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Business Growth Activities and Financial Performance of Bank Agents Businesses in Kiambu County, Kenya

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Abstract:
Developing countries including Kenya are increasingly embracing branchless banking as a means of delivering banking services to many unreached people especially low-income households. As per the 2016 National Financial Access Survey, eighty two point six percent of Kenya's bankable population are already included in the financial service orbit. Statistics by commercial banks show exponential growth - from the bank perspective- in agency banking in terms of number of agents, bank income, number of transactions and deposits mobilization through the bank agents among others. However, statistical evidence indicate that agents do not have huge ability to perform large cash transactions and do not invest a lot on security measures, thus, lowering the confidence potential clients' have in the bank agents. Innovations and new partnerships by the commercial banks also have affected the performance of bank agents businesses negatively meaning that the average commissions received by the agents, decrease with an increasing rate. This study therefore aimed at establishing the relationship between the business growth activities and their effects on the financial performance of the bank agents in Kiambu County, Kenya. The specific objective included; to analyze the capital requirements and the financial performance of the bank agents, to examine the effect of cash management practices to the financial performance of the bank agents in Kenya, to assess the extent to which innovations affects financial performance of bank agents businesses, and to determine the effects of financial services cost on financial performance of bank agents businesses. The study adopted a quantitative research design. The study target population was all the 1072 bank agent businesses in Kiambu County, Kenya. The sample size of the study was 132 bank agents in both the rural and urban areas of the county. The study used stratified random sampling technique to select the sample and used primary data that was collected by use of structured questionnaires administered through a Drop-off/Pick-Up method. Before the actual study, a pilot test of only 16 bank agents was conducted to establish validity and reliability of the data collection tool. The gathered data was edited, classified, coded and analyzed using descriptive and inferential statistics. Descriptive statistics such as mean, frequencies, standard deviation and percentages were used for descriptive analysis of the data collected. The study also used Pearson's two-tailed correlation analysis to establish whether there was causation between the dependent and independent variables. In relation to the findings, the study concluded that business growth activities influence the financial performance of bank agents businesses in Kiambu County, Kenya. In particular, the study concluded that capital requirements, cash management and innovation have a significantly positive influence on financial performance of bank agents businesses in Kiambu County, Kenya. Further, the study concluded that financial services cost has a significantly negative influence on financial performance of bank agents businesses in Kiambu County, Kenya. Finally, the study concluded that innovation best explains financial performance of bank agent businesses, followed by cash management practices, then capital requirements while financial services cost least explains the financial performance of bank agent businesses. The study recommended the need for bank agents to strengthen their business growth activities including capital requirements, cash management, innovation and financial services cost.

Keywords: *Business growth activities, financial performance, bank agents businesses, agency banking*

1. Introduction

1.1. Background of the Study

Bank agents are at the forefront of any banking service that does not involve the common brick and mortar branches. They therefore assist clients to transact – frequently by transforming physical cash into e-money and then e-money back to physical cash. Specialists assume a basic part in taking care of exchanges as well as in distinguishing, obtaining, and instructing new clients, and in addition conveying a client experience that keeps clients returning. Sources of financial services in the world – in Brazil, Mali, India and the Philippines – are consuming the services of bank agents more to perform monetary services. Out of more than two hundred and fifteen branchless banking operations in the world rely on agents as the primary approach to onboard and serve clients. Many nations have 100,000 operators and above, where Brazil is leading and its Central Bank revealed to have 377,000 specialists as of January 2015 (CGAP, 2016).

In Colombia, the vast majority of the banks is utilizing bank-based operators to deliver financial services to their customers. Nonetheless, the clients of these monetary services are not the poorest portions of the populace and the reception of the agent model has been slower than in different nations in Latin America, most outstandingly Brazil. Agents

in Peru are packed in urban zones. The grouping of agents in urban territories gives a sign of how banks tend to utilize agents in Peru. Their principle goal is to minimize overcrowding in the main bank offices, by moving low-value exchanges far from expensive branches. As such, numerous operators are situated very close to the branch of a bank (CGAP, 2010).
In February 2011, the Central Bank of Kenya discharged controls enabling banks to offer administrations through agents endorsed by the CBK. This was aimed to achieve the financial services 2030 goal in line with Kenya's Vision 2030. Agency banking model aimed at improving financial inclusion in the country, had 55.8 million transactions and an amount of Ksh176.7 Billion in the first quarter of 2016 compared to 10.3 Million transactions and an amount of Ksh65.0 Billion over the same period in 2015. This was majorly due to expanded certainty and adequacy of the agency banking concept by banks and the general population as an efficient, helpful conveyance channel.

As at 31st March 2016, there were 17 banks that had contracted 40,224 operators which had generated more than 170.5 Million total transactions estimated at Ksh930.2 Billion. Reviewing the 2015 and 2016 performance, enormous development has been observed in agency banking led by banks. Services offered by the agents include cash-in-cash-out transactions, loan repayments, mortgages payments, fees and utility payments (CBK, 2016).
Through agency banking, the rural and low-income earners are now able to access financial services. The high costs identified with the conventional block and mortal vis a vis the normal returns have been a hindrance for banks to bring their services to the rural area, however agency banking has paved a way to these untapped markets through reduced cost. The development of mobile and point of sale (POS) gadgets has now opened a chance to access more unbanked individuals. Notwithstanding the accomplishment of agency banking worldwide and tremendous performance of the banks in Kenya, there are various difficulties confronting agency banking plan. First of all huge numbers of the banks that have adopted agency banking have discovered that agents do not have the ability to deal with huge volumes of money and that they are not spending enough on safety efforts prompting poor growth of agency banking (Joyce Lehman, 2010).

1.1.1. Business Growth Activities

In the day-to-day running of bank agents, there are several business growth activities that determine their financial performance which include capital requirements, cash management practices, innovations and new partnerships. For capital requirements, customer money exchanges are balanced against the operator's financial balance held in the particular bank. This account is financed with the operator's own cash and the cash is alluded to as float. At the point when operators give a scope of administrations, they can produce transaction volume and adjust liquidity. An operator must keep up satisfactory money and e-cash drift adjusts to meet client cash in/out requests. In a situation where too much money is taken in, the agent, may suffer shortage of e-float and not have the capacity to receive more deposits. In the event that there are excessive withdrawals, the operator will aggregate e-float but suffer cash shortage. Whichever the case, customers will be disappointed for not receiving the services they hoped for as observed by Stella (2015). Liquidity is a major contributor to the performance of bank agents the researcher concludes.

For cash management practices, a secure mechanism should be set up to transport money needs to and from an agent. An operator is basically an aggregator for the money necessities of a society. It is a money storing and exchange business that retains the danger of money handling. Various methods have been devised to guarantee operator liquidity and help them in real money handling. The alternatives accessible depend largely, on the banking system operating in the market and the eagerness of the banks to assume responsibility of secure money transport (Joyce Lehman, 2010). Cash mismanagement may lead to loss of cash either through robbery or fraud. Massive frauds are a major cause of cash flow distress to bank agents.

Innovation affects financial performance of the bank agents to a great extent. There exist innovations in the banking sector that affect the adoption of agency banking which include credit information sharing, mobile phone technology and internet banking. Organizations must find ways of operating by developing new competencies as the old competencies gained are quickly eroded due to changes in both internal and external environment. Because organizations cannot run away from innovation which sustains them, there is need for them to change with the changes in the environment otherwise they would be irrelevant. To ensure survival and success, organizations need to develop capability and capacity to manage innovations so as to exploit emerging opportunities promptly (Chiteli, 2013).
Information and Communication Technologies (ICTs) have become crucial enablers of socio-economic development mainly through reduced transaction costs and enhanced efficiency in connectivity. Besides being pivotal in sectors like telecommunications and financial intermediation, ICTs are increasingly being applied across all the economic activities most notably health, education and public administration. An ICT innovation affecting bank agents' performance is mobile money. Mobile money subscriptions per 100 inhabitants stood at 71 in 2016 from 61 in 2015. The number of mobile money subscribers increased by 19.6 per cent to 32.0 million in 2016 while the value of funds sent via mobile money platform increased by 19.2 per cent from KSh 2.8 trillion in 2015 to KSh 3.4 trillion in 2016. Similarly, the number of mobile money transactions grew by 37.0 per cent from 1,114.2 million in 2015 to 1,526.2 million in 2016. During the period 2015/2016, the country recorded 928.2 thousand m-commerce transactions with a value of KSh1.8 trillion (KNBS Economic Survey, 2017).

1.1.2. Bank Agents in Kenya

In the recent past, there has been a blast of various types of remote access of money related services. The take-up of this new framework is overpowering among the pastoralist groups, they are for example able to sell their cows and effectively deposit their cash with agents decreasing odds of losing their revenues to bandits (KCB annual report, 2016).

The agency banking has been extremely effective in impelling the execution of banks in many growing nations, such as Colombia, Brazil, Peru and India. In Kenya, Central Bank of Kenya keeps on detailing exceptionally great

performance by banking agents. 17.4% make their deposits through bank agents and 10% make their withdrawals through bank agents in Kenya. 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 18 banks out of the total 43 banks in Kenya have successfully embraced agency banking according to Think Business banking survey (2017).

Bank agents operations are seen as a competitive strategy for commercial banks. In a study to establish the reasons for commercial banks venturing into agency banking and to check challenges faced by the commercial banks in agent banking operations, Chiteli (2013) concluded that banks employ agency banking operations as a competitive strategy. Control policies and procedures, technological advancement, and regulations put in place by the bank agents and commercial banks have made agent banking operations viable. The agents on the other hand encounter challenges such as liquidity risk, operational risk, credit risk and high operational costs.

1.1.3. Bank Agent's Performance in Kenya

A portion of the key components that are considered during financial performance is Profitability, Liquidity, Solvency, Financial proficiency and Repayment limit. Advance examination of budgetary execution has utilized procedures, for example, financial ratio analysis, benchmarking, measuring performance against spending plan or a blend of these (Barnet et al, 2006).

CBK (2016) indicates that 18 banks and 5 MFBs had sourced 53,833 and 2,068 agents, respectively, operating in different parts of the country. This was compared with the previous year, where40,592 and 1,154 agents were contracted by banks and MFBs respectively. The change implies a 33 percent (increase by 13,241 agents) and 79 percent (increase by 914 agents) growth of number of agents contracted by commercial banks and microfinance banks, respectively. Over 87 percent of the approved commercial bank agents were concentrated in 3 banks with the largest physical branch presence namely; Equity Bank Ltd. with 25,428 agents, Kenya Commercial Bank Ltd. with 12,883 and Cooperative Bank Ltd. with 8,856. The overall increase in the number of agents is attributed to the growing trust by the public and banks as an alternative means of doing banking business.

In 2016, agent banking transactions increased by 30.9% from 79,620,211 transactions recorded in 2015 to 104,193,459 in December 2016. The value of agent banking transactions increased from KShs 442.2 billion (USD4.3 billion) to KShs. 734.2 billion (USD 7.1 billion) as shown in Table 1.

Type of Transactions	**Number of Transactions**				
	2012	2013	2014	2015	2016
Cash Deposits	12,554,299	18,531,811	25,967,462	36,395,378	56,056,750
Cash Withdrawals	11,862,412	16,981,903	24,900,283	26,821,097	33,280,161
Other transactions	5,520,401	6,542,140	7,127,329	16,672,908	14,856,548
Total No of transactions	29,937,112	42,055,854	57,995,074	79,889,383	104,193,459
Value of Transactions					
Value of deposits(KSh. M)	101,170.60	160,789.90	236,045.47	298,383.53	538,273.37
Value of withdrawals(KSh. M)	496,095.00	738,935.00	10,499,973.00	133,204.42	175,242.59
Number of agents (000)	16,333	23,477	35,847	40,592	53,833

Table 1: Banking Agent Transactions
Source: CBK, 2016

Despite the report by banks on growth in agency banking in terms of number of agents, number of transactions, deposits mobilization and bank income, there has been a decline in the average monthly commissions payable to the agents.

1.2. Statement of the Problem

Statistics by commercial banks show exponential growth in agency banking in terms of number and size of agents, trade volumes, number of transactions, deposits mobilization through the agents and bank income among others (CBK, 2016). Despite the report by banks on growth in agency banking in terms of number of agents, number of transactions, deposits mobilization and bank income, there has been a decline in the average monthly commissions payable to the agents. This may be as a result of customers finding that agents lack capacity to handle large transactions of cash and they under-spend on security and cash management measures. Innovations and new partnerships by the commercial banks also have affected the performance of bank agents businesses negatively. This study will investigate the performance of agency banking in Kenya from an agent perspective and to understand the business growth activities that determine the success of running the agency business.

Most studies have been conducted from the bank perspective. Agalla (2014) investigated challenges facing the adoption of agency banking by Banks in Kenya. Specifically, the study sought to identify whether risks correlated with agency banking, technology and policies influenced the success of agency banking. The findings of the study revealed that resource allotment, inadequate innovation and absence of staff preparedness on applicable innovation were the key difficulties.

Salome M (2015) assessed the utilization of agency banking on the performance of Kenyan banks within Nairobi region. The study established that liquidity availability, regulation, infrastructural expenses and security significantly

affected performance of the banks. Some of the recommendations that the study made were that banks should give more attention to security and that banks should allow agents to be more financially inclusive than just offering the cash transfer services, agents should be able to convert cheques into cash, deal with foreign currency exchange among other services. The selection criteria of agents should also be restructured so as to favour heavy cash operations in order to meet the demand of cash availability as well as handling large cash transactions. The study was biased only on the commercial bank perspective.

In spite of the role of agency banking in propelling growth of the banks, there exists scanty literature focusing on the agents. This study was conducted from the agent perspective, with an aim of assessing the business growth activities against the financial performance of the bank agents in Kenya. The business growth activities adopted for purposes of this study are: capital requirements, cash management practices, innovations and new partnerships.

1.3. Objectives of the Study

1.3.1. The General Objective

The general objective of this study was to investigate the effect of business growth activities on financial performance of bank agents; case of Kiambu County, Kenya.

1.3.2. Specific Objectives

- To analyze the effect of capital requirements on financial performance of bank agents businesses in Kiambu County
- To examine the effect of cash management on financial performance of bank agents businesses in Kiambu County
- To assess the extent to which innovations affects financial performance of bank agents businesses in Kiambu County, Kenya
- To determine the effect of financial services cost on financial performance of bank agents businesses in Kiambu County, Kenya

1.4. Research Questions

- To what extent do capital requirements affect the performance of bank agents' businesses in Kenya?
- What is the effect of cash management practices on financial performance of bank agents businesses in Kenya?
- What innovations affect the financial performance of bank agents businesses in Kenya?
- What is the effect of financial services cost on the financial performance of bank agents businesses in Kenya?

1.5. Significance of the study

Some financial institutions in Kenya have embraced agency banking for the purpose of competitiveness. Despite agency banking being in existence for several years, the service has not yet been exploited fully. The significance of this study is to understand the financial implications of bank agents businesses to the agency investors, commercial banks, bank customers and the government.

The study may also be used to provide guidance in financial management of agency banking. Scholarly, the study may contribute to the body of knowledge related to the provision of financial services and also to the determinants of success in running of a bank agent. To the banks, the study may inform them on developing viable business model proposition to their agents and any potential agent. To the current and potential agents, the study may inform them on the various financial constraints they may face on venturing into agency banking business. To the government, it may assist them to formulate good policies that support agency banking to ensure that financial inclusivity is achieved as outlined in Kenya's Vision 2030.

1.6. Scope of the Study

The purpose of this study was toinvestigate the effect of business growth activities on financial performance of bank agents; case of Kiambu County, Kenya. Over 87percent of all the bank agents in Kenya are concentrated in three banks; Equity bank, Kenya Commercial bank and Cooperative bank. The target population was all the 1072 banks agents that are currently engaged in agency banking business in Kiambu County, Kenya. A sample of 132 bank agents from the three banks was selected from the population. The study was conducted in year 2018.

1.7. Limitations of the Study

Confidentiality requirements of most banks agents made some respondents unwilling to provide some information. There are many bank agents in Kenya. It was not possible to cover all the 40,000 licensed agents hence a sample was chosen from one county. Permission to access bank information was sought from the banks management.

1.8. Organization of the Study

The study is composed of five chapters. Chapter one provides the background to the study's research problem and objectives. Chapter two reviews the theoretical and empirical literature. Chapter three provides the methodology used to achieve the set objectives of the study. Chapter four provides results and discussions. Chapter five provides summary of findings, conclusions and recommendations.

2. Literature Review

2.1. Introduction

The chapter reviews the theoretical background and orientation related to the study, empirical review, conceptualization and operationalization. It discusses the theories used for this study, in relation to business growth activities and the financial performance of bank agents.

2.2. Theoretical Review

2.2.1. Agency Theory

The theory was developed by KM Eisenhardt in 1989. It postulates that the association between a principal and agent leads to agency hypothesis where there might be data asymmetry between the people included, self - intrigue, diverse objectives and hazard inclinations, for example, pay, direction, administration, impression, shriek blowing, and so on. The hypothesis is utilized to clarify the principal–agent issue or what is called agency dilemma which happens when one individual or element - the operator - can settle on choices for the benefit of, or that effect, someone else or substance - the principal. The dilemma exists in light of the fact that occasionally the agent is persuaded to act in his own best advantages instead of those of the principal.

An agent performs duties on behalf of the principal in a relationship often governed by a legal framework (Blume& Easley, 2008). This relationship is extended to persons or entities who make use of agents to deliver their business objectives, in this case, banks (principal) and banks agents (agent). Such relationships take the form of a contract necessarily with an offer and a consideration. In an agency relationship, agency cost will most certainly arise. This is kind of internal cost that emerges from, or must be paid to, an agent following up for the benefit of a principal. Such costs emerge due to issues to do with conflicts of interest between the principal and the agent.

The agency theory is important in this study because it explains the concept of cost. Similarly, one of the variables in the current study is financial service cost. The interaction between the principal (bank) and the agent (bank agent) is likely to influence the financial costs incurred. A good working relationship between the two groups is expected to reduce the overall costs while a poor working relationship could lead to rise in financial costs. Therefore, the agency cost theory supports the financial service cost variable in this study.

2.2.2. Bank Led Theory

This model is made out of a grouping of three principle substances; the Customer, the retail agent, and the bank. This succession begins when banks build up their financial items and administrations that are conveyed to customers through retail agents that associate specifically with customers for the benefit of the banks. Essentially, the bank is predominantly in charge of opening and holding the account (cash in cash out transaction). The retail operator is in charge of confirming client's ID, performing up close and personal exchanges, preparing applications, framing gatherings, dispensing small values to the bank, gathering credits and small deposits, distributing insurance items, and managing little settlements (Chowdhury, 2010).

In a few nations, retail agents play out the part of all record opening strategies and often service credit clients. Basically any outlet that handles physical cash and is situated near the clients could as well be used as a retail agent. Notwithstanding the kind of foundation, each retail specialist is furnished to discuss electronically with the bank for which it is working for. These retail outlets utilize hardware such a cell phone or POS terminal that reads cards. From the hypothesis, bank-led model offers an unmistakable contrasting option to traditional branch-based banking system since client conducts monetary exchanges at an entire scope of retail agents rather than at bank offices or through bank staff (Lyman, Ivatury and Staschen, 2006).

This model likewise gives the possibility to considerably expand the monetary services spread by utilizing an assortment of conveyance channels (retailers/phones), an alternate trade partner (Chain Store) having background and target market separate from conventional banks, and might be fundamentally less expensive than the bank based choices. In this model the banks retail the work of client relations (Tomaskova, 2010).

Many a times the banking regulation recognizes multiple categories of risk like risks on loans, legal, liquidity, reputation and operational that the banks and regulator seeks to control. The theory is relevant to this research since it concentrates on how banks provide monetary services to their clients through agents. The banks formulate monetary items but pass the distribution role to their agents. For instance; KCB, Kenya disseminates some of its monetary products through its KCB Mtaaniagents where the operator have up close and personal cooperation with clients and perform trade out/money out capacities, much as a branch-based teller would take deposits and process withdrawals (Dennis, 2014).

The bank led theory is relevant to this study since it explains the activities carried out by banking firms such as bank agents. Some of these activities include capital requirements, cash management and innovation. These activities are critical in enhancing banking firms' financial performance. Therefore, the bank led theory advances several variables in this study including capital requirements, cash management and innovations.

2.2.3. Transaction Cost Theory

The transaction cost hypothesis was advanced by Ronald Coase as a feature of the hypothesis of the firm to clarify why firms exist. The model shows establishments and market as a conceivable type of association to organize economic exchanges. At the point when the outer exchange costs are higher than the inward exchange costs, the organization will develop. On the off chance that the outer exchange costs are lower than the interior exchange costs the organization will be

cut back by outsourcing. It introduced a clarification of the firm reliable with steady returns, rather than expanding returns to scale.

The hypothesis argues that a company's connections with the market may not be under its control, for example due to sales charges, however its inward assignment of assets are inside within an association's control. Market exchanges are wiped out and the place of the complex market structure with trade exchanges is substituted with business individuals who direct production. In the banking sector, the cost of the traditional brick and mortar branches and the ensuing contracts from the same, related transaction cost as well as the cumulative cost of a customer to perform a single transaction informs the success or otherwise of the agency model. This too has to be coupled with the willingness of the agent entrepreneurs to direct resources into the agency business to enhance performance of the bank agents (Andrew, Walter & Andrew, 2015).

This theory is imperative in this study since it elaborates the reason firm existence. This study focuses on financial performance of bank agents. The primary reason why firm exist is to make profit. Therefore, the transaction cost theory supports the variable on financial performance as a major reason for existence of bank agent businesses.

2.3. Empirical Review

2.3.1. Effect of Capital Requirements on Performance of Bank Agents Businesses

Watiri (2013) assessed the implementation of the agency banking model by Equity bank in Kenya. The study adopted a case study research design. Based on the study findings, several factors affect the implementation of the bank agency model. Some of these factors include costs, client awareness, and absence of banks in some locations. The study suggested the need for banks increase clients' awareness regarding the availability of agency banking. Further, the banks should widen their operations and open outlets in the untapped areas.

Kiburi (2016) did a study on Assessment of Factors Determining the Performance of Bank-Led Agent Bank Businesses in Kenya and found out that banks should encourage their customers to embrace agent banking particularly for deposits, account opening and balance inquiries. The researcher also found out thatmanagers of agent banking businesses should be equipped with skills/capability to borrow funds, manage core business, manage business finances as well as manage the business finances. The researcher also stated that bank agent businesses can be a very capital-intensive business.

Mwangi (2012) did an examination to effect of agency banking on banks in Kenya. The analyst prescribed that banks ought to consider rebuilding and reconsider the criteria for choosing and settling on the operators to address the liquidity issue. The research observed that cost effectiveness related to agency banking directly impact on bank performance in Kenya. Therefore, the author made a conclusion that liquidity in agency outlets influences their performance. The study recommended the need for additional research on factors that affected the development of bank agency in Kenya.

Stella (2015) did a study to assess the utilization of agency banking on the performance of Kenyan banks. Descriptive research design was used in the study. The target population from which the sample was drawn is commercial banks within Nairobi region. A census was done to include all the banks which have successfully rolled out agency banking. Both primary and secondary data was used in the study. Data collected was validated, edited and coded then analyzed using descriptive statistics. Data presentation methods used were tables, charts and diagrams. The study established that liquidity availability, agency regulation, agency infrastructure cost and security was a major influence to banks performance. The researcher recommended that banks should give more attention to security and find better ways of vetting their agents. The agents should be more financially included to handle many transactions.

2.3.2. Effect of Cash Management Practices on Performance of Bank Agents Businesses

David (2017) did an examination on Effect of Agency Banking Operation on Profitability of Commercial Banks in Nairobi County. The author noted that banks do acquire economies of scale and degree when they increase their operation, fundamentally by mergers and acquisitions consequently, extended item cluster and potential for strategically pitching outcome from bigger size and profundity of item offering. Additionally, the introduction of agency banking has crossed over any barrier amongst client and his bank and in this manner spares time, vitality and decreases worry of the client. The investigation presumed that quantify the benefits of banks there are several ratios utilized including Return on Asset, Return on Equity and Net Interest Margin. The study suggested for additional look into the role of innovation systems in enhancing agency banking model. In addition, further research should focus on the factors affecting adoption of agency banking from an agent's point of view.

According to Kiburi (2016), the less cash operators have to settle bank services, the all the more habitually they should turn those monies, yielding all the more rebalancing trips. Operators that try to minimize operational costs must limit the quantity of outings they make by having vast money at hand and e-float balances leading to a higher cost of capital. The researcher recommended that since the study had surveyed few agent banking businesses in Kiambu County, its findings may not be readily generalized to rural counties or other regions with varying demographic characteristics. As such, the study can be replicated in Kiambu or other areas to eliminate region-specific biases in generalization. Additionally, the research should be done to examine the long term success of agents and one that samples a large number of agents.

Muthama (2016) examined the effects of cash management practices on operational performance of selected public hospitals in Kisii County, Kenya. The study focused on preparation of cash budgets, operating bank and Book Keeping and how they influence operational performance of public hospitals. The descriptive survey research design was

adopted. The findings revealed that cash budgets assist in making cash flow projections and ensures budgetary control. Operating bank accounts ensured security of hospital funds besides helping keep track of hospital transaction and the hospitals keep records of all cash payment and receipts on daily basis, facilitating accountability, which improves operational performance of public funds.

Aduda, Kiragu, Ndwiga (2013) examined the association between agency banking and financial performance of commercial banks in Kenya. The study adopted a descriptive survey design. The study findings revealed a tremendous improvement in profitability from 2008 to 2011. This implied that agency banking was persistently enhancing banks profitability. Agency banking activities were found to have a direct and significant effect on bank's profitability. The study recommended the need for additional research to be embraced which may incorporate investigations on the components influencing the success of the agent banks and the effect of agency banking to deepening of the financial industry. Additional research should also be conducted on client perception of agency banking in order to assess the model effect from the demand side.

2.3.3. Effect of Innovations on Performance of Bank Agents Businesses

Porteous (2006) distinguishes between mobile phone agent banking and non- brick and mortar banking based on the target customer segment: The ones which the mobile phone is only another channel to an existing bank account is known as additive models; while the ones in which the financial products are linked to the use of the phone and majorly targeting the unbanked, who are largely low income people are called transformational models. A model is said to be transformative if it can provide a set of products which are simplified and that can successfully be marketed to already unbanked customers, and actually engage a chain of retail outlets as cash in/cash-out points which serve as an alternative to branches and ATMs.

Lyman, Timothy, Pickens and Porteous (2008) further distinguish between brick and mortar based and non-bank-based models, basically depending on the nature of the organization promoting the scheme. Non-bank-based models are characterised by the entry of players with fairly strong competencies in technology and/or retailing as symbolised by mobile phone operators into financial services distribution.

Rutere (2013) assessed the factors affecting the operations of agent banking agents in Kenya. It focused on of technological, government regulations, user perception factors and infrastructure. The study found that agent banking was gaining popularity though factors such as road Network as well as system network needed to be improved to reduce system breakdown. The safety of transporting cash was rated fair as agents were not comfortable transporting large amounts of cash. Majority were not familiar with all government regulations as well as their personal view on wireless transactions affected their usage.

Scornavacca and Barnes (2004) suggest that current telecommunications innovations have enabled the launch of new access methods for banking services, one being mobile banking; whereby a customer is able to interact with his/her bank via a mobile device such as a mobile phone or personal digital assistant. The technological innovations are ultimately anticipated to continue affecting the agent banking model within a rapidly changing technological environment.

2.3.4. Effect of Financial Services Cost on Performance of Bank Agents Businesses

Ndung'u, Okibo and Nyang'au (2015) examined the factors affecting performance of banking agents in Kenya. The study focused on fraud, network capability, level of financial literacy and cost of financial services on banking agents in Kisii County. The study was carried across eight financial institutions. The study concluded that cost of financial services and financial literacy were the major factors affecting performance of banking agents. It also concluded that network strength also affected security of funds through compromising integrity of the system. The study recommended that banks employ cheaper and more user friendly systems and that they use risk based approach in managing banking agents. Further, the study recommended that banks should allow more inclusive services to be offered by agents rather than the cash in and cash out.

Mungai and Omagwa (2017) sought to determine challenges associated with adoption of agency banking in Kenya. Empirical evidence indicates that the effects of challenges associated with adoption of agency banking on bank performance in Kenya are positive and that there is relationship between accessibility of banking services, low cost of service and customer transactions as a result of agency banking. The study concluded that the banks need to do more in containing some of the challenges.

Kithuka (2012) investigated the factors that affect the growth of agency banking in Kenya with specific focus on Kwale County. The study adopted a descriptive survey design. The study findings revealed that convenience of the money transfer technology plus its accessibility, cost, support and security factors are related to usage of the payment services by the agency banking micro businesses to enhance their success and growth. The findings revealed security influenced the growth of agency banking in Kenya, distance does not influence the frequency of customer transactions, perceived usefulness influences the growth of agency banking, financial education enhances knowledge, attitude and practice in agency banking and lack of coordination between banking agencies influence the growth of agency banking in Kenya and especially Kwale County.

Kilonzo, Ariemba and Migoshi (2017) examined the factors influencing the use of agency banking by residents of Makueni Sub-County, Kenya. The study focused on agent characteristics, banking products, operating hours and bank location. A descriptive survey design was adopted. The findings revealed a significant relationship between agency characteristics, banking products, operating hours, bank location and the use of agency banking. The research suggested the need for the banking agencies to diversify their products and services.

2.4. Summary of Literature Review and Research Gap

The review of literature on studies done on bank agents businesses have majorly focused on the performance from the commercial banks perspective. They have not focused on the bank agent businesses from the agent perspective. These studies are summarized in Table 2.

Author	Focus o2X\Swf The Study	Findings	Knowledge Gap	Focus On The Current Study
Aduda, Kiragu, Ndwiga (2013)	The study looked into the association between agency banking and financial performance of commercial banks in Kenya.	Agency banking was persistently enhancing banks profitability	The study concentrated on the performance of commercial banks only.	The current study was based on the success of the bank agents businesses.
Kiburi (2016)	The study was on Assessment of Factors Determining the Performance of Bank-Led Agent Bank Businesses in Kenya	The researcher found out that banks should encourage their customers to embrace agent banking particularly for deposits, account opening and balance inquiries	The study was more on the operational factors affecting the bank agents	The study was based on the financial factors.
Mwangi (2012)	The study was done to examine the effect of agency banking on banks in Kenya	The researcher found out that banks ought to consider rebuilding and reconsider the criteria for choosing and settling on the operators to address the liquidity issue	The study concentrated on liquidity requirements of bank agents	This study was based on the liquidity of the bank agents in addition to other cash flow activities of bank agents businesses
Watiri (2013)	Watiri assessed the implementation of the agency banking model by Equity bank in Kenya.	The study looked into the factors that affect bank agents. These factors include costs, client awareness, and absence of banks in some locations	The study's target population was equity bank agents only	This current study was based on two more major banks in relation to agency banking.
David (2017)	David did an examination on Effect of Agency Banking Operation on Profitability of Commercial Banks in Nairobi County	The study concluded that the introduction of agency banking has crossed over any barrier amongst client and his bank and in this manner spares time, vitality and decreases worry of the client.	The study suggested further research should focus on the factors affecting adoption of agency banking from an agent's point of view.	This study was based on the recommendation of further study by this researcher.
Stella (2015)	Stella did a study to assess the utilization of agency banking on the performance of Kenyan banks within Nairobi.	The study established that liquidity availability, agency regulation, agency infrastructure cost and security was a major influence to banks performance. The researcher recommended that banks should give more attention to security and find better ways of vetting their agents. The agents should be more financially included to handle many transactions.	The study suggested further research should focus on the factors affecting adoption of agency banking from an agent's point of view.	This study was based on the recommendation of further study by this researcher.

Porteous (2006)	Porteous distinguishes between mobile phone agent banking and branchless banking based on the target customer segment	The researcher states that the ones which the mobile phone is only another channel to an existing bank account are known as additive models; while the ones in which the financial products are linked to the use of the phone and majorly targeting the unbanked, who are largely low income people are called transformational models	The study did not focus on financial performance of agent banks.	This study was based on financial performance of agent banks in Kenya.
Lyman, Timothy, Pickens and Porteous (2008)	They did a study to distinguish between brick and mortar based and non-bank-based models, basically depending on the nature of the organization promoting the scheme.	They concluded that Non-bank-based models are characterised by the entry of players with fairly strong competencies in technology and/or retailing as symbolised by mobile phone operators into financial services distribution.	The study did not focus on financial performance of agent banks.	This study focused on financial performance of agent banks in Kenya.
Scornavacca and Barnes (2004)	They did a study on the recent innovations in telecommunications.	They suggest that current telecommunications innovations have enabled the launch of new access methods for banking services, one being mobile banking; whereby a customer is able to interact with his/her bank via a mobile device such as a mobile phone or personal digital assistant. The technological innovations are ultimately anticipated to continue affecting the agent banking model within a rapidly changing technological environment.	The study concentrated on telecommunication firms	This study focused on bank agents
Ndung'u, Okibo and Nyang'au (2015)	They examined factors affecting performance of banking agents in Kenya.	The study concluded that cost of financial services and financial literacy were the major factors affecting performance of banking agents.	The study was conducted in Kisii County	This study was conducted in Kiambu County
Kilonzo, Ariemba and Migoshi (2017)	They studied factors influencing the use of agency banking by the residents of Makueni Sub-County, Kenya	The results showed that the banking products had a significant prediction of the use of agency banking by the residents of Makueni Sub-County.	The study did not address the objectives of the current study	This study focused on four factors including capital requirements, cash management practices, innovation and financial services cost.

Table 2: Summary of literature Review and Research Gap
Source: Author, 2017

2.5. Conceptual Framework

As noted by Mugenda and Mugenda (2003), a conceptual framework encourages the reader to rapidly observe the proposed connections between the variable in the examination and demonstrate the same graphically. This conceptual

framework attempts to examine and explain the business growth activities that determine the financial performance of bank agents. The specific activities include; capital requirements, cash management, innovation and financial services cost.

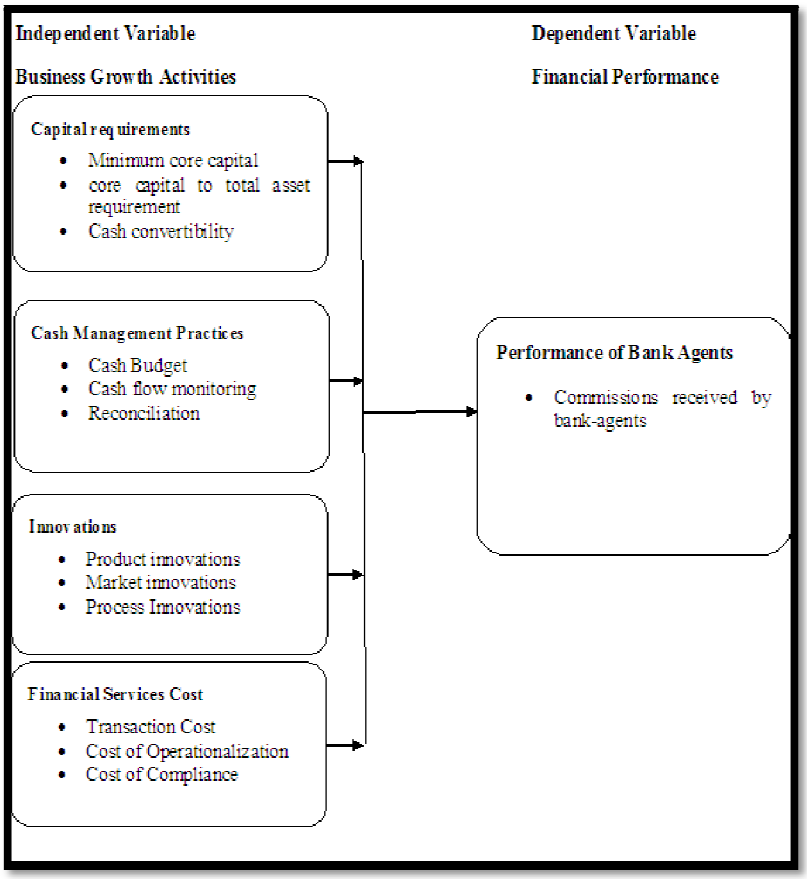

Figure 1: Conceptual Frame Work
Source: Author, 2017

3. Research Methodology

3.1. Introduction

The chapter is based on the research methodology used in the study. In specific, the chapter outlines the research design, target population, sample design, data collection instrument, validity and reliability of data, data analysis and presentation and ethical considerations.

3.2. Research Design

This study adopted a quantitative research design. In order to achieve the research objectives and to address the research problem, this study will conduct a quantitative research so as to generate quantifiable data. According to Couchman and Dawson (1995) a quantitative research is primarily concerned with observable and measurable phenomena involving people, events or things. Quantitative research is conclusive in its purpose as it tries to quantify the problem and understand how prevalent it is by looking for projectable results to a larger population. The quantitative research was designed such that questionnaires form the main research instrument.

3.3. Target Population

The research targeted all the bank agents operating within the rural areas and major towns of Kiambu County of Kenya. The respondents were the banks agent business owners in Kiambu County licensed to offer agency banking services. The total population for the study consisted of 1,072 bank agents businesses operating in the County as at 31st December 2016according to FIN clusion Lab Microfinance Information Exchange (2016).

3.4. Sample Design

To guarantee sufficient gathering of data, stratified random sampling designwasutilized to choose the sample. Sampling was done based on the sub-counties in the county. The population was listed according to the different sub-counties which included Gatundu South, Gatundu North, Juja, Thika Town, Ruiru, Githunguri, Kiambu, Kiambaa, Kabete, Kikuyu, Limuru and Lari sub regions. Since the target population was less than 10,000, the Fisher *et al*, (2003) formula was employed. The Fisher formula as follows:

$$n = \frac{z^2 p(1-p)}{d^2}$$

Where;
n= sample size
z= the standard normal deviate value for the level of confidence, for instance 95% level of confidence =1.96.
d= margin of error or level of precision at 0.08 for CI at 92%
p= proportion to be estimated, Israel (2009) recommends that if one doesn't know the value of p then you should assume p=0.5
Therefore, sample size is arrived at as follows:

$$n = \frac{(1.96^2)(0.5)(1-0.5)}{(0.08)^2}$$

$$n = 150$$

Since the population was less 10,000, the sample size was further adjusted as follows:
$n_0 = n/ (1+ ((n -1)/ N))$
$n_0=150/ (1+ ((150-1)/1072))$
$n_0=131.69$
Therefore, the sample size was 132 respondents from the major banks in the County.

Sub-County	Population Distribution	Sample Size
Gatundu South	86	11
Gatundu North	97	12
Juja	92	11
Thika Town	109	13
Ruiru	102	13
Githunguri	68	8
Kiambu	124	15
Kiambaa	81	10
Kabete	69	9
Kikuyu	108	13
Limuru	79	10
Lari	57	7
Total	1072	132

Table 3: Sample Size
Source: Author, 2017

3.5. Data Collection Procedure

This study used primary data, which was gathered using structured questionnaires having closed-ended questions. According to Kumar (2005), a questionnaire is a list of questions relating to the study variables and which the informants are expected to respond to. The questionnaire had two sections, the bio-data and the variable section.

3.6. Operationalization and Measurement of variables

Variable	Category	Operationalization	Measurement
Capital requirements	Independent	The amount of capital, cash and e-float held by the bank agents	• Minimum core capital • core capital to total asset requirement • Cash convertibility
Cash management practices	Independent	The Capability tomanagefinances	• Cash Budget • Cash flow monitoring • Reconciliation
Innovations	Independent	To measure improvements in processes and methods.	• New products or • Product improvements • Ratio of usage of new products to total usage of all products
Financial services Cost	Independent	To measure cost involved in providing financial services.	• Transaction Cost • Cost of Operationalization • Cost of Compliance
Financial Performance	Dependent	The Performance(Profits) of bank agents.	• Commissions paid to bank agents

Table 4: Operationalization and Measurement of Variables
Source: Researcher, 2017

3.7. Validity and Reliability Tests

Validity is the exactness and weightiness of data according to the objectives of a given research (Mugenda&Mugenda, 2003). Validity features two major forms: external and internal validity. To ensure validity, the researcher concentrated more on use of a closed ended questionnaire where respondents chose from a list of choices. Reliability alludes to how much the instrument gives or yields reliable outcomes when more than once applied (Mugenda&Mugenda, 2003).

To establish the instruments reliability, internal consistency approach was used. The instrument was pre-tested through a pilot study by administering sample questionnaire to 16 agents who were not part of the study, one from each sub county. According to William, Gunasekaran and Mcgaughy(2011), 5 to 10% of the population sample is adequate for pilot study. This study used 5% of the sample for pre-testing. This helped the specialist to evaluate whether the respondents comprehended the polls and whether the inquiries asked would give the analyst the information required for the examination. If there should arise an occurrence of any defects and predisposition, the instrument would be adjusted for clearness and exactness.

Cronbach's Alpha	N of Items	Comment
.754	43	Reliable

Table 5: Reliability Results

Results in Table 3.3 revealed that all the items in the questionnaire were reliable since they had an average alpha value of 0.754, which was greater than the minimum threshold of 0.7. Therefore, all the items in the questionnaire were used in main data collection.

3.8. Data Analysis and Presentation

The gathered data was edited, classified, coded and analyzed using descriptive and inferential statistics. Data was analyzed using statistical package for social science (SPSS, version 21.) The findings were presented using frequency Tables and Graphs.

3.8.1. Descriptive Statistics

Descriptive statistics were the first statistical operation to be performed during the data analysis. The objective was to describe the characteristics of the sample under investigation that was subsequently inferred to the entire population of interest. In light of this, the main statistical operations that were performed included frequencies, mean and standard deviation.

3.8.2. Inferential Statistics

According to Zikmund (2010), data analysis refers to the use of thinking to comprehend the information that has been accumulated with the point of deciding reliable examples and outlining the important restrained elements uncovered in the examination. This includes coding, altering, data entry, and checking the entire data handling process. To decide the patterns uncovered in the data gathered in regards to the chosen factors, data analysis was guided by the research design. The data and information obtained through the questionnaires was first and foremost checked for completeness. Quantitative data gathered from correctly filled questionnaires was coded, tabulated and analyzed using SPSS version 21.0. Descriptive statistics such as mean percentages were computed to capture the characteristics of the variables under study while inferential statistics, specifically the Pearson correlation and regression coefficient were used to assess the relationship of the dependent and the independent variables.

3.8.3. Empirical Model

Multiple regression analysis was adopted to explain the link between independent variables (capital requirement, cash management practices, innovation and financial services cost) and the dependent variable (financial performance of bank agents businesses in Kiambu, Kenya). The model was as follows'

$Y = \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+e$

Where;

Y=Bank Agents Performance

β_0 =Constant

$\beta_1, \beta_2 \beta_3 \text{and} \beta_4$=Coefficients of independent variables.

X_1=Capital Requirements

X_2=Cash Management Practices

X_3=Innovation

X_4=financial Services cost

e=Error term of the model.

3.9. Ethical Consideration

The study utilized Free, Prior and Informed Consent (FPIC) to ensure full exposure of the research. The respondents were sufficiently educated on the nature and reason for the research, the methodology to be utilized, and the normal advantages to their associations and other vital partners, any potential or predictable dangers, and inconveniences, and contrasting options to partaking in this study. Also, the study gave the respondents the chance to make inquiries and

offered an explanation to their fulfillment. The researcher sought permission from the School of Business to carry out the study and an introduction letter was attached to all the questionnaires explaining the aim and importance of the study.

4. Results and Discussions

4.1. Introduction

This section outlines the data analysis, research findings and interpretation. Tables are used to present the findings. The examined data is aligned as per the objectives of the study.

4.2. Response Rate

Results in Table 6 present the study's response rate.

Response	Frequency	Percent
Returned	103	78%
Unreturned	29	22%
Total	132	100%

Table 6: Response Rate
Source: Research Data, 2018

The researcher issued 132 questionnaires to the selected respondents. Out of the 132, 103 questionnaires were successfully filled and returned. This represented a 78 percent response rate. According to Mugenda and Mugenda (2003), 50 percent response rate is adequate for analysis. Therefore, a response rate of 78 percent was sufficient for the analysis.

4.3. Demographic Characteristics

This section includes information which describes basic characteristics of the respondents including gender and year of operation.

4.3.1. Gender of the Respondents

The respondents were asked to state their gender.

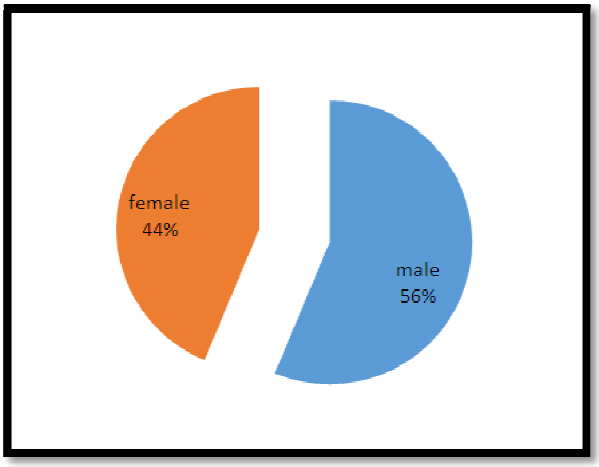

Figure 2: Gender of the Respondents
Source: Research Data, 2018

Results in Figure 2 reveal that majority (56 percent) of the respondents were male while 44 percent were female. This implies that there is male dominance in the bank agency business.

4.3.2. Years of Operation

The respondents were asked to indicate the number of years they have operated as a bank agent.

	Frequency	Percent
less than 1 year	15	14.6
2-5 years	25	24.3
6-10 years	45	43.7
more than 10 years	18	17.5
Total	103	100

Table 7: Years of Operation
Source: Research Data, 2018

Results in Table 7 indicate that 43.7percent of the respondents have operated as bank agents for a period between six to ten years, 24.3percent indicated two to five years, 17.5 percent indicated more than ten years while 14.6 percent indicated less than one year.

4.4. Descriptive Statistics

4.4.1. Capital Requirements and Financial Performance of Bank Agents Businesses

The first objective of the study was to analyze the effect of capital requirements on financial performance of bank agents businesses in Kiambu County. The respondents were asked to give their responses to the questions on capital requirements. Results are presented in Table 8.

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
We observe the core capital to total asset requirement	1.00%	17.50%	6.80%	42.70%	32.00%	3.87	1.08
We observe the institutional capital to total asset requirement	2.90%	15.50%	4.90%	38.80%	37.90%	3.93	1.15
We observe the minimum core capital	1.00%	4.90%	11.70%	46.60%	35.90%	4.12	0.87
We observe the core capital to total deposits requirement.	1.90%	10.70%	10.70%	34.00%	42.70%	4.05	1.07
We observe high cash convertibility	1.00%	7.80%	9.70%	39.80%	41.70%	4.14	0.95
Average						4.02	1.02

Table 8: Capital Requirements
Source: Research Data, 2018

Results indicate that majority (74.7percent) of the respondents agreed with the statement that the bank agents observe the core capital to total asset requirement, 76.7percent agreed that they observe the institutional capital to total asset requirement, 82.5 percent agreed that they observe the minimum core capital, 76.7percent agreed that they observe the core capital to total deposits requirement and 81.5percent of the respondents agreed with the statement that they observe high cash convertibility.

Using the Likert scale, the mean average responses is4.02 meaning that majority of the respondents interviewed agreed with most of the statements on capital requirements. However, the responses are varied as shown by a standard deviation of 1.02.

The findings are consistent with the work of Stella (2015), who established that liquidity availability, agency regulation, agency infrastructure cost and security is a major influence to banks performance.

	Frequency	Percent
Small Extent	17	16.5
Moderate Extent	30	29.1
Great Extent	56	54.4
Total	103	100

Table 9: Capital Requirements Influence on Financial Performance
Source: Research Data, 2018

Further, the respondents were asked to rate the extent to which capital requirements aspects influences their business' financial performance. Results in Table 9 indicate that 54.4percent of the respondents indicated great extent, 29.1percent indicated moderate extent while 16.5 percent indicated small extent.

4.4.2. Cash Management and Financial Performance of Bank Agents Businesses

The second objective of the study was to examine the effect of cash management on financial performance of bank agents businesses in Kiambu County. The respondents were asked to give their responses to the questions on cash management. Results are presented in Table 10.

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
We have well prepared cash budgets	3.90%	6.80%	12.60%	37.90%	38.80%	4.01	1.07
We have ways of pre-determining cash shortage/surplus	6.90%	10.70%	9.70%	40.70%	32.00%	3.92	1.05
We monitor cash flow on regular basis	1.90%	16.50%	13.60%	37.90%	30.10%	3.78	1.11
We spend cash as planned.	0.00%	9.70%	15.50%	41.70%	33.00%	3.98	0.94
We usually conduct bank reconciliation	0.00%	8.70%	22.30%	37.90%	31.10%	3.91	0.94
Average						3.92	1.02

Table 10: Cash Management
Source: Research Data, 2018

Results indicate that majority (76.7 percent) of the respondents agreed with the statement that the bank agents have well prepared cash budgets, 72.7 percent agreed that they have ways of pre-determining cash shortage/surplus, 68percent agreed that they monitor cash flow on regular basis, 74.7 percent agreed that they spend cash as planned and 69percent of the respondents agreed that they usually conduct bank reconciliation. Using the Likert scale, the mean average responses is 3.92 meaning that majority of the respondents interviewed agreed with most of the statements on cash management. However, the responses are varied as shown by a standard deviation of 1.02.

The findings agree with those of Muthama (2016), who revealed that cash budgets assist in making cash flow projections and ensures budgetary control. As such, cash management practices influence operational performance of organizations.

Response	Frequency	Percent
Small Extent	20	19.4
Moderate Extent	37	35.9
Great Extent	46	44.7
Total	103	100

Table 11: Cash Management Influence on Financial Performance
Source: Research Data, 2018

Further, the respondents were asked to rate the extent to which cash management practices influences their business' financial performance. Results in Table 11 indicate that 44.7 percent of the respondents indicated great extent, 35.9percent indicated moderate extent while 19.4 percent indicated small extent.

4.4.3. Innovations and Financial Performance of Bank Agents Businesses

The third objective of the study was to assess the extent to which innovations affects financial performance of bank agents businesses in Kiambu County, Kenya. The respondents were asked to give their responses to the questions on innovation. Results are presented in Table 12.

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
We have adopted the use technological innovations	0.00%	31.10%	15.50%	31.10%	22.30%	3.45	1.15
We have adopted product innovations	1.00%	5.80%	10.70%	42.70%	39.80%	4.15	0.90
We have adopted market innovations	0.00%	3.90%	10.70%	41.70%	43.70%	4.25	0.80
We have adopted process innovations	2.90%	14.60%	7.80%	44.70%	30.10%	3.84	1.10
We have adopted organizational innovations	2.90%	23.30%	10.70%	38.80%	24.30%	3.58	1.18
Average						3.85	1.03

Table 12: Innovations
Source: Research Data, 2018

Results indicate that majority (53.4percent) of the respondents agreed with the statement that the bank agents have adopted the use technological innovations, 82.5percent agreed that the bank agents have adopted product innovations, 85.4percent agreed that they have adopted market innovations, 74.8percent agreed that they have adopted process innovations while 63.1percent of the respondents agreed that they have adopted organizational innovations. Using the Likert scale, the mean average responses is 3.85 meaning that majority of the respondents interviewed agreed with most of the statements on innovation. However, the responses are varied as shown by a standard deviation of 1.03.
The study findings concur with that of Scornavacca and Barnes (2004) that technological innovations affect the agent banking model within a rapidly changing technological environment.

Response	Frequency	Percent
Small Extent	28	27.2
Moderate Extent	32	31.1
Great Extent	43	41.7
Total	103	100

Table 13: Innovation Influence on Financial Performance
Source: Research Data, 2018

Further, the respondents were asked to rate the extent to which innovation influences their business' financial performance. Results in Table 13 indicate that 41.7 percent of the respondents indicated great extent, 31.1percent indicated moderate extent while 27.2percent indicated small extent.

4.4.4. Financial Services Cost and Financial Performance of Bank Agents Businesses

The fourth objective of the study was to determine the effect of financial services cost on financial performance of bank agents businesses in Kiambu County, Kenya. The respondents were asked to give their responses to the questions on financial services cost. Results are presented in Table 14.

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
We operate on minimum transaction costs	0.00%	15.50%	13.60%	38.80%	32.00%	3.87	1.035
Our operational costs are manageable.	1.00%	25.20%	17.50%	32.00%	24.30%	3.53	1.145
Our customers are happy with our rates	0.00%	9.70%	10.70%	39.80%	39.80%	4.1	0.945
The compliance cost is high	12.60%	25.20%	15.50%	28.20%	18.40%	3.15	1.331
We face high risk cost	16.50%	23.30%	29.10%	25.20%	5.80%	2.81	1.164
Average						3.492	1.124

Table 14: Financial Service Cost
Source: Research Data, 2018

Results indicate that majority (70.8 percent) of the respondents agreed with the statement that the bank agents operate on minimum transaction costs, 56.3 percent agreed that our operational costs are manageable, 79.6percent agreed that our customers are happy with our rates, 46.6 percent agreed that the compliance cost is high while 39.8percent disagreed with the statement that we face high risk cost. Using the Likert scale, the mean average responses is 3.49 meaning that majority of the respondents interviewed were neutral about most of the statements on financial services cost. However, the responses are varied as shown by a standard deviation of 1.03.

The study findings agree with that of Ndung'u, Okibo and Nyang'au (2015), who concluded that cost of financial services is a major factor affecting performance of banking agents in Kisii County.

	Frequency	Percent
Small extent	18	17.5
Moderate extent	29	28.2
Great extent	56	54.4
Total	103	100

Table 15: Financial Services Cost Influence on Financial Performance
Source: Research Data, 2018

Further, the respondents were asked to rate the extent to which financial services cost influences their business' financial performance. Results in Table 15 indicate that 54.4percent of the respondents indicated great extent, 28.2percent indicated moderate extent while 17.5 percent indicated small extent.

4.4.5. Financial Performance of Bank Agents Businesses

Financial performance of bank agents businesses is the dependent variable in this study. The respondents were asked to give their responses to the questions on financial performance of bank agents businesses. Results are presented in Table 16.

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
Our business has experienced increased returns	1.00%	14.60%	8.70%	35.00 %	40.80%	4	1.08
Our business has experienced increased market share	3.90%	16.50%	9.70%	35.90 %	34.00%	3.8	1.20
Our business has experienced increased number of transactions	5.80%	14.60%	8.70%	31.10 %	39.80%	3.84	1.26
We have more customers opening accounts.	1.00%	10.70%	4.90%	37.90 %	45.60%	4.17	1.00
We have increased commissions	4.90%	6.80%	2.90%	43.70 %	41.70%	4.11	1.07
Average						3.98	1.12

Table 16: Financial Performance
Source: Research Data, 2018

Results indicate that majority (75.8 percent) of the respondents agreed with the statement that the bank agents business has experienced increased returns, 69.9 percent agreed that our business has experienced increased market share, 70.9percent agreed that their business has experienced increased number of transactions, 83.5percent agreed that they have more customers opening accounts while 85.4 percent of the respondents agreed that they have increased commissions.

Using the Likert scale, the mean average responses is 3.98 meaning that majority of the respondents interviewed agreed with most of the statements on financial performance. However, the responses are varied as shown by a standard deviation of 1.12.

4.5. Inferential Statistics

4.5.1. Correlation Analysis

The correlation analysis results are presented in Table 17. This section analyses the association between the study variables. Of particular focus is the association between the dependent variable (financial performance) and each of the independent variables. The correlation between the variables is captured in terms of direction and magnitude as well as significance of the association.

		Financial Performance	Capital Requirements	Cash management	Innovation	Financial Services Cost
Financial Performance	Pearson Correlation	1.000				
	Sig. (2-tailed)					
Capital Requirements	Pearson Correlation	.625**	1.000			
	Sig. (2-tailed)	0.000				
Cash management	Pearson Correlation	.714**	.845**	1.000		
	Sig. (2-tailed)	0.000	0.000			
Innovation	Pearson Correlation	.833**	.738**	.740**	1.000	
	Sig. (2-tailed)	0.000	0.000	0.000		
Financial Services Cost	Pearson Correlation	-.812**	-.753**	-.729**	-.847**	1.000
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	

Table 17: Correlation Matrix
Source: Research Data, 2018
*** Correlation is significant at the 0.01 level (2-tailed)*

The results show that capital requirements and financial performance of bank agents businesses are positively and significantly associated (r=0.625, p=0.000). The results further indicates that cash management and financial performance of bank agents businesses are positively and significantly associated (r=0.714, p=0.000). Additionally, results show that innovation and financial performance of bank agents businesses are positively and significantly associated (r=0.833, p=0.000). Finally, results show that financial services cost and financial performance of bank agents businesses are negatively and significantly associated (r=-0.812, p=0.000).

The correlation results imply that capital requirements, cash management, innovation and financial performance of bank agents businesses change in the same direction. When capital requirements, cash management or innovation improves, financial performance of bank agents businesses also happens to improve and vice versa. On the other hand, financial services cost and financial performance of bank agents businesses change in opposite direction. An increase in financial services cost is accompanied by a decrease in financial performance of bank agents businesses also happens to improve and vice versa.

4.5.2. Regression Analysis

The results presented in Table 4.13 present the summary of the regression model used in explaining the study phenomena. The results indicate the joint explanatory power of the independent variables in explaining changes in the dependent variable (financial performance of bank agents). This is particularly captured by the R square.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.874a	0.764	0.755	0.252702

Table 18: Model Summary
Source: Research Data, 2018

Results indicate that capital requirements, cash management, innovation and financial services cost are satisfactory variables in explaining financial performance of bank agents businesses. This is supported by coefficient of determination also known as the R square of 0.764. This means that capital requirements, cash management, innovation and financial services cost explain 76.4 percent of the total variations in the dependent variable which is financial performance of bank agent businesses.

Table 19 provides the results on the analysis of the variance (ANOVA). This shows the overall significance of the study model. That is, the suitability of the independent variables in predicting the dependent variable.

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	20.31	4	5.078	79.514	.000b
Residual	6.258	98	0.064		
Total	26.569	102			

Table 19: Analysis of Variance
Source: Research Data, 2018

The results indicate that the overall model is statistically significant. Further, the results imply that the independent variables are good predictors of the dependent variable. This is supported by an F statistic of 79.514 and the reported p value (0.000) which is less than the conventional probability of 0.05, level of significance.
Table 4.15 presents the regression of coefficient results. This indicates the unit change in the dependent variable (financial performance of bank agents) when each of the independent variables change by a unit.

	B	Std. Error	t	Sig.
(Constant)	3.386	0.74	4.574	0.000
Capital Requirements	0.318	0.104	3.055	0.003
Cash Management	0.343	0.102	3.379	0.001
Innovation	0.489	0.101	4.853	0.000
Financial Services Cost	-0.388	0.097	-4.007	0.000

Table 20: Regression of Coefficients
Source: Research Data, 2018

In line with the first research question, results in Table 20 reveal that there is a positive and significant relationship between capital requirements and financial performance of bank agent businesses. This is supported by a beta coefficient of 0.318 and a p value of 0.003, which is less than the critical p value of 0.05 at 5percent level of significance. This study findings agree with Stella (2015) conclusion that liquidity availability, agency regulation, agency infrastructure cost and security have a major influence towards bank performance.

In line with the second research question, results indicate that there is a positive and significant relationship between cash management and financial performance of bank agent businesses. This is supported by a beta coefficient of 0. 343 and a p value of 0.001, which is less than the critical p value of 0.05 at 5percent level of significance. This study findings agree with Muthama (2016) revelation that cash budgets assist in making cash flow projections and ensures budgetary control. As such, cash management practices influence operational performance of organizations.
Further, in response to the third research question, results indicate that there is a positive and significant relationship between innovation and financial performance of bank agent businesses. This is supported by a beta coefficient of 0. 343 and a p value of 0.001, which is less than the critical p value of 0.05 at 5percent level of significance. This is supported by a beta coefficient of 0.489 and a p value of 0.000, which is less than the critical p value of 0.05 at 5percent level of significance. This study findings agree with Scornavacca and Barnes (2004) assertion that technological innovations affect the agent banking model within a rapidly changing technological environment

Finally, in response to the fourth research question, results show that there is a negative and significant relationship between financial services cost and financial performance of bank agent businesses. This is supported by a beta coefficient of -0.388 and a p value of 0.000, which is less than the critical p value of 0.05 at 5percent level of significance. This study findings supports Ndung'u, Okibo and Nyang'au (2015) conclusion that cost of financial services is a major factor hindering performance of banking firms. Thus, the optimal model for the study is: Financial Performance of Bank Agent Businesses = 3.386+0.318 Capital Requirements+0.343 Cash Management+0.489 Innovation-0.388 Financial Services Cost

The regression results revealed thatcapital requirements have a positive and significant effect on financial performance of bank agent businesses in Kiambu County.The coefficient value of 0.318 units implies that an improvement in capital requirements by one unit would results to an increase in financial performance of bank agent businesses by 0.318 units.

Further, an improvement in cash management by one unit would results to an increase in financial performance of bank agent businesses by 0.343 units. In addition, an improvement in innovation by one unit would results to an increase in financial performance of bank agent businesses by 0.489 units. Finally, an increase in financial services cost by one unit would results to a decrease in financial performance of bank agent businesses by 0.388 units.
The overall regression results imply that innovation best explains financial performance of bank agent businesses in Kiambu County, followed by cash management practices, then capital requirements while financial services cost least explains the financial performance of bank agent businesses in Kiambu County.

5. Summary of Findings, Conclusions and Recommendations

5.1. Introduction

This chapter deals with the summary of the findings, the conclusion and recommendations. This is done in line with the objectives of the study. Areas of further research are suggested and limitations of the study are taken into account.

5.2. Summary of Findings

This section summarizes the findings that were obtained in chapter four.

5.2.1. Capital Requirements

The first objective of the study was to analyze the effect of capital requirements on financial performance of bank agents businesses in Kiambu County, Kenya. Majority of the respondents noted that they observe the core capital to total

asset requirement, they observe the institutional capital to total asset requirement, they observe the minimum core capital, they observe the core capital to total deposits requirement and observe high cash convertibility

The correlation results revealed that capital requirements and financial performance of bank agents businesses have a strong positive and significant association. Further, the regression analysis results revealed that capital requirements have a positive and significant relationship with financial performance of bank agent businesses. This implies that an improvement in capital requirements would results to an increase in financial performance of bank agent businesses. The findings are consistent with the work of Stella (2015), who established that liquidity availability, agency regulation, agency infrastructure cost and security is a major influence to banks performance.

5.2.2. Cash Management

The second objective of the study was to examine the effect of cash management on financial performance of bank agents businesses in Kiambu County, Kenya. Majority of the respondents noted that their organizations have well prepared cash budgets, have ways of pre-determining cash shortage/surplus, monitor cash flow on regular basis, spend cash as planned and conduct bank reconciliation.

The correlation results revealed that cash management and financial performance of bank agents businesses have a strong positive and significant association. Further, the regression analysis results revealed that cash management have a positive and significant relationship with financial performance of bank agent businesses. This implies that an improvement in cash management would results to an increase in financial performance of bank agent businesses. The findings agree with those of Muthama (2016), who revealed that cash budgets assist in making cash flow projections and ensures budgetary control. As such, cash management practices influence operational performance of organizations.

5.2.3. Innovations

The third objective of the study was to assess the extent to which innovations affects financial performance of bank agents businesses in Kiambu County, Kenya. Majority of the respondents agreed that they have adopted the use technological innovations, product innovations, market innovations, process innovations and organizational innovations.

The correlation results revealed that innovation and financial performance of bank agents businesses have a strong positive and significant association. Further, the regression analysis results revealed that innovation has a positive and significant relationship with financial performance of bank agent businesses. This implies that an improvement in innovation would results to an increase in financial performance of bank agent businesses.The study findings concur with that of Scornavacca and Barnes (2004) that technological innovations affect the agent banking model within a rapidly changing technological environment.

5.2.4. Financial Services Cost

The fourth objective of the study was to determine the effect of financial services cost on financial performance of bank agents businesses in Kiambu County, Kenya. Majority of the respondents agreed that they we operate on minimum transaction costs, operational costs are manageable and customers are happy with their rates.

The correlation results revealed that financial services costand financial performance of bank agents businesses have a strong negative and significant association. Further, the regression analysis results revealed that financial services cost has a negative and significant relationship with financial performance of bank agent businesses. This implies that an increase in financial services cost would results to a decrease in financial performance of bank agent businesses. The study findings agree with that of Ndung'u, Okibo and Nyang'au (2015), who concluded that cost of financial services is a major factor affecting performance of banking agents in Kisii County.

5.3. Conclusion

Based on findings, the study concluded that business growth activities influence the financial performance of bank agents businesses in Kiambu County, Kenya. In particular, the study concluded that capital requirements, cash management and innovation have a significantly positive influence on financial performance of bank agents businesses in Kiambu County, Kenya. Further, the study concluded that financial services cost has a significantly negative influence on financial performance of bank agents businesses in Kiambu County, Kenya. Finally, the study concluded that innovation best explains financial performance of bank agent businesses, followed by cash management practices, then capital requirements while financial services cost least explains the financial performance of bank agent businesses.

5.4. Recommendations

From the findings, this study recommends the need for bank agent businesses to strengthen their capital requirements related aspects. These are; core capital to total asset requirement, institutional capital to total asset requirement, minimum core capital, core capital to total deposits requirement and cash convertibility. An improvement in the mentioned aspects is likely to have a significant positive impact on financial performance of the bank agent businesses in Kenya.

Further, the study recommends the need for bank agent businesses to strengthen their cash management related practices. These include; cash budgets, cash shortage/surplus management, monitoring cash flow and bank reconciliation. An improvement in the mentioned cash management practices is likely to have a significant positive impact on financial performance of the bank agent businesses in Kenya.

In addition, the study recommends the need for bank agent businesses to strengthen their innovation related practices. These include; technological innovations, product innovations, market innovations, process innovations and

organizational innovations. An improvement in the mentioned innovation aspects is likely to have a significant positive impact on financial performance of the bank agent businesses in Kenya.

The study also recommends the need for bank agent businesses to strengthen their financial services cost related aspects. These include; minimum transaction costs and manageable operational costs. The businesses should find ways of cutting down on the costs. A reduction in costs will result to an increase in financial performance of the bank agent businesses in Kenya.

Finally, the study recommends as a minimum requirement by the banks licensed to offer agency banking, to train mandatory training for their bank agents and should be a condition for appointment of any bank agent.

5.5. Areas of Further Studies

This study focused on effect of business growth activities on financial performance of bank agents; case of Kiambu County, Kenya. Further studies should focus on bank agents in other counties to establish whether they also affected by the same business growth activities. In addition, other studies could also focus on other industries such as insurance.

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APPENDIX I

Introductory Letter

Dear Sir/ Madam,

Re: Introductory Letter

I am a student at Kenyatta University, pursuing Masters of Business Administration degree. I am carrying out a research on business growth activities and financial performance of bank agents businesses; a case of KiambuCounty, Kenya and you have been identified as one of the respondents in this study.

I therefore request you kindly take some time and respond to the questionnaire as truthfully and comprehensively as possible. The information gathered will be treated with utmost confidentiality and used for academic purposes only.

I thank you for your positive response.

Yours Sincerely,

Antony KanyangoNderitu

Questionnaire

Please note that your views and answers to the following questions will be treated with utmost confidentiality.

Section A: General Information

1. Gender

☐ Male

☐ Female

2. How many years have you operated as a bank agent?

☐ Less than 1 year

☐ 2-5 years

☐ 6-10 years

☐ More than 10 years

Capital Requirements

Please indicate your agreement or otherwise with the following statements relating to capital requirements.

Statement	Strongly Disagree [1]	Disagree [2]	Neutral [3]	Agree [4]	Strongly Agree [5]
We observe the core capital to total asset requirement					
We observe the institutional capital to total asset requirement					
We observe the minimum core capital					
We observe the core capital to total deposits requirement.					
We observe high cash convertibility					

To what extent does capital requirement influence the financial performance of your business?

Small Extent ( ) Moderate Extent ( ) Great Extent ( )

Cash Management Practices

Please indicate your agreement or otherwise with the following statements relating to cash management Practices.

Statements	Strongly Disagree [1]	Disagree [2]	Neutral [3]	Agree [4]	Strongly Agree [5]
We have well prepared cash budgets					
We have ways of pre-determining cash shortage/surplus					
We monitor cash flow on regular basis					
We spend cash as planned.					
We usually conduct bank reconciliation					

To what extent docash management practices influence the financial performance of your business?

Small Extent ( ) Moderate Extent ( ) Great Extent ( )

Innovation

Please indicate your agreement or otherwise with the following statements relating to innovation.

Statements	Strongly Disagree [1]	Disagree [2]	Neutral [3]	Agree [4]	Strongly Agree [5]
We have adopted the use technological innovations					
We have adopted product innovations					
We have adopted market innovations					
We have adopted process innovations					
We have adopted organizational innovations					

To what extent doesinnovation influence the financial performance of your business?

Small Extent ( ) Moderate Extent ( ) Great Extent ( )

Section E: Financial Services Cost

Please indicate your agreement or otherwise with the following statements relating to financial services cost.

Statements	Strongly Disagree [1]	Disagree [2]	Neutral [3]	Agree [4]	Strongly Agree [5]
We operate on minimum transaction costs					
Our operational costs are manageable.					
Our customers are happy with our rates					
The compliance cost is high					
We face high risk cost					

To what extent dofinancial services cost influence the financial performance of your business?
Small Extent ( ) Moderate Extent ( ) Great Extent ( )

Section F: Financial Performance

Please indicate your agreement or otherwise with the following statements relating to financial performance of your business.

Statements	Strongly Disagree [1]	Disagree [2]	Neutral [3]	Agree [4]	Strongly Agree [5]
Our business has experienced increased returns					
Our business has experienced increased market share					
Our business has experienced increased number of transactions					
We have more customers opening accounts.					
We have increased commissions					

Commercial Banks Licensed to Offer Agency Banking in Kenya

1. Equity Bank
2. Kenya Commercial Bank
3. Co-operative Bank
4. National Bank
5. Family Bank
6. Diamond Trust Bank
7. Eco Bank
8. Postbank
9. NIC Bank
10. Chase Bank
11. Consolidated Bank
12. Citibank
13. Bank of Africa
14. Prime Bank
15. Barclays Bank
16. I&MBank
17. Transnational Bank