores, Brazil making use of lottery outlets to provide financial services, Kenya pioneering the mobile financial services, Nigeria, South Africa and the Philippines (Siedek, 2008). Retail outlets are forced to extend their limited sources of financing in a bid to meet the regulations so as to fulfill the legal requirements necessary to operate as banking agents. Such requirements usually involve having a specific level of capital investment to assure the regulators of the sustainability of the venture. Inability of the retail outlets to fulfill these requirements prevents the expansion of retail banking to areas of low income earners.

Unless the tight regulations are eased, few retail outlets would be able to meet the standards required by the policy makers (Ivatury& Lyman, 2006). Financial institutions can only be allowed to work through retail outlets if the laws permit it. Regulators determine what kind of, if any, financial institutions are permitted to contract banking agents, what products can be offered at the retail outlets, how financial institutions have to handle financial transactions and all aspects regarding the operation of agency banking. Without the approval of the lawmakers, agent banking would not be operational. Lawmakers also provide guidelines and alterations of the policies regarding operation of agent banking from time to time, which necessitates the banking agents to change their operations to be in line with the prevailing laws of the land (Ivatury& Mas, 2008). Without the support of the regulatory authorities, agent banking would not be facilitated. For example, the Filipino government's commitment to extending financial services to unbanked low-income populations has immensely contributed to making the Philippines a world leader in branchless mobile banking services (Seltzer, 2010).

Agent banking involves a number of technologies in order for the financial institutions to keep track of the transactions done by the retail outlet. These technologies include: point-of-sale (POS) card readers, mobile phones, barcode scanners to scan bills for bill payment transactions, Personal Identification Number (PIN) pads, and personal computers (PCs) that connect with the financial institution's server using a personal dial-up or other data connection. All these technologies require expertise and capital investment in acquiring the technological equipment which is a challenge to the retail outlets that have limited capital (Ivatury, 2006).

1.2 Statement of the problem

Central Bank of Kenya (CBK) recognizes the financial inclusion challenges which the country faces. These include the cost of financial services and the distance to bank branches in remote areas. Part of their approach to addressing these challenges is to promote innovation through mobile financial services and to address the delivery channel costs through increased use of agent banking (Central Bank of Kenya, 2010). Kenya has experience with both bank-based and nonbank-based agent banking models. In order to speed up the development of the agent banking in Kenya, the CBK made use of a knowledge exchange Programme supported by the Alliance for Financial Inclusion (AFI). In terms of branchless banking, Kenya is probably best known for its M-PESA mobile phone-based payment service. The 2010 agent banking guidelines allowed banks to start working in partnership with non-bank based models.

In Kenya agent banking has seen dramatic expansion in very many countries all over the world including Kenya. With agency banking, low-income people no longer need to use scarce time and financial resources to travel to distant bank branches. And since agency banking transactions cost far less to process than transactions at an automated teller machine (ATM) or branch, banks can make a profit handling even small money transfers and payments (Booz, 2003). The adoption of agency banking is mainly geared to improve on market share by attracting and retaining their customers, improving their financial performance and create variety of services. To this end, it is not clear whether the adoption has led to increase in market share and financial performance. This study therefore aims at assessing the influence of agency banking on business growth of agent businesses in Embu town, Kenya.

Despite the relevance of the agency banking in the commercial banks gaining competitiveness and enhancing financial performance, there has been limited research conducted locally specifically on the contribution of agency banking on agent businesses' financial performance. Most of the studies reviewed were done abroad and according to Aosa (1992), it's not right to import the wholesome results of a research without taking into account the contextual differences and hence the needs to carry out local research in order to understand better the problem. This study was guided by counsels of previous researches undertaken abroad in an effort to find out the influence of agency banking on business growth of agent banking businesses in Embu County, Kenya.

1.3 Purpose of the Study

The purpose of this study was to investigate the influence of agency banking on growth of business in Embu County, Kenya.

1.4 Objectives of the Study

The objectives of this research work were;

i. To assess how management training of the agents influences agent business growth.
ii. To establish how the nature of the agents' businesses influences the business growth
iii. To examine how the location of the business premises influences business growth
iv. To assess the extent to which attitude towards the business influences business growth.

1.5 Research Questions

The questions to the research study included;

i. How does management training of the agents influence agent business growth?
ii. How does the nature of agent business influence business growth?
iii. To what extent does the location of the agent business premises influence business growth?
iv. To what extent does attitude towards the agent banking business influence business growth?

Hypothesis

The following hypotheses was formulated to guide the study.

1. Ho: there is a significant relationship between management training of agents and agent business growth.

1.6 Significance of the study

The study would enable the banks executives and indeed the policy makers of the banks and other financial institutions to be aware of agency banking as a product of electronic commerce with a view to making strategic decisions. The research is equally significant because it would provide answers to factors against the implementation of agency banking in the Banking industry; prove the success and growth associated with implementation of agency banking highlight the areas of banking operations that can be enhanced via agency banking and also be an invaluable tool for students, academicians, institutions, Corporate managers and individuals who want to know more about agency banking trends especially in Kenya.

1.7 Delimitations of the Study

The research study was restricted to agent businesses operating within Embu County and domiciled at Equity bank, Embu branch. The study took a period of four months (from July to October).

This project developed prototype or a final solution to be used in the agency society. Even though the project takes its starting point primarily from a macroscopic point of view, areas of law, regulations, digital literacy of Kenyan citizens, and societal campaigns introducing agency Banking will not be covered. This project focused on the technical safety and limitation of the mobile payment. In this project, the user as a general user was denoted as "he", regardless of gender.

1.8 Limitations of the Study

The study faced limitations due to time constraints since the researcher is engaged in full time employment but the researcher looked for time and did the study.

1.9 Assumptions of the Study

A number of assumptions were made while carrying out the study. It was assumed that the respondents answered the questions correctly and truthfully. It was assumed that there was no unexpected events that would affect the speed of the study.

1.10 Definition of significant Terms Used in the Study

Agent: a company that has been contracted by an institution and approved by the central bank to provide the services on behalf of the institution in the manner specified in the guidelines.

Agent banking business: the business carried out by an agent on behalf of an institution as permitted under the guidelines.

Institution: a financial organ/body licensed under the banking law or micro-finance law.

Branch: an agent's place of business directly responsible to the head office, used to carry out commercial activity of the agent but does not include a mobile unit.

Real Time: the electronic processing of transactional data instantaneously upon data entry or receipt of a command.

Internet Banking: This is a product that enables the Bank leverage on the Internet Banking System Module in-built on the new Banking Application (BANKS) implemented by the Bank to serve the Internet Banking needs of the Bank's customers.

Mobile Banking: This is a product that offers Customers of a Bank to access services as you go. Customer can make their transactions anywhere such as account balance, transaction enquiries, stop checks, and other customer's service instructions, Balance Inquiry, Account Verification, Bill Payment, Electronic fund transfer, Account Balances, updates and history, Customer service via mobile, Transfer between accounts etc.

Point Of Sale (POS) Machine: A Point-of-Sale machine is the payment device that allows credit/debit cardholders make payments at sales/purchase outlets. It allowed customers to perform the following services Retail Payments, Cashless Payments, Cash Back Balance Inquiry, Airtime Vending, Loyalty Redemption, Printing mini statement etc.

Smart Card: A Card with a computer chip embedded, on which financial health, educational, and security information can be stored and processed.

Transaction Alert: Our customers carry out debit/credit transactions on their accounts and the need to keep track of these transactions prompted the creation of the alert system by the Bank to notify customers of those transactions. The alert system also serves as notification system to reach out to customers when necessary information need to be communicated.

1.11 Organization of the Study

Chapter one gives the introductory part of the report, the second chapter the literary work of what other authors say about agency banking, chapter three expounds on the research methodology used, chapter four gives data analysis, presentations and interpretations and finally chapter five explains the summary of findings, discussions, conclusions and recommendations.

1.12 Summary

This Chapter provides the reader a brief background, statement of the problem, the purpose and significance of the study, and specific research questions. A section Defining unfamiliar terms and limitations are included in this section.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literary work that exists concerning the influence of agency banking on business growth. The chapter also discusses management and business growth, location, nature of business and attitude towards business. The conceptual framework is also developed in this chapter.

2.2 Theoretical Framework

The Central Bank of Kenya (CBK) recognizes the financial inclusion challenges which the country faces. These include the cost of financial services20 and the distance to bank branches in remote areas. Part of their approach to addressing these challenges is to promote innovation through mobile financial services and to address the delivery channel costs through increased use of agent banking (Central Bank of Kenya, 2010a).

In contrast to the South American countries studied, Kenya has experience with both bank-based and non-bank-based agent banking models. With respect to the bank-based model, Parliament gave approval for banking legislation to be amended to enable the use of agents in June 2009, and the regulations for agent banking were published by the CBK in May 2010 (Guideline on Agent Banking - CBK/PG/15, 2010). Prior to the 2010 Guidelines on Agent Banking, the Banking Act did not address the issue of banks using agents to deliver financial services, so the CBK approved such arrangements on a case-by-case basis.

Other relevant regulations which have enabled branchless banking are (i) a 2008 regulation allowing microfinance deposit-taking institutions to use agents; (ii) a 2009 amendment to the Banking Act that allows banks to appoint agents to take deposits and perform other activities; and (iii) a 2009 AML/CFT bill which applies to both bank and non-bank institutions (CGAP, 2010d). The draft regulations for the Provision of Electronic Retail Transfers were launched by

the CBK in February 2011. These will provide a full legal framework for non-bank-based models when they are enacted.
In order to speed up the development of the agent banking regulatory framework, the CBK made use of a knowledge exchange programme supported by the Alliance for Financial Inclusion (AFI).

In October 2009, six representatives from the CBK, Kenya Bankers Association, and the Ministry of Finance visited Brazil and Colombia, as these countries were identified as ‘champions’ of agent banking. The particular learning points gained from this knowledge exchange and subsequently applied to the agent banking guidelines were; the importance of a risk-based approach to the supervision and regulation of agents: in Brazil and Colombia, the banks are responsible for managing the risks associated with using agents; the need to focus on the demand side: both countries ensure consumer protection and financial education of customers; the importance of public-private partnerships: the need to involve key stakeholders in the development of an agent banking model; the importance of prioritizing and co-ordinating the national financial inclusion agenda; and the need to discourage uncompetitive behavior by banks, for example by promoting interoperability and non-exclusivity of agents.

CBK also had a chance to share information on the development of mobile financial services in Kenya with the BDO and SFC (Colombia) and the CBB (Brazil) and have established an ongoing engagement with all three institutions (Central Bank of Kenya, 2010a). The Microfinance (Deposit-Taking Microfinance Institutions) Regulations of 2008 govern the use of agents by deposit-taking MFIs. The related guidelines state that deposit-taking microfinance institutions (MFIs) can engage agents to provide microfinance services as long as they have prior written approval from the CBK. These applications must provide the reasons for opening the agency, a copy of the agency agreement, and security features of the location (The Microfinance (Deposit-Taking Microfinance Institutions) Regulations, 2008). Credit-only MFIs are not covered by the Microfinance Regulations of 2008. Therefore, responsibility for regulating these institutions falls to the Ministry of Finance, and the ability of these MFIs to use agents depends on the common law of agency. There are no specific restrictions under applicable Kenyan law regarding other financial institutions' use of agents (CGAP, 2010d).

The main payment service providers in Kenya, apart from MNOs, which we explore further below, are banks and other licensed financial institutions. Many banks have their own ATM switch and there are also two ATM networks, Kenswitch and PesaPoint.

The National Payments System Bill 2011 is about to be launched in Kenya.21 This should improve the mobile payment system for consumers, as operators will be made more accountable and subject to clear regulation. Also, if a mobile payment service is declared insolvent, the new legislation will ensure that individual customers do not lose their funds.

Additionally, the cost of factors such as risk management and recruitment will be met by service and network providers (Making Finance Work for Africa, 2011a).

In terms of branchless banking, Kenya is probably best known for its M-PESA mobile phone-based payment service. M-PESA was launched in March 2007 by Safaricom, a joint venture of the Kenyan government and Vodafone. This service started before there was any legislation related to agent banking, mobile payments, payment systems, consumer protection, or AML/CFT. However, before M-PESA's launch, the Ministry of Information and Communications, the Ministry of Finance, and the CBK met to discuss the legal and policy implications of the M-PESA model. This demonstrated (i) the need for coordination between policy makers to ensure that regulations do not restrict innovation and growth; and (ii) that regulators need to maintain sufficient oversight to ensure the safe and healthy development of branchless banking. CBK did not formally approve MPESA but sent a private letter to Safaricom stating that M-PESA would be subject to the National Payment Systems Bill once it became law and that they should establish a full audit trail for all transactions and adhere to the draft AML bill. Three other MNOs have since been approved by the regulator to offer mobile payments services (CGAP, 2010d).

The 2010 agent banking guidelines allowed banks to start working in partnership with non-bank based models. In March 2010, Safaricom and Equity Bank launched a full savings account. This is issued by Equity Bank but marketed as an 'M-PESA Equity account' called M-KESHO. Like MPESA accounts, M-KESHO accounts have no account opening fees, minimum balances or monthly charges. But unlike M-PESA accounts, M-KESHO accounts pay interest, do not have a limit on account balances, and are linked to limited emergency credit and insurance facilities. And unlike its regular Equity account holders who can only transact at the bank's 140 branches, Equity's M-KESHO customers can transact at any of the 28,000 retail outlets that accept M-PESA. M-KESHO is fully integrated into the M-PESA user interface on customers' mobile phone, and is also accessible through Equity Bank's mobile phone banking service. Customers can deposit and withdraw money from their M-KESHO account by transferring value to/from their M-PESA account, which they can in turn cash into or cash out from at any M-PESA outlet. Deposits into M-KESHO are free but a small fee is payable for withdrawals. By the end of 2010, 600,000 M-KESHO accounts had been opened but there are some indications of friction between Safaricom and Equity bank about the operation and financial structure of the facility: the final outcome of this collaboration has yet to be determined.

Safaricom is also connecting M-PESA with the accounts of other banks, enabling customers to cash in/out of their bank accounts through M-PESA. Other MNO/bank partnerships are also emerging. Standard Chartered, Airtel Africa and MasterCard have recently launched a virtual shopping card into the Kenyan market, which they intend to spread throughout Africa. This card will enable users to access a range of banking services through their mobile phones. Airtel clients will be able to purchase online goods from a wide range of MasterCard merchants after requesting a single-use card with the amount of their purchase. When the transaction has been completed, the user will receive a confirmation SMS. This new payment system is compatible with all mobile phones and any operating system (Making Finance Work for Africa, 2011).

2.2.1 Agents and Approval by the Regulator

The CBK defines an agent as 'an entity that has been contracted by an institution and approved by the Central Bank to provide the services of the institution on behalf of the institution' (Guideline on Agent Banking - CBK/PG/15, 2010). The types of entities which can act as agents are: Limited liability partnerships, Sole proprietorships, Partnerships, Societies, Cooperative societies, State corporations, Trusts, Public entities, and any other entity which the CBK may prescribe.

Faith-based organizations, not-for-profit organizations, non-governmental organizations (NGOs), educational institutions, and forex bureaus cannot be agents. Individuals are not expressly permitted to be agents but are often approved as informal sole proprietorships. An agent must have had well-established business activity for at least 18 months and not been 'classified as a deficient, doubtful, or non-performing borrower by an institution in the last 18 months'. The principal institution must assess the moral, business, and professional suitability of agent (Guideline on Agent Banking - CBK/PG/15, 2010).

After receiving general approval from the CBK to implement agent banking, banks must apply for approval of each agent. They are required to submit the following information: names, locations, and contact information; description of agents' business activity over the previous 18 months; any variations to the terms of standard contract; the services to be provided by each agent, and transaction/balance limits; and the CEO's declaration of agent suitability (Guideline on Agent Banking - CBK/PG/15, 2010).

The principal institution is held completely liable for all actions and omissions of agents when providing financial services on their behalf. The principal must also maintain an effective system of internal control and oversight of the agent’s functions. Furthermore, it must make sure it has proper controls in place to safeguard information, communication and technology systems. The principal must carry out risk-based reviews of critical agent banking processes to make sure the agent is following the policies, rules, regulations, and operational guidelines. The principal must also provide agents with operational manuals and risk management policy documents (Guideline on Agent Banking - CBK/PG/15, 2010).

The principal institution must ensure that sound AML/CFT monitoring processes are in place for agent banking and must train agents on AML/CFT compliance. As agents of a financial institution, agents are indirectly subject to AML/CFT law. Agents are required to use two-factor authentication (such as IDs, PINs, passwords and ATM cards) with customers if performing a transaction which requires identification. They must also report any suspicious activities to the principal institution within 24 hours and adhere to transactional limits prescribed by the principal institution (Guideline on Agent Banking - CBK/PG/15, 2010).

The regulations stipulate certain minimum standards which the agent and principal institution must meet. Agents must possess ‘appropriate’ physical infrastructure and human resources and meet certain moral, professional, and business suitability requirements. Agent banking systems must meet data and network security concerns, and banks must meet certain technical criteria for the electronic operating systems used at agents. The respective roles and responsibilities of the agent and principal must be communicated to the customer. The costs of services must be clearly described, and customers must be provided with information on how to resolve problems and file complaints. There are strict limitations on the size/frequency of transactions by an agent and a maximum daily balance that may be held by an agent (Guideline on Agent Banking - CBK/PG/15, 2010).

The contract between the agent and the principal institution must include certain information regarding risk management and consumer protection. This required information includes: measures taken to mitigate risks associated with agent banking services (including limits, customer transactions, cash management, cash security, security of agent premises, and insurance policies); AML/CFT requirements; confidentiality of customer information; and data management by the agent. Banks must also engage in risk management, addressing a variety of issues touching on credit risk, operational risk, liquidity risk, legal risk, AML/CFT risk, and reputation risk.

Furthermore, appropriate consumer protection systems (against risks of fraud, loss of privacy or loss of service) must be in place. These include the issuance of receipts for all transactions undertaken by agents, channels for customer complaints, and clear signage indicating that the agent is providing services on behalf of a particular institution (Guideline on Agent Banking - CBK/PG/15, 2010).

2.2.2 Remuneration Structure

Agents are not permitted to charge any fees directly to customers, and details of remuneration for the agent must be specified in the contract between the agent and the principal institution (Guideline on Agent Banking - CBK/PG/15, 2010). As the bank-based agent model is quite new in Kenya, available information on typical remuneration practices is limited. However, most agents receive tiered commissions from the principal depending on the amount of the transaction made by the customer.

Equity Bank is using agents to make cash transfer payments in rural areas of northern Kenya (for further details see section 2.4.1). These agents receive a commission from the bank but also gain additional business from the beneficiaries who often buy goods from their shops (CGAP, 2011c).

M-PESA agents are generally making healthy profits. An M-PESA agent gets KSh 40 ($US0.50) when a customer signs up and another KSh 40 when the customer makes the first cash deposit. From then on agents receive a commission for each M-PESA transaction they handle. A CGAP study in 2009 found that being an M-PESA agent is, on average, 3.2 times more profitable (US$5.01/day) than selling airtime (US$1.55/day). Also, particularly in rural areas, M-PESA brings cash into the village, where it is spent locally, often in the agent's shop. However, there are high costs (for liquidity management and the cost of capital) involved in being an M-PESA agent. Their profitability is mainly due to a high volume of transactions (the agents studied did an average of 86 transactions per day) and would be unlikely to be attractive if the number of transactions was lower than around 30 per day. Furthermore, some M-PESA agents interviewed by the CGAP team are not making a profit and were unable to keep a sufficient float to maintain service continuity (CGAP, 2009). Data from CGAP's 2011 Agent Management Toolkit indicates that M-PESA agents average profit per day had fallen to US$3.86, based on an average of 61 transactions.

Zain Zap agents have a slightly better deal than M-PESA agents as Zain allow the agent to keep 100% of the fee charged to the customer for making a transaction and they also allow the agent to negotiate different tariffs with different customers, depending on their supply of e-money/cash and customer demand (GSMA, 2010)

2.3 Management Training and business Growth

According to a recent study on the relationship between business management training and small and medium sized enterprises' growth in Kenya (Mungai, 2012) , the main conclusions were that appropriately timed and designed training programmes are likely to have positive effects on business growth; Most entrepreneurs value training, but cannot afford it; owner-managers need training most but have least time to attend management training in finance, production, marketing, and human resources management are very vital to business growth and there were positive change in the businesses after the training. The changes were as a result of attending the business management training. Finally, the key recommendations were that business management training should be provided to a larger number of enterprises at affordable costs; business management training programmes should meet the needs of the clients and should be tailor-made and networks and linkages amongst various support agencies should be promoted so that training providers can refer their clients for further support.

Education is a key constituent of the human capital needed for business success. It is argued that education and training provides the basis for intellectual development needed by entrepreneurs in business to be successful. Moreover, they provide the entrepreneurs with confidence to deal with clients. (Storey 1994). As seen in the study, the educated entrepreneurs showed more promising results in terms of how their business is doing. It is always argued also that business ownership is not an intellectual activity rather entrepreneurship is an opportunity for the less academically successful to earn high incomes.

It is argued from a theoretical perspective that management experience and continuous training provide a particular entrepreneur with the necessary skills and competences needed for successful entrepreneurship (Casson 1982). With adequate education mixed with management experience and training puts a manager in a better position to make tough decisions and fore castings under conditions of uncertainty which in turn with those competencies making these particular managers perform better than untrained individuals. Research about determinants of small business growth in Nigeria (Okpara and Wynn 2007), shows that firms which provide management training are more likely to grow faster than the firms with no management training. Here it is argued that prior experience of the manager in dealing with particular type of tasks is likely to supplement the expertise of the entrepreneur and enable business objectives to be more easily achieved.

2.4 Location and access to banking services.

A recent Financial Access study (Kenya, 2009) undertaken jointly by the Central Bank of Kenya and Financial Sector Deepening, identified that only 22.6% of the total population aged 18 years an above have access to formal financial services i.e. from the banks, Post Bank and insurance products. The study further identified the fact that 32.7% are financially excluded from the formal financial sector, though it was a decrease from 38.4% in 2006.With almost half (47.5%) of all Kenyan adults owning a mobile phone, this presents a great opportunity for financial service providers to partner with mobile phone service providers in the provision of financial services (Kenya, 2009).

According to a study by Karjaluoto (2002), low fees, time savings and freedom from time and place have been found to be the most important elements of internet banking. Other factors contributing to its use include user-friendliness of the service, speed of service delivery (Karjaluoto, 2002), convenience and compatibility with lifestyle (Gerrard & Cunningham, 2003), while complexity of a service, perceived financial cost of a product or service, ignorance of electronic services and security risk are found to inhibit the use of the service (Black, et al., 2002). Karjaluoto (2002) also found that the manner in which service is delivered is part of process quality, which depends on the fit between service style of the contact person and the participation style However, contrary to previous studies, the findings of Karjaluoto (2002) showed that security concerns are not among the greatest obstacles to adopting mobile phone banking.

A study in Ethiopia by Demirguc-Kunt, (2007) based on household surveys from 1994 to 2000 demonstrated that access to financial services caused a statistically significant reduction in five of seventeen determinants of poverty. A similar multi-country study by Beck & Demirguc-Kunt,

(2007) demonstrated how access to financial services encourages social mobility across generations, thereby leading to poverty reduction in the long run.

According to a study conducted by Njenga (2009) on Mobile phone banking usage experiences in Kenya, availability of multiple outlets across the country implies more points of contact with customers as opposed to the traditional banking hall set up. He also found that the flexible operating hours of the Mbanking agents leaves them with greater opportunities to satisfy banking requirements that may arise at any time. He also found that although the mobile phone balances may seem low, the fact that there are balances proves that there is storage which can be perceived as acceptance of deposits. This is a significant indication of the high value placed on the convenience associated with the use of the mobile payment services.

Pagani (2004), states that accessibility (ability to reach the required services) is one of the main advantages of mobile payment services. Small and micro businesses are among the greatest beneficiaries of using M Pesa mobile payment. As at 31st March, 2009, there were 8,650 M-Pesa agents spread throughout the country offering the mobile payments service (Annual report, 2008/2009). The micro-business operators go to the bank less often and spend more time running their businesses. Equally, many unbanked Kenyans can now receive or send money wherever they are in the country (Omwansa, 2009). Majority of the micro business operators are familiar with the use of the mobile payment services as they are easy to use and require no formal training before use.

2.5 Attitude and Business Growth

Lovelock (2001) conducted a study on the issue of customers' attitude that vary in regard to their readiness to evolving technology. The study found that the drivers of growth in online banking were a combination of convenience provided to those with easy internet access, the availability of secure, high standard online banking functionality, cost savings and the necessity of banking services.

The degree of satisfaction by consumers which has been studied widely has been mostly due to motives and attitudes of consumers (Mahajan, 1994). According to McColl-Kennedy and Schneider (2000), consumers demographic, the way they behave towards various mobile banking technologies and motivation towards using various banking technologies as well as their individual acceptance are some of the factors that predetermine the satisfaction of each user of mobile banking or internet, as established from a study carried out on how consumer adopt to mobile banking and their satisfaction.

Black, et al., (2002), study showed that consumers' attitude on mobile banking acceptance and the manner in which they behave depends on whether consumers are computer literate or had prior knowledge on technologies, where prior experience with computers had more impact on the use mobile banking, while consumers who were satisfied with the existing delivery channels seemed to want to keep to their current banking services. In addition, references made by those already using mobile banking services including family members or other groups, influenced consumers' attitudes towards acceptance, in addition to whether they are dissatisfied with the banking services they are already using.

According to a study conducted by Daniel (1999), many consumers who were dissatisfied with the services they were presently getting switched to electronic mobile services from the usual and normal traditional services, due to poor service received at MFIs' branch offices, competent staff availability including branch opening hours which they found inconvenient and the speed at which they received service at the bank halls. Black, et al, (2002) notes that those consumers who adopted mobile bank services early and who utilize the online banking heavily were found to be more satisfied than the later adopters. In addition, literature established that there was preference by consumers for service delivery through multi-channels than through single channel, which calls for mobile network providers to improve all channels rather than isolating some and concentrating on only one of them (Merwe, 2001).

Dick & Basu (1994) described concept of customers' loyalty which is seen as a combination of both customer behavior and attitude with regard to understanding of loyalty. Here loyalty is seen as relation between the relative attitude that customer has to the services he/she receives and trust directed behavior he/she shows. The relative attitude is explained by the fact that customers compare product and services when considering buying them. There they also show behavior and attitudes towards products and services purchased. It means that customers usually behave in a certain way which is strongly connected to the way they receive or buy product and services. Banking services in general comprise performances rather than items. They “cannot be seen, felt, tasted or touched in the same way that tangible goods can be sensed. When acquiring different banking services consumers interact with various employees. The quality and essence of service can vary widely with regard to the bank, customer and point in time. Most of the models used to describe customers’ satisfaction are based on the presumption that customers have well-formed performance expectations.

2.6 Business Growth

Although the significance of rapidly growing small businesses in creating employment (especially in a third world country like Kenya) is very obvious to many, the empirical and theoretical understanding of the growth of small firms remains sketchy. This is partly because of the fact that small firms which makes the transition from small to large changes in character (Penrose 1959). What Penrose pointed out about small firms changing in characters encouraged a number of researches to be done on the changes in a firm associated with growth. This is how the stage models came to life.

The stage models suggest that a small firm moves from one stage to another in pursue of growth. Table 2.1 is an illustration of the stage models taken from Scott and Bruce (1987) who infer that a small firm moves from stage 1 (inception) through to stage 5 (maturity). At each of the stages it is assumed that the role which top management plays, the management style and the organization of structure change.

Table 2.1: Management role and style in the five stages of small business growth

Stage	Top management role	Management Style	Organization Stru
1. Inception	Direct supervision	Entrepreneurial, Individualistic	Unstructured
2. Survival	Supervised Supervision	Entrepreneurial, administrative	Simple
3. Growth	Delegation/ co-ordination	Entrepreneurial, co-ordinate	Functional, centrali
4. Expansion	Decentralization	Professional, administrative	Functional, decentr
5. Maturity	Decentralization	Watchdog	Decentralized product

Source: Scott and Bruce (1987)

2.7 Conceptual Framework

According to Kombo and Tromp(2006), conceptual framework can be defined as asset of broad principles taken from the relevant fields of inquiry and used to structure a subsequent presentation. It is an identification and description of the elements, variables or factors to be measured or addressed by the researcher. It is a research tool intended to assist a researcher develop awareness and understanding of the situation under scrutiny and to communicate it.

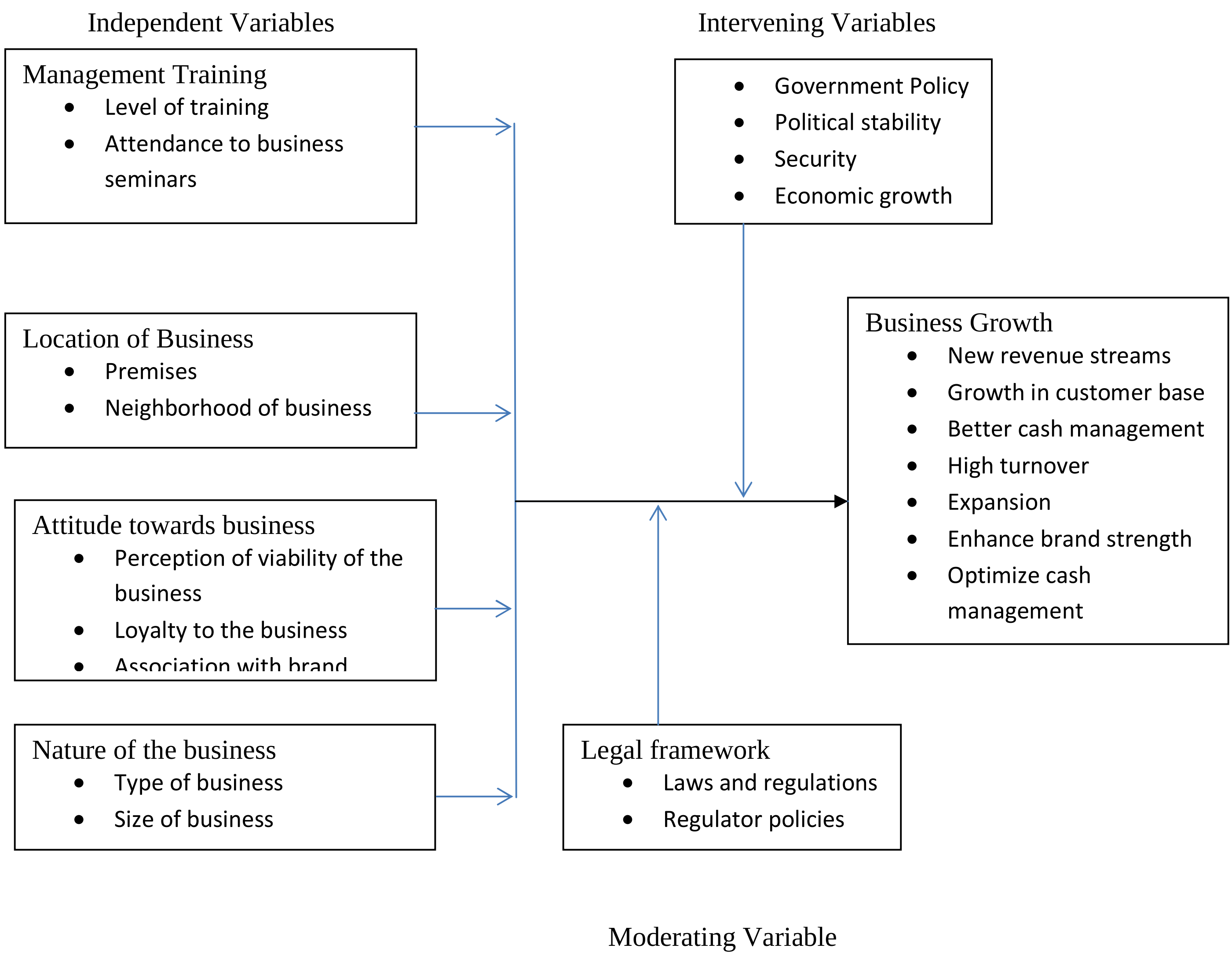

Figure i: Conceptual Framework

In the study the independent variables are the elements of agency banking that influence business growth. The dependent variable is business growth. Management trainings have positive effects on business performance by imparting skills necessary for improvement of agency banking business. Agency banking provides low-income people with an opportunity to use scarce time and save financial resources which they would have used through travelling to distant bank branches. Positioning of agency business near a market, a big town, on the highway, heart of tea growing area and near a market place influences business growth. The availability of multiple outlets across the country implies more points of contact with customers as opposed to the traditional banking hall set up. Customer association and customer loyalty in agency banking business influences business growth to a great extent.

2.8 Summary of Literature Review

This chapter dealt with the literary work that exists concerning the influence of agency banking on business growth. The chapter discussed the independent variable which are; management training and business growth, location and access to banking services, attitude towards business and customer loyalty and finally the nature of business.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology used in carrying out the study. The chapter focuses on the research design, the target population and sampling procedure. Methods and instruments of data collection and procedures for administering them in the field are highlighted. It also discusses how validity and reliability are established. And finally, it gives a brief description of data analysis techniques and methods used.

3.2 Research Design

Research design is a plan showing how the problem under investigation is to be studied. This study employed descriptive survey design by use of questionnaires. The purpose of descriptive research is to report the way things are (Mugenda and Mugenda 1999). According to Kothari (2005), the major purpose of descriptive research is description of the state of affairs as it exists at present.

According to Kothari (2004) a questionnaire is the most popular method of data collection since it can be posted to the targeted people no matter how far they are and has minimal or no cases of interviewer bias as the respondents use their own words. Kothari (2004) also gives out the limitations of this method as being too slow since the respondents might take too long to give answers, is difficult to know whether the respondents are true representatives of the information given and can only be used where are literate and cooperative.

3.3 Target Population

According to Mutai (2000) a target population refers to a group of individuals, objects or items from which a sample is drawn. According to Equity bank records, there are one hundred sixty (160) active agents domiciled at Embu branch. This population was chosen due to its accessibility and proximity to the researcher.

Population refers to an entire group of individuals, event or objects having common observable characteristics. In other words a population is the aggregate of all that conforms to a given specification

Cooper and Schindler (2005) define a population as the total collection of elements about which the researcher wishes to make some inferences. Zikmund (2003) defines a population as a complete group of entities sharing some common set of characteristics. The sampling frame was the listing of all the equity bank domiciled at Embu branch, Embu County.

3.4 Sampling Size and Sampling Procedure

According to Kombo & Tromp (2006) sampling design refers to how cases are selected for observation. This research used probability sampling design. Stratified simple random sampling was used to take a sample from the target population. This ensured a good representation of the population in the sample.

According to Krejcie and Morgan Table (Appendix 3), a population of 160 respondents requires a sample of 113 respondents. The following formula was used to determine sample size

$S = X^2NP(1-P)/ d^2(N-1) + X^2P(1-P)$ where,

S = required sample size
X^2 = the table value of chi-square for one degree of freedom at the desired
Confidence level (3.841)
N = the population size
P = the population proportion (assumed to be .50 since this would
Provide the maximum sample size)
d = the degree of accuracy expressed as a proportion (.05)

3.5 Methods of Data Collection

This research used self-administered drop and pick questionnaires with a combination of both closed and open ended questions to ensure consistency and getting the independent respondents' views.

According to Mbwesa (2006), self-administered drop and pick questionnaire encourages high response rates because the respondents can complete the questionnaire in their own time.

The researcher used analysis of existing documents. In order to investigate the research objectives stated in the foregoing, both secondary and primary data will be collected and analyzed. The first stage of the research process was an extensive search of articles, reports and professional information related to the study area, using the internet and academic databases. The analysis of secondary information provided the general context for initiating the collection, analysis and the interpretation of primary data. Secondary data was collected in order to ensure relevance to the research problem, eliminate duplication of what has been done and provide a clear understanding of existing knowledge base in the problem area. In the second stage of the study, primary data were collected.

Hair et al. (2006) noted that primary data is gathering of first-hand, new information by the researcher. Saunders et al. (2003) asserts that primary data are needed to thoroughly answer the research question and are collected specifically for the research project being undertaken. Thus, the use of interviews and questionnaires helped to collect valid and reliable data relevant to the research questions and objectives.

3.6 Validity of Instruments

Validity is the accuracy and meaningfulness of inferences which is based on the research results. It is the degree to which results obtained from the analysis actually represent the phenomenon under study (Mugenda and Mugenda, 1999).

Validation of data was done using content validity. This measures the degree to which data collected using a particular instrument represents a particular domain of indicators or content of a particular concept, Mugenda and Mugenda (1999). In this case a pilot study was carried out by administering the data collection instruments twice but to different groups of the subjects to ensure the desired data or results are obtained when the real study is conducted.

3.7 Reliability of Instruments

According to Orodho(2003), reliability of instruments concerns the degree to which a particular measuring procedure gives similar results over a number of repeated trials. This refers to the consistency of the scores obtained for each individual. To increase reliability of the data, the researcher used test-retest technique in which the instruments was administered twice to the same subjects.

Reliability is the degree to which measures are free from error and therefore yield consistent results (Zikmund, 2003). According to Sekaran (2000), reliability analysis is conducted to ensure that the measures of variables have internal consistency across time and across the various items that measure the same concept or variable. Reliability evaluates accuracy of the measures through assessing the internal stability and consistency of items in each variable (Hair et al., 1998). The extent to which the instrument provides the same results on subsequent administration, known as reliability, was statistically obtained. Guidance of the supervisor was relied upon for reliability of the data collection tool. Reliability was measured in this study using Cronbach‟s alpha coefficients.

3.8 Methods of Data Analysis

Data analysis refers to examining what has been collected and making deductions and inferences. It involves uncovering the underlying structures, extracting important variables, detecting any anomalies and testing any underlying assumptions. data obtained from the field in raw material is difficult to interpret. The researcher analysed the data to make sense. The researcher edited, coded, classified and tabulated the data. The researcher used statistical tools in data analysis such as measures of central tendency to reduce to reduce the large volumes of raw data to an extent to which it could be read easily and used for further analysis.

The researcher used three levels of measurements scale; nominal, ordinal and interval. Data collected was analysed using descriptive statistics. This helped to measure the various variables of the study. The findings were presented in form of tables, frequencies and percentages so as to bring out the relative differences of values. The researcher also used correlation analysis.

Prior to launching the full-scale study, the questionnaire was pre-tested to 10 randomly selected members of staff of Equity to ensure its workability in terms of structure, content, flow, and duration. According to Cooper and Schindler (2005), a pre-test is defined as the testing of the questionnaire on a small sample of respondents preferably 10 or more. After the pre-testing of the questionnaire, modifications were made in the questionnaire to reduce the possibility of ambiguity of some of the questions before delivering them to the respondents. Two procedures were followed during the pre-testing of the questionnaire. Cooper and Schindler (2005) observed that the researcher may rely on experts when piloting the instrument to identify changes that can be made with confusing items. Experts and colleagues who are experienced in research were requested to examine the questionnaire to check whether there are any items that need to be changed or rephrased, as well as the appropriateness of the time set for completing it.

3.9 Operational Definition of Variables

Operational Definition of variables is operationalizing or operationally defining a concept to render it measurable. It is done by looking at the behavioral dimensions, indicators, facets or properties denoted by the concept, translated into observable and measurable elements to develop an index of the concepts.

Measures can be objective subjective. It is not possible to construct a meaningful data collection instrument without first operationalizing all your variables.

Table 3.1: Operationalization of variables

Research objectives	variable	Indicator	Measurements	Level of Scale	Data collection methods	Level of Analysis
To assess how management training of the agents influences agent business growth	management training	• Level of training • Attendance to business seminars	• Primary, secondary, college • No attended	Ordinal Nominal	Questionaire	Descriptive Correlation analysis
To establish how the nature of the agents' businesses influences the business growth	nature of' businesses	• Type of business • Size of business	• Kind of business • Sales	Ordinal Nominal	Questionaire	Descriptive Correlation analysis
To examine how the location of the business premises influences business growth	location	• Premises • Neighborhood of business	• Distance • Strategic positioning	Ordinal Nominal	Questionaire	Descriptive Correlation analysis
To assess to what extent attitude towards the business influences business growth	attitude towards business	• Perception of viability of the business • Loyalty to the business • Association with brand	• Level of usage • No of transactions	Ordinal Nominal	Questionaire	Descriptive Correlation analysis

3.10 Ethical Issues

Due to the sensitivity of some information collected, the researcher held a moral obligation to treat the information with utmost propriety. In cases where the respondents might have been reluctant to disclose some information, the researcher assured them of confidentiality of the information given. The aim of the study was explained to all participants and permission to include them sought, and the participants informed that they were free to withdraw any time without giving reasons. A decision not to participate was strictly observed.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter contains data analysis, presentation and interpretation of findings. The study intended to investigate the influence of agency banking on growth of business in Embu County, Kenya. The chapter discusses results of the study under the following headings: questionnaire return rate, demographic characteristic of respondents and research objectives namely how management training of the agents, nature of agent business, location of the agent business premises and attitude towards the agent banking business influence agent business growth in Embu County.

4.2 Questionnaire Return Rate

The questionnaire return rate was high (98.2%), as 113 questionnaires were used. As Mugenda and Mugenda (2003) has stated, a response of 50% is considered good.

4.3 Demographic Characteristics of the respondents

This section presents the respondents' gender, age, marital status and level of education. These social attributes were relevant to the study since they enabled the respondent to provide information that is valid, reliable and relevant to the study.

4.3.1 Study responses by gender

The respondents from agency banking were asked to indicate their gender. The responses are shown in Table 4.1.

Table 4.1 Gender of the respondents

Gender	Frequency	Percentage
Male	71	64.0
Female	40	36.0
Total	111	100.0

From the findings, majority of agency banking owners (64%) are males. This shows that more male gender is managing agency banking shops. Agency banking requires a lot of float money for it to operate.

4.3.2 Respondents by age

The respondents were asked to indicate their ages from among choices of age classes given. The respondents' responses are shown in Table 4.2

Table 4.2 Age of respondents in years

Age (Years)	Frequency	Percentage
Below 25	4	3.6
26-35	46	41.4
36-45	48	43.2
Above 45	13	11.7
Total	111	100.0

The findings show that 43.2 % of respondents are 36-45 years in age while 41.4 % of respondents are 26-35 years in age. The study shows that the youth (35 years and below) constitute 45 % of agency banking owners.

4.3.3 Marital status of the respondents.

The respondents were asked to indicate their marital status. Table 4.3 shows the distribution of the respondents by marital status.

Table 4.3 Marital status of the respondents

Status	Frequency	Percentage
Married	59	53.2
Single	30	27.0
Widowed	17	15.3
Separated	5	4.5
Total	111	100.0

The study has shown that 53.2 % respondents are married while 27% are single. Marriage ascribes familial responsibilities to teaching staff and therefore they take their duties seriously.

4.3.4 Level of education

The respondents were asked to indicate their level of education. Table 4.4 shows their responses.

Table 4.4 Level of education

Status	Frequency	Percentage
Up to primary	13	11.7
Secondary	42	37.8
College/University	56	50.5
Total	111	100.0

The study has shown that 50.5% of respondents have achieved college or university level of education. This may be because agency banking requires some financial skills to operate.

4.4 Influence of management training of the agents on agent banking business growth

In this section, the researcher sought to establish the number of management trainings attended and to what extent management training influence performance of agency banking business.

4.4.1 Number of management trainings

The managers were asked to indicate the number of management trainings attended. Their responses are in table 4.5.

Table 4.5 Number of management trainings attended

Number attended	Frequency	Percentage
None	13	11.7
1-3	25	22.5
4-6	37	33.3
Above 7	36	32.4
Total	111	100.0

From the study, 33.3% of the respondents indicated that they have attended 4-6 management trainings. Management trainings imparted skills of running agency banking and thus enabling the owners to grow and expand their businesses.

4.4.3 Extent to which management training influence business performance

The respondents were asked to indicate the extent to which management training influence agent banking business performance. Their responses are shown in Table 4.6.

Table 4.6 Influence of management training on business performance

Extent	Frequency	Percentage
Very great extent	50	45.0
Great extent	37	33.3
Fair extent	17	15.3
Little extent	7	6.3
Total	111	100

From the study, 45% of respondents indicated that management trainings influenced their agency banking business performance to a very great extent while 33.3% of respondents indicated that management trainings influenced their agency banking business performance to a great extent. Business management trainings imparted skills necessary for improvement of agency banking business.

4.4. 4 Pearson correlation analysis between management training of agents and agent business growth

Pearson product-moment correlation analysis is conducted to establish the strength of relationship between management training and agency banking business growth. Table 4.7 Show the results.

Table 4.7 Relationship between management training and agency banking business growth

		Number of management trainings	**Number of customers served per year**
Number of management trainings	Pearson Correlation	1	0.263(**)
	Sig. (2-tailed)		.005
	N	111	111

**. Correlation is significant at the 0.01 level (2-tailed)

The study used Pearson product-moment correlation analysis to establish the strength of relationship between management training and agency banking business growth. R=0.263 a weak positive association. The results indicate a weak positive relationship (r = 0.263 N=111 P=0.005) however the results yield a statistically significant relationship. This shows that as the number of management trainings increases the number of customers served per year increases. Therefore the number of management trainings should be increased in order to increase the number of customers served per year.

4.5 Nature of the agents' businesses and its influence on agency banking business growth In this section the researcher sought to establish the kind of business operated, reason of choosing business, quality of service offered by agency banking and how the nature of business influence business performance.

4.5.1 Kind of business operated

The respondents were asked to indicate the kind of business operated. Their responses are in table 4.8.

Table 4.8 Kind of business operated

Kind of business	Frequency	Percentage
Service (hotel, salon, m-pesa)	45	40.5
Trade (retail shop, hardware, boutique)	66	59.5
Total	111	100.0

The study shows that 59.5 % of respondents do their agency banking as trade (retail shop, hardware and boutique) while 40.5% service business (hotel, salon, M-pesa). The money from trade or service assists in providing float for agency banking.

4.5.2 Reason of choosing business

The respondents were asked to indicate the reason of choosing business. Their responses are in Table 4.9.

Table 4.9 Reason of choosing agency banking business

Effect	Frequency	Percentage
To meet felt need	28	25.2
To earn living-self employment	33	29.7
Business passion	23	20.8
Customer base and easy to manage	18	16.2
Low capital requirement	9	8.1
Total	111	100.0

From the study, 29.7% of respondents started agency banking for self-employment (earn a living) while 25.2% of respondents started agency banking to meet a felt need. Agency banking has employed a sizeable number of people.

4.5.3 Quality of service offered by agency banking

The respondents were asked to indicate the quality of service offered by agency banking. Their responses are in table 4.10.

Table 4.10 Quality of service offered by agency banking

Quality	Frequency	Percentage
High	83	74.8
Fair	22	19.8
Poor	6	5.4
Total	111	100.0

From the study, 74.8 % of respondents believed that the quality of service offered by agency banking is high with only 5.4% of respondents believing that the quality of service offered by agency banking is poor.

4.5.4 Extent to which nature of business influence business performance

The respondents were asked to indicate the extent to which nature of business influence business performance. Their responses are in table 4.11.

Table 4.11 Extent to which nature of business influence business performance

Extent	Frequency	Percentage
Very great extent	31	27.9
Great extent	60	54.1
Fair extent	15	13.5
Little extent	5	4.5
Total	111	100.0

From the study, 54.1% of respondents believed that the nature of business influence business performance to a very great extent while 27.9 % of respondents believed that the nature of business influence business performance to a great extent. This shows different businesses have different performance.

4.6 Influence of business premises location on business growth

In this section the researcher sought to establish the location of business, distance from Embu town, how strategic position of business affect business and how business location influence business growth.

4.6.1 Location of agent banking business

The respondents were asked to indicate the location of agency banking shop and Table 4.12 shows the results.

Table 4.12 Location of agent banking shop

Location	Frequency	Percentage
Manyatta	4	3.6
Siakago	4	3.6
Kegonge	9	8.1
Mbuvori	7	6.3
Majimbo	2	1.8
Runyenjes	13	11.6
Embu	33	29.8
Githure	2	1.8
Kamiu	2	1.8
Piai	1	0.9
Kianjokoma	16	14.5
Karurumo	2	1.8
Kithimu	5	4.5
Kathangarire	1	0.9
Dallas	2	1.8
Kiritiri	8	7.2
Total	111	100.0

The findings show that 29.8 % of all agency banking agents interviewed has businesses in Embu town, 14.5% in Kianjokoma while the rest are spread throughout Embu County. The towns are highly populated and thus have high number for customers for agency banking services.

4.6.2 Distance of the business from Embu town

The respondents were requested to indicate the distance of the business from Embu town. Table 4.13 shows the results.

Table 4.13 Distance from Embu town

Distance in Km	Frequency	Percentage
Below 20	45	40.5
20-40	44	39.6
40-60	22	19.9
Total	111	100.0

The study showed that 80.1 % of all agency banking business premises are located less than 40KM from Embu town. This shows that agency banking premises are located around Embu town which is highly populated and thus high demand of agency banking services.

4.6.3 How strategic positioning of agent banking affect business growth

The instructors were requested to indicate their number of years they have stayed in the institution and position held. Table 4.14 show the responses.

Table 4.14 Strategic positioning of business

Strategy	Frequency	Percentage
High population of people	23	20.7
Shop is in the heart of tea growing area/big market	45	40.5
Located at the market centre	35	31.5
Tight security and active market	8	7.3
Total	111	100.0

The study shows that 40.5% of respondents indicated that their businesses are strategically positioned since they are in the heart of tea growing area and thus a big market for agency banking services while 31.5% indicated that their business are located at the market centre. Positioning the business strategically ensured strong customer base and business growth.

4.6.4 Influence of business location to business growth

The respondents were asked to indicate the influence of business location to business growth. Their responses are in Table 4.15.

Table 4.15 Influence of business location to business growth

Influence	Frequency	Percentage
Very great extent	35	31.5
Great extent	63	56.8
Fair extent	12	10.8
Little extent	1	0.9
Total	111	100.0

From the study, 56.8 % of respondents indicated that business location influence business growth to a great extent. The location of business near a market, a big town, on the highway and near a market place influence business growth.

4.7 Influence of attitude towards business on business growth

In this section, the researcher sought to establish the customer association with business brand, extent of customer loyalty, extent customers have embraced agency banking and how introduction of agency banking has affected experience.

4.7.1 Customer association with business brand

The respondents were asked to indicate the customer association with business brand. Their responses are in table 4.16.

Table 4.16 Customer association with business brand

Customer association	Frequency	Percentage
Highly associated	34	30.6
Moderately associated	54	48.6
Lowly associated	21	18.9
Never associated	2	1.8
Total	111	100.0

From the study, 48.6% of respondent indicated that the customers are moderately associated with their business brand, 30.6% of respondent indicated that the customers are highly associated with their business brand while only 1.8% of respondent indicated that the customers are poorly associated with their business brand. Customers association with business brand leads to business growth as a result of more market share.

4.7.2 Extent of customer loyalty to business

The respondents were asked to indicate the extent of customer loyalty. Their responses are in table 4.17.

Table 4.17 Extent of customer loyalty

Extent	Frequency	Percentage
Very great extent	41	36.9
Great extent	62	55.9
Fair extent	7	6.3
Little extent	1	0.9
Total	67	100.0

From the study, 55.9% of respondents indicated customer loyalty influence agency banking business to a great extent while 36.9% indicated that customer loyalty influence agency banking business to a very great extent. Customer loyalty make agency banking business to growth and expand.

4.7.3 How customers have embraced agency banking

The respondents were asked to indicate the extent customers have embraced agency banking. Their responses are in table 4.18.

Table 4.18 Extent customers have embraced agency banking

Extent	Frequency	Percentage
Highly	83	74.8
Fairly	22	19.8
Poorly	6	5.4
Total	111	100.0

From the study, 74.8% of respondents indicated that customers have embraced agency banking highly. Only 5.4% of respondents indicated that customers have embraced agency banking poorly. Agency banking have shortened the distances to the banks and have reduced the risk of insecurity (theft) when money is kept at home.

4.8 Agency Banking and Business growth

In this section the researcher sought to establish the various aspects of business growth which are annual sales when starting business, current annual turnover, number of years in business, number of employees and number of customers.

4.8.1 Annual sales when starting business

The respondents were asked to indicate their annual sales when starting business. Their responses are in table 4.19.

Table 4.19 Annual sales when starting business

Annual sales	Frequency	Percentage
0	32	28.8
Less than KShs.100,000	31	27.9
100,000 -200,000	25	22.5
200,000-300,000	15	13.6
Over 300,000	8	7.2
Total	111	100.0

From the study, 28.8% of respondent indicated that they were making zero sales before starting agency baking business while 27.9% of respondent had less than 100,000 Kenya shillings. Agency banking made new businesses to start and many jobless people were employed.

4.8.2 Current annual turnover

The respondents were asked to indicate their current turnover. Their responses are in table 4.20.

Table 4.20 Current annual turnover

Turnover in KShs.	Frequency	Percentage
100,000-400,000	29	26.1
400,000-800,000	53	47.7
800,000-1,200,000	12	10.8
Over 1,200,000	17	15.3
Total	111	100.0

From the study, 47.7% of respondents are currently making a turnover of 400,000-800,000 while 15.3% are making a turnover of 1,200,000 Kenya shillings. Agency banking has made businesses to grow tremendously.

4.8.3 Number of customers served by agency banking

The respondents were asked to indicate the number of customers they have served per year through agency banking. Their responses are in table 4.21.

Table 4.21 Number of customers served

Number of customers	Frequency	Percentage
2000-5000	17	15.3
5000-7000	58	52.3
7000-90000	18	16.2
Over 9000	18	16.2
Total	111	100.0

From the study, 58% of respondents indicated that they serve 5000-7000 customers per year while 16.2% serve over 9000 customers per year. Areas with high population like towns and market places are ideal business places for agency banking.

4.8.4 Challenges faced by agents in agency banking

The respondents were asked to indicate the challenges faced in agency banking. Their responses are in table 4.22.

Table 4.22 Challenges in agency banking

Challenge	Frequency	Percentage
Insufficient funds	4	3.6
Network failure	12	10.8
Rough terrain and roads not accessible	8	7.2
Unable to get float money	30	27.0
Insecurity	16	14.4
Customer un-loyalty	24	21.7
Competition	17	15.3
Total	111	100.0

From the study, 27.0 % of respondents indicated that inadequate float money is their greatest challenge in agency banking, 21.7% respondents indicated that customer un-loyalty is their greatest challenge in agency banking while 15.3% believed that business competition is their greatest challenge in agency banking. These challenges have slowed business growth of many banking agents.

4.9 Summary of the Chapter

The data collected was analysed using Statistical Package for Social Sciences and tables were used to present data in APA table format. The response rate was 98.1 % (106, composed of 20 managers, 67 instructors and observation schedule from 19 youth polytechnics). The data interpretation focused on the influence of agency banking on growth of business in Embu County. These included how management training, nature of business, location of business and attitude towards agent banking business influence business growth in Embu County.

CHAPTER FIVE
SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter focuses on the summary of findings of the study which formed the foundation for discussions. The discussions provided a firm basis upon which conclusions and recommendations were advanced to address the influence of agency banking on growth of business in Embu County, Kenya. It also includes with suggested areas for further research.

5.2 Summary of Findings

The summary of findings is presented based on the objectives of the study.

5.2.1 Influence of management training of the agents on agent banking business growth

The study shows that 33.3% of banking agents have attended 4-6 management trainings. Management trainings imparted skills of running agency banking and thus enabling the owners to grow and expand their businesses. The management trainings influenced agency banking business performance a very great extent as indicated by 45% of agents while 33.3% of agents indicated that management trainings influenced their agency banking business performance to great extent. Business management trainings imparted skills necessary for improvement of agency banking business. The relationship between management training and agency banking business growth is $r = 0.263$, $N=111$ and $P=0.005$. The results indicate a weak positive relationship however the results yield a statistically significant relationship. This shows that as the number of management trainings increases the number of customers served per year increases. Therefore the number of management trainings should be increased in order to increase the number of customers served per year.

5.2.2 Nature of the agents business and its influence on agency banking business growth

The study shows that 59.5 % of respondents do their agency banking as trade (retail shop, hardware and boutique) while 40.5% service business (hotel, salon, M-pesa). The money from trade or service assists in providing float for agency banking. The study has also shown that agents started agency banking for self-employment (29.7%) while 25.2% of agents started agency banking to meet a felt need. Agency banking has employed a sizeable number of people.

From the study, 74.8 % of respondents believed that the quality of service offered by agency banking is high. The nature of business influence business performance to a very great extent (54.1%). This nature of the businesses shows different performance.

5.2.3 Influence of business premises location on business growth

The study show that 29.8 % of all agency banking agents interviewed has businesses in Embu town, 14.5% in Kianjokoma while the rest are spread throughout Embu County. The study further shows that 80.1 % of all agency banking business premises are located less than 40KM from Embu town. This shows that agency banking premises are located around Embu town which is highly populated and thus high demand of agency banking services.

The study shows that businesses are strategically positioned (40.5%). The business location influence business growth to a great extent (56.8%). Positioning the business strategically ensures strong customer base and business growth.

That is starting an agency business near a market, a big town, on the highway, heart of tea growing area and near a market place influence business growth.

5.2.4 Influence of attitude towards business on business growth

The study shows that customers are moderately associated with their business brand (48.6%) and 30.6% indicated that the customers are highly associated with their business brand. Customers association with business brand leads to business growth as a result of more market share.

The study shows that the customer loyalty influences agency banking business to a great extent (55.9%). Customer loyalty make agency banking business to growth and expand.

The study furthers shows that customers have embraced agency banking highly (74.8%). Agency banking has shortened the distances to the banks and has reduced the risk of insecurity (theft) when money is kept at home.

5.3 Discussion of Findings

A discussion of findings of the study is presented based on the objectives of the study.

5.3.1 Influence of management training of the agents on agent banking business growth

The study shows that 33.3% of banking agents have attended 4-6 management trainings. Management trainings imparted skills of running agency banking and thus enabling the owners to grow and expand their businesses. The management trainings influenced agency banking business performance a very great extent as indicated by 45% of agents. Business management trainings imparted skills necessary for improvement of agency banking business. This agrees with study by Mungai (2012) who stated that appropriately timed and designed training programmes are likely to have positive effects on business growth. The study is further supported by Casson (1982) who observed that management experience and continuous training provide a particular entrepreneur with the necessary skills and competences needed for successful entrepreneurship. The relationship between management training and agency banking business growth is r = 0.263, N=111 and P=0.005. The results indicate a weak positive relationship however the results yield a statistically significant relationship. This shows that as the number of management trainings increases the number of customers served per year increases. Therefore the number of management trainings should be increased in order to increase the number of customers served per year and hence business performance. This collaborates study by Storey (1994) who argued that education and training provides the basis for intellectual development needed by entrepreneurs in business to be successful and also provide the entrepreneurs with confidence to deal with clients.

5.3.2 Nature of the agents business and its influence on agency banking business growth

The study shows that 59.5 % of respondents do their agency banking as trade (retail shop, hardware and boutique) while 40.5% service business (hotel, salon, M-pesa). The money from trade or service assists in providing float for agency banking. This agrees with CGAP (2006) who indicated that Banking agents include pharmacies, supermarkets, convenience stores, lottery outlets and post offices supporting agency banking.

From the study, 74.8 % of respondents believed that the quality of service offered by agency banking is high since low income people save their scarce resources and save time to travel to banks. This agrees with Booz (2003) who stated that with agency banking, low-income people no longer need to use scarce time and financial resources to travel to distant bank branches. Booz (2003) further observed that agency banking transactions cost far less to process than transactions at an automated teller machine (ATM) or branch, banks can make a profit handling even small money transfers and payments (Booz, 2003)

5.3.3 Influence of business premises location on business growth

The study show that 29.8 % of all agency banking agents interviewed has businesses in Embu town, 14.5% in Kianjokoma while the rest are spread throughout Embu County. This agrees with Njenga (2009) who stated that availability of multiple outlets across the country implies more points of contact with customers as opposed to the traditional banking hall set up. The study further shows that 80.1 % of all agency banking business premises are located less than 40KM from Embu town. This shows that agency banking premises are located around Embu town which is highly populated and thus high demand of agency banking services. This agrees with Pagani (2004) who stated that accessibility (ability to reach the required services) is one of the main advantages of mobile payment services.

Locating of agency business near a market, a big town, on the highway, heart of tea growing area and near a market place influences business growth. This agrees with Omwansa (2009) who stated that micro-business operators go to the bank less often and spend more time running their businesses.

5.3.4 Influence of attitude towards business on business growth

The study shows that customers are moderately associated with their business brand (48.6%). Customers association with business brand leads to business growth as a result of more market share. This agrees with Ivatury & Mas (2008) who stated that almost half of the world populations have either failed to embrace mobile banking and financial services or they have been deprived of the same. Ivatury & Mas (2008) further stated that half of the Kenyan populations especially the rural folk do not have a clue on mobile banking.

The study shows that the customer loyalty influences agency banking business to a great extent (55.9%). Customer loyalty make agency banking business to growth and expand. This is supported by Lovelock (2001) that the drivers of growth in online banking were a combination of convenience provided to those with easy internet access, the availability of secure, high standard online banking functionality, cost savings and the necessity of banking services. The study is further supported by McColl-Kennedy and Schneider (2000) who indicated that consumers demographic, the way they behave towards various mobile banking technologies and motivation towards using various banking technologies as well as their individual acceptance are some of the factors that predetermine the satisfaction of each user of mobile banking or internet, as established from a study carried out on how consumer adopt to mobile banking and their satisfaction.

The study furthers shows that customers have embraced agency banking highly (74.8%). Agency banking has shortened the distances to the banks, time saving and has reduced the risk of insecurity (theft) when money is kept at home. This collaborates with Karjaluoto (2002) who stated that low fees, time savings and freedom from time and place are most important elements of internet banking.

5.4 Conclusion of the study

The study concludes that agency banking influence growth of business in Embu County. Management trainings have positive effects on business performance by imparting skills necessary for improvement of agency banking business. The number of management trainings should be increased in order to increase the number of customers served in agency banking per year and hence improve business performance. Agency banking provides low-income people with an opportunity to use scarce time and save financial resources which they would have used through travelling to distant bank branches. Positioning of agency business near a market, a big town, on the highway, heart of tea growing area and near a market place influences business growth. The availability of multiple outlets across the country implies more points of contact with customers as opposed to the traditional banking hall set up. Customer association and customer loyalty in agency banking business influences business growth to a great extent.

5.5 Recommendations

On the basis of the results of this study the recommendations are as follows:

The study shows that 33.3% of banking agents have attended 4-6 management trainings. Management trainings imparted skills of running agency banking and thus enabling the owners to grow and expand their businesses therefore the researcher recommends that the banking agents should attend more and more management trainings to acquire business skills hem run their agency business.

The study further recommends that commercial banks should fully embrace agency banking through adoption of improved technology for information security to make it more reliable to the customers. This will increase volume of transactions which will lead to financial performance. Based on the findings and conclusions presented above, the study recommends that banks should cushion their agents from certain costs such as insurance costs, cash in-transit or premise setup costs. This will enhance performance of banking agents. Besides, capacity of agents banking in providing services can be enhanced by banks ensuring that agents have enough float that can serve more client in order to mitigate clients disappointment and increase the number of customers. They can do this by advancing credit to their agents

The study established accessibility of agency channels to the customers and infrastructure to influence opening up agent banking network. This researcher therefore recommends that banks should make agent channels accessible to customers and also improve infrastructure in terms of system up-time at all times; in addition, agency business should be located near a market, a big town, on the highway, heart of tea growing area and near a market place where there are high number of customers in order to have ensured business growth.

The study shows that customers are moderately associated with their business brand (48.6%). Customers association with business brand leads to business growth as a result of more market share, therefore the researcher recommends that more information and awareness should be provided to the public to build confidence and trust in agency banking as a secure, efficient and modern way of banking. A wider section of the population is not fully conversant with the nature of services that can be accessed through agent banking and therefore deliberate interventions must be undertaken to successfully ensure that the targeted persons particularly the rural residents are empowered not only with technology but also with information

5.6 Suggested areas for further Research

Following are suggested areas for further study

1. Research should be carried out on the influence of agency banking on growth of business in other parts in the Country.
2. A study to establish the influence of financial regulations on agency banking business performance in Kenya.
3. Research should be conducted on the influence of agency banking on poverty alleviation in Kenya.

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APPENDICES

APPENDIX 1: LETTER OF TRANSMITTAL

Jakaiti O. Titus
P.O. Box 1994–60100
EMBU

Dear Sir/Madam,

Re: Letter of transmittal of data collection instruments.

I am Jakaiti Titus from University of Nairobi carrying out a study on the influence of agency banking on business growth in Embu County. The research will be for partial fulfillment for the degree of Master of Arts in Project Planning and Management.

I humbly request you to answer the following questions honestly as possible. This information will be kept completely confidential and anonymous and will not be used for any other purpose apart from the stated research.

Thank you so much for your time and cooperation.

Yours truly,

Jakaiti Titus.

L50/71940/2011

APPENDIX 2: QUESTIONNAIRE FOR EQUITY BANK AGENTS

Instructions.

Do not write your name on this questionnaire. Tick the correct answer or fill in your response as applicable.

Thank you.

SECTION A: BASIC INFORMATION

1 Gender

a) Male
b) Female

2 Please indicate your age bracket

a) Below 25yrs b) 26-35yrs c) 36-45yrs d) above 45yrs

3 Marital status

a) Married b) Single c) Widowed d) Separated

4 Number of dependants

a) None b) 1-2 c) 3-4 d) above 5

5 Level of education

a) Upto primary level
b) Secondary level
c) College/University level
d) Others (specify)………………..……………..…………….

6 When did you start your business? Indicate the year ……….…………..

SECTION B: MANAGEMENT TRAINING

7 What number of management trainings have you attended?

a) None
b) 1-3
c) 4-6
d) Above 7

8 to what extent has management training influenced performance of your business?

a) To a very great extent
b) To a great extent
c) To a fair extent
d) To a little extent

SECTION C: LOCATION OF BUSINESS

9 Where is your business located? Indicate town ……..……..………

10 What is the distance of your location from Embu town?

a) Below 20 km
b) 20-40 km
c) 40-60 km
d) Over 60 km

11 Do you think the location is strategically located for your business?

a) Yes
b) No

12 Explain your answer in (11) above

…………………………………………………………………………………………………

…………………………………………………………………………………….

13 To what extent does the location of the agent business premises influence business growth?

a) To a very great extent
b) To a great extent
c) To a fair extent
d) To a little extent

SECTION D: NATURE OF BUSINESS

14 What kind of business do you operate?

a) Service (hotel, saloon, m-pesa)
b) Trade (retail shop, hardware, boutique,)

15 Why did you choose this type of business?

…………………………………………………………………………………………………

………………………………………………………………………………………………………

……………………………………………………………………………

16 How is the quality of service offered by agency banking?

a) High
b) Fair
c) Poor

17 To what extent does the nature of your business influence performance?

a) To a very great extent
b) To a great extent
c) To a fair extent
d) To a little extent

SECTION E: ATTITUDE TOWARDS BUSNESS

18 Are you passionate about this particular business?

a) Yes
b) No

19 What is the customers association with your business brand?

a) Highly associated
b) Moderately associated
c) Lowly associated
d) Never associated

20 To what extent is customer loyalty to your business?

a) To a very great extent
b) To a great extent
c) To a fair extent
d) To a little extent

21 To what extent have customers embraced agency banking?

a) To a very great extent
b) To a great extent
c) To a fair extent

d) To a little extent

22 How has the introduction of agency banking affected experience?

a) No effect
b) Small effect
c) Large effect

SECTION F: BUSINESS GROWTH

23 do you keep nay records?

a) Yes
b) No

24 What were your annual sales when you started your business?

In Kshs …..…………………..

25 what is your current annual turnover? In Kshs

a) 100,000- 400,000
b) 400,000- 800,000
c) 800,000- 1,200,000
d) Over 1,200,000

26 How long have you been in this business?

a) Less than 1 year
b) 1-2 years
c) 3-4 years
d) Over 5 years

27 How many branches do you have?

a) None
b) 1-2
c) 3-4
d) Above 5

28 How many employees do you have?

a) None
b) 1-2

c) 3-4
d) Above 5

29 How many customers do you serve in a year?

a) 2000- 5000
b) 5000-7000
c) 7000- 9000
d) Over 9000

30 What are the challenges you come across within the line of your of business? ……… ……… ……………………………………………………………………………

31 What are your plans for the future? Where do you see yourself and your business say in five years' time?
……… ……… ………………………………………………………………………….

Thank you for taking part in this Questionnaire!!

APPENDIX 3: **DETERMINIG SAMPLE SIZE FOR A GIVEN POPULATION**

Table for Determining Sample Size for a Given Population

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: "N" is population size
"S" is sample size.

Source: Krejcie & Morgan, 1970