

**FACTORS INFLUENCING THE ADOPTION OF AGENCY
BANKING BY KCB BANK KENYA LIMITED**

BY

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DECLARATION

This research project is my original work and its presentation has not been done in any university for consideration

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DEDICATION

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ABSTRACT

Developments in information communication and technology among other factors have brought about high level of dynamism in the operating environment. Increased competition among commercial banks and the need to improve their operational efficiency have led them to adopt a number of distribution channels. The main aim of agency banking is to expand the accessibility to financial services specifically among the unbanked population for it has been unaffordable to maintain by the banks following the smaller number of the population. This study seeks to answer one research question: What are the factors influencing the adoption or embracing of agency banking by KCB Bank Kenya Limited? The study adopted a case study design with a qualitative approach. The data was analyzed descriptively using mean and standard deviation. The findings were presented in table and narrative form. It was established that there was positive relationship between cost reduction and adoption of agency banking. There was a positive relationship between expansion strategy and adoption of agency banking. The respondents noted that there was a positive relationship between diversification strategy and adoption of agency banking. They also said that there was a positive relationship between information and communication technology and adoption of agency banking. The researcher inferred that there is positive relationship between cost reduction strategy, expansion strategy, diversification strategy, and information and communication technology and adoption of agency banking at KCB. The researcher recommends that a little more efforts need to be put to reduce the costs associated with agency banking further since there is a lot of competition from other banks in the sector. The KCB management need to pay more attention to the implementation of their expansion strategy since it's not bringing optimal outcomes insofar adoption of agency banking with the bank is concerned. The management of KCB need to ensure that their product diversification strategy is vibrant and competitive, there is need to benchmark with other players in the industry. The researcher recommends that KCB needs to further advance and expand their information and communication technology infrastructure to better march the market needs and put the bank a head of other players in the market. The study suffered a limitation in that the researcher was not in a position to eliminate bias and subjectivity completely, the study targeted the employees of KCB who may portrayed a false image of the situation. Therefore some information may not be accurate. The researcher suggests that a study be done on the direction and degree of change on the bank's overall performance given the adoption and growth of agency banking.

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LIST OF ACRONYMS AND ABBREVIATIONS

ATM-	Automated Teller Machine
CBD-	Central Business District
CBK-	Central Bank of Kenya
KCB-	Kenya Commercial Bank
MFI-	Microfinance Institutions
POS-	Point of Sale
SPSS-	Statistical Package for Social Sciences

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Developments in information communication and technology among other factors have brought about high level of dynamism in the operating environment (Aguirre, Dias, and Prochaska, 2008). These have necessitated the changes in customer tastes and preferences making it necessary for organizations to adopt various strategies to ensure they meet these changing preferences (Kumar, Nair, Parsons & Urdapilleta, 2006). The banking industry in general has not been spared by these changes. Increased competition among commercial banks and the need to improve their operational efficiency have led them to adopt a number of distribution channels (Lyman, Pickens & Porteous, 2008). One of these channels is agency banking which enables them to avail their services like cash deposits, cash withdrawals, cash disbursement and loan repayments, bill payments, fund transfers, enquiry of balance, generation and issuance of mini bank statements, collection of documents in relation to opening of an account, application of loans, applications of credit and debit cards, agency mobile phone banking services among others through third parties called agents (CBK, 2010).

The study was anchored on three theories: agency theory, financial intermediation theory and the diffusion of technology theory. This theory was first explicitly modeled by Jensen and Meckling (1976), and seeks to clarify the link that exists amid one individual called a principal and the other who has been entrusted to act on the principal's behalf called the agent. Existing literature give the impression that the adoption of principles goals is more probable hence conduct itself in the principles interest in case the given activity should

yield some outcome. An agent is also probable to conform to the principles goals on the knowledge of a means in place that allows the principal to verify the agents' behavior. (Bendor, Glazer & Hammond,(2001). This theory helped explain the kind of relationship that exists between Kenya Commercial Bank and the various agencies that have been engaged by the Bank.

The financial intermediation theory was developed by Gurley and Shaw (1960). A financial intermediary can generally be defined as an institution or individual that serves as a conduit for parties in a financial transaction. A financial intermediary can also be seen as bank that consolidates deposits and uses the funds to transform them into loans (Lin, 2016). Financial intermediaries exist to lessen the costs of information and operations that crop up from an information asymmetry amidst borrowers and lenders (Coase, 1937). The successful operation of markets is hence aided by financial intermediaries, and any aspect influencing the amount of credit canalled via financial intermediaries can have considerable macroeconomic outcomes. The theory sought to explain the role that financial institutions play in ensuring that there is efficient financial intermediation process.

The technology diffusion theory was advanced by Rodgers (1962) who gave a proposition that four main elements affect the prevalence a new idea: the advancement itself, the canals for communication, and a social system and time. Technological diffusion is the course of action that innovations spread within and across the companies (Stoneman, 1985).This theory helped in explaining the adoption of new technology

among consumers or customers. It helped explain how customers go about adopting agency banking. Commercial banks in Kenya are faced with many challenges ranging from competition among themselves to stringent regulations by the CBK. Many banks have collapsed in the recent past while others have closed branches in areas deemed uneconomical to operate physical branches. In 2010, the Central Bank of Kenya allowed commercial banks to lend their financial services and products through agents. This has seen many commercial banks adopt agency banking as one of the models for operational efficiency. Some banks have even gone ahead to station agents in their branch networks so as to leverage their operating expenses.

KCB bank group is one of the leading banks in Kenya. According to reviews by Cyntonn Investments (2015) the bank was ranked as the best bank while NBK was ranked the worst in performance, customer care and operations. There are various factors that have impacted on the good performance of the bank group. The adoption of various new platforms due to technological advancement for example internet, mobile and agency banking have been heralded as a few of the new models that had boosted the banks' good performance. To narrow down, we are going to look at the influence of agency banking and the factors that influence its adoption. Agents therefore bring services closer to the people and are very efficient and timely.

1.1.1 Agency Banking

An agent bank is a form of organization commonly used by an already established and formal financial banking institution to access the un-banked population. The agent

banking business means the business carried out by an agent on behalf of an institution as permitted under some outlined guideline. It is impossible for an agent bank to operate on the name of the main/parent bank since it is carrying out operations on behalf of the main bank. (Komen, 2014). On the other hand, agency banking is known as services that are lent out by given special bodies (retail or postal outlet) that are identified and requested by financial institutions to help in development of clients' transactions. The title holder or an employee of a given retail outlet entitled with conducting the transaction and cash deposits of clients, withdrawals and cash transfers, paying of their bills, inquiry about an account balance, or received government benefits or a direct transaction(deposit) from their employer (Ivatory & Layman, 2006). In Kenya, the Central Bank of Kenya issues guidelines on how commercial banks can offer agency-services. Notably, agency-banking has been growing with the result being improved banking services. For instance, the agents have facilitated transfers worth billions of shillings (Musau & Jagongo, 2015). Therefore, as the number of transactions increases, so is the importance of the agencies in the economy. Agency banking is still in its infancy and seems to be the variant of mobile money popularly known as (M-Pesa) that simply means mobile money, and it operates via a system where money is sent from sender to receiver instantly using mobile phones. Importantly, agency banking has been helping to open up rural and suburban areas, the populations, which were unbanked for a long time (Mwangi & Willy, 2014). Prohibitive amounts for creating bank branches in upcountry and suburban areas have been cited as preventing roll out, but agency banking has created an alternative avenue for bringing banking services. The agents mostly help in account opening, depositing cash, cash withdrawals, account balance confirmation, and payment of various bills. However,

customers have advocated that the number of services be considered to include withdrawals using automated teller machine (ATM) cards. In this dissertation, the factors that influence the taking up of agency banking by KCB Bank of Kenya Limited was be examined.

1.1.2 Factors Influencing the Adoption of Agency Banking

Agent-banking is an arrangement whereby licensed institutions involve third bodies/parties to lend given banking services on their behalf. In Kenya, the Prudential Guideline on Agent banking issued by the Central Bank of Kenya (CBK) runs the agency banking. This was put into action on 1st May 2010. The access of banking services have been improved thanks to the exploitation of the agency banking model by banks since its initiation in 2010 (CBK, 2013).

There are a variety of factors that have facilitated the adoption of agency banking by Kenya Commercial Bank. The idea of cost saving and reduction has made to adopt agency banking. This is because the bank does not incur cost of recruiting new employees because the agent that is approved by bank is the one who hires or carries out the transactions himself. Savings on equipment like furniture and computers the agents purchase the pos machines and mobile phones. Systems are installed in the mobile phones to allow the agents to transact and send the data to the central processing center where the information is captured and data reconciled (McKay, 2011). Therefore the only cost the bank incurs is branding as the agents outlets have to be branded and look like small branches. The bank saves costs in terms of advertising and hiring sales personnel.

This is the work of the agent as he is paid according to the number of transactions and accounts opened therefore the agent makes sure there is traffic in his outlet in order to earn more (Hamblen, 2008).

The adoption of agency banking services by KCB Bank of Kenya is attributed to the being of a strong core banking technological system. A research study on agency banking carried out by Kenya Bankers Association (KBA, 2012) revealed that for its Center for Research on Financial Markets and Policy, KCB agents rely on the point-of-sale (POS) devices and/or mobile phones and have access to the bank's core banking system so that the clients' transactions are reflected in real time. The study found out that KCB had put in new core banking systems which are expected to facilitate operations consolidations, downsizing of staff and maintain new technological inventions such as the internet and mobile banking. In order to avoid fraudulent POS terminals, Kenya Commercial bank announces an exceptional undisclosed key to every clientele of the bank whereby it discovers itself to the banks clientele prior to each transaction (Ivatury, 2008).

A research undertaken by Mas and Almazán (2011) revealed that five reasons why banks ought to involve themselves in agency banking is comprised of: to trim down branches, come up with business in regions it never existed in before, come up with a transaction-based scheme with low income segments as the target population, re-deploy branches on selling merchandise rather than cash handling and making sure that the competitive spaces or empty places are filled. Banking halls that are overcrowded with long disturbing queues are negative experiences customers meet with in most banks all over

the country. Opening of a new branch of a bank could be possible or achieved when the banks contracts agents who enable the bank to get a good base of customer and transaction volume.

1.1.3 The Kenya Commercial Bank (KCB)

Agent banking is an alternative channel that is used to support available network of branches and ATMs (KCB Group Limited, 2016). To enhance its footprint in Kenya, the bank uses KCB Mtaani to improve accessibility of services and to tap into the unbanked population through agents who offer certain financial services. There are more than 10,000 KCB agents recruited by the bank who are spread all over the country who are currently offering services such as cash withdrawal, cash deposit, school fees payment, rent payment, account opening, balance inquiry, mini statements, loading cards, and bill payments (KCB Group Limited, 2016). This was made possible through the amended banking Act of 2010 which permitted small retail outlets such as petrol stations and pharmacies etc. to become banking agents.

The agents transact more than Ksh 100,000 daily and open over 3000 accounts each day (KCB 2015 3rd quarter financial report). In addition, the agents hold more than 1 billion shillings in deposits from customers. Available data from the bank's quarterly financial report indicate that the KCB banking agency helped to generate more commissions, collect cheap deposits and gain new customers when the industry's loan book was. To be an agent of KCB, one needs to have an existing legal entity such as a company, sole proprietorship, or partnership. Besides, the business must have been in existence for not

less than 18 months, and should be able to serve at least 50 customers each day. Moreover, the business should also be ready to deposit not less than shillings 100,000 to start agent services (KCB Group Limited, 2016).

1.2 Research Problem

The expansion of the accessibility to financial services specifically among the unbanked population for it has been unaffordable to maintain by the banks following the smaller number of the population is one of the major objectives of an agency banking. While an agency banking introduction is a move that was welcomed by the CBK, its slow movement and implementation could jeopardize the entire exercise of providing a low cost affordable financial services (CBK, 2010).

The banking industry is experiencing a rush and stiff competition to secure more customers among the population. As a result, the agents have turned out to play the role of banks by pushing for bigger demands to request for lofty commissions from the banks. Additionally, a report by the National Financial Access Survey (2009) revealed that 32% of the bankable residents of Kenya is still a challenge since it still exists outside the orbit of financial services with a number of residents still getting services from the non-formal financial system. This has aided in the establishment of agent banking (National Financial Access Survey, 2009).

Many researchers have been conducted about the current phenomenon through studying money transfer via mobile among the unreached population by banking services. For instance, King'ang'ai and Kigabo (2016) examined the influence of agency banking on

financial performance of commercial banks in Rwanda. The research findings revealed that the Central Banks action to police agency banking, low transaction cost through agency banking; easy customer access to finance via the agencies and a raise of market share positively influenced the banks' financial performance. This study concentrated on four commercial banks in Rwanda whose operating environment is different from Kenya. Lozano and Mandrile (2010) examined agent banking model for branchless banking in Colombia. The findings of the study showed that implementation as an expansion into served customer markets had been done on banks with no branches.

Locally, Watiri (2013) conducted a study on the taking up of agency banking by Equity Bank of Kenya Limited in its business operations that are international. The study findings showed that the main influencers of agent banking adoption among Kenyan banks include enhanced customer service, cost reduction of the transaction costs and increased presence of the bank and especially in the remote, rural areas.

Ndungu and Njeru (2014) assessed factors influencing adoption of agency banking in Kenya using the case of Kajiado North Sub County. The results indicate that service reliability, resolution of clients' complaints in time, convenience through extended banking hours and high qualified and well trained agents led to high adoption rate of the agency banking.

Chiteli (2013) explored the undertakings of agent banking as a competitive approach of banks in Kisumu City. It was established from the study research that the control guidelines and procedures, upfront in technology, and guidelines that are to be followed

by the bank agents together with the banks have contributed a great deal to the success of agent banking. These existing studies examined agency banking in relation to different banks for instance agency banking in relation to Equity bank (Watiri, 2013), agency banking in relation to commercial banks (Ndungu & Njeru, 2014; Chiteli, 2013). There are therefore no valuable studies that have been done in Kenya about the influencers of the agency banking adoption by the Kenyan Banks. The research sought to take care of this loophole in the study research by answering one research question: What are the factors influencing the taking up of agency banking by KCB Bank of Kenya?

1.3 Study Objective

The study aimed at determining the factors influencing the adoption of agency banking by KCB Bank Kenya Limited

1.4 Value of the Study

The research study results would be relevant for the management at Kenya Commercial Bank group and other commercial banks in Kenya in informing their decision making on issues regarding the promotion of agency banking. It is believed that the findings of this study would inform the managers on various factors affecting agency banking adoption and ways in which the Bank can ensure higher adoption of agency banking among customers.

The Government of Kenya especially the Ministry of Finance through the Central Bank of Kenya would also find the study results valuable in formulation of policies and

regulations governing the operation of agency banking in the Country. Through the findings of this study, the policy makers at the Central Bank of Kenya are able to learn of the various factors affecting adoption of agency banking so as to develop appropriate policies and regulations on the same.

Relevant scholars and researchers would also find the results of great help to them since they will use the findings as an empirical source of their future studies besides it suggesting areas of further studies where they can concentrate on. Through the findings of this study, empirical literature on agency banking adoption in Kenya has grown.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter provides literature the study topic, relying on theories and empirical research conducted previously. The theories and empirical studies are helpful in understanding the beliefs and facts, which can guide this study. Literature on agency banking will be discussed from theoretical and empirical review perspectives. Therefore, this chapter focuses on both reviews and how they have contributed to growth, development and acquisition of agency banking.

2.2 Theoretical Review

2.2.1 Financial Intermediation Theory

The financial intermediation theory was developed from the 60s starting with the work of Gurley and Shaw. The theory is builds on the asymmetrical and agency theories which focus on high transaction costs, incomplete information and methods of regulation (Andries, 2009). Therefore, the theory builds on the concept that intermediaries serve the purposes of the cost of transaction and informational asymmetries reduction (Allen & Santomero, 1998). Informational technology improvements, de-alteration and going further deep of financial market among other factors have been helpful in reducing transaction costs. Importantly, financial intermediation has been viewed as value-creating economic process.

Historically, banks and insurances have played a critical role in major economies apart from emerging economies that are still at very early stage. Simply put, banks have been in existence since the ancient times, often taking deposits from customers or providing loan advancements to economic agents that require capital. As a consequence, savings from customers have been transformed into investments (Andries, 2009). The role of intermediaries in the financial sector can be understood from various theories of intermediation.

The theories of intermediation originated from the models of resource allocation that considered markets as not only complete, but also perfect. The theories have, therefore, been based on the proposition that frictions emanating from asymmetric information and transaction costs have to be understood and appreciated to acknowledge intermediation. Leland and Pyle (1977) argued that an intermediary may indicate its well-versed decision by investing in wealth assets that it has special knowledge about. Besides, Diamond (1984) claimed that intermediaries are capable of overcoming the problems of asymmetric information through delegated monitors. Bhattacharya and Thakor (1993) also noted that financial intermediaries specialize in the provision of brokerage and other services such as rating, screening and certification. Brokerage is associated with cost advantage in the production of information, and brokers rely on cross-sectional and chronological reusability of information. Often, reusability originates from public good characteristic that allows the producer and distributor of the initial information to specialize in it.

Financial intermediaries are able to transform the credit portfolios that borrowers demand to deposit that lenders desire (Andries, 2009). The transformation can occur in two ways; changing of terms and cost reductions. Changing of terms is considered because of the realization that small creditors prefer to diversify risks, resulting in many contracts and increased transaction costs. Nonetheless, an intermediary can benefit from economy of scale by writing or implementing debt contracts with other firms. On the other hand, creditors benefit from cost reductions resulting from avoidance of cost duplication (Andries, 2009). Information asymmetry is based on the belief that the borrower may be having more information than the lender regarding the projects that they seek funds. The notion can result in moral hazard problems as well as adverse selection. Such problems eventually reduce the efficiency of funds transfer from where they are surplus to where they are deficit (Gwilym, 2008).

2.2.2 Agency Theory

The agency theory considers a company as a link of contracts initiated by self-interest individuals instead of a unified or profit maximizing entity (Rose, 1992). The theory, thus, focuses on how the problems existing in agency relationships can be resolved. Specifically, the agency theory addresses the problems that occur when there are conflicts goals set by agent and the principal (Mercado-Mendez & Willey, 1995). The conflict worsens when the principal cannot confirm what the agent is doing. Also, the theory examines the problems that occur when the agent and principal perceive risks differently. Agency theory states self interest is the motivating factor for the principal and the bank agent. The assumption of self-interest dooms agency theory to inherent

conflicts. Agents tend to follow self-interested objectives where self interest is the driving force, leading to deviation and confliction of the goals of the principal (Mercado-Mendez & Willey, 1995). Their main purpose though is to work towards achieving the object of the principal. Agency loss can be minimized if the banks principal and bank agent anticipate the same result. Even though the banking industry remains regulated, banks are subjected to similar types of agency costs as well as other influences on behaviors just as in other industries. The agency theory highlights the bond existing amidst the agent and principal. Additionally, the loss can be minimized if the principal possesses knowledge regarding the consequences of the activities of the agent. In sum, the principal needs to know if the agent is serving his or her interest (Mercado-Mendez & Willey, 1995).

Agency banking is an innovation that requires time to reach the intended target population; therefore, it becomes easier to relate it to diffusion theory. Communication channels can be used to popularize agency products and create confidence among bank customers. The rate of diffusion of agency banking will be based on various factors to be examined in the dissertation. Agency banking has not been adopted fully by commercial banks operating in Kenya despite its potential in cost saving. Most of the unbanked Kenyans possess the characteristics of adopters, which the commercial banks could benefit from.

Agency theory describes how important the relationship between the banks and the bank agents can be. Notably, banks take responsibility for the actions of their agents. Supervisory and monitoring strategies can be used to prevent loss-making or loss of

reputation resulting from the activities of its agents. Some dishonest agents engage in activities that violate banking procedures for their own self-interest. There has also been the concern of agents being conned by fraudsters or agents colluding with fraudsters to promote card skimming. Banks have had to increase surveillance and supervision resulting in increased agent costs. However, such unscrupulous practices can be minimized through proper screening of agents at the time of recruitment to ensure that values and cultures of the banks are not compromised. Among the strategies that can be used to ensure agent compliance with the practices of the commercial banks include; recognition, giving awards, or instituting stiffer disciplinary actions on agents who fail to comply.

2.2.3. Diffusion Innovation Theory

E.M Rogers came up with the Diffusion innovation theory in 1962, and it remains one of the oldest social science theories (Rogers, 2003). The theory originated from communication where it was used to explain how products or ideas gained diffuse over time and spread to a particular social system. Before innovation can be promoted in a given target population, its various characteristics that may hinder the adoption of innovation in that population must be understood. There are various types of adopters of innovation.

The five innovation characteristics that affect adoption of new ideas include; complexity, relative advantage, trialability, compatibility, and observability. When promoting a particular innovation, different strategies can be used to appeal to different adopters to

create a relative advantage. Notably, relative advantage can be measured from the resultant convenience, satisfaction, economic benefits, status, and social prestige. The inability level to easily use and understand an invention is known as complexity. The more an innovation becomes complex, the negative the adopters perceives it to be. Compatibility refers to the knowledge individuals have on innovation consistency with the past values, existing values, as well as needs of adopters. When an idea is not compatible with norms and values in a given social system, then such an idea may not be easily adopted. Triability is the level that a given innovation is experimented before use. Apparently, trying an innovation before adopting it can reduce unfounded uncertainties and increase the possibility of adopting it. Finally, observability refers to how innovation findings can be seen or communicated to others. Therefore, the likelihood adoption of an invention could be steered by seeing of its outcome by individuals.

2.3 Empirical Review

There are numerous researches undertaken on factors affecting the adoption of agency banking across the world. This section examines how these studies were conducted in terms of the scope, methodology and findings. This will help in building the research gap existing for the study to fill. It is organized into global or international and local studies.

2.3.1 Global Studies

On the international scene, King'ang'ai and Kigabo (2016) tried to find out how agency banking influences the financial performance of Rwanda's commercial banks where they concentrated on four commercial banks in Rwanda. This was achieved through a

descriptive research design targeting 4 commercial banks operating agency banking in Rwanda as at 31st December 2015. Following the small size and easy accessibility to the target respondents, all the four banks were included in the study hence a census. 60 respondents comprising of 15 senior managers from each bank were sampled for the research. Both primary data collected by use of structured questionnaires and secondary data from financial statements of the respective banks were used. The findings indicated that the dwindling cost of transaction via the agency banking that impacted positively on the operations of commercial banks financial performance of commercial banks in Rwanda. This implies that banks adopt agency bank as cost reduction strategy.

In another study, Lozano and Mandrile (2010) examined agent banking model for branchless banking in Colombia by looking at the not so modern banking sector's interest in banking services lacking branches and ascertaining platforms that area available for implementation of banking agent networks. The findings presented a new model in which MFIs acted as agents of branchless banking services. Through adoption of MFI, agency banking model would see increased accessibility to financial services in Colombia. These findings imply that a need to increase financial access facilitates agency banking adoption by Kenya Commercial Bank.

2.3.2 Studies in Kenya

Watiri (2013) conducted a study on the taking up of agency banking by a common Bank in Kenya (Equity Bank Kenya Limited) in its business undertakings that are across borders. The study made use of case study research design as the unit of analysis was

only one organization – Equity Bank Kenya Limited. The study applied qualitative technique for making inferences as the data collection involved interviews. The findings indicated that the functions of the agency department majorly play roles of reconciliation of agents accounts, pay agents' commissions, branding agents premises, check the systems robustness, opening agents accounts, linking accounts to easy 247 and dormant account activation among other functions. The main factors identified to be influencing the adoption of agent banking included: cost reduction, enhancement of customer service, expanded presence by banks particularly in remote areas.

A descriptive research design was used by Musau and Jagongo (2015) in conducting an analysis of the utilization of agency banking on the performance of Kenyan banks. The research findings provides a chronology on how banks across developing countries are embracing branchless banking with the intention of increasing the financial levels inclusion in their regions especially low income households. The objectives of the study included: assessing how agency liquidity affects banks performance; determining how agency costs influences the banks performance; evaluating the effects of agency security on the performance of banks; and evaluating how security agency influence regulations on the performance of banks. Descriptive statistics was used including: mean, standard deviation, frequency distribution and percentage points in the analysis. The findings indicate that agency banking had enabled cost saving and accessibility of financial services by banks and customers as well. Agency banking had enabled banks to reach the unbanked population.

Ndungu and Njeru (2014) assessed Factors affecting the taking up of agency banking in Kenya using the case of Kajiado North Sub County. The study concentrated on three independent variables: convenience, customer service and quality of agents. The findings indicate that system availability contributes to service reliability. High reliability increases the adoption of agency banking. Complaints resolution time does not affect the adoption of agency banking. Agency banking was delivering convenience in form of extended hours of banking and by bringing the banking service closer to the customers leading to increased adoption of agency banking. High quality of agents increases the adoption of agency banking while poor quality agents inhibit the adoption of agency banking. Commissions earned by agents grew from one period to the other signifying adoption and growth of agency banking.

Kambua (2015) examined how agency banking influenced financial performance of commercial banks in Kenya. This was undertaken via a descriptive research design that focused on 16 banks that had implemented agency banking by then. The study utilized secondary data from general business publications, reports from and by financial institutions and CBK banks supervision reports. Annual data were used for a period of three years between 2012 and 2014. For coming up with conclusions and recommendations, both qualitative and quantitative techniques were used. Data was analyzed through mean, frequencies, percentages and standard deviation. Study findings indicate that financial performance of commercial banks increased due to the increase in the number of agents of commercial banks hence a positive link exists between number of agents and financial performance. It was also concluded from the research findings

that there exists positive link amidst cash deposits, volume of deposits, volume of withdraws and financial performance. Bank size had a constructive liaison with financial performance of commercial banks because as the number of agents increases the size of the assets increase hence financial performance.

According to Chiteli (2013), agent banking undertakings are a competitive approach of commercial banks in Kisumu City with the specific objectives including: coming up with the reasons for undertaking agent banking; establishing the stumbling blocks Commercial banks face in agent banking undertakings; and establish the precautions practiced by Commercial banks to police the banks agents' activities. The study applied descriptive research. The population of the research study comprised of the 3 Commercial Banks undertaking their operations actively in Kisumu city which thus: KCB, Cooperative bank, and Equity bank and other two that lacked agent banking undertakings/operations. The research study employed both primary and secondary data. The study results reveal that control laws and procedures, upfront in technology, and regulations practiced both by the agents and the banks have contributed a great deal to the viability of agent banking. Muiruri and Ngari (2014) examined how financial innovations influenced the financial performance of commercial banks in Kenya. Credit cards, mobile, internet and agency banking were all looked at whether they affected the financial performance of commercial banks in Kenya. It applied descriptive research design targeting 44 commercial banks in Kenya out of which 16 were selected. The findings indicate that from the study findings, it was revealed that Kenyan banks employ use financial innovations to the uttermost to endure the highly competitive environment. The banks are

motivated by diverse interests to take up diverse finance related innovations. For instance, the number of transactions conducted in a day by the banks skyrocketed thanks to agent banking.

2.3.3 Cost Reduction And Adoption Agency Banking

The stakeholders in the banking sector have adopted and embraced agency banking because it has made it easier for more people to have access to financial services thus helping to cut on cost as the bank realize more transactions. Respective banks have approached the local mobile network operators to help them have network to complete customer transactions. Individuals who have the desire to partner with the local bank operators are equally encouraged by the banks to take up agency contracts thereby enabling the banks to cut down on some costs. At the agency outlet, customers are able to do cash deposits directly to their accounts or to some other accounts. It is equally possible for them to pay bills and school fees at the agency and withdraw cash from their bank accounts (Dickens, 2009)

According to Dickens (2009), banks will always want to cut on their costs even as they maximize on their profits. There is always a big reduction in the operational costs when banks adopt agency banking since the funds that are used in the hiring of employees is diverted to some other sector/ activity with the aim of maximizing their profits as they take control of the market. The contracted agent will hire an employee for him / herself or will carry out the transactions by himself /herself thus the operational cost will be upon him / her.

Simwaka, Munthali, Chiumia and Kabango (2012) investigated the impact of adoption of bank agency on bank's cost reduction found out that it enables the operators in the banking sector to cut down on the cost spent on office equipment. The agents purchase the P.O.S machines and mobile phones for themselves that are used to do transactions from the various outlets as they make commissions for themselves. It has been established that the banks use a lot of funds in the provision of staff furniture and computers used in every bank branch for the purposes of running the daily activities of the bank. A study done in Nigeria revealed that the adoption of agency banking has greatly enabled the local banks to reduce their operational costs thus leading to the expansion of the banks.

The agents are given the responsibility of branding their outlets and providing bank brochures to the clients who visit their respective outlets. Apart from cash transactions, the agents are expected by the banks to tell their clients more about the bank and the products that are offered by the banks. In return to any bank accounts that the agent manages to open, the banks pay the agents some commission on top of the commission earned from the other transactions that are done in the outlet. By doing this, the agents help the respective bank in the marketing of the bank products thus the bank will need little workforce in the sales department. This helps the bank to cut on the advertisement and sales personnel cost (Hamblen, 2008).

Banks also invest a lot of resources on internet to run the daily activities in each and every banking hall. This, according to Lynngard and Mickie (2008), can be cut down by a

big margin if various banks adopt and embrace the agency banking system. In 2012, a study done in Canada by Swike Morgan revealed that banks have recorded growth by their investment in agency banking since their cost of production has been cut down.

Agency banking is of benefit to the banking clients in many ways. Instead of the clients spending cash and time going to the banks to queue in order to receive banking services, they spend little time and cash to visit the bank agents who are near them. Banks have fixed working hours and most clients wish to have access to their bank accounts even after the bank working hours to have cash from their accounts or do deposits to their respective accounts. With the banking agents available, they are able to access their accounts even in the odd hours in the day without spending time lining up for the same (Ivantury, 2006).

2.3.4 Expansion Strategy and Adoption of Agency Banking

Every business' main objective is to attract as many customers as possible even as they maximize on profit. There are many customers who would otherwise be purchasing from them but due to certain reasons are not and the main aim of the stakeholders is to attract them for business (Koske, 2003). It is believed that market competition win customers as well as it makes a business lose customers at the same time. For a business to retain customers and not lose any, it should introduce products that are appealing and those that perfectly meet the needs of the customers. The strategic decisions companies make often involve deciding on how to grow and develop the business using the resources and opportunities that it has. Understanding the different ways a company can grow is necessary and is always needed (Clare, 2008). Companies spend resources in undertaking

internal expansion in order to develop externally. Businesses may achieve expansion by undertaking the developments themselves this being referred to as organic growth (Clare, 2008).or by contracting other organizations to do it for them.

In Kenya, it has been noted that there has been dynamism in the banking sector for the last 10-15 years. It has equally been noted that the predictability of the business environment has been difficult since there has been a constant change from stable environment that can be predicted to one that is very competitive with uncertainty in terms of predictability. According to Kaskende (2008), many banks in Kenya till early 2000 enjoyed monopolism and protection from the government. In 2012, the central bank of Kenya released a report stating that many customers make cash transactions in terms of deposits and withdrawals at agents' outlets. As at December 2012 according to the report, more than 37 million transactions worth over Ksh. 195 billion were realized from the active agent outlets. The report equally showed that at the end of the year 2014, transactions worth Ksh. 152 billion shillings were done from the agents' outlets. Over the years, the number of transactions at the banking agency has been constantly increasing at a constant rate thereby encouraging more agency outlets to be operational. Having started in the year 2011 in Kenya, the banking model is still at its initial stages of adaptation with the commercial banks being the main beneficiary of the rapid growth of agency outlets that has since helped cut the cost of expansion and staffing.

In Kenya, Ounga (2014) examined the relationship existing that compares financial development to the growth of economy over the period 1980 to 2011.The author noted

that the development of financial sector had a significant positive effect on growth of the economy. More so, in the study it was noted that the banking sector has been growing over time especially with the introduction of mobile banking, expansion of deposit taking microfinance sub-sector and the setup of credit reference bureaus among other developments. The author underlined the importance of a robust financial sector in accelerating economic growth.

As at December 2012, the central bank of Kenya noted that the number of agency outlets had outnumbered the number of bank branches in Kenya. It is said from the report that there were 1272 active and operational agents approximated to be about 15% more than the number recorded in 2011. This when converted to the number of bank branches it was found that customers are able have access to 13 agent outlets for every bank branch available.

In Kenya, KCB and Equity banks are two earliest adopters of agency banking and have the biggest number of agent outlets countrywide according the annual financial release. The chief executive KCB said that their focus as a bank is to make sure that they have consolidated their business and that they have leveraged their technology platforms and partnerships to drive business growth as they serve and keep their customers. As at the first quarter in 2013, KCB had 5035 active agents who together with the mobile banking platform used by more than 0.8 million customers accounted for 15% of all transactions. Equity bank on the other hand during the same period of time had 6892 active agents. It is said that the agency banking has become the key driver to the growth of the banking

sector. James Mwangi, Equity bank chief executive, announced at the end of the third quarter in 2013 that there was need for diversification of the bank's portfolio. He hinted that the bank was working on how to increase the number of agency outlets to help in the regional expansion of the bank. This, according to him, will enable the bank to get its roots in the areas where there are no banks. Bank analysts have revealed that the commercial banks are reducing costs and making it easier for cash transactions when they incorporate agency banking. The agents are directly saving the commercial banks the hustle of setting up fully fledged branches, staffing cost and other costs like cleaning and maintenance of internet connection.

2.3.5 Diversification Strategy and Adoption of Agency Banking

According to Amit (1988), diversification is a strategy by companies that is aimed at increasing sales volume from products that are new in the market for them to increase their profit levels. A business entity can decide to bring new products in the market in order to increase the profit levels. The businesses that have embraced diversification have witnessed increased performance beyond what they have witnessed before. These companies have ventured into lines of business that are different from the current ones with an aim of beating other companies in the market. Companies have employed diversification strategies by increasing the number of markets, coming up with new products and services to the existing business. This strategy was developed in 1957 by Asnoff as he looked at the growth strategies that have helped so many business enterprises to make grow and make profits.

When various investments are pooled together in a group, the risk seems to reduce as opposed to each investment put separately on its own. Various unique factors associated with unrelated independent securities are the driving force for diversification (Fitzroy et al, 2012). The most risky marketing strategy is diversification since it involves a company entering into a new market while creating a new product. It is said that when other strategies fail to produce the desired objective, diversification strategy can be considered to enhance the growth of a firm. There are types of diversification that are available for any business entity namely; vertical, horizontal, concentric and conglomerate diversification. Of the four types of diversification strategies, electronic money transfer and agency banking apply concentric diversification whereby new products in the market make use of existing technologies and marketing system to enlarge the production portfolio of the firm.

The financial sector in the last three decades has witnessed transformations in their operations and set objectives. According to Standage (2009), the emergence of advanced technologies, deregulation, disintermediation and the wave of consolidation in the financial sector has been instrumental in triggering off diversification of operations. This has led to the banks to surpass their normal operations and risk into other activities like insurance, mortgage business, investment, asset finance, asset management among others to help them make more profits. The general trend has always been towards the downstream universal banking where financial institutions have undertaken non-banking activities, (Githira, 2008).

In Canada, the efficiency of Canada's big five chartered banks were measured and found that they have been underperforming over time. Dullmann (2010), realized after a careful study that the more the banks specialize in other industries found in the market, the more they will expand and realize more profits. He further established that the larger banks are in the best position of diversifying unlike those that are still struggling to be established. The larger banks have many customers as well as a great exposure in the market thus giving them advantage over the smaller banks that are struggling to set up and sell their products in the existing market. His study equally found out that a bank which diversify geographically reduce risk thus able to expand and realize desired and set goals. In conclusion, diversification has been the greatest way through which the investors in the banking sector make large profits.

2.3.6 Information and Communication Technology and Adoption of Agency Banking

Information communication technology has enabled banks to serve their clients faster even as they do much with less input. The adopting of technology has brought a big transformation in the banking sector from paper to paperless banking services. Customers are equally not forced to stick to their bank branch due to the introduction of digitalized and networked banking services. Internet has equally become very cheap unlike in the past making it easier and faster for data to be transferred. The management and accounting systems have equally changed due to technology leading to a change in the way banks deliver services to their customers.

According to Joseph (2005), profound transformations and acceleration have been witnessed in the world today as a result of the tremendous development of information technology which have brought up new activities in various fields as well as transactions that were not there before. The banking sector is one of the pioneer institutions that has utilized electronic appliances to gain a competitive advantage over other sectors. The banking industry has provided new systems and applications that maximize on the use of modern technology that are now available as they extensively use the information and communication technologies.

Merton (1990) gives three motivations for producing innovations namely the creation of new financial structures that allow risk sharing, risk pooling and hedging as well as new financial structures for transferring resources, the improvement of economic efficiency and liquidity and reduction of agency costs According to Beaver (2002), competition in the banking sector is brought about by the innovativeness as far as information technology is concerned and that the banks that are creative enough are able to make more profits and expansions out of it.

According to Makori(2015) , it has become necessary for banks to change the past concepts of banking service to those that are current because of the rapid growth that has been witnessed in this sector. Electronic banking services have been used to assist the customers receive efficient services in the bank that has encouraged competition among the banks to reduce costs incurred as efficiency is raised and more customers attracted .this has made the bank agents to have a big penetration in the market as it attracts more

customers. In the U.S, it was found out in a study by William Edmond (2002) that information technology has enabled the banking sector to have a direct link with their agents using a platform that link up the agent to the bank on the internet. It is said that the P.O.S used by the agents have an inbuilt platform that coordinates the bank account information between the agent and the bank. This has risen trust on the agents by the general public who are sure of the safety of their cash and has allowed for easy access of their bank accounts.

According to a press release by the CBK in 2014, information technology has widely increased the number of the agency outlets because of the VISA/ electronic card technology. With a credit card, a customer can use their ATM/VISA cards to deposit or withdraw money from their accounts using a P.O.S machine that is found with the various bank agents. According to a quarterly report from K.C.B in the year 2014, it was recorded that the introduction of mobile banking services in the agency banking department increased the performance of the banks. There are some clients who don't prefer walking with their ATM cards but rather rely on the mobile banking as one of the safe ways of managing their accounts to keep them away from fraud. In areas where clients are not able to access banks and ATM machines, the bank agents have been able to have opportunity to come up simply because they are able to make commissions using the mobile banking services technology.

2.4 Literature Review Summary

This chapter has assessed several empirical studies in helping to bring out the studies that have been undertaken. On international level, King'ang'ai and Kigabo (2016) examined how agency banking affects financial performance of commercial banks in Rwanda where they concentrated on four commercial banks in Rwanda. Lozano and Mandrile (2010) examined agent banking model for branchless banking in Colombia. These studies assessed different elements of agency banking from those being assessed in the current study.

For the local studies, Watiri (2013) conducted a study on the taking up of agency banking by Equity Bank Kenya Limited in its business undertakings that are international. Musau and Jagongo (2015) conducted an analysis of the utilization of agency banking on the performance of Kenyan banks using descriptive research design. Ndungu and Njeru (2014) assessed influencers' of the taking up of agency banking in Kenya using the case of Kajiado North Sub County. Kambua (2015) examined how agency banking affects the financial performance of commercial banks in Kenya via a descriptive research design focusing on 16 banks that had implemented agency banking by then. Chiteli (2013) utilized undertakings of agent banking as a competitive strategy of Kisumu Citys' commercial banks while Muiruri and Ngari (2014) examined how financial innovations affect the financial performance of commercial banks in Kenya. These local studies examined different locations using different variables hence limiting their applicability to the current study settings.

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.0. Introduction

This chapter presents methods used by the researcher used to collect the data for the study. This includes the study design, population of study, sample design, data collection procedures and instruments and lastly, analysis of data used.

3.1 The Research Design

This is the strategy of shaping the research or the framework for study that is used to collect and analyze data. It is also a blue print specifying the methods and procedures the researcher uses for collecting and analyzing the needed information out of the study (Henn, Weinstein & Ford, 2006). The study adopted a case study while applying qualitative approaches to data collection and analysis, this allowed the researcher to obtain information concerning the current status of a phenomenon to depict what exists with respect to variables or conditions in a situation. This design enabled the researcher to assess the factors the factors influencing the adoption of agency banking at KCB.

3.2 Target Population

This refers to population in which the information is desired or surveyed in the process of study (Easton & Mcoll, 2012; Cooper & Schindler, 2008). The target population comprised of 6 staffs drawn from the head office at KCB headquarters. This study used a case study design on all the 6 staff drawn from different departments at KCB. This 6 staff included Chief Business Officer Kenya, Director Retail Banking, Director Finance, Head

of Strategy and New Business, Head of Channels- Retail Banking and Head of Agency Banking. This also enabled the researcher obtain detailed information on factors affecting the taking up of agency banking by Kenya Commercial Bank in Kenya.

Table 3.1: Target Population

Categories	Population
Chief Business Officer Kenya	1
Director Retail Banking	1
Director Finance	1
Head Of Strategy and New Business	1
Head of Channels- Retail Banking	1
Head of Agency Banking	1
Total	6

3.3. Data Collection Method

Primary data was collected by the use of a questionnaire since the study used primary data as the source of information for the research. The primary data was used because it focused on the facilitating and restraining variables in the adoption of the agency banking. Open and closed ended structured questionnaires were applied by the researcher to gather the necessary information from the target population -the respondent.

3.4 Questionnaire

Questionnaires were distributed through drop and pick later procedure to the respondents that gave the respondents one week to fill them. On dropping the questionnaires, the researcher got contacts of the respondents and correspondence was through the use of emails and telephone calls that aided in keeping in touch with the respondents. The questionnaires were divided into sections; section A contained the introduction questions as well as the background information of the respondent and organizational issues that are of value to the study. Section B contained the level questions that helped in analyzing how reduction cost as a factor influenced the adoption of agency banking by KCB. Section C analyzed how expansion strategy as a factor influenced the adoption of agency banking by KCB. Section D examined how diversification as a strategy influenced the adoption of agency banking by KCB and section E assessed how ICT as a factor influenced the adoption of agency banking by KCB. The questionnaires were used by the researcher to collect the data because they had the advantage of being free from biasness by the interviewer.

3.5 Analysis of data and Presentation

Both qualitative data was collected. The data from the questionnaire was first coded and analyzed. Analysis of data passed through a number of stages. The questionnaires were first edited for consistency. Secondly, the data was checked and coded for any omission and error corrections. The data was analyzed using descriptive methods.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.0 Introduction

This chapter analyses data, interprets findings and discusses them in line with the objective of the study; to determine the factors influencing adoption of agency banking by KCB Limited. This narrows down to four factors: cost reduction and adoption agency banking, expansion strategy and adoption of agency banking, diversification Strategy and adoption of agency banking, information and communication technology and adoption of agency banking.

4.1 Factors Influencing Agency Banking

This section analyses, presents and interprets the finding of the study in relation to cost reduction and adoption agency banking, expansion strategy and adoption of agency banking, diversification strategy and adoption of agency banking, information and communication technology and adoption of agency banking.

4.1.1 Views on Cost Reduction

The respondents were given a number of 5 point Likert Scale statements on cost reduction to respond to where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent. The mean, standard deviations and communalities were analysed and interpreted.

The respondents opined that the adoption of agency banking enabled KCB to save on costs to a great extent (Mean=4.17,SD=0.753).It was typical that cost reduction was a leading factor for the adoption of agency banking at KCB to a large extent (Mean = 4.17,SD=0.753).It was evident that KCB had sub-contracted existing retail stores to offer financial services to customers to a large extent (Mean= 4.33,SD=0.816).It was common that fixed costs have considerably been reduced to a great extent due to adoption of agency banking at KCB (Mean= 4.17, SD=0.408).The respondents agreed to a great extent that KCB pays commission to agents only after a transaction has been realized (Mean= 4.17,SD=0.753).It was common that KCB incurred low acquisition costs for its new agents to a great extent (Mean= 4.67,SD=0.516).The respondents opined that KCB had greatly reduced its investment costs with the adoption of agency banking to a great extent (Mean=4.5, SD=0.837).The respondents explained that there was a strong significant positive relationship between cost reduction and adoption of agency banking. (Mean=4.74, SD=0.753).This meant that if the banks reduced the cost then there would be an improvement in the adoption of agency banking. The results are as shown in Table 4.1

Table 4.1: Views on Cost Reduction

Factors	Mean	S.D
The adoption of agency banking has enabled KCB to save on costs	4.17	0.753
Cost reduction is a leading factor for the adoption of agency banking at KCB	4.17	0.753
KCB sub-contracts existing retail stores to offer financial services to customers	4.33	0.816
Fixed costs have considerably been reduced due to adoption of agency banking at KCB	4.17	0.408
KCB pays commission to agents only after a transaction has been realized	4.17	0.753
KCB incurs low acquisition costs for its new agents	4.67	0.516
Adoption of agency banking leads maximization of the proportion of variable cost by KCB	4.67	0.516
KCB has greatly reduced its investment costs due to adoption of agency banking	4.5	0.837
Cost reduction has influenced the adoption of agency banking at KCB	4.74	0.753

4.1.2 Views Expansion Strategy

The respondents were given a number of 5 point Likert Scale statements on the expansion strategy to respond to where: 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent. The mean, standard deviations and communalities were analysed and interpreted.

The respondents pronounced that the an expansion strategy had enabled the adoption of agency banking by KCB to a great extent (Mean=4.17,SD=0.408).KCB had expanded (Mean =4,SD =0.632) and able to reach most people in the rural areas to a great extent

(Mean= 4,SD=0.894).This notably decongested branches((Mean= 4,SD=0.894)) and diverted its customers from its crowded banking halls to a great extent (Mean= 4.5,SD=0.548).The bank has been able to overcome all the challenges associated with agency banking to a great extent (Mean=3.83,SD=0.408). The respondents noted that there was a positive relationship between expansion strategy and adoption of agency banking, mean=4.67,SD=0.404.This implied that if the expansion strategy of KCB would result into an adoption of agency banking. The results are as shown in Table 4.3

Table 4.2: Views expansion strategy

Factors	Mean	SD
An expansion strategy has enabled the adoption of agency banking by KCB	4.17	0.408
KCB is able to reach most people in the rural areas	4	0.894
KCB has expanded operations to remote areas	4	0.632
KCB has considerably decongested its branches due to adoption of agency banking	4	0.894
KCB has diverted its customers from its crowded banking halls	4.5	0.548
KCB has overcome all the challenges while implementing agency banking expansion strategy	3.83	0.408
The expansion strategy has positively influenced the adoption of agency banking at KCB	4.67	0.404

4.1.3 Views on Diversification Strategy

The respondents were given a number of 5 point Likert Scale statements on the expansion strategy to respond to where: 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent. The mean, standard deviations and communalities were analysed and interpreted.

The respondent opined that diversification has enhanced the adoption of agency banking by KCB to large extent (Mean=3.667, SD=0.816).It was apparent to that diversification at KCB has enhanced the spreading of risks (Mean=3.667, SD=0.816). It was found out that KCB promoted its products through the agents to a great extent (Mean=3.833, SD=0.408).It was established that diversification was concentric in nature (Mean=4.167,SD=0.408). The respondents mentioned that there is a significant positive relationship between diversification strategy and adoption of agency banking, Mean=4.64,SD=0.681.This implied that if KCB strengthened its diversification strategy then improvement would be seen in the adoption of agency banking. The findings were as shown in Table 4.3

Table 4.3: Views on Diversification Strategy

Factors	Mean	SD
Diversification has enhanced the adoption of agency banking by KCB	3.667	0.816
Diversification at KCB has enabled the spreading of risks	3.667	0.816
Diversification has enabled KCB to diversify its operational risks	4.333	0.516
KCB promotes its products through the agents	3.833	0.408
There is concentric diversification	4.167	0.408
Diversification strategy has positively influenced the adoption of agency banking at KCB	4.64	0.681

4.1.4 Information and Communication Technology

The respondents were given a number of 5 point Likert Scale statements on information and communication technology to respond to where: 1= No extent, 2= little extent,

3=moderate extent, 4=great extent and 5=very great extent. The mean, standard deviations and communalities were analysed and interpreted.

The respondents opined that the advancement in technology had enhanced the adoption of agency banking at KCB to a great extent (Mean=4.17,SD=0.408).It was established that KCB had invested in ICT infrastructure to a great extent (Mean=4, SD=0.632), this had also enhanced customer satisfaction to a great extent (Mean=4 SD=0.894).ICT had enabled KCB to deliver service efficiently to a large extent (Mean= 4,SD=0.894).The bank relied on ICT for effective delivery of products (Mean= 4.5,SD=0.548). The respondents noted that there was a significant positive relationship between information and communication technology and adoption of agency banking, mean=4.43,SD=0.891.This indicated that if KCB improved on their information and communication technology then the adoption of agency banking would also improve. The results are as shown in Table 4.7

Table Error! Use the Home tab to apply 0 to the text that you want to appear here.4: Information and Communication Technology

Factor	Mean	SD
The advancement in technology has enabled the adoption of agency banking at KCB	4.17	0.408
KCB use ICT for customer satisfaction	4	0.894
KCB has heavily invested in ICT infrastructure	4	0.632
ICT has enabled KCB to deliver service efficiently	4	0.894
KCB rely on ICT to offer effective products	4.5	0.548
Information and communication technology has positively influenced the adoption of agency banking at KCB	4.43	0.891

4.2 Discussion of Findings

The first determinant to agency banking was cost reduction strategy, the study established that cost reduction was a leading factor for the adoption of agency banking at KCB to a large extent (Mean = 4.17). This is supported by the findings by Dickens (2009) that cost saving and accessibility of financial services are the main forces driving banks to embrace agency banking in their operations. It was common that fixed costs have considerably been reduced to a great extent due to adoption of agency banking at KCB (Mean= 4.17). This is in line with the findings of Dickens (2009) that the banks that have adopted agency banking do not incur cost of recruiting new employees because the agent that is approved by bank is the one who hires or carries out the transactions himself. He further observes that this enables the banks to divert the funds that were spent on hiring and payments of workers into other activities that will help in the expansion of the bank's profit margins. Simwaka, Munthali, Chiumia and Kabango (2012) also noted that the adoption of the agency systems in banks has enabled the banks to cut down on the cash spent on equipment like furniture and computers.

The respondents agreed to a great extent that KCB pays commission to agents only after a transaction has been realized (Mean= 4.17), this has also been confirmed by Hamblen (2008). The respondents opined that KCB had greatly reduced its investment costs with the adoption of agency banking to a great extent (Mean=4.5). This is in line with the findings of Simwaka, Munthali, Chiumia and Kabango (2012) for a study done in Nigeria that revealed that the adoption of the agency has greatly enabled the banks to reduce the operational costs thus expansion of the banks. This study showed a positive relationship

between cost reduction and adoption of agency banking. The findings are supported by Swike Morgan (2012) in Canada which revealed that banks have recorded growth by investing in agency banking simply because the cost of operation has been cut down.

The second determinant was the banks expansion strategy, KCB had expanded and able to reach most people in the rural areas to a great extent (Mean= 4,SD=0.894). This is supported by the CBK's 2012 Annual Supervision Report which noted that more bank customers are making cash deposits, withdrawals and other transactions through agents, fundamentally changing their mode of interaction with banks. This notably decongested branches (Mean= 4,SD=0.894) and diverted its customers from its crowded banking halls to a great extent. The findings is supported by those of Onuonga (2014) that clients are increasingly doing transactions through the agents that the bank branches. It was found out that there was a positive relationship between expansion strategy and adoption of agency banking. This is supported by the assertion by Joshua Oigara, the chief executive that there is a relationship between expansion strategy and the agency banking. Agency backing is a key strategy for banks to expand their operations.

The third determinant to agency banking was diversification strategy, the respondent opined that diversification has enhanced the adoption of agency banking by KCB to large extent (Mean=3.667). The findings is supported by the assertions of Pearce, Robinson & Mital, (2008) agency banking apply concentric diversification which implies new products that make use of existing technologies and marketing system which expands reach to clients. It was apparent to that diversification at KCB has enhanced the spreading of risks (Mean=3.667). This is in line with the findings of Deng and Elyasiani (2008) geographic diversification is associated with bank holding company value

enhancement and risk reduction. It was found out that KCB promoted its products through the agents to a great extent (Mean=3.833), this is noted by Tabak et al. (2010) as the spirit of agency banking where banks promoted products through subsidiaries. It was established that diversification was concentric in nature (Mean=4.167). This was in line with the contention by Pearce, Robinson & Mital, (2008) that electronic money transfer and agency banking apply concentric diversification which implies new products that make use of existing technologies and marketing system which enlarge the production portfolio of the firm.

The fourth determinant was information and communication technology. The respondents opined that the advancement in technology had enhanced the adoption of agency banking at KCB to a great extent (Mean=4.17). This is in line with Makori (2015) contention that ICT has enabled banks agents have thrived and are currently estimated to have 33% penetration. This was also confirmed by a press release by the CBK in 2014 that information technology has widely increased the number of the agency outlets because of the VISA/ electronic card technology. It was established that KCB had invested in ICT infrastructure to a great extent (Mean=4), this had also enhanced customer satisfaction to a great extent (Mean=4), Joseph (2005) observed that the banking sector has invested quite a lot on the electronic applications to improve performance and gain a competitive advantage strategy, this has also led to customer satisfaction. ICT had enabled KCB to deliver service efficiently to a large extent (Mean= 4), this is supported by the assertion by Joseph (2005) that the banking sector has embraced the use of technology to serve its client's faster and also to do more with less. The bank relied on ICT for effective delivery

of products (Mean= 4.5),the efforts of KCB mirrors the assertions by Makori (2013) that banks have used ICT to reduce costs, raise efficiency and attract more customers. It was established that there was a positive relationship between information and communication technology and adoption of agency banking. This is supported by the assertions by Makori (2015) that there is a relationship between ICT and adoption agency banking. A press release by CBK in 2014 also confirmed the positive relationship.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings of the study, gives the conclusions and recommendations for policy and practice. The limitations of the study together with the suggestions for further research are also discussed.

5.2 Summary of Findings

The objective of the study was to determine the factors influencing adoption of agency banking by KCB Limited. The study narrowed down of four factors whose influence on the dependent variable was assessed: Cost reduction and adoption agency banking, expansion strategy and adoption of agency banking, diversification Strategy and adoption of agency banking, information and communication technology and adoption of agency banking.

With regard to cost reduction and agency banking, It was found out that KCB has reduced fixed costs have considerably and investment costs to a large extent due to adoption of agency banking. The bank has also been incurring low acquisition costs for its new agents to a large extent. This was unmistakable given the item means ranged between 4.17 and 4.67. It was established that cost reduction strategies had been adopted at KCB to a large extent (Mean of mean=4.30). The respondents said that there is a significant positive relationship between cost reduction and adoption of agency banking.

In relation to expansions strategy and adoption of agency banking, it was found out that KCB has expanded operations, reach more people in the rural areas, considerably decongested its branches and overcame the challenges associated with the implementation of agency banking to a large extent. This was clear from the item mean ranging between 3.83-3.85. It was established that KCB had applied expansion strategy to a large extent (Mean of mean=4.08). The respondents noted a positive relationship between expansion strategy and adoption of agency banking.

In line with diversification strategy and adoption of agency banking, it was established that KCB has adopted concentric diversification which has promoted products through agents, spread risks and adoption of agency banking to a large extent. This manifest given the mean of items ranged between 3.667-4.167. It was found out that KCB had adopted diversification strategy to a large extent (Mean of mean=3.93). The respondents noted a there was a positive relationship between diversification strategy and adoption of agency banking.

In relation to information and communication technology and adoption of agency banking, it was established that KCB invested ICT infrastructure, this enhanced service efficiency and effectiveness, customer satisfaction and lead to the adoption of agency banking to a large extent. This was evident from item scores of between 4.0 and 4.5. It was determined that KCB had implemented the information and communication technology strategy to a large extent (Mean of mean=4.13). There was a significant positive relationship between information and communication technology and adoption of agency banking.

5.3 Conclusions

The researcher inferred that there is significant positive relationship between cost reduction strategy by KCB and adoption of agency banking. The researcher also concluded that KCB had adopted cost reduction strategy to a large extent (Mean of mean=4.30)

The researcher also deduced that there was a significant positive association between expansion strategy by KCB and adoption of agency banking. The researcher also inferred that KCB had applied expansion strategy to a large extent (Mean of mean=4.08)

The researcher concluded that there is a moderate positive relationship between diversification strategy at KCB and adoption of agency banking. The researcher also deduced that KCB adopted diversification strategy to a large extent (Mean of mean=3.93)

The researcher inferred that there is a moderate positive association between information and communication technology and adoption of agency banking. The researcher also concluded that KCB had implemented the information and communication technology strategy to a large extent (Mean of mean=4.13).

5.4 Recommendations for Policy and Practice

The researcher recommends that a little more efforts need to be put to reduce the costs associated with agency banking furthers since there is a lot of competition from other banks in the sector. This will further enhance the adoption of agency banking for KCB.

The KCB management need to pay more attention to the implementation of their expansion strategy since it's not bringing optimal outcomes insofar adoption of agency banking with the bank is concerned.

The management of KCB need to ensure that their product diversification strategy is vibrant and competitive, there is need to benchmark with other players in the industry. This will further invigorate the adoption of agency banking enabling the bank to claim a reasonable market share. The researcher recommends that KCB needs to further advance and expand their information and communication technology infrastructure to better march the market needs and put the bank a head of other players in the market. This will enhance the enrolment of more banking agents with KCB.

5.5 Limitations of the Study

The findings of the study are limited to KCB branches only. Other commercial banks in Kenya may be operating under different management, environments, strategies and operational plans and therefore the findings may not apply/infer to them. The researcher was not in a position to eliminate bias and subjectivity completely, the study targeted the employees of KCB who may portrayed a false image of the situation. Therefore some information may not be accurate.

5.6 Suggestion for Further Research

The objective of the study was to determine the factors influencing adoption of agency banking by KCB Limited. It established that cost reduction, expansion strategy, diversification strategy and information and communication technology significantly influenced the adoption of agency banking. It would be important to investigate the direction and degree of change on the bank's overall performance as a result of growth of agency banking.

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APPENDICES

Appendix I: Introduction Letter

Dear Sir/Madam,

Re: Research on Factors Influencing the Adoption of Agency Banking By KCB Bank Kenya Limited

I am a postgraduate student at the University of Nairobi studying for a Master of Business Administration Degree. I am currently working on the stated dissertation project as a requirement for my graduation and would be grateful if you completed the questionnaire to help achieve this objective. I will make available the findings of this project should there be need. Kindly complete the questionnaire with utmost honesty.

Thank you for completing the form.

Yours faithfully,

Raphael Otieno Okinyi

Appendix ii: Questionnaire

SECTION A: DEMOGRAPHIC INFORMATION

1) Your highest level of education attained

Certificate [] Diploma []
Bachelors Degree [] Masters []
PhD []

2) Please indicate the number of years worked in this Bank

Below 3 years [] 3-6 years []
6-9 years [] 10 years and above []

3) How long have you worked in the Banking industry?

Below 3 years [] 3-6 years []
6-9 years [] 10 years and above []

SECTION B: COST REDUCTION

4) Below are several statements on how cost reduction as a factor influences the adoption of agency banking at KCB Bank Kenya Limited. Kindly indicate the extent of agreement on each statement using the five point Likert scale: where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

Statements	1	2	3	4	5
The adoption of agency banking has enabled KCB to save on costs					

Cost reduction is a leading factor for the adoption of agency banking at KCB					
KCB sub-contracts existing retail stores to offer financial services to customers					
Fixed costs have considerably been reduced due to adoption of agency banking at KCB					
KCB pays commission to agents only after a transaction has been realized					
KCB incurs low acquisition costs for its new agents					
Adoption of agency banking leads maximization of the proportion of variable cost by KCB					
KCB has greatly reduced its investment costs due to adoption of agency banking					
Cost reduction has influenced the adoption of agency banking at KCB					

5) In general, to what extent has cost reduction as a factor influenced the adoption of agency banking at KCB bank?

- Very great extent []
- Great extent []
- Moderate extent []
- Little extent []
- No extent []

SECTION C: EXPANSION STRATEGY

Below are several statements on how expansion strategy as a factor influences the adoption of agency banking at KCB Bank Kenya Limited. Kindly indicate the extent of agreement on each statement using the five point Likert scale: where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

Statements	1	2	3	4	5
An expansion strategy has enabled the adoption of agency banking by KCB					
KCB is able to reach most people in the rural areas					
KCB has expanded operations to remote areas					
KCB has considerably decongested its branches due to adoption of agency banking					
KCB has diverted its customers from its crowded banking halls					
KCB has overcome all the challenges while implementing agency banking as an expansion strategy					
The expansion strategy has positively influenced the adoption of agency banking at KCB					

- 6) In general, to what extent expansion strategy as a factor influenced the adoption of agency banking at KCB bank?

- Very great extent []
- Great extent []
- Moderate extent []
- Little extent []
- No extent []

SECTION D: DIVERSIFICATION STRATEGY

Below are several statements on how diversification strategy as a factor influences the adoption of agency banking at KCB Bank Kenya Limited. Kindly indicate the extent of agreement on each statement using the five point Likert scale: where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

Statements	1	2	3	4	5
Diversification has enhanced the adoption of agency banking by KCB					
Diversification at KCB has enabled the spreading of risks					
Diversification has enabled KCB to diversify its operational risks					
KCB promotes its products through the agents					
There is concentric diversification					
Diversification strategy has positively influenced the adoption of agency banking at KCB					

7) In general, to what extent has diversification strategy as a factor influenced the adoption of agency banking at KCB bank?

- Very great extent []
- Great extent []
- Moderate extent []
- Little extent []
- No extent []

SECTION E: INFORMATION AND COMMUNICATION TECHNOLOGY

Below are several statements on how information and communication technology ICT as a factor influences the adoption of agency banking at KCB Bank Kenya Limited. Kindly indicate the extent of agreement on each statement using the five point Likert scale: where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

Statements	1	2	3	4	5
The advancement in technology has enabled the adoption of agency banking at KCB					
KCB use ICT for customer satisfaction					
KCB has heavily invested in ICT infrastructure					
ICT has enabled KCB to deliver service efficiently					
KCB rely on ICT to offer effective products					
Information and communication technology has positively influenced the adoption of agency banking at KCB					

8) In general, to what extent has information and communication technology as a factor influenced the adoption of agency banking at KCB Bank?

Very great extent	[]
Great extent	[]
Moderate extent	[]
Little extent	[]
No extent	[]

THANK YOU

Appendix iii: Originality Report

FACTORS INFLUENCING THE ADOPTION OF AGENCY BANKING BY KCB BANK KENYA LIMITED

ORIGINALITY REPORT

% 14	% 11	% 1	% 9
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	Submitted to Kenyatta University Student Paper	% 2
2	Submitted to University of Nairobi Student Paper	% 1
3	chss.uonbi.ac.ke Internet Source	% 1
4	Submitted to Saint Paul University Student Paper	% 1
5	erepository.uonbi.ac.ke Internet Source	% 1
6	gifre.org Internet Source	% 1
7	Submitted to St Mary's School, Nairobi Student Paper	<% 1
8	ijsse.org Internet Source	<% 1
9	www.businessdailyafrica.com	