AGENCY BANKING AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN EMBU COUNTY, KENYA

Irene Njoki Mbugua
Master of Business Administration (Finance Option), Kenyatta University, Kenya

Dr. Job Omagwa
Department of Accounting and Finance, School of Business, Kenyatta University, Kenya

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ABSTRACT

Agency banking is receiving much attention all over the world owing to its associated benefits. In a number of countries, banks are finding new ways to make money delivering financial services to "unbanked" people. Rather than using bank branches and their own field officers, they offer banking and payment services through retail outlets, including grocery stores, pharmacies, seed and fertilizer retailers and gas stations among others. This study sought to establish the effect of agency banking model on financial performance of commercial banks focusing on commercial banks in Embu County, Kenya. In particular, the study sought to achieve the following specific objectives: establish the effect of cost-effectiveness of agency banking on financial performance of commercial banks, to determine the effect of commissions earned from agency banking on financial performance of commercial banks, to establish the effect of operational flexibility of agency banking on financial performance of commercial banks and to determine the effect of banking hall decongestion financial performance of commercial banks in Embu county, Kenya. This study was informed by: bank-led theory advantage and agency theory. The study adopted a descriptive research design. The study target population was all the Banks agent outlets in Embu County, Kenya. The sample size of the study was 69 bank officials in top, middle and junior level management in Embu County, Kenya. The study used stratified random sampling technique to select the study sample that participated in the study. The study used primary data which was collected by use of questionnaires that were administered through a Drop-off/Pick-Up method. Before the actual study, a pilot testing was conducted to establish validity and reliability of the data collection tool. The data collected was entered and coded in the Statistical Package for Social Scientists (SPSS) for easy analysis and presentation of the results to be yielded. Descriptive statistics such as mean, frequencies, standard deviation and percentages were used for descriptive analysis of the data collected. The study also used correlation analysis and multiple regressions to establish the relationship between the dependent variable and independent variables. The study found that agency banking, has brought about down the cost of banking and banking transactions. The study also found that banking cost of agency banking influence the financial performance of the Commercial Banks in Embu County to a very great extent. The study established that a majority the bank officials' rated as excellent the amount of commission earned by the bank and the bank agents earned from the adoption of agency banking, that a considerable majority of the respondents were of the opinion that agency banking had led to lead to decongestion of banking halls and that operational flexibility of agency banking is a significant predictor of the financial performance of the selected commercial bank. The study concludes that cost-effectiveness had the greatest effect on financial performance of the selected Commercial banks followed by banking hall decongestion then operational flexibility while commissions earned had the least effect on financial performance of the selected Commercial Banks. The study recommends that Commercial banks in Kenya should improve customers'

perception by making more advertisements and also increase promotion activities of agent's banking Central bank consider coming with a clear agency banking regulatory policy which creates a universal platform for all banking institutions.

INTRODUCTION

Developing countries including Kenya are increasingly embracing branchless banking as a means of delivering banking services to many unreached people especially low-income households. Globally, it is estimated that close to 400 million people currently do not have a bank account in a formal way (Cetorelli & Goldberg, 2012). These could benefit from agency banking financial transactions. Indeed early experiences have shown that branchless banking through agency's can significantly reduce set-up and delivery costs, offering cash-in/cash-out operations only or a broader range of financial services to customers who usually feel more comfortable banking at their local merchants than at traditional bank branches (Lozano & Mandrile, 2009).

An agency bank is a company/organization that acts in some capacity on behalf of another bank, thus cannot accept deposits or extend loans in its own name; it acts as agent for the parent bank (Getanga, 2010). It is a retail outlet contracted by a financial institution or a mobile network operator to process clients" transactions. Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or receive government benefits or a direct deposit from their employer (Central Bank of Kenya, 2010).

Agency banking model hoped to enhance access to financial services by allowing small businesses to operate as satellite branches. Based on early experiences, branchless banking has a large contribution to make toward financial inclusiveness in developing countries. Policy makers and regulators are demonstrating keen interest in this topic, although in most countries regulation continues to constrain the emergence of branchless banking. Where regulation permits, exciting new branchless banking initiatives are being developed by a plethora of market participants (Neil and Leishman, 2010). However agency banking has yet to demonstrate pro-poor, pro-growth impacts for households, communities, and national economies (Morawczynski and Mark, 2009). Kenya has witnessed an accelerated expansion of many banking services since independence. However, despite the existence of banks in Kenya, 32% of Kenya's bankable population remains totally outside the orbit of financial services and many more being served by the informal financial system (NFAS, 2009).

Agency banking is receiving much attention all over the world owing to its associated benefits. According to Ivatury and Timothy (2006), agency banking offers the following benefits to the customers for enhanced service delivery; lower transaction cost (closer to client's home), longer opening hours, shorter lines than in branches, more accessible for illiterates and the very poor who might feel intimidated in branches, to the agency: increased

sales from additional foot-traffic, differentiation from other businesses, reputation from affiliation with well-known financial institution, additional revenue from commissions and incentives, finally to the financial institutions :increased customer base and market share, increased coverage with low-cost solution in areas with potentially less number and volume of transactions, increased revenue from additional investment, interest, and fee income, improved indirect branch productivity by reducing congestion.

Further, Lyman et al. (2008) indicates that agency banking dramatically reduce the cost of delivering financial services to unreached people. Branchless banking helps address the two biggest problems of access to finance: the cost of roll-out (physical presence) and the cost of handling low-value transactions. This is achieved by leveraging networks of existing third-party agency for cash transactions and account opening and by conducting all transactions online. This sharp cost reduction creates the opportunity to significantly increase the share of the population with access to formal finance and, in particular, in rural areas where many people in developing countries live (Musau, 2013).

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. Banking agents help financial institutions to divert existing customers from crowded branches providing a "complementary", often more convenient channel. Other financial institutions, especially in developing markets, use agents to reach an "additional" client segment or geography (Mwachofi, 2013). Reaching poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch. In such environments banking agents that piggy back on existing retail infrastructure – and lower set up and running cost - can play a vital role in offering many low-income people their first-time access to a range of financial services (Kinyanjui, 2011). Also, low-income clients often feel more comfortable banking at their local store than walking into a marble branch. 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).

Agency banking has helped to raise banks' profits and spread reach of financial services in Kenya, but one thing that agency banking has failed to do in Kenya is to decongest banking halls. It was believed that majority of people will deposit cash, withdraw and open accounts, services that most people seek in banks, through agents. But this has not effectively happened since long queues of people seeking services in banks in Kenya have persisted despite the spread of agency banking models (Lyman, Pickens & Porteous, 2008). A spot check at various banks indicated that the financial institutions are still crammed with people seeking to deposit and withdraw cash. Customers stand anxiously as tellers struggle to receive deposits and give out cash. This has led to some banks requiring only deposits above twelve US dollars from their customers (Mas & Hannah, 2008).

Banks usually provide their agents with an interest-free overdraft that can be used only to fund banking agent transactions. In this case, the store's POS authorizes transactions as long as the store's account balance at the bank does not go below the amount of the overdraft. The store manager can increase the volume of agent business it can handle by depositing its own funds into the same account. The overdraft is a form of credit extension strictly between the bank and the retail outlet (Lyman et al., 2008). It is the bank's business to ensure it is repaid; the customer will not know whether its banking transactions are being cleared with the support of an overdraft or not. Thus, in the event 13 of default by the store on an overdraft, there should be no claim back to the customers whose banking transactions were enabled through the use of the overdraft (Ignacio, 2009).

Financial Performance

Financial performance measures how efficiency, through increased market shares, is rewarded by higher profits (Thomas & Ramaswamy, 1996). According to Drago (1990) financial performance of commercial banks refers growth in sales, increased return on investment (ROI), and increased return on sales (ROS), increased return on equity (ROE), and increased earnings per share. However, the popular ratios that measure organizational performance can be summarized as profitability and growth: return on asset (ROA), return on investment (ROI), return on equity (ROE), and return on sale (ROS), revenue growth, market shares, stock price, sales growth, liquidity and operational efficiency (Thomas & Ramaswamy, 1996).

Performance is the competency of an organization to transform the resources within the firm in an efficient and effective manner to achieve organizational goals (Daft, 1997). Organizational goals vary depending on the purpose for which they are established. Business organizations have profit, growth and survival as the main goals. According to Shankaran and Roy (2009) definition, organizational performance consists of human resource outcomes (i.e. absenteeism; turnover; individual and group performance), organizational outcomes (productivity, quality and service), and financial outcomes (return on invested capital or return on asset and stock value or shareholder return). Organizational performance can also be defined in terms of the financial, organizational and people management performance measurements.

Agency Banking and Financial Performance

Agency banking as a branchless banking model has been very successful in propelling the financial performance of banks in many developing countries. Success stories have been reported in Colombia, Brazil, Peru and India (Kinyanjui, 2011). The agency model was launched in Kenya in the year 2010. However, just a handful of banks have so far taken up the option. Only fourteen out of the 43 Kenya Commercial banks have successfully embraced agency banking (CBK, 2010).

In spite of the success of agency banking globally and good financial performance of Commercial banks in Kenya, there are a number of challenges facing the agency banking model. For starters many of the banks that have embarked on agency banking roll-out have

found that agents lack the capacity to handle large transactions of cash .According to Shankaran and Roy (2009), agency banking as a model has been very successful in propelling the performance of commercial banks in many developing countries. Success stories have been reported in South America and Asia. In addition, Njuki (2012) indicated that agency banking has helped to raise banks' profits and spread reach of financial services in Kenya. As such and owing to the accelerated competition of banking services in Kenya today, 13 out of 44 Kenyan commercial banks have embraced agency banking model. Keen to take advantage of the cost-saving, accessibility and better customer service brought about by the agency banking model, Kenyan financial institutions have over the last two years embarked on an aggressive entry into this segment.

Commercial Banking in Kenya

In Kenya there are a total of 43 commercial banks, 10 microfinance banks and1 mortgage finance institution. Thirty one of the banks, most of which are small to medium sized, are locally owned and thirteen are foreign owned. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and addresses issues affecting member institutions. All banks are regulated by the Central Bank of Kenya. The Capital Markets Authority has additional oversight over the listed bank .All banks are required to adhere to certain prudential regulations such as minimum liquidity ratios and cash reservations with the Central Bank. Kenya has a high relative ratio of banks to the total population, with the 43 commercial banks serving a country of 44 million people, compared with Nigeria's 22 for 180 million inhabitants and South Africa's 19 for 55million (Kithinji, 2010).

In Embu County, there are 8 banks and over 10 microfinance institutions. These include Barclays, K.C.B, Equity, Cooperative Bank, National Bank, Family Bank Jitegemea, Jamii Bora, Bimas among others. Banking services are also available in other major towns within the county. Equity bank is available in Runyenjes and Cooperative bank in Siakago. The share of non-regulated financial institutions reduced from 39% to 25% in 2013, indicating arises in financial knowledge among the general population and also a reduction of fraudulent institutions. Credit Information Sharing systems (CIS), agency banking, revised prudential guidelines and mobile banking are some of the new developments in banking that have spurred increased efficiency in the sector, as well as enhanced competition (Central Bank of Kenya, 2009).

STATEMENT OF THE PROBLEM

Initially access to banks was not an easy thing for common man in Kenya as banking sector was majorly targeting working class and the middle class/income with more disposable income (Godana, 2012). This scenario existed till the formation of Equity bank in Kenya which majorly targeted low income and middle class people with free account opening and low maintenance fees. This approach adopted by equity bank changed the banking system in Kenya and many banks adopted the same strategy and expanded their market share. To move closer and access many customers, commercial banks started to allow other commercial outlets like shops and supermarkets to act in their capacity as formal banks and this was

formally launched by Central Bank of Kenya about three years ago, but just a handful of banks have so far taken up the option (Argamo, 2015). According to Shankaran and Roy (2009), agency banking as a model has been very successful in propelling the performance of commercial banks in many developing countries. Success stories have been reported in South America and Asia. In addition, Njuki (2012) indicated that agency banking has helped to raise banks' profits and spread reach of financial services in Kenya. As such and owing to the accelerated competition of banking services in Kenya today, 13 out of 44 Kenyan commercial banks have embraced agency banking model. Keen to take advantage of the cost-saving, accessibility and better customer service brought about by the agency banking model, Kenyan financial institutions have over the last two years embarked on an aggressive entry into this segment.

Empirical studies have been done in line with agency banking on financial performance of commercial banks for example Mwando (2013) did a study on agency banking on financial performance of commercial banks in Kenya. In his study Mwando established that central bank regulation, low transaction cost, financial service accessibility and market share affects financial performance of commercial banks. Further, King'ang'ai and Kigabo (2016) did a study on effect of agency banking on financial performance of commercial banks in Rwanda. The study found out that financial services accessibility, increased market share, central bank regulation and low transaction cost enhances financial performance of commercial banks in Rwanda. Also, Kambua (2015) did a study on the effect of agency banking on financial performance of commercial banks in Kenya. The study sought to establish change in customer base, acceptance level of agency banking and change in profitability resulting from agency banking adoption and their effect on financial performance. Also, Argamo (2015) in his study on the effect of agency banking on the financial performance of commercial banks in Kenya in 2014 established that, agency banking has low infrastructural cost and hence reduction in cost; Efficiency and convenience in operation in agency banking have increased the banks customers' transactions; therefore the enhanced financial performance.

Various studies have been conducted on agency banking in Kenya. Most studies done have looked at the adoption of agency banking in relation to enlargement in market share, central bank regulation, service accessibility and low cost of transaction. Mwenda (2013) did a study investigating on challenges facing agent banking implementation in Kenya. Godana (2012) conducted a study on the effect of agency banking on service delivery of commercial in Kenya. Notably, none of these studies have focused on agency banking in relation to cost-effectiveness, commissions, operational flexibility and banking hall decongestion and how these affects financial performance of commercial banks. There remains a huge gap in knowledge therefore on studies that this study seeks to fill. This study therefore seeks to establish the effect of agency banking model on financial performance focusing on commercial banks in Embu County, Kenya.

GENERAL OBJECTIVE

The purpose of the study was to investigate the effect of agency banking on financial performance of commercial banks in Embu County, Kenya.

SPECIFIC OBJECTIVES

1. To establish the effect of banking cost on financial performance of commercial banks in Commercial Banks in Embu County, Kenya.

2. To determine the effect of commissions earned on financial performance of commercial banks in Commercial Banks in Embu County, Kenya.

3. To examine the effect operational flexibility on financial performance of Commercial Banks in Embu County, Kenya.

4. To investigate the effect of banking hall decongestion on financial performance of Commercial Banks in Embu County, Kenya**.**

THEORETICAL REVIEW

Bank-Led Theory

The theory was brought forward by Lyman, Ivatury and Staschen (2006) and is based on the argument that, a licensed financial institution delivers financial services through a retail agent. The theory supports agency banking model by stating that the work of a bank is developing financial products and services, but distributes them through retail agents who handle all or most customer interaction (Lyman et al, 2006). In the most basic version of the bank-led theory of branchless banking, a licensed financial institution (typically a bank) delivers financial services through a retail agent. That is, the bank develops financial products and services, but distributes them through retail agents who handle all or most customer interaction (Lyman, Ivatury & Staschen, 2006).

The bank is the ultimate provider of financial services and is the institution in which customers maintain accounts. Retail agents have face-to-face interaction with customers and perform cashin/cash-out functions, much as a branch-based teller would take deposits and process withdrawals (Owens, 2006). In some countries, retail agents also handle all account opening procedures and, in some cases, even identify and service loan customers. Virtually any outlet that handles cash and is located near customers could potentially serve as a retail agent. Whatever the establishment, each retail agent is outfitted to communicate electronically with the bank for which it is working. The equipment may be a mobile phone or an electronic point-of-sale (POS) terminal that reads cards. In relevance to the study, it can be concluded that to commercial banks offering agency banking, the adoption of the agency banking model is meant to diversify their distribution channels as opposed to enhancing financial access and wellbeing of of its customers. This implies that, the financial performance of banks that have adopted agency banking could have improved as a result while that of users of the service remaining unchanged.

Agency Theory

Developed by Jensen and Meckling (1976), it describes a number of problems that arise from agency relationships. According to agency theory, agency relationships are created where firm owners (principals) engage managers (agents) to run the firms on behalf and in the best

interests of the principals. The agents are thus tasked solely to protect, pursue and maximize the principals" interests. However in practice the agents might be tempted, and often do, to pursue other interests that conflict with the shareholder interests. The relationship between bank agents and banks present such situations when agents' interest conflict the principals' (Laeven, 2001).

The concept of agency is directed at improving the infrastructure that fosters efficient financial services. In this study, the agency theory is used to show how modern payment systems have transformed the technology of banking and facilitated changes in the strategy and traditional structures of financial services organizations. By studying firm capabilities, competencies, and resources, the approach is extended to services in general and linked to the ability of firms to compete and promote their financial performance. Agency banking vary in adoption across banks and developing economies face obstacles in their legal and technical infrastructure, and maturity of banks (Cetorelli & Goldberg, 2012).

The theory therefore informed the study on the impacts that agency banking has had on giving commercial banks an edge by streamlining the relationship between banks and bank agents. The study therefore sought to investigate the role played by agency banking and how its expansion has consequently led to better financial performance of commercial banks. The study examined how the concepts of agency banking when a commercial banks acquires or develops various agency banking attributes or combination of attributes that allows them to outperform other players in the market.

KNOWLEDGE GAP

Several empirical studies have been done on areas of agency banking assessing its influence on the financial performance of banking institutions. It was on this background that the study aimed to assess how cost-effectiveness of agency banking, commissions earned from agency banking, operational flexibility of agency banking and banking hall decongestion have affected the financial performance.

RESEARCH METHODOLOGY

Research Design

This study adopted a descriptive survey design which according to Churchill (2009),a descriptive survey design is appropriate where the study seeks to describe the characteristics of certain groups, estimate the proportion of people who have certain characteristics and make predictions. Descriptive research design was adopted for the study because it enabled the researcher to generalize the finding to a larger population. The descriptive research design approach has been credited due to the fact that it allows easy analysis and relations of variables.

Target Population

The study endeavors to draw from all the banks in Embu County a sample of bank officials spread across Embu County. Therefore, the target population of this study comprised of top-level management, middle level management and low level management bank officials in Embu County.

Sampling Technique

Since the population of the study is small, this study was conducted via a census where all the subjects in the study were targeted. According to Dennis (1989) when the sample is small it is important to take the whole population to determine the needs of an organization.

Sample Size

All the 69 subjects were taken from the population and included in the study. This is considered adequate for generalization. Statistically, in order for generalization to take place, a sample of at least 30 must exist (Cooper & Schindler, 2003).

Data Collection Instrument

To collect primary data a semi-structured questionnaire with both close ended and open ended questions was utilized. The open-ended questions provided additional information that may not be captured in the close-ended questions. The study is concerned with variables that cannot be directly observed such as opinion, perception and feelings of respondents. According to Oso (2009), such information can best be described through questionnaires. Its purpose was to collect a lot of information over a short period of time.

Data Collection Procedure

The researcher informed the respondents that the data to be collected was for research purpose only and the responses from the respondents were to be kept secret and confidential. The researcher obtained an introductory letter from the university to collect data and then personally deliver the questionnaires to the sample of bank agents. The researcher issued the questionnaire and collected them later. However, where it was difficult for the respondents to fill in as the researcher waits a drop and pick later method was employed where the questionnaires were given out to the respondents and then collected later. To ensure high response rate, follow up calls were made to remind the respondents to complete the questionnaires. The researcher exercised care and control to ensure all questionnaires issued to the respondents are received, therefore, the researcher maintained a register of questionnaire given out and the ones returned.

Reliability and Validity

The questionnaires that were used in this study to design and measure the competitive strategies applied by commercial bank agents to sustain their market share in Embu County. To ensure that it was valid, expert judgment was the sought from the supervisor and other lecturers at Kenyatta University to test face for validity and construct reliability.

Cronbach Alpha was determined for every objective which formed a scale in the research. The pilot study involved 10 respondents. Cronbach's Alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. To assess the reliability of the instruments thus the internal consistency to indicate how well different items on a scale measure the concepts which they are purported to measure a reliability test was done. Internal consistency is calculated by measuring a statistic known as the Cronbach's alpha. Cronbach's alpha is considered a good measure of reliability in social science research when it is found to be 0.70 or above.

Table 1: Cronbach's Alpha

	Cronbach's Alpha	**No. of Items**
Cost Effectiveness	.834	4
Agency Banking Commission	.921	4
Operational Flexibility	.902	4
Decongesting of Banking Halls	.897	6
Bank Financial Performance	.796	4

The findings of the pilot test showed that Cost Effectiveness scale had a Cronbach's reliability alpha of 0.834, Agency Banking Commission scale had an Alpha value of 0.921 and Operational Flexibility scale had an Alpha value of 0.902. In addition Decongesting of Banking Halls scale had an Alpha value of 0.897 and Bank Financial Performance had an Alpha value of 0.796. The pilot test showed that the scales measuring the objectives had a very high reliability.

Data Analysis and Presentation

Data was analyzed using descriptive statistics and multiple regression analysis. Before processing the responses, data preparation was done on the completed questionnaires by editing, coding, entering and cleaning the data. The study generated both qualitative and quantitative data. Data was coded and entered into Statistical Packages for Social Scientists (SPSS Version 20.0) and analyzed using descriptive and multiple regression analysis. Responses with common themes or patterns were grouped together into coherent categories. Descriptive statistics involved the use of absolute and relative (percentages) frequencies, measures of central tendency and dispersion (mean and standard deviation respectively). The descriptive statistical tools helped in describing the data and determining the respondents' degree of agreement with the various statements under each factor.

The regression equation was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + + \varepsilon$$

Where: Y = Financial Performance; B_0 = Constant; X_1 = Cost Effectiveness; X_2 = Agency banking commission; X_3 = Operational flexibility; X_4 = Decongestion in banking halls; e = error term

RESEARCH FINDIGS

Correlation Analysis

The data presented of cost-effectiveness, commission earned, operational flexibility and banking hall decongestion were computed into single variables per factor by obtaining the averages of each factor. Pearson's correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed. The table below indicates the correlation matrix between the factors (cost-effectiveness, commissions earned, operational flexibility and banking hall decongestion) and on financial performance of Commercial Banks in Embu County, Kenya.

Table 2: Correlation Matrix

	Financial Performance	Cost-Effectiveness	Commissions Earned	Operational Flexibility	Banking Hall Decongestion
Financial Performance (r)	1.000				
(p) Sig. (2 tailed)					
Cost-Effectiveness (r)	0.884	1.000			
(p) (2 tailed)	0.012				
Commissions Earned (r)	0.623	0.356	1.000		
(p) Sig. (2 tailed)	0.031	0.027			
Operational Flexibility (r)	0.683	0.143	0.216	1.000	
(p) Sig. (2 tailed)	0.036	0.039	0.047		
Banking Hall Decongestion (r)	0.739	0.151	0.263	0.462	1.000
(p) Sig. (2 tailed)	0.014	0.039	0.0414	0.014	

On the correlation of the study variables, the researcher conducted a Pearson moment correlation. From the findings in the table above, Pearson correlation of financial performance and banking cost was 0.884 and the P-Value = 0.012. The output indicates that the strength of association between the variables is relatively high (r = 0.884), and that the correlation coefficient is very highly significantly different from zero (P < 0.012). Also, we can say that 78% (0.8842) of the variation in financial performance is explained by the cost-effectiveness of agency banking.

The findings show that there was a strong positive association between financial performance and commission earned. The Pearson correlation of financial performance and commission earned was 0.623 and the P-Value = 0.031. We can infer that the output indicates that the strength of association between the variables is relatively high (r = 0.623), and that the correlation coefficient is significantly different from zero (P >0.001). Also, we can say that 39% (0.6232) of the variation in financial performance is explained by the amount of commissioned earned.

The study found very strong positive correlation between financial performance and operational flexibility. The Pearson correlation of financial performance and operational flexibility was 0.683 and the P-Value = 0.036. In conclusion, the output indicates that the strength of association between the variables is very high (r = 0.512), and that the correlation coefficient is very highly significantly different from zero (P >0.001). Also, we can say that 46% (0.6832) of the variation financial performance is explained by operational flexibility.

Moreover, the findings indicate that there was a strong positive correlation between financial performance and banking hall decongestion. The Pearson correlation of financial performance and banking hall decongestion was 0.739 and the P-Value = 0.014. In conclusion, the output indicates that the strength of association between the variables is very high (r = 0.739), and that the correlation coefficient is very highly significantly different from zero (P >0.001). Also, we can say that 55% (0.7392) of the variation in financial performance and banking hall decongestion.

Regression Analysis

In addition, the researcher conducted a multiple regression analysis so as to test relationship among variables (independent) on the financial performance of Commercial Banks. The researcher applied the statistical package for social sciences (SPSS Version 21) to code, enter and compute the measurements of the multiple regressions for the study. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (financial performance of Commercial Banks) that is explained by all the four independent variables (cost-effectiveness, commissions earned, operational flexibility and banking hall decongestion).

The model summary provides information about the regression line's ability to account for the total variation in the dependent variable (financial performance of Commercial Banks). The table below demonstrates how observed y-values are highly dispersed around the regression line.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.933	0.8704	0.793	0.6273

The findings show that the independent variables significantly influenced the dependent variable as shown by an Adjusted R Square of 0.793. The output indicates that the strength of association between the variables is very high (Adjusted R Square = 0.793). The four independent variables (cost-effectiveness, commissions earned, operational flexibility and banking hall decongestion) explained only 79.3% of the financial performance of the selected Commercial Banks as represented by the Adjusted R Square. This therefore means that other factors not studied in this research contribute 20.7% of the financial performance of the selected Commercial Banks studied.

Analysis of Variance (ANOVA) consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance.

Table 4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.1702	3	0.7234	4.1292	.0179[a]
	Residual	4.7304	27	0.1752		
	Total	6.9006	30			

In view of the results in table 4 the significance value is 0.0179 (which is less that 0.05) indicates that the overall model is statistically significance in predicting how cost-effectiveness, commissions earned, operational flexibility and banking hall decongestion affect financial performance of the selected Commercial Banks. The F critical at 5% level of significance is 3.23 from the Standard F-tables. Since F calculated (value = 4.1292) is greater than the F critical, this shows that the overall model was a good fit.

Another output from the multiple regression analysis was the table of regression coefficient. is a key output of regression analysis. It is interpreted as the proportion of the variance in the dependent variable that is predictable from the independent variable. The results are as shown in the table;

Table 5: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	Constant	1.172	0.7257		1.615	.0367		
	cost-effectiveness	0.798	0.1889	0.152	4.223	.0146	.689	1.451
	commissions earned	0.571	0.1533	0.054	3.724	.0229	.898	1.114
	operational flexibility	0.676	0.1717	0.116	3.936	.0211	.502	1.992
	banking hall decongestion	0.739	0.2276	0.307	3.247	.0154	.653	1.531

Table 5 above presents results of the beta coefficients as well as the p-values for each independent variable. The regression function extracted using the unstandardized betas is as follows ($Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$):

$$Y = 1.172 + 0.798X_1 + 0.571X_2 + 0.676X_3 + 0.739X_4$$

According to the regression function, holding all factors constant at zero (cost-effectiveness, commissions earned, operational flexibility and banking hall decongestion), the coefficient for financial performance of the selected Commercial Banks will be 1.172. The findings further indicate that taking all other independent variables at zero, a unit increase in cost-effectiveness leads to a 0.798 increase in financial performance of the selected Commercial Banks; a unit increase in commissions earned leads to a 0.571 increase in financial performance of the selected Commercial Banks all else held constant; a unit increase in operational flexibility leads to a 0.676 increase in financial performance of the selected Commercial Banks all else held constant whereas a unit increase in banking hall decongestion will lead to a 0.739 increase in financial performance of the selected Commercial Banks all else held constant. This infers that cost-effectiveness contribute the most to the financial performance of Commercial Banks.

The p-value for each coefficient tests the null hypothesis that the coefficient is equal to zero (no effect). A low p-value (< 0.05) indicates that you can reject the null hypothesis. In other words, a predictor that has a low p-value is likely to be a meaningful addition to your model because changes in the predictor's value are related to changes in the response variable. The coefficient of regression from the regression model of Banking costs has a p-value ($0.0146 < 0.05$) we therefore reject the null hypothesis and imply that it is a significant predictor of the financial performance of the selected commercial bank. The coefficient of regression from the regression model of Commissioned earned has a p-value ($0.0229 < 0.05$) we therefore reject the null hypothesis and imply that it is a significant predictor of the financial performance of the selected commercial bank. The coefficient of regression from the regression model of Operational flexibility has a p-value ($0.0211 < 0.05$) we therefore reject the null hypothesis and imply that it is a significant predictor of the financial performance of the selected commercial bank. The coefficient of regression from the regression model of Bank hall decongestion has a p-value ($0.0154 < 0.05$) we therefore reject the null hypothesis and imply that it is a significant predictor of the financial performance of the selected commercial bank.

DISCUSSION

The study's response rate was adequate for data analysis with most of the participants willingly participating. The study was also fairly represented with views by both male and female respondents used in the analysis. In addition, the views and data used in the study were generated from participants coming from diverse age groups. A considerable majority of the respondents indicated that the adoption of agency banking was affected by the security of the locations and capital availability to be qualified as a bank agent. Majority of the participants indicated that agency banking influenced banking cost to both the customers and to the banks to an excellent extent. In addition, a majority of them also indicated that banking cost of agency banking further influenced the financial performance of the Banks to a very great extent. The findings concurs with the research by Mwando (2013) agency banking promoted financial services accessibility, increased market share, central bank regulation and low transaction cost enhances financial performance of commercial banks in Rwanda. The findings are also in line with Michael and Bloodgood (2010), who seemingly as our study did

determined governments ought to create incentives and accelerate the development of agent networks and better uptake of financial services by distributing salary, welfare and social payments through agents. The study found that it is easier, cheaper, and faster for all, and it provides volume to help build the network and to enable low-cost models.

Moreover, the study found that a considerable majority the bank officials' rated the amount of commission earned by the bank and the bank agents as excellent. A majority of the respondents strongly agreed that commission earned acted as a motivation to agents to work harder whereas some indicated that the commission earned helped in expansion of the bank . The findings show a majority of the respondents were of the opinion that agency banking, has brought about some desired form of operational flexibility there was a significant difference in the delivery of banking services since the adoption of agency banking. The findings are in line with the research by Kambua (2015) agency banking has low infrastructural cost and hence reduction in cost; Efficiency and convenience in operation in agency banking have increased the banks customers' transactions; therefore the enhanced financial performance. The findings of our study further echo those of Kithuka, (2012), who determined that the top concerns among agents are low remuneration, liquidity management and network availability. He found that many agents are often paid on commission based on the number of transactions and accounts opened as a motivation for them to work hard so that they can earn more.

The study determined that there was a positive and fairly strong correlation between the financial performance of Commercial Banks and the independent variables (cost-effectiveness, commissions earned, operational flexibility and banking hall decongestion). The four independent variables (cost-effectiveness, commissions earned, operational flexibility and banking hall decongestion) that were studied were found to only explain 79.3% of the variation financial performance of the selected Commercial Banks. The findings concurs with the research by Kithinji, (2010) Agency banking has helped to raise banks' profits and spread reach of financial services in Kenya

CONCLUSIONS

The study reached a conclusion that adoption of agency banking offers ease of access to financial services in rural areas and that adoption of agency banking has increased financial deepening. Moreover, the study concluded that agency banking has made it possible for bank products and services to penetrate areas that at first seemed impossible as agent banking banks have reached even the smallest of villages. Therefore the study concludes that ease of access to financial/ banking services enhanced the financial performance of Commercial Bank in Embu County, Kenya. The study further concludes that access to finance is a subject of significant interest and an issue of great importance and there is need for the regulators to assess its impact to economic growth and employment generation.

In addition, the study concludes that agency banking offered operational flexibility in which has significantly improved the financial performance of commercial banks. Therefore the study concludes that operational flexibility resulting from adoption of agency banking has enhanced effective service delivery in Commercial Bank in Embu County. The research

concludes that in order to finance growth and development of commercial banks, they have to find the right balance between their operational flexibility to meet increasingly unstable demand of banking services.

From the findings above, the study concluded that bank agents' assists in bringing the cost of financial services down and allows for greater financial sector development. The study also established that agency banking has brought about banking cost in transactions, which in general influence service delivery. Therefore the study concludes that affordable banking costs of agency banking enhanced service delivery effectiveness in Commercial Bank in Embu County. The researcher concluded therefore that using a network of agents can be a cost-effective way of reaching a wide variety of markets since some markets are difficult to break into without existing contacts, local knowledge and experience

In view of the findings, the study concluded that agency banking improves banks performance as it enhances savings on cost of construction of bank premises and leasing costs. The study also reached a conclusion that adoption of agency banking helps increase banks revenue hence minimizing costs. In addition the study reached a conclusion that adoption of agency banking has a significant impact on decongestion of banking halls by reducing the queues in banks, number of deposits and withdrawals in banking halls. The study concludes that the decongestion of banking hall through agency banking has significantly enhanced service delivery effectiveness in Commercial Bank in Embu County, Kenya.

RECOMMENDATIONS

Commercial banks in Kenya should improve customers' perception by making more advertisements and also increase promotion activities of agent's banking. By doing this the number of transactions made by customers will increase. This in turn helps the customers to save more and hence the amount the bank can loan increases. This helps to improve the financial performance of commercial banks. The study sought to determine the effect of agency banking on financial performance of commercial banks in Kenya. The study recommends that commercial banks should be encouraged to embrace agency banking through adoption of improved technology. This will increase volume of transactions and bank size which will lead to financial performance.

Security enhances accessibility and operation of agents' banks the government of Kenya should thus improve security to enhance operation of the agents' bank. This will enable commercial banks in Kenya increase the number of agents. This can be done by reducing the requirements of becoming a bank agent.

From the summary and conclusions the study recommends that Central bank consider coming with a clear agency banking regulatory policy which creates a universal platform for all banking institutions, this will enhance fair market competition and thus barring financial institutions from customer exploitation, the study recommends that these financial institutions should continue offering low transaction rates within their local agency points, this will lure

customers to adopt this culture thus ensuring the future sustainability of the agency banking system.

Since only 79.3% of the variation in financial performance was explained by the effect of the four independent variables (cost-effectiveness, commissions earned, operational flexibility and banking hall decongestion). Further studies should be done by academicians in the field to assess the other factors that contribute to about 20.7% of variation in financial performance.

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