EFFECT OF AGENCY BANKING TRANSACTIONS ON FINANCIAL PERFORMANCE OF SMALL SCALE ENTERPRISES IN KIAMBU TOWN, KENYA

BY

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JUNE, 2019
DECLARATION

This thesis is my original work and has not been presented for a degree in any other university. No part of this document should be reproduced without the express authority of the author or and Kenyatta University.

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DEDICATION

To my mother, The Late Anne Nyambura Gitau for the sacrifices she made to ensure I got quality education. To my husband, Dr. Joshua Tumuti Wachira, for giving my life a new meaning and inspiring me to complete my studies. To my children, Anne Nyambura Tumuti and Sammy Wachira Tumuti for encouraging me throughout the course of the study.
ACKNOWLEDGEMENT

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TABLE OF CONTENT

DECLARATION .............................................................................................................. ii
DEDICATION ............................................................................................................... iii
ACKNOWLEDGEMENT ............................................................................................... iv
TABLE OF CONTENT .................................................................................................... v
LIST OF TABLES .......................................................................................................... viii
LIST OF FIGURES ....................................................................................................... ix
OPERATIONAL DEFINITION OF TERMS ........................................................................ x
ABBREVIATIONS AND ACRONYMS ........................................................................... xii
ABSTRACT ..................................................................................................................... xiii

CHAPTER ONE: INTRODUCTION .................................................................................. 14

1.1 Background of the Study.......................................................................................... 14
  1.1.1 Agency Banking in Kenya .................................................................................. 2
  1.1.2 Financial Performance ...................................................................................... 3
  1.1.3 Regulatory Role of Central Bank of Kenya ......................................................... 4
  1.1.4 Agency Banking Transactions on Financial Performance .................................. 6
  1.1.5 Small Scale Enterprises in Kiambu Town, Kenya ............................................... 7
1.2 Statement of the Problem......................................................................................... 8
1.3 Objectives of the study............................................................................................. 10
  1.3.1 General objective ............................................................................................ 10
  1.3.2 Specific objectives ........................................................................................... 10
1.4 Research Hypotheses .............................................................................................. 10
1.5 Significance of the Study ....................................................................................... 11
1.6 Scope of the Study .................................................................................................. 11

CHAPTER TWO: LITERATURE REVIEW ....................................................................... 12

2.1 Introduction.............................................................................................................. 12
2.2 Theoretical Framework ........................................................................................... 12
  2.2.1 Agency Theory .................................................................................................. 13
  2.2.2 Pecking Order Theory ...................................................................................... 13
  2.2.3 Intermediation Theory ..................................................................................... 14
2.3 Empirical Review .................................................................................................... 14
  2.3.1 Agency Transactions ....................................................................................... 14
  2.3.2 Common Costs .................................................................................................. 16
4.3.6 Distribution of Banking Agents ................................................................. 41
4.3.7 Type of Agency Transactions .................................................................... 42
4.4 Agency Financial Transactions and Financial Performance ....................... 43
4.5 Effects of Common Costs and Financial Performance ............................... 47
4.6 Effects of Agency Liquidity and Financial Performance ............................ 49
4.7 Moderating Effect ...................................................................................... 52
4.8 Regression Results .................................................................................... 53
   4.8.1 Agency financial Transactions and Financial Performance .................. 53
   4.8.2 Moderating Effect ............................................................................... 56

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION ............. 59
5.1 Introduction ............................................................................................... 59
5.2 Summary of the Study .............................................................................. 59
5.3 Conclusion ................................................................................................ 60
5.4 Knowledge Creation .................................................................................. 61
5.5 Recommendations .................................................................................... 62
   5.5.1 Recommendations for Practice .......................................................... 62
   5.5.2 Recommendations for Policy .............................................................. 62
   5.5.3 Recommendations for Further Study ............................................... 63
5.6 Limitations of the Study .......................................................................... 63

REFERENCES ................................................................................................. 64

APPENDICES .................................................................................................. 70

APPENDIX I: RESEARCHER’S INTRODUCTION LETTER ............................... 70
APPENDIX II: QUESTIONNAIRE .................................................................... 71
APPENDIX III: CONFIDENTIALITY AGREEMENT ......................................... 77
APPENDIX IV: RESEARCH PERMIT .............................................................. 78
LIST OF TABLES

Table 3.1: Operationalization of Variables ................................................................. 27
Table 3.2: Sample Size Determination ........................................................................ 28
Table 3.3: Reliability Test of Research Instrument ..................................................... 29
Table 3.4: Multicollinearity Test .................................................................................. 30
Table 3.5: Linearity Test ............................................................................................. 31
Table 3.6: Normality Test ........................................................................................... 31
Table 3.7: Independence Test ...................................................................................... 32
Table 4.1: Response Rate ............................................................................................ 35
Table 4.2: Age Distribution of the Respondents ......................................................... 36
Table 4.3: Gender of the Respondents ........................................................................ 37
Table 4.4: Relationship with the Business .................................................................. 38
Table 4.5: Length of Operation before Incorporating Agency Banking ....................... 39
Table 4.6: Daily Transactions ...................................................................................... 43
Table 4.7: Average Commission Income-Cash Withdrawals ....................................... 44
Table 4.8: Average Commission Income-Cash Deposits ............................................ 45
Table 4.9: Average Commission Income-Other Transactions .................................... 47
Table 4.10: Lack of Liquidity ...................................................................................... 51
Table 4.11: Regulatory framework ............................................................................. 52
Table 4.12: Agency Banking Transactions and Financial Performance ANOVA ............ 54
Table 4.13: Agency Banking Transactions and Financial Performance Coefficients .... 54
LIST OF FIGURES

Figure 2.1: Conceptual Framework .................................................................24
Figure 3.1: Linear Relationship Scatter Plots .....................................................30
Figure 4.1: Years of Operation as a Banking Agent .........................................40
Figure 4.2: Distribution of Banking Agents ......................................................41
Figure 4.3: Types of Agency Transactions ......................................................42
Figure 4.4: Saving Due to Common Costs .......................................................48
Figure 4.5: Lack of Cash Flow in the Business .................................................50
OPERATIONAL DEFINITION OF TERMS

Agency Banking: The facilitation of banking services by bank agents to clients on behalf of a commercial bank.

Agency financial transactions: These are banking transactions undertaken at the agencies and they include deposits, withdrawals, bill payments, account balance inquiry among other services.

Agency Liquidity: Maintenance of adequate e- float and physical cash at the agency in order to execute cash in and cash out transactions.

Average Profit Margin: This is the amount by which revenue from sales exceeds costs in a business.

Bank Agent: A business approved by the Central bank of Kenya and contracted by a bank to provide banking services on behalf of the bank in a specified manner.

Commercial Bank: A financial institution mandated to provide banking services that include accepting deposits, paying out the deposits when expected, using the deposits for investment and giving out loans at an interest.

Common Cost: Expense associated with operating a business shared between two or more divisions.

E-Float: Cash that is in electronic value/virtual money usually exchanged for physical cash
Financial Performance: The measurement of the business’s financial health in terms of revenue and profits.

M-pesa: M-pesa is a mobile banking service that allows users to store and transfer money through their mobile phones.

Primary Business: An activity that was operational in that business for at least eighteen (18) months before being given the license to operate an agency business (E.g. retail business, hotel or service).

Small Scale Enterprise: Refers to micro and small scale businesses as per the list provided by the Kiambu County Government for this study.
# Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ATMs</td>
<td>Automated Teller Machines</td>
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<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
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<tr>
<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
</tr>
<tr>
<td>FSD</td>
<td>Financial Sector Deepening</td>
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<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
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<tr>
<td>KBA</td>
<td>Kenya Bankers Association</td>
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<tr>
<td>KNBS</td>
<td>Kenya National Bureau of Statistics</td>
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<tr>
<td>MSEA</td>
<td>Small Scale and Small Enterprise Authority</td>
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<tr>
<td>NFSA</td>
<td>National Financial Access Survey</td>
</tr>
<tr>
<td>PIN</td>
<td>Personal Identification Number</td>
</tr>
<tr>
<td>POS</td>
<td>Point of Sale</td>
</tr>
<tr>
<td>PDQ</td>
<td>Process Data Quickly</td>
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<td>SPSS</td>
<td>Statistical Package of Social Sciences</td>
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ABSTRACT

Over the last eight years, agency banking has progressively gained importance in Kenya. Agency banking has enabled banks to save on costs associated with opening bank branches and has offered convenience to bank customers who before the introduction of agency banking involuntarily had to travel long distances and incur hefty amounts on transportation in order to access a bank branch. Agency banking is facilitated by small scale enterprises who take up the role of the bank teller and offer financial services to bank customers. Research has shown that small scale enterprises face surmounting obstacles which limit their long term existence and development. Many small scale enterprises fail within the first few years as the owners are not able to meet the costs of running the business. Engaging in Agency Banking may save small scale enterprises from the problem of winding up due to financial injection from the agency business. Studies on agency banking within the country and world over have concentrated on the how agency banking has affected the performance of banks while other studies have concentrated on the customers of the agency and how agency banking has impacted on their livelihoods with little attention being focused on the effect of agency banking on the financial performance of the small scale enterprises that undertake agency banking. Scanty systematically organized studies exist on the effect of agency banking on the financial performance of banking agents and whether it is viable for small scale enterprises. Driven by this knowledge gap, this study sought to determine the effect of agency banking transactions on the financial performance of Small scale enterprises in Kiambu Town, Kenya. The specific objectives of this research examined the effect of agency financial transactions; common costs of agency and primary business and agency liquidity on the financial performance of small scale enterprises in Kiambu Town, Kenya. The study anchored on Agency theory since the small scale enterprises act in the interests of the commercial banks as they serve clients who belong to the banks. Positivism philosophy was adopted for the study and cross sectional design was the research design that was used. The study sample was identified through stratified random sampling technique where Small scale enterprises in Kiambu Town were classified into the category of the bank they operate for and a sample of 51 Small scale enterprises providing agency banking services were selected. Characteristics of the study variables were computed using descriptive statistics with regression analysis being used to test the hypothesis. The study concluded that agency financial transactions for e.g commissions received from the banks and additional business from the customers had positive significant effect on financial performance of Small scale enterprises. Common costs e.g wages, rent and security cost had negative significant effect on financial performance of small scale enterprises. The businesses engaging in agency business also save on operational costs since the same resources are used to derive additional income. The study also concluded that regulatory framework had no significant moderating effect on the financial performance of small scale enterprises. The study recommended an awareness campaign on all the financial services offered by agents as most customers seem only to engage on few of the permissible activities of agency banking and an agent management framework be created to effectively determine and manage the number of agents within a certain radius.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The introduction of agency banking in Kenya in May 2010 was meant to enable and enhance access to affordable banking services especially to the poor, households with low income and small scale enterprises, which mainly encompass those sections which are un-served and under-served by the financial sector. This was founded on the premise that financial access leads to widespread economic development; and hence the improvement of the financial sector is seen as crucial to the actualization of the Vision 2030. The amendment of Kenya’s finance Act in 2009 to facilitate use of bank agents to provide banking services marked the introduction of agency banking in Kenya. Consequently, the CBK issued agent banking guidelines to regulate agency banking. From the time when agency banking was introduced, it has facilitated bank clients to gain access to financial services within their locality (CBK, 2011).

Agency banking has also been adopted world over and the use of agency banking differs from country to country. India, has 11,000 agents nationally which translates to 85,000 deposit and 32,000 withdrawals on a daily basis (CGAP, 2010). Calleo (2014) stated that 23% of grown-ups in the African continent own a bank account. They further established that more than 95% of adults do not have banking services in the Central African Republic and Democratic Republic of Congo. In the Northern part of Africa, 21% of the adult population has an account with the bank ranging from 11% in Egypt to 40% in Morocco. The main reasons for the huge unbanked
population in Africa to poor infrastructure and unreachability, with many of the unbanked individuals living in remote rural areas. This, together with the expensive cost of the services offered by banks and a limited financial understanding and education, makes very strong barriers to for poor rural populations to access banking services.

Jonson and Susan (2011) state that agency banking is the recently developed way that commercial banks in Kenya are using deliver banking services at an economical rate to the unreachable population. The huge costs of instituting bank branches against the expected yields have been a deterrent for commercial banks to extend their services to some rural areas, but agency banking has created way to these markets at minimal cost. Commercial banks allow businesses to act on their behalf as formal banks with a view to move closer and access many clients. Although both large enterprises and small scale enterprises have embraced agency banking, their reasons for engaging in agency banking greatly differ. Whereas the main reason for Small scale enterprises to engage in agency banking is to supplement the income of their primary business, the large enterprises engage in agency banking as a way of offering service and convenience to their customers (CGAP, 2010).

1.1.1 Agency Banking in Kenya

Agency banking is a type of branchless banking where an existing business is contracted by a commercial bank to process the banking transactions of its customers. It is varied from a branch teller because it is the business owner or an employee of the business who undertakes the banking transactions which include deposits, withdrawals, bill payments, account balance inquiry (Kumar, Nair, Parsons & Urdapillete, 2006).
Agency banking has allowed bank clients to access the rudimentary banking services such as cash deposit, cash withdrawal and bank balance inquiry in a convenient manner or within the comfort of their neighborhood. The ease of access to banking services and the extended hours that the banking agencies work are the striking features to the customer. Low-income clients often feel at ease banking at their local business premise than walking into a marble branch (Ivantury & Timothy, 2006).

According to Financial Sector Deepening Kenya (2013), agents had considerably increased access to banking services with 52 per cent of the country’s population being within three kilometers of an agent, compared with only 22 per cent within three kilometers of a branch. Statistics from Kenya Bankers Association (KBA) indicate 61,290 agents contracted by 16 commercial banks transacted approximately 462 million transactions valued at over Ksh 3 trillion in 2017 compared to 23,477 agents transacting 42 million transactions worth Ksh 236 billion in 2013 (KBA Bulletin, 2017).

1.1.2 Financial Performance

Financial performance is conclusions drawn from financial analysis of a firm. The pointers of financial performance in a business enterprise are characterized by upward growth, business expansion and increased sales and profits. Financial performance is the primary goal of all business entities. A business will not continue operating in the long run without financial performance (Liargovas & Skandalis, 2008). Profitability differs from one business to another depending on the business’s specific factors like the amount of investment and managers characteristics as well as the industry factors for instance regulation and completion. Profitability
is definitely essential for business survival in the long run, but it is not a prerequisite for growth since the owners of a business may choose not to grow.

The primary aim of an entrepreneur engaging in agency business is to improve the performance of their existing business as agency banking operations supplement their business income. Therefore a business can improve its financial performance through the financial transactions of agency banking, common costs and agency liquidity. The Agent network accelerator survey: Kenya report (2013), cited that banking agents are supported well, generate high number of transaction levels but only offer a limited products and tend to have fairly low profits. There is a large amount of agents in the market which is limiting profitability per individual agent, and driving dissatisfaction from agents (Micro-save, 2014). Small scale entrepreneurs use their mobile phones for both business and social purposes and thus resulting in increased business profits and enhanced social networks (Chogi, 2006).

1.1.3 Regulatory Role of Central Bank of Kenya

According to Lyman and Stschem (2006), client funds protection is a prime concern for many regulators of the financial sector because loss of the clients’ funds could have dire repercussions as well as diminished public confidence in the financial systems. The regulators determine the kind of financial institutions allowed to contract the banking agents, the activities to be carried out at the agency (permissible activities), protection of consumers and other operational areas (Kumar, 2011).

Countries that have agency banking models that are most prominent have taken varied approaches to handling and protecting clients’ funds. The Central bank of Kenya regulates the agency business in Kenya. Prior to the introduction of Agency banking in Kenya in 2010, the
CBK made benchmarking visits to Brazil and Columbia in a bid to speed up the development of the agent banking framework in Kenya. The particular learning points gained from this knowledge exchange and subsequently applied to the agent banking guidelines were on the importance of a risk-based approach to the supervision and regulation of agents. After the groundwork, Kenya Government through CBK unveiled the guidelines to be used by banking agents and the banks that contract them (Guidelines on Agent Banking CBK/PG115) to ensure safe, efficient and inclusive financial system as envisaged by vision 2030 (Ndungu, 2010).

The guidelines on Agent banking unveiled in May 2010 oblige banks to seek the approval of the CBK for Agent’s network as well as approval for specific agents and the specification of services to be provided by the agents (CBK, 2010). According to CBK, a small scale enterprise wishing to engage in agency banking must have an existing commercial activity in operation for at least eighteen months and must be in good standing meaning that it has not been classified as deficient, doubtful or non performing borrower during this period (CBK, 2010). The CBK, in a bid to encourage financial freedom to the majority of Kenyans, included the clause that an agent is allowed to provide services for agency banking to multiple banks provided that the banking agent has separate contracts for the provision of such services with each bank and provided further that the agent has the capacity to cope with the transactions for the different banks. Liberty for agents to represent multiple institutions meant more products to customers thus enabling an agent to attain break even points and increase on their financial performance. The agency may not profitable unless an entrepreneur is able to spread the costs of the business (CBK, 2010).
1.1.4 Agency Banking Transactions on Financial Performance

Agency banking transactions are expected to lead to increased financial performance of Small scale enterprises. The differentiated service offered by the agent makes the customers go back for more services and in turn more sales on the agent’s primary business. The bank usually has minimal control over the customer experience at the agency business as the customers interact exclusively with agents and it is therefore the duty of the agent to ensure that customers are well attended to. According to Ivantury and Timothy (2006), agency banking will possibly be beneficial to the small scale businesses in these ways: increase in sales due to additional foot traffic, variation from other businesses, and good repute from affiliation with well-known banks and added revenue from commissions and incentives from banks. Banking agents gain from both commissions and additional business from clients who habitually buy goods from their shops (CGAP, 2011).

Managing liquidity is a high expenditure for the banking agent which reduces the attractiveness of this business. Research done by CGAP shows that liquidity management is the primary cost of agency business and consumes 20 to 30% of the total expenditure of this business. Clients use the agency service for cash in and cash out transactions. They transfer value which is cashed by the recipient. An agent can have either too much cash on hand or cash deficient depending on the volume of cash in or cash out transactions. Agents with multiple outlets can transfer cash or e-money between outlets as required thus averting the need for the banking agents to make trips to the bank to cash in their e-money account. This is a key approach which is used by M-PESA where they rely on agent Head offices to manage the liquidity of their sub agents (Microsave, 2014).
Central bank of Brazil (2007), cited an agent liquidity problem attributed to instances where a customer makes a visit to an agent with an intention of withdrawing a large amount of money and is turned back. This is caused by the agent not having enough cash to satisfy the requests leading to customer frustrations and may be a major reason why reception of this system is slow. The agency liquidity problem is managed by the system keeping track of the actual cash available in the cash register of each agent in order to guide subscribers where they can withdraw big amounts. This approach is overtly difficult and frequently fails because of the informal nature of agents business.

According to Equity bank (2013), an agent will need to transact an estimate of around fifty transactions in a day in order to cover their monthly overheads. This of course depends on the efficiency of the agents and also their ability to maintain costs at minimum. The monthly overheads include rent, salaries, cost of float, business permits and airtime to name but a few. Regulation requires agents to be engaged in an existing economic activity so that agency banking becomes another product in their premises. Unless an agent attains break even points, the agency will close unless he or she is able to spread costs to the core Lehman (2010), noted that in order for banking agents to provide quality banking services, they need on going and onsite supervision to ensure that they are liquid, they follow the ascribed business processes and well branded.

1.1.5 Small Scale Enterprises in Kiambu Town, Kenya

A Small scale enterprise is a business whose yearly income ranges between five hundred thousand to five million Kenya shillings and which employs less than ten people (GoK, 2012). Literature shows that Small scale enterprises in Kenya operate mainly in the informal sector constituting 80% of total employment in Kenya by 2011 (Economic Survey 2012). The World
Bank defines a small scale enterprise as one that has an annual turnover of up to 100 million and an asset base of at least Kenya shillings 4 million and employs between 5 to 150 employees. The above definitions show that there is no agreement on the definition of small scale enterprise. For these reasons, the study adopted the definition of Small scale enterprises as a business five hundred thousand to five million Kenya shillings.

The Kenyan small scale enterprises sector has grown rapidly, and the government estimates that the Small scale enterprises sector constituted 89.7 per cent of total employment created in 2012 (GoK, 2013). It is estimated that there are 7.7 million of Small scale enterprises in Kenya out of which 965 are licensed in Kiambu Town (KNBS, 2016).

Kiambu Town, a constituency of Kiambu County is located close to Kenya's capital, Nairobi. The population of Kiambu Town is 118,259 (KNBS, 2012). Kiambu Town is a hotbed of businesses both small and large scale. Banks that serve Kiambu town include: Family Bank, Equity Bank, Standard Chartered bank, Co-operative Bank, Kenya Commercial Bank and National Bank (KNBS, 2016).

Out of the 965 Small scale enterprises licensed in Kiambu Town, 168 of them operate agency banking services alongside their primary business and are contracted by Equity Bank, KCB and Cooperative Bank. The KCB agent outlet is dubbed KCB Mtaani while the Cooperative agent outlet is named Co-op Jirani. Equity Bank have branded their agents as simply Equity agents (CBK, 2013).

1.2 Statement of the Problem

Small scale enterprises are significant both to individuals and to the economy of a country. Small scale enterprises are recognized for employment creation and the improvement of living
standards. In addition, Small scale enterprises complement large scale modern sector enterprises, they utilize agricultural and other raw materials that would have otherwise gone to waste, and they serve limited or closed markets that need only small scale production (Bwisa 2011). While the contributions of Small scale enterprises to development are generally acknowledged, owners of small scale enterprises face many obstacles that limit their long term existence and development. Research on small scale business development has shown that the rate of failure in developing countries is higher than in the developed world (Arinaitwe, 2002). Statistics show that three out of five businesses fail within the first few years of operation (Kenya National Bureau of Statistics, 2016). Data from small scale and Small Enterprise Authority (MSEA) indicates that more than 400,000 of small scale enterprises wound up before three years (MSEA, 2015).

Engaging in Agency Banking may save small scale enterprises from the problem of winding up due to financial injection from commissions arising from agency business and additional walk-in traffic attracted by agency business that may purchase from the primary business. Ignacio (2008) found that successful branchless business models must work not only for providers and end clients, but also for agents. According to CGAP (2011), agency banking as a replica of mobile banking has been very flourishing in boosting the commercial banks’ performance in most developing states. Jagongo and Molonko (2014) argued that through the adoption of agency banking, many financial institutions, including commercial banks, are getting huge profits from people from the bottom part of the economic background.

Whereas many economists and scholars have concluded that agency banking model is viable for financial institutions, little study has distilled the viability of agency banking from the agents perspective. Scanty systematically organized studies exist on the effect of agency banking on the
financial performance of banking agents and whether it is viable for small scale enterprises. This study therefore sought to investigate the effect of agency banking transactions on the financial performance of small scale enterprises in Kiambu Town, Kenya.

1.3 Objectives of the study

1.3.1 General objective

The general objective of this study was to investigate the effect of agency banking transactions on the financial performance of small scale enterprises in Kiambu Town, Kenya.

1.3.2 Specific objectives

In order to accomplish the above general objective, the study sought to address the following specific objectives:

i. To establish the effect of agency financial transactions on the financial performance of Small scale enterprises in Kiambu Town, Kenya.

ii. To determine the effect of common costs on the financial performance of Small scale enterprises in Kiambu Town, Kenya.

iii. To determine the effect of agency liquidity on the financial performance of Small scale enterprises in Kiambu Town, Kenya.

iv. To establish the moderating effect of regulatory framework of Kenya on the financial performance of Small scale enterprises in Kiambu Town, Kenya.

1.4 Research Hypotheses

The following null hypotheses are formulated for the study:

i. \( H_{01} \): Agency financial transactions has no significant effect on financial performance of Small scale enterprises in Kiambu Town, Kenya.
ii. H_{02}: Common costs has no significant effect on financial performance of Small scale enterprises in Kiambu Town, Kenya.

iii. H_{03}: Agency liquidity has no significant effect on financial performance of Small scale enterprises in Kiambu Town, Kenya.

iv. H_{04}: Regulatory framework has no significant moderating effect on the financial performance of Small scale enterprises in Kiambu Town, Kenya.

1.5 Significance of the Study

This study will enable business agents to understand fully the subject of agency banking. It will highlight the performance of bank agents. Investors and the general public will be able to articulate and understand the opportunities available in agency banking. It will also go along way for agents will also be able to determine the potential of their principals to give returns to investment commensurate to service provided in the relationship.

Researchers and scholars will enrich their knowledge and be enabled to make more informed decisions and choices pertaining to agency banking. This is good both for companies in strategic alliances and the economy as a whole. The study will help in the development of agency business relationship contracts especially so by unearthing the challenges that face both the agent and the principals in such business contracts; the theoretical solutions discussed herein will also help in ratification of contracts documents.

1.6 Scope of the Study

The study is concerned with agency banking transactions on the financial performance of small scale enterprises in Kiambu Town, Kenya. One of the requirements of Central Bank for those Small scale enterprises that want to engage in Agency banking is for them to have a commercial
activity for the past 18 months. Based on this requirement, the study considered Small scale enterprises that have been in business for at least two years. The time scope was for businesses that were in operation in 2015 to 2017. The researcher concentrated specifically on Small scale enterprises operating as bank agents for Equity Bank, KCB and Cooperative Bank. These three banks were the pioneers of agency banking and have aggressively adopted the agency model. Statistics on the distribution of agents, 87% are with the three banks: Equity Bank with 25,450 agents, KCB with 12,900 and Cooperative bank with 8,900 agents (CBK, 2013). In addition, distribution of banks in Kiambu Town is not adequate thus the researcher’s selection of three banks. The study administered questionnaires to either the owners or employees of the agents working for the three banks in Kiambu Town.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter presents an overview of relevant theories in regards to agency banking operations in the context of the agents’ financial performance. These theories are Agency Theory, Pecking order Theory and Intermediation Theory. This is followed by a discussion on the empirical reviews on agency banking and financial performance of Small scale enterprises in Kiambu Town, Kenya.

2.2 Theoretical Framework
Three theories are discussed below to support the research objectives which discuss agency banking transactions on the financial performance of small scale enterprises in Kiambu Town, Kenya.
2.2.1 Agency Theory

The Agency theory which was developed by Jensen and Meckling in 1976 explains the conflict between shareholders and managers (agents of shareholders). The fundamental idea behind the agency theory is that the principal is busy to do a given job and hence hires an agent to work for him. The problem comes in when the principal is not able to monitor the agent accordingly. This therefore develops an agency problem as the agent also has his interests which he places in priority over the principal’s interests. It is therefore the principal’s problem to design an incentive contract in line with that of the agent (Blume & Easley 2008).

A deceitful bank agent may divide one deposit transaction into many transactions so as to earn more in commission paid by the bank. A banking agent may also steal from bank customers for instance by skimming of bank cards or accepting deposits when there is no network coverage. Agency theory underpins all the objectives of the study as it explains the relationship between the banks and their agents and how conflict may arise in this relationship. Banks are accountable for the activities of the agents as the customers belong to the bank. The banks must therefore devise supervision and monitoring procedures to ensure agents work in their best interests.

2.2.2 Pecking Order Theory

This theory was proposed by Myers and Mailuf (1984) based on the proposition that financing follows a hierarchy, and that businesses prefer internal over external financing and debt over equity. This theory explains how firms choose to obtain financing for their future activities and for their growth. Small scale enterprises by their very nature are commonly financed by the owners due to lack of accessibility to external financing like long term debt which is the basis of Pecking order theory. The theory suggests use of internal sources followed by debt then equity which is the order of Small scale enterprises. The Second research objective was anchored on
Pecking order Theory as the theory since Small scale enterprises intending to engage in agency banking must consider the cost of investing in agency banking which in most cases in Kiambu Town, self-financing is usually preferred followed by loans advanced by family and friends.

2.2.3 Intermediation Theory

This theory was developed in the nineteen sixties with Gurly and Shaw (1960) being the starting point. The existence of the financial intermediaries was necessitated by the high transaction costs arising from information asymmetry between lenders and borrowers. The financial intermediaries thus reduce these transaction costs and they contribute to efficient functioning of markets.

This theory underpins the moderating variable. Intermediation in this study comes in as it places the regulator of commercial banks and their agents as the one that intermediates between money and the household. One of the guidelines issued by CBK is on non-exclusivity of bank agents meaning that a small scale enterprise can operate as an agent for several banks in the existing business premise. Non exclusivity of agents improves access to agency banking and reduces the costs associated with travel to access the financial services. Non exclusivity of agents is also crucial in the rural areas where qualified agents are also scarce.

2.3 Empirical Review

2.3.1 Agency Transactions

A study was conducted by Aduda and Ndwiga (2013), in regards to the relationship between agency banking and financial performance. This study used a population of 10 commercial banks practicing agency banking whereby their individual financial performance was used to get their respective financial performance indicators. It also relied on the CBK annual reports and
supervisory reports of the banks. The study found out that out the banks studied, co-operative bank, Equity Bank and Kenya Commercial Bank showed significance performance index. Other banks, however, did not show the performance index as the aforementioned. Further, the findings showed that there was increase in the annual performance of those banks with agency banking. This implied that agency banking was progressively improving leading up to a significant increase in financial performance of those banks. The study however only concentrated on how agency banking transactions enhance financial performance of banks. It failed to look at relationship between transactions of agency banking and financial performance of the agents. The current research sought to address these aspects of agency banking.

A study done by Ndirangu (2013) to establish the effect of agency banking on Kenyan commercial banks financial performance. The empirical problem in the study was whether there was a relationship that existed between agency customers and value of transactions and the profitability of the banks. The study established that there was no direct correlation between the commercial banks’ number of agents, the ensuing volume of transactions (withdrawals) from customers and the banks’ financial performance as revealed by the return on equity of the banks. This research concentrated on how agency banking affects the financial performance of commercial banks, the current research sought to address how financial transactions of agency banking affect the financial performance of small scale enterprises.

Jagongo and Molonko (2014) investigated the role of agency banking operations in the financial performance of commercial banks. They argued that many financial institutions, including commercial banks, are getting huge profits from people from the bottom part of the economic background. This has led to high competition as most financial institutions employ various market entry methods to venture in this market segment with an aim of maintaining their
competitive advantage. This study used a descriptive research design and census was done to select all the commercial banks in Kenya. The findings revealed that by use of agency banking commercial banks were able to increase their transactions, including cash withdrawals, funds transfer as well as deposits, from people who were considered to be of low income. The current research sought to address these aspects of agency banking and in particular whether Small scale enterprises engaging in agency banking are able to increase the sales and profitability from engaging in transactions of agency banking.

2.3.2 Common Costs

A study was conducted by Ombutora and Mugambi (2013) pertaining to how agency banking had affected the performance of banking agency businesses. Nairobi. In conclusion and recommendation, the study established that there was a positive correlation between the transaction cost and performance of agent entrepreneurs. The variable, transaction cost, affect the performance of agent entrepreneurs with high transaction cost lowering performance of agent entrepreneurs while low transaction cost boosting the performance of agent entrepreneurs. The study however failed to appreciate the operational costs incurred by the Small scale enterprises in order to facilitate delivery of agency banking to customers. The current research sought to address how the common costs of agency banking and the primary business affect the financial performance of small scale enterprises operating banking agents in Kiambu Town, Kenya.

Veniard and Melinda (2010) did a study on economics of small accounts in Africa, Latin America and Asia and how agency banking influences them. The study findings indicated that banking agencies were up to three times cheaper to operate as compared to bank branches. The
main reason being that agency banking minimizes fixed costs by leveraging on the existing business thus the banks do not invest on their own infrastructure. This research proved agency banking lowers fixed costs for banks. It did not consider how this affects the agents in relation to common costs of agency business and the primary business. The current research sought to find out whether there are any cost saving advantages for Small scale enterprises that have embraced agency banking.

Another study was conducted on the same by Mutua (2012) under the title, effects of Mobile banking on the Financial Performance of Commercial Banks in Kenya. In this study, mobile banking was the focus in that it offers more accessibility of financial services minimizing time and distance. Data was obtained from the providers regarding the total amount transferred in the last five years. The study established that through mobile banking transactional related costs and overheads were reduced therefore improving financial performance of banks. This study focused on cost saving advantages to banks, the current study focused on common costs of agency banking and the primary business and whether there are any costs saving advantages for Small scale enterprise that has embraced agency banking.

2.3.3 Agency Liquidity

A study was conducted by Musau (2013) on the utilization of agency banking and the performance of selected banks in Nairobi County. The study used a descriptive research design. Among other findings, his study established that the liquidity availability affects the performance of banks. The study did not look at how agency liquidity also affects the financial performance of bank agents. The current study sought to fill the gap by establishing the effect of agency liquidity on the financial performance of bank agents.
Achieng (2011) did a study on strategies applied by bank agents in order to sustain their market share. The findings of this research indicated that the success of banking agents depended on service to the clients, efficiency of the technology and depth of knowledge of the banking products being offered. This study focused much on developing measures on increasing the market share such as without specifically looking into how agency liquidity also affects the performance of banking agents. The current research sought to evaluate the effect of agency liquidity on financial performance of small scale enterprises in Kiambu Town, Kenya.

2.3.4 Regulatory framework

A study was done by Kirimi (2011), on the level of implementation of agency banking amongst the commercial banks in Kenya. The research determined that there was difficulty in the enforcement of appropriate oversight by the CBK in the interactions of the agents and the customers. The study recommended regular trainings to be offered to banking agencies on the processes of operations and policies so as to reduce the errors and mistakes that may contribute to slow penetration of agency banking. The research concentrated mainly on training of agents only as a support service offered by banks to their agents. The current research established how regulation CBK affects the financial performance of Small scale enterprises operating agency banking services.

A study was conducted by Ndung’u, Okibo and Nyang’au (2015) pertaining to the factors that affect the performance of banking agency business in Kenya. The researchers evaluated the effect of fraud, financial literacy, network capability and cost of financial services. The conclusion of the study was that financial literacy and cost of financial services had greatest impact on the performance of the agencies. Although the study recommended that the banks invest more in training of customers on the products of agency banking, it failed to investigate
the role played by CBK on Small scale enterprises financial performance. The current research sought to address how regulation by CBK moderates the financial performance of Small scale enterprises operating banking agents in Kiambu Town, Kenya.

2.4 Research Gap and Summary of Literature Review

Many of the studies in the literature review concentrated on the relationship between agency banking and its implication on the performance of commercial banks. The Effect of agency banking on the performance of Small scale enterprises that host the agency banking was a gap that this research sought to fill. The summary of the empirical review is tabulated in Table 2.1

19
<table>
<thead>
<tr>
<th>Researcher</th>
<th>Objective</th>
<th>Findings</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aduda, Kiragu &amp; Ndewiga (2013)</td>
<td>The relationship between agency banking and financial performance.</td>
<td>Out the banks studied, co-operative bank, Equity Bank and Kenya Commercial Bank showed significance performance index. Other banks, however, did not show the performance index as the aforementioned. Further, the findings showed that there was increase in the annual performance of those banks with agency banking.</td>
<td>The study however only concentrated on how agency banking transactions enhance financial performance of banks. It failed to look at relationship between transactions of agency banking and financial performance of the agents. The current research sought to address these aspects of agency banking.</td>
</tr>
<tr>
<td>Ndirangu (2013)</td>
<td>To establish the effect of agency banking on Kenyan commercial banks financial performance.</td>
<td>There was no direct correlation between the commercial banks’ number of agents, the ensuing volume of transactions (withdrawals) and the banks’ financial performance as revealed by the return on equity of the banks.</td>
<td>The research did not look how the transactions of agency banking affect the agents’ profitability. The current research sought to address these aspects of agency banking.</td>
</tr>
<tr>
<td>Ombutora, &amp; Mugambi (2013)</td>
<td>Role of agency banking on the performance of banking agent entrepreneurs: a case study of Co-operative bank Co-op jirani in Kibera, Nairobi</td>
<td>The variable, transaction cost, affect the performance of agent entrepreneurs with high transaction cost lowering performance of agent entrepreneurs while low transaction cost do boost the performance of agent entrepreneurs. Regulations and policies do affect the</td>
<td>The study defined the pricing side of the cost with no analysis on the actual cost of delivering a service to the customer and thus in recommending price reduction of agency services, it failed to appreciate the operational costs incurred by the Small scale enterprises in</td>
</tr>
<tr>
<td>Researcher</td>
<td>Objective</td>
<td>Findings</td>
<td>Gap</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Veniard &amp; Melinda (2010)</td>
<td>How agent banking changes the economics of small accounts</td>
<td>Agent banking systems were up to three times cheaper to operate than branches. Reason responsible for that was that agent banking minimizes fixed costs by leveraging existing retail outlets and reducing the need for financial service providers to invest in their own infrastructure.</td>
<td>This research proved agency banking lowers fixed costs for banks. It did not consider how this affects the agents in relation to common costs of agency business. The current research sought to find out whether there are any cost saving advantages for Small scale enterprises that have embraced agency banking.</td>
</tr>
<tr>
<td>Jagongo and Molonko (2014)</td>
<td>Role of agency banking operations in the financial performance of commercial banks.</td>
<td>Use of agency banking enabled banks to increase their transactions, including cash withdrawals, funds transfer as well as deposits, from people who were considered to be of low income.</td>
<td>This research sought to look at how Small scale enterprises engaging in agency banking are able to increase the sales and profitability from engaging in transactions of agency banking.</td>
</tr>
<tr>
<td>Ndung’u, Okibo &amp; Nyang’au (2015)</td>
<td>Factors that affect the performance of banking agency</td>
<td>Agency model can be enhanced through</td>
<td>The study did not investigate the role of agency banking.</td>
</tr>
<tr>
<td>Researcher</td>
<td>Objective</td>
<td>Findings</td>
<td>Gap</td>
</tr>
<tr>
<td>---------------</td>
<td>---------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>business in Kenya.</td>
<td>strategic and operational support of banking agents by commercial banks. The study concluded that cost of financial services and the levels of financial literacy among customers had the greatest effect on the performance of banking agents.</td>
<td>played by CBK on Small scale enterprises financial performance. The current research sought to address how regulation by CBK moderates the financial performance of small scale enterprises operating banking agents in Kiambu Town, Kenya.</td>
</tr>
<tr>
<td>Achieng (2011)</td>
<td>Competitive strategies applied by bank agents to sustain their market share.</td>
<td>Success of agency banking depends on how well the customers are served, the level of efficiency of technology used.</td>
<td>This study focused much on developing measures on increasing the market share without specifically looking into how agency liquidity also affects the performance of banking agents. The current research sought to evaluate the effect of agency liquidity on financial performance of Small scale enterprises in Kiambu Town, Kenya.</td>
</tr>
<tr>
<td>Kirimi (2011)</td>
<td>To establish the extent of implementation of agency banking among commercial banks in Kenya</td>
<td>Need for regular Training of agents on changes in operational processes and policies.</td>
<td>The research concentrated mainly on training of agents only as a support service offered by banks to their agents. The current research established how regulation CBK affects the financial performance of Small scale enterprises operating agency banking services.</td>
</tr>
<tr>
<td>Researcher</td>
<td>Objective</td>
<td>Findings</td>
<td>Gap</td>
</tr>
<tr>
<td>------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Musau (2013)</td>
<td>Utilization of agency banking and the performance of selected banks in Nairobi County.</td>
<td>Liquidity availability affects the performance of banks.</td>
<td>The study did not look at how agency liquidity also affects the financial performance of bank agents. Therefore this study sought to fill the gap by establishing the effect of agency liquidity on the financial performance of bank agents.</td>
</tr>
<tr>
<td>Mutua (2012)</td>
<td>Mobile Banking Effects on the Financial Performance focusing on Commercial Banks in Kenya.</td>
<td>Mobile banking has enabled reduction in transactional related costs and overheads thus improving financial performance of banks.</td>
<td>This study focused on cost saving advantages to banks, the current study focused on common costs of agency banking and whether there are any cost saving advantages for Small scale enterprises that have embraced agency banking.</td>
</tr>
</tbody>
</table>

**Source Researcher (2019)**

**2.5 Conceptual Framework**

Conceptual framework examines and explains the relationship between the independent and dependent variables. For this study, the independent variables include; financial agency transactions, common costs, and agency liquidity while the dependent variable is financial performance of Small scale enterprises in Kiambu Town, Kenya. The moderating variable is the regulation by CBK. The relationship can be explained in a diagram form as indicated by Figure 2.1
Agency Banking Transactions

Financial transactions
• Value Commissions earned
• Value of goods sold

Common Costs
• Amount to Salaries
• Amount to rent
• Amount to security

Agency Liquidity
• Cost of maintenance of e-float
• Cost of maintenance physical cash

Financial Performance
• Average profit margin

Dependent Variable

Regulatory Framework
• Number of banks (Non-exclusivity of agents)
• Number of permissible activities

Moderating Variable

Figure 2.1: Conceptual Framework
Source: Researcher 2019
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction
This chapter discusses the methodology adopted and used in the study. It focusses on the research philosophy, research design, model specification, data collection and data analysis.

3.2 Research Philosophy
The study followed a positivism research philosophy as it strived to unwrap fundamental truths about the effect of agency banking transactions on financial performance of small scale enterprises. Positivism being a scientific approach uses highly organized and measurable methods (Saunders & Lewis, 2009). The researcher observed the situation in the field without any interference or influence. The study collected quantitative data as in line with positivism (Livesey, 2006).

3.3 Research Design
The study adopted the descriptive survey combined with explanatory research design to determine the effect of agency banking transactions on financial performance of small scale enterprises in Kiambu Town, Kenya.

With the cross sectional survey, data was observed and gathered at a point in time. According to Orodho (2004) cross-sectional study design allows the researcher to compare many variables at the same time. The descriptive design assisted the researcher to obtain the characteristics of the population and also test hypothesis. Explanatory research design was incorporated to assist in
explaining the relationship between variables and test relationships supported by theories. This design was necessary as regression analysis was carried out (Orodho, 2004).

3.4 Empirical Model

This section shows the estimated empirical models. Study objective one, two and three were addressed using model 3.1 while objective four was tested using model 3.2 that follows

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \] …………………………………………………(3.1)

Where:

**Independent Variables:**
- \(X_1\) - Financial transactions
- \(X_2\) - Common costs
- \(X_3\) - Agency liquidity

**Dependent Variable:**
- \(Y\) - Financial Performance

**Regression Parameters:**
- \(\beta_0\) - Constant
- \(\beta_1, \beta_2, \beta_3\) - Regression coefficients
- \(\varepsilon\) - Error term

Model 3.1 was the base model with no moderator while model 3.2 introduced the moderator to find out the effect it has on the regression model. Moderation is confirmed if the strength of the model is increased even further due to this interaction.

Where:

**Moderating Variable:**
- \(X_4\) - Regulatory framework

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \] ………………………………………………… (3.1)
\[ Y = \beta_0 + \beta_1 X_1 \times X_4 + \beta_2 X_2 \times X_4 + \beta_3 X_3 \times X_4 + \varepsilon \] 

(3.2)

Model 3.1 was the base model with no moderator while model 3.2 introduced the moderator to find out the effect it has on the regression model. Model 3.2 is the interaction model where the moderator interacted with the causal variables. Moderation is confirmed if the strength of the model is increased even further due to this interaction.

### 3.5 Operationalization and Measurement of Variables

The independent variable are financial transactions of agency banking, common costs and agency liquidity, while the dependent variable is financial performance indicated by profit margin. The variables were operationalized as shown on table 3.1

**Table 3.1: Operationalization of Variables**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Variable Type</th>
<th>Category of scale</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
<td>Dependent</td>
<td>Ratio</td>
<td>• Average profit margin</td>
</tr>
</tbody>
</table>
| Financial transactions of agency banking | Independent | Ordinal           | • Value of commissions  
|                                   |               |                   | • Value of goods           |
| Common costs                     | Independent   | Ordinal           | • Amount (Ksh.)            |
| Agency Liquidity                 | Independent   | Ordinal           | • E–float amount  
|                                   |               |                   | • Physical cash            |
| Regulatory framework             | Moderator     | Ordinal           | • Frequency               |

Source: Researcher (2019)
3.6 Target Population

Target population is the total group of individuals from which the sample might be drawn (Mugenda & Mugenda, 2003). The target population was all agents of Equity Bank, KCB and Cooperative Bank operating in Kiambu Town totaling to 168.

3.7 Sample and Sampling Procedures

A sample represents a fraction of the population such that the selected portion represents the whole population in an adequate manner. This study adopted stratified random sampling of agents of KCB, Equity and Co-operative bank in Kiambu Town. In stratified random sampling, the population is divided into two or more appropriate subsets or strata basing this division on one or several attributes (Saunders, Lewis & Thornhill, 2009). A random sample of 30% was drawn from each of the subsets. According to Mugenda and Mugenda (2003), a sample of between 10 to 30% is considered good enough if well-chosen and the sample is more than thirty.

Table 3. 2: Sample Size Determination

<table>
<thead>
<tr>
<th>Banks</th>
<th>Total Agents</th>
<th>Percentage</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>KCB</td>
<td>49</td>
<td>30%</td>
<td>15</td>
</tr>
<tr>
<td>Equity</td>
<td>63</td>
<td>30%</td>
<td>19</td>
</tr>
<tr>
<td>Cooperative</td>
<td>56</td>
<td>30%</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>168</td>
<td></td>
<td>51</td>
</tr>
</tbody>
</table>

Source: Researcher (2019)

3.8 Data Collection

The research adopted a structured closed and open ended questionnaire which was administered face to face as the main instrument of data collection. Majority of the questions in the
questionnaire were closed ended but there were also few open ended questions so that the respondents could elaborate further on their responses.

3.9 Pilot Study

Piloting helped in checking whether the questionnaire had covered most of the information and helped identify redundant questions and ambiguities in the way the questions were structured. The respondents considered the questionnaire to be bulky. The researcher restructured some questions and removed some open ended questions resulting in a less bulky questionnaire.

3.10 Reliability

Reliability of the questionnaires was tested using Cronbach’s Alpha coefficient. Orodho (2004), specifies a Cronbach’s Alpha (α) score greater than 0.7 to be an acceptable level of internal consistency and thus the researcher adopted the same threshold. The table 3.3 shows the results obtained.

Table 3. 3: Reliability Test of Research Instrument

<table>
<thead>
<tr>
<th>Variable</th>
<th>Construct Under Measure</th>
<th>Cronbach’s Alpha Score</th>
<th>Number of Questionnaire Items Included</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
<td>Financial Transactions</td>
<td>0.756</td>
<td>4</td>
<td>Reliable</td>
</tr>
<tr>
<td>X2</td>
<td>Common Costs</td>
<td>0.840</td>
<td>3</td>
<td>Reliable</td>
</tr>
<tr>
<td>X3</td>
<td>Agency liquidity</td>
<td>0.741</td>
<td>4</td>
<td>Reliable</td>
</tr>
<tr>
<td>X4</td>
<td>Regulatory framework</td>
<td>0.815</td>
<td>4</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

Source: Author 2019

As indicated on table 3.3, all the variables were reliable as they were all above an alpha score of 0.7
3.11 Validity Testing

Validity refers to the degree as to which the questionnaire measures the concepts it was expected to measure. The researcher sought guidance from the supervisors in confirming that the questionnaire covered all the areas (Carter & Porter, 2000).

3.12 Data Analysis and Presentation

Data analysis allows answers to be provided to the research hypothesis by calculations to establish which variables should be examined and which relationships should be explored from the data (Orodho, 2004).

Quantitative data was analyzed using both descriptive and inferential statistics. Descriptive statistics used included percentages, means and standard deviation. The purpose of descriptive statistics was to describe data characteristics. Further regression analysis was used to deduce meaning from the data. Statistical Package for Social Sciences (SPSS) package was used to analyze the quantitative data. Tables, graphs and charts were used to summarize and present the data.

3.13 Diagnostic Tests

Diagnostic tests checked whether or not the stochastic properties of the model ECM (error correlation models) were met in order to avoid conventional econometrics problems which result in the assumptions being violated in the regression model (Gujarati, 2003).

The tests undertaken were as follows: Multicollinearity test, linearity test, normality test and independence test.
3.13.1 Multicollinearity Test

Multicollinearity is a disturbance in the data whereby there is very high inter associations among the independent variables of the study. Data interpretations of data with multicollinearity may not be reliable (Horne, 1998). Multicollinearity is detected using tolerance values and VIF. In a situation where the tolerance value is less than 0.2 or 0.1 and simultaneously the VIF has a value of 10 and above. The table 3.4 shows the test for Multicollinearity

Table 3. 4: Multicollinearity Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
<td>VIF</td>
</tr>
<tr>
<td>Constant</td>
<td>0.947</td>
<td>1.056</td>
</tr>
<tr>
<td>X1</td>
<td>0.727</td>
<td>1.376</td>
</tr>
<tr>
<td>X2</td>
<td>0.794</td>
<td>1.26</td>
</tr>
<tr>
<td>X3</td>
<td>0.795</td>
<td>1.259</td>
</tr>
<tr>
<td>X4</td>
<td>0.795</td>
<td>1.259</td>
</tr>
</tbody>
</table>

(a). Dependent Variable: Y

Source: Survey data (2019)

The results displayed on table 3.4 indicate that there was no multicollinearity since Tolerance is higher than 0.1 in each case in the coefficients table also Variance Inflation Factor (VIF) in the coefficients table are well below 10.

3.13.2 Linearity Test

Linearity is observed when a dependent variable (x) and independent variable(y) are related using an equation \( y = bx \). Where (b) represents a constant. Violation of this assumption means
that estimates of the regression such as coefficients, standard errors and test of significance may have a bias (Osborne and Walters, 2002). Linearity was tested using visual examination of the residual plots. Figure 3.1 shows the scatter plot to test linearity of study variables.

![Scatterplot](image)

**Figure 3.1: Linear Relationship Scatter Plots**

**Source:** Survey Data (2019)

The figure 3.1 shows a scatter plot whereby the random scatter was observed in the quadrants thus the linearity assumption was met.

### 3.13.3 Normality Test

Normality is observed when the data of the sample matches to the normal distribution (Hair, Celsi, Otinau & Bush, 2013). The test for normality was done using the Shapiro-Wilk test recommended for small samples $50 < n < 2000$. Data is considered to be normally distributed when Shapiro–Wilk p value is > 0.05 (Field, 2013). The table 3.5 shows the test for normality.

**Table 3.5: Test of Normality**

<table>
<thead>
<tr>
<th>Test of Normality</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
</table>


The results indicated in table 3.5 indicates a Shapiro –Wilk p value of 0.069 which is greater than 0.05 confirming that normality was observed in the data. When the assumption of normality has been met, as shown in table 4.13, it also implies that the relationship between the study variables is also homoscedastic (Tabachnick and Fidel, 2006). This then meant that there was no need to perform tests in relation to homoscedacity.

### 3.13.4 Independence Test

In multiple regression, an assumption is made that residuals between the estimated score and the actual score are independent A Durbin Watson statistic which ranges from 0 to 4 was used to test whether the data met the independence assumption. A Durbin Watson statistic of between 1 and 2 is considered not correlated (Stevens, 2009). The Table 4.14 shows the results of Durbin-Watson Statistic.

#### Table 3. 6: Test of Independence

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.409&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.168</td>
<td>0.078</td>
<td>0.81349</td>
<td>1.897</td>
</tr>
</tbody>
</table>

<sup>a</sup> Predictors: (Constant), X4, X1, X3, X2  
<sup>b</sup> Dependent Variable: Y

Source: Survey Data (2019)
As displayed on Table 3.6, the Durbin-Watson Statistic was 1.8974 meaning that the independence assumption was met for the analysis.

### 3.14 Research Ethics Considerations

Research ethics were carefully observed throughout the research process. The researcher obtained formal authority from the university to conduct the study. The researcher also obtained an official permit to conduct research on the banking agents in Kiambu Town. The business names of the respondents were also made anonymous. The results of the study were reported with objectivity and integrity.
CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter links the various variables included in the model and aims at establishing the relationship between agency banking transactions and financial performance of Small scale enterprises in Kiambu Town, Kenya.

4.2 Response Rate

The study received 100% response from the targeted 51 respondents as indicated on table 4.1.

Table 4. 1: Response Rate

<table>
<thead>
<tr>
<th>Banks</th>
<th>Response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>KCB</td>
<td>15</td>
</tr>
<tr>
<td>Equity Bank</td>
<td>19</td>
</tr>
<tr>
<td>Cooperative Bank</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
</tr>
</tbody>
</table>

Source: Research Data 2019

This response rate was achieved because the circumstances experienced in the field required the research assistants to wait for the respondents to fill in the questionnaires instead of pick and drop method proposed in the study. A response rate of between 21% to 70 % is usually a guarantee to accuracy and it minimizes bias for the collection of data using self-administered questionnaires (Wimmer & Dominic,2006) . The response rate above was perceived to be suitable as the researcher relied on it to give satisfactory information for the analysis. The response rate was also important as it was used to obtain generalized conclusions about the sample population.
4.3 Demographic Profile of the Respondents

This study examined the demographic profile of the respondents before analyzing the various objectives of the predictor variables because they form the unit of information. The demographic profile of the small scale enterprises in this study were analyzed on the basis of age, gender, relationship with the business, experience and bank wise distribution of agents.

4.3.1 Age Distribution of the Respondents

It is believed that the younger generations appreciate technology more as compare to the older generation. The respondents were asked to indicate their age brackets. The results are given on Table 4.2.

Table 4.2: Age Distribution of the Respondents

<table>
<thead>
<tr>
<th>Age (Years)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-25</td>
<td>10</td>
<td>19.6</td>
</tr>
<tr>
<td>25-34</td>
<td>39</td>
<td>76.4</td>
</tr>
<tr>
<td>35-45</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>46 and Above</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings 2019

The findings as shown on Table 4.2 show that majority of the respondents (n=39) representing 76.5% of the respondents operating agency banking were aged between 25-34 years. The findings further show respondents of age the bracket 18-25 were 19.6 % (n=10), 35-45 years were 2 % (n=1), 46 and above were 2 % (n=1).
This finding agrees with other studies that found that business owners of businesses involving technological developments are mainly between 25-34 years. According to Ndede (2013), this age group tends to be involved more in transacting of financial services in this era of technological developments.

### 4.3.2 Gender of the Respondents

Gender is one of the factors considered to affect the primary businesses which host the banking agents. It is alleged that women are more in the Small scale enterprises sector than men. The respondents were asked to indicate their gender. The results are given on table 4.3

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>24</td>
<td>47.1</td>
</tr>
<tr>
<td>Female</td>
<td>27</td>
<td>52.9</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Research Findings 2019**

The findings of Table 4.3 show that Gender dispersion indicated that there are more females with 52.9% (n= 27) and males with 47.1% (n= 24) operating agency banking. This finding supports other previous studies. According to Marlow and Carter (2005), study on self-employed women female-owned businesses, women were found that they were operating newer businesses. They were also found to operate business that were smaller in terms of number of employees and the turnover. Furthermore, according to Carter, Lam and Wilson (2007), a study on gender, entrepreneurship and bank lending, it was established that majority of Small scale enterprises are women owned.
4.3.3 Relationship with the Business

Relationship with the business established whether the one operating the business was an employee or the owner of the business. The respondents were requested to indicate their relationship with the business. The results are given on table 4.4

### Table 4.4: Relationship with the Business

<table>
<thead>
<tr>
<th>Job Title</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner</td>
<td>27</td>
<td>52.9</td>
</tr>
<tr>
<td>Employee</td>
<td>24</td>
<td>47.1</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings 2019

The findings of Table 4.4 show that majority of respondents (n= 27) representing 52.9% were the business owners while the respondents who were employees were 47.1%, (n= 24). This was desirable for this study. In most of the cases, the business owners were the ones who mostly deal with the clients of the primary business while their employees dealt with the agency clients. According to Marlow and Carter (2005), study on female-owned businesses, female owners were found to be very much present in the operations of their businesses as opposed to hiring a resource to manage the business on their behalf mainly because their businesses were still small in nature.

4.3.4 Length of Operation before Incorporating Agency Banking

The length of operation of the business before incorporating agency banking was considered important since the scope of the study was for businesses that have been in operation for at least one year. Furthermore according to CBK, the agency banking business opportunity is available
to only legitimate businesses with going concerns of at least 18 months before applying to become a bank agent. The respondents were requested to indicate their length of operation before agency banking. The results on length of operation are given on table 4.5

Table 4.5: Length of Operation before Incorporating Agency Banking

<table>
<thead>
<tr>
<th>Length of Operation Before Incorporating Agency Banking</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-4</td>
<td>38</td>
<td>74.5</td>
</tr>
<tr>
<td>4-6</td>
<td>11</td>
<td>21.5</td>
</tr>
<tr>
<td>Over 6</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings 2019

The results show that 74.5 %, (n=38 ) indicated that their primary businesses had been in operation for 2-4 years. The findings further show primary businesses in operation for 4-6 years were 21.5 % (n=11), over 6 years were 4 % (n=2). This was a good indication because it meant that they would be able to make comparison of their profits before and after agency banking. According to CBK (2010), businesses eligible for engaging in agency banking services were only legitimate businesses with going concerns of at least 12 months before they apply to become a bank agent.

4.3.5 Years of Operation as a Banking Agent

The duration in which Small scale enterprises had incorporated agency banking was an important indication on whether the agency banking had benefitted from Agency Banking. The results on years of operation as a banking agent are given on Figure 4.1
Figure 4.1 shows that 58% of the respondents (n=29) indicated that they have been operating as banking agents for 2-4 years. The findings further show agency banking services for 4-6 years were 24% (n=13), over 6 years were 18% (n=9). This finding indicates that majority of Small scale enterprises have integrated their primary business agency banking in order to break even and even make profit because of the expected additional income from commissions and walk-in clients. This then means the businesses that integrate with agency banking are able to avoid being wound up. This finding is in agreement with the Economic Survey (2006), which recommended that entrepreneurs of Small scale enterprises need to incorporate an additional stream of income into their business, to overcome the numerous impediments that prevent their survival in the future.
4.3.6 Distribution of Banking Agents

In addition to the operational experience of the business, the researcher sought the distribution of banking agents within the commercial banks included in the scope of the study. It is implied that bank agents prefer operating on behalf of a commercial bank which is reputable and which pays good percentage on profits. The results on distribution of bank agents within the three commercial banks in the scope of the study are given on Figure 4.2

![Distribution of Bank Agents](image)

**Figure 4.2: Distribution of Banking Agents**

**Source: Research Findings 2019**

From the results shown in figure 4.2, all the fifty one respondents were operating as agents for multiple banks and that is why the total number of bank agents is eighty five. 94% of the respondents (n=49) operate on behalf of Equity Bank. The findings further show 43% of the respondents operate on behalf of Cooperative Bank (n=22) and 27% operate for KCB Bank (n=14).
4.3.7 Type of Agency Transactions

It is implied that customers are undertaking more deposits and withdrawals transactions compared to other transactions Figure 4.3 shows the results

Figure 4.3: Types of Agency Transactions

Source: Research Findings 2019

From the Figure 4.3, the findings indicate that 52% of the transactions conducted in a bank agent are cash withdrawals and deposits, 30% are bill payments while 18% are account openings transactions. This is consistent with other studies that have indicated that customers are undertaking more deposits and withdrawals transactions compared to other transactions for instance bill payments. Rural agents in Brazil transact more deposits and withdrawals (38%) as a percentage of total transactions (CGAP, 2010). Data from Kenya Bankers association showed that 35,789 agents contracted by 16 commercial banks conducted 58.2 million transactions in 2015 of which 27.9 Million represented deposits and withdrawals (KBA Bulletin, 2015). This
indicates that customers visit banking agents mostly to deposit and withdraw cash and visit the banks to conduct more complex transactions that cannot be handled by the agents such as credit facilities.

4.4 Agency Financial Transactions and Financial Performance

The volume of transactions is often considered a positive indicator of performance. Transactions were analyzed on the basis of commissions and value of goods and services provided. Respondents were asked to indicate the volume of transactions undertaken on a daily basis. Table 4.6 shows the results.

Table 4.6: Daily Transactions

<table>
<thead>
<tr>
<th>Daily Transactions</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-20</td>
<td>5</td>
<td>9.8</td>
<td>9.8</td>
</tr>
<tr>
<td>21-40</td>
<td>8</td>
<td>15.7</td>
<td>25.5</td>
</tr>
<tr>
<td>41-60</td>
<td>16</td>
<td>31.4</td>
<td>56.9</td>
</tr>
<tr>
<td>Above 60</td>
<td>22</td>
<td>43.1</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings 2019

The results shown by Table 4.6, indicate that 43.1% (n=22) of the agency businesses record more than 60 financial transactions in a day, 31.4% (n=16) record between 41-60 transactions while 15.7% (n=8) record between 21-40 transactions in a day. This shows that bank clients are visiting bank agents fundamentally reducing the trips they make to the banks. This means that Small scale enterprises are able to get more income in terms of commissions and hence cover their monthly overheads and depending on their efficiency consequently increasing their profits.
In addition to the volume of transactions of the agency, respondents were asked to indicate the number of transactions undertaken per a listed range of deposits, withdrawals and other transactions. The researcher used this information to deduce the value of commissions earned from these transactions. Tables 4.7-4.9 show the results.

**Table 4.7: Average Commission Income-Cash Withdrawals**

<table>
<thead>
<tr>
<th>Cash withdrawals</th>
<th>Average no of Transactions</th>
<th>Average Commission (Ksh.)</th>
<th>Value of Commissions (Ksh.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100-2500</td>
<td>10</td>
<td>15</td>
<td>150</td>
</tr>
<tr>
<td>2501-5000</td>
<td>8</td>
<td>25</td>
<td>200</td>
</tr>
<tr>
<td>5001-10000</td>
<td>5</td>
<td>35</td>
<td>175</td>
</tr>
<tr>
<td>10001-20000</td>
<td>4</td>
<td>60</td>
<td>240</td>
</tr>
<tr>
<td>20001-35000</td>
<td>5</td>
<td>70</td>
<td>350</td>
</tr>
<tr>
<td>35001-50000</td>
<td>1</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>50001 and above</td>
<td>2</td>
<td>120</td>
<td>240</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td></td>
<td>1,445</td>
</tr>
</tbody>
</table>

*Source: Research Findings 2019*

The results shown by Table 4.7, indicate that agents make an average of thirty five withdrawals in a day out of which majority of the withdrawals (ten) were for small value transactions. The value of commissions from the withdrawals indicated were deduced to be an average of Kshs 1,445. The findings are in line with a study by Hamblen (2008) which stated that bank agents facilitate financial transactions on behalf of the banks and are paid according to the volume of transactions undertaken. The study established that majority of commissions made were for small value transactions. This indicates that most customers who visit bank agents conduct mostly small value transactions which would have been uneconomical to travel and conduct in a bank branch that is far away. These findings are consistent with literature. For example Jagongo
and Molonko (2014), argued that many financial institutions, including commercial banks, are getting huge profits from people from the bottom part of the economic background. The findings revealed that by use of agency banking commercial banks were able to increase their transactions, including cash withdrawals, funds transfer as well as deposits, from people who were considered to be of low income.

Table 4.8: Average Commission Income-Cash Deposits

<table>
<thead>
<tr>
<th>Cash Deposits</th>
<th>Average Number of Transactions</th>
<th>Average Commission (Ksh)</th>
<th>Value of Commissions (Ksh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-5000</td>
<td>11</td>
<td>10</td>
<td>110</td>
</tr>
<tr>
<td>5001-10000</td>
<td>4</td>
<td>15</td>
<td>60</td>
</tr>
<tr>
<td>10001-20000</td>
<td>5</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>20001 and above</td>
<td>2</td>
<td>30</td>
<td>60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>22</strong></td>
<td></td>
<td><strong>330</strong></td>
</tr>
</tbody>
</table>

Source: Research findings 2019

The results shown by Table 4.8, indicate that agents make an average of twenty two deposits in a day out of which majority of the deposits (eleven) were for small value transactions. The value of commissions from the deposits indicated were deduced to be an average of Kshs 330. From the findings above, commissions on deposits are quite low compared to cash withdrawals. The reason could be due to the fact that customers do not pay for the deposits transactions yet banks still pay the commissions to the agents. Most customers seem to shy away from depositing huge amounts of cash at the agency banking outlets due to security reasons. Customers cite security risk of losing their cash to fraudulent agents or cash not reflecting in their bank accounts after depositing at the banking agent (Kariuki, 2015).
Table 4.9: Average Commission Income-Other Transactions

<table>
<thead>
<tr>
<th>Other Transactions</th>
<th>Average no of Transactions</th>
<th>Average Commission (Ksh)</th>
<th>Value of Commissions (Ksh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account Opening</td>
<td>1</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Bill Payments</td>
<td>5</td>
<td>25</td>
<td>125</td>
</tr>
<tr>
<td>Balance Enquiry</td>
<td>5</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11</strong></td>
<td></td>
<td><strong>250</strong></td>
</tr>
</tbody>
</table>

Source: Research Findings 2019

The results shown by Table 4.9, indicate that apart from withdrawals and deposits, customers also engage in other permissible activities of an average of eleven transactions in a day. The value of commissions from the other transactions indicated were deduced to be an average of Kshs 250. This implies that customers of agency banking are engaging in fewer of the permissible activities. According to Kithuka (2012), it is evident that many customers prefer to undertake major transactions at the bank branches as they are not aware of all of the permissible activities being offered by the banking agents.

4.5 Effects of Common Costs and Financial Performance

Costs being the necessary expenditures that must be made in order to run a business usually interfere with performance of the business. Once an agency outlet is opened alongside the primary business, it is believed that there are some costs that are shared between the two businesses. It is further believed that these common costs reduce the operational cost of the business. Common costs include amounts to salaries, rent and security that are usually monthly overheads shared between the profits of the primary business and the income earned from
engaging in agency banking. These common costs are considered to have an effect on financial performance of the business as they are spread between the main business and the agency banking business.

Respondents were asked to indicate whether there are any cost saving advantages for the small scale enterprises that have embraced agency banking. Figure 4.4 shows the results.

Figure 4. 4: Saving Due to Common Costs

Source: Research Findings 2019

Based on the results on figure 4.4, majority of respondents representing 80% indicated that embracing agency banking had enabled the business to save on costs while 20% indicated it had not enabled cost savings. Businesses that incorporated agency banking into their existing business saved on the operational costs because attributed to more income since agency banking is an added business on the side to grow the business as an additional source of revenue from fees and commissions. The findings are in line with Veniard and Melinda (2010) did a study on economics of small accounts in Africa, Latin America and Asia and how agency banking
influences them. The study findings indicated that banking agencies were up to three times cheaper to operate as compared to bank branches. Ignacio (2008) noted it is often prohibitively expensive to reach poor clients in rural areas because the transactions undertaken and the volumes generated do not cater for the expenses of establishing and maintaining a bank branch. The findings also concur with Kambua (2015) who also noted that the infrastructural cost is low in agency banking, efficiency and convenience in operating bank agents has contributed to increased customer transactions and thus increased financial performance of banks.

4.6 Effects of Agency Liquidity and Financial Performance

Agency liquidity includes cost of maintenance of physical cash and e float. It is believed that agency liquidity is a big expenditure for the business owner and it strains on agency banking being an attractive and viable business. It is further believed that the business owners can manage liquidity of their agency outlet by use of the cash obtained from sales of the primary business meaning that they can transfer cash or e- cash between the two businesses.

The respondents were asked to indicate how often their businesses suffer from lack of cash for withdrawals and deposits.
Figure 4.5: Lack of Cash Flow in the Business

Source: Research Findings 2019

Responses from the figure 4.5 indicated that 68.6% of businesses rarely suffer from lack of cash for withdrawals and deposits. The findings confirm that the agency business rarely suffer from lack of cash flow due to the additional flow of income from the primary business. This helps avoid cash flow problems that lead to customer frustration.

Further to lack of cash flow in the business, respondents were asked to indicate whether lack of liquidity affects the use for agency banking by customers and thus loss of customers. Table 4.10 shows the results.
Table 4. 10: Lack of Liquidity

<table>
<thead>
<tr>
<th>Lack of liquid cash (float) at agent outlets leads to frustration and is one of the reasons that leads to loss of customers</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.06</td>
<td>0.87</td>
</tr>
<tr>
<td>Lack of liquidity by banking agents leads to reduced profits and productivity per day</td>
<td>3.08</td>
<td>0.83</td>
</tr>
</tbody>
</table>

**Source: Research Findings 2019**

Based on the results on table 4.10, the respondents agreed with the above statements with a mean of 3.06 and 3.08 respectively and a standard deviation of 0.87 and 0.83 respectively meaning that the respondents did not vary in their opinions. These findings clearly show that lack of liquidity affects the use for agency banking.

This concurs with a survey by Microsave (2014) which indicated that the number of transactions undertaken determines the profitability of agents and thus those agents who turn away customers by denying a high percentage of the transactions are less profitable. The reason being that the volumes of transactions are a driver to profitability and thus liquidity outage has a bad implication on the sustainability of an agency business. Customers also lose trust on such an agency as this erodes the trust that has been built since the introduction of agency banking and a major hurdle that financial service providers have to overcome to drive adoption and usage. The findings of the study further echo those of Kithuka, (2012), who established that liquidity management and network availability were top concerns amongst agents.
4.7 Moderating Effect

It is believed that the regulatory framework by CBK influences the financial performance of the Small scale enterprises since they determine the regulations of Agency banking. These regulations include the non-exclusivity of agents and the number of permissible activities. The respondents were requested to indicate how their business as an agent has been affected by regulatory framework. The results are indicated on table 4.11

**Table 4.11: Regulatory framework**

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers are aware of all the permissible activities of an agent as approved by the CBK and hence effect on commissions earned.</td>
<td>2.47</td>
<td>1.08</td>
</tr>
<tr>
<td>Approval by CBK allowing a small scale enterprise to work as an agent for multiple banks has promoted financial performance of my business.</td>
<td>3.02</td>
<td>0.68</td>
</tr>
</tbody>
</table>

Source: Research Findings 2019

Based on the results on table 4.11, the respondents were neutral to the statement that their customers are aware of all the permissible activities of an agent as approved by the CBK with a mean of 2.47. However this opinion had a considerable standard deviation of 1.08 meaning that respondents varied in their opinion to this statement. The reason for this could be because the customers of agency banking engage few of the permissible services; mainly in cash withdrawals, cash deposits, bill payments and balances requisitions despite the fact that permissible services that the agents are allowed to offer are many. This is attributed to low levels of financial literacy on agency banking among customers and could have an effect on the performance of banking agents. This study agrees with a study conducted by Ndung’u, Okibo and Nyang’au (2015) which recommended that the banks invest more in training of customers so
as to improve levels of financial literacy in order to push more end user acceptance and for users to know about all the transactions they could undertake at a bank agent outlet.

Based on the results on table 4.11, the respondents agreed with a mean of 3.02 and a standard deviation of 0.68 that the regulations by CBK allowing a small scale enterprise to work as an agent for multiple banks had promoted financial performance of their business. All of the businesses sampled were acting as bank agents for more than one bank alongside their primary business. This means that a business is able to be an agent of several banks in one premise. This finding backs the regulation by CBK on the clause that empowers agents to provide agent banking services for to multiple banks as long as an agent has different contracts and has the capacity to manage the transactions for each of the institution (CBK, 2010).

4.8 Regression Results

The strength of the relationship between the predictor variables; financial transactions, common costs, agency liquidity and the financial performance of Small scale enterprises was determined though regression analysis.

4.8.1 Agency financial Transactions and Financial Performance

This section tests the overall objective of the study which was to find the effect of agency banking transactions on the financial performance of small scale enterprises. The following regression model estimates the relationship between agency banking transactions on dependent variable financial performance as the overall regression model.

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \]
Table 4.12: Agency Banking Transactions and Financial Performance ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>1.589</td>
<td>3</td>
<td>.530</td>
<td>.725</td>
<td>.044a</td>
</tr>
<tr>
<td>Residual</td>
<td>30.814</td>
<td>48</td>
<td>.731</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>32.869</td>
<td>51</td>
<td>.731</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub>

b. Dependent Variable: Y

Source: Survey Data (2019)

Analysis of Variance (ANOVA) was done to establish the significance of the regression model. The ANOVA regression results of X<sub>1</sub> against Y as displayed on table 4.18 were (F (1, 48) = 0.725, P = 0.44). At 95% confidence interval, a significant value (p-value) of 0.44 and an F value of 0.725 was registered. This means that the regression model has a probability of less than 0.44 of giving the wrong prediction. Hence the regression model used above is suitable for explaining the effect of financial transactions of agency banking on the financial performance of small scale enterprises.

Table 4.13: Agency Banking Transactions and Financial Performance Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.521</td>
<td>.836</td>
<td></td>
<td>1.819</td>
</tr>
<tr>
<td>X1</td>
<td>.042</td>
<td>.074</td>
<td>.086</td>
<td>.567</td>
</tr>
<tr>
<td>X2</td>
<td>-.150</td>
<td>.209</td>
<td>-.120</td>
<td>-.718</td>
</tr>
<tr>
<td>X3</td>
<td>.367</td>
<td>.274</td>
<td>.222</td>
<td>1.339</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Y
The coefficient table estimated the equation $Y = 1.521 + 0.042 X_1 - 0.150 X_2 + 0.367 X_3$

$X_1$ was found to be significant in the model ($t = 0.56$, $P = 0.030$), $(X_2)$ was found to be significant in the model ($t = -0.718$, $P = 0.022$) and $(X_3)$ was also found to be significant in the model ($t = 1.339$, $P = 0.013$) therefore all the independent variables were useful in increasing financial performance.

The first objective of the study sought to determine the relationship between Financial Transactions and the Financial Performance of Small scale Enterprises in Kiambu Town, Kenya. The null hypothesis assumed that financial transactions had no significant effect on the financial Performance of Small scale Enterprises in Kiambu Town, Kenya. The findings are in agreement with argument by Hamblen (2008), who notes that bank agents facilitate financial transactions on behalf of the banks and are paid commensurate to the volume of transactions undertaken and so the agent makes sure there is traffic in his outlet in order to earn more.

The second objective sought to determine the relationship between Common Costs on Financial Performance of Small scale Enterprises in Kiambu Town, Kenya. The null hypothesis assumed that financial transactions had no significant effect on the Financial Performance of Small scale Enterprises in Kiambu Town, Kenya. The findings are in agreement with argument by Ombutora & Mugambi (2013) pertaining to how agency banking affects the performance of banking agencies. The study established that costs of transactions affect the performance of banking agents. The results of this study now show that financial performance of Small scale enterprises also increased due to decreased costs attributed to sharing costs between the primary business and the agency business.
The third objective sought to determine the relationship between Agency Liquidity on Financial Performance of Small scale Enterprises in Kiambu Town, Kenya. The null hypothesis assumed that financial transactions had no significant effect on Financial Performance of Small scale Enterprises in Kiambu Town, Kenya. The findings resonate with a study conducted by Maina (2014) on factors influencing the endorsement of agency banking services by customers in KCB in Kenya. The study concluded that agency liquidity affects the uptake of agency banking services as Agencies that were recorded to have well maintained liquidity were able to retain more clients. This implied that more transactions were undertaken when an agent is able to maintain liquidity and hence improved financial performance.

The findings above resonate with (Neil & Leishman, 2010) who established that banking agents who provide a range of services such as deposits, withdrawals, bill payments, checking of balances, account opening and as well as engage in selling of goods and services of the primary business are able to generate many transactions, make more sales and balance liquidity hence improve on their financial performance.

4.8.2 Moderating Effect

The fourth objective sought to determine whether the moderating effect of the regulatory framework was present. The null hypothesis assumed that regulatory framework had no significant moderating effect on the relationship between agency Banking Transactions and the financial performance of Small scale Enterprises in Kiambu Town, Kenya.

The regression models that follow were used to test for regulation. The first model was the base model where the dependent variable (financial performance) was regressed against the independent variables (agency transactions, agency liquidity and common costs). The second
model included the moderating variable (regulatory framework) showing the interactions between the moderator and the independent variables.

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \] ................................. (Model1)

\[ Y = \beta_0 + \beta_1 X_1^* X_4 + \beta_2 X_2^* X_4 + \beta_3 X_3^* X_4 + \varepsilon \] .................................

.................(Model2)

Table 4.14: Regression Results for Moderating Effect

<table>
<thead>
<tr>
<th>Model</th>
<th>Y = 1.521 + 0.042 X_1 - 0.150 X_2 + 0.367X_3</th>
<th>F</th>
<th>R^2</th>
<th>\Delta R^2</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model1</td>
<td>0.725</td>
<td>0.591</td>
<td>-</td>
<td>0.044</td>
<td></td>
</tr>
<tr>
<td>Model2</td>
<td>Y = 2.433 + 0.020 X_1X_4 + 0.406 X_2 X_4 - 0.179 X_3 X_4</td>
<td>3.119</td>
<td>0.302</td>
<td>-0.289</td>
<td>0.054</td>
</tr>
</tbody>
</table>

Source: Survey Data (2019)

The coefficients of Model1 which does not include the moderating variable are higher than the coefficients of Model2 which involves the influence of the moderating variable. From these results it is evident that the regulatory framework did not add value as a moderator in the model. In fact it weakened the R^2 value of Model2 where the moderator was introduced additionally the model was not significant p>0.05. For these reasons it was not possible to reject the null hypothesis (H04) that regulatory framework had no statistically significant moderating effect on the relationship between Agency Banking Transactions and Financial Performance of Small scale Enterprises in Kiambu Town, Kenya. The findings of the study agree with Kirimi (2011), which revealed that enforcing oversight on the interaction of the customer and the agent is difficult. The viable solutions to this were regular trainings of agents on agency banking policies and supervision by the banks.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction
This chapter presents the summary, conclusion, recommendation and suggestion for further study. This study was an attempt to understand the effect of agency banking transactions on the financial performance of the Small scale enterprises in Kiambu Town in Kenya. The study was motivated by the impact that agency banking had on the unbanked population and the cost savings being experienced by the banks.

5.2 Summary of the Study
The aim of the study was to find out how agency banking has impacted on the financial performance of entrepreneurs engaging in agency banking. Many Small scale enterprises face the threat of long term survival as most of them wind up within the first five years of being in business. The study sought to determine whether incorporating agency banking into the main business had an effect on the financial performance of the small scale enterprise thus enabling them to overcome the challenge of winding up.

It is against such a backdrop that this study sought to investigate the effect of agency banking transactions on the financial performance of Small scale enterprises in Kiambu Town, Kenya. The first objective was to determine the effect of agency financial transactions on the financial performance of Small scale enterprises in Kiambu Town, Kenya. The study hypothesized that agency financial transactions had no significant effect on the financial performance of Small scale enterprises in Kiambu Town, Kenya. The study finding was that financial transactions of
agency banking have a positive and significant relationship with the financial performance of Small scale enterprises as the p-value was 0.03.

The second objective was to determine the effect of common costs on the financial performance of Small scale enterprises in Kiambu Town, Kenya. The study hypothesized that common costs had no significant effect on the financial performance of Small scale enterprises in Kiambu Town, Kenya. The study finding was that common costs have a negative and significant relationship with the financial performance of small scale enterprises as the p-value was 0.022.

The third objective was to determine the effect of agency liquidity on the financial performance of small scale enterprises in Kiambu Town, Kenya. The study hypothesized that agency liquidity had no significant effect on the financial performance of Small scale enterprises in Kiambu Town, Kenya. The study finding was that agency liquidity have a positive and significant relationship with the financial performance of small scale enterprises as the p-value was 0.013.

The fourth objective was to establish the regulatory framework on the financial performance of small scale enterprises in Kiambu Town, Kenya. The study hypothesized that regulatory framework had no significant moderating effect on the financial performance of Small scale enterprises in Kiambu Town, Kenya. The study finding was that moderating effect of Central Bank of Kenya does not have a significant moderating effect on the financial performance of small scale enterprises as the p-value was 0.054.

5.3 Conclusion

The study findings indicate that agency banking transactions affect the financial performance of small scale enterprises. The following conclusions were based on these findings.
The study concludes that primary businesses boost their income from the commissions received from the banks and gain additional business from the customers who purchase goods and services from their shops after engaging in agency transactions. Customers have preference for the banking agent where they undertake their agency banking transactions thus driving more patronage and sales opportunities for the primary business. The study concludes that primary businesses involved in agency business also save on operational costs since the same resources are used to derive additional income thus boosting their profits. The study concludes that bank agents rarely suffer from lack of liquidity due to the additional flow of income from the primary business. Bank agents were not too strict in adhering to the regulatory requirements e.g identification with national identity card most customers were not aware of other permissible activities.

5.4 Knowledge Creation

The study sought to investigate the effect of agency banking transactions on the financial performance of Small scale enterprises in Kiambu Town, Kenya. Prior studies surrounding agency banking have taken the approach to measure the effect of agency banking by predominantly looking at the performance of banks that have embraced agency banking. Other studies have focused on how agency banking has benefited customers by enabling the unbanked population to access bank services at the comfort of their neighborhood and even improved their income. The reality however is that without the primary business hosting the banking agency, the banks and the customers will not benefit from agency banking. To overcome this gap, the study added to the body of knowledge by looking at agency banking from the agent’s perspective. The study revealed that that agency banking transactions affect the financial performance of small scale enterprises. This revelation is important since profitability of the agents is the underpinning
factor of a successful agent network and not only determines the agent’s loyalty to the commercial bank it operates for, but also motivates them to provide better customer service and endeavor to increase the business.

5.5 Recommendations

5.5.1 Recommendations for Practice

Increased financial performance is the major source of optimism in the agency business model. There is evidence from this study that many Small scale enterprises that have embraced agency banking in addition to their primary business have been able to overcome the challenge of winding up due to the boost in revenue from the agency business. Profitability of the agents being the underpinning factor of a successful agent network, not only determines the agent’s loyalty to the commercial bank it operates for, but also motivates them to provide better customer service and endeavor to increase the business. There is also evidence that customers of agency banking engage few of the permissible services by CBK; mainly in cash withdrawals, cash deposits, bill payments and balances requisitions despite the fact that permissible services that the agents are allowed to offer are many. This is attributed to low levels of financial literacy on agency banking among customers. This study therefore recommends a public awareness campaign on the services offered by banking agents with bias towards other services offered by banking agents apart from cash withdrawals and deductions.

5.5.2 Recommendations for Policy

There is evidence that Central Bank of Kenya’s regulation is not trickling down to the level of the banking agents. The study noted that there were so many banking agents within a particular radius meaning that there was no regulation in terms of how many agents can operate within a certain radius. This meant that customers were divided amongst the many agents and hence
affecting on the financial transactions and hence performance of the businesses. This study therefore recommends creation of an adequate agent management framework that will effectively determine the number of agents within a certain radius.

5.5.3 Recommendations for Further Study
The current study established that regulation by CBK had no moderating effect on the interactions between the variables. The findings of the study differ with other studies which established that the CBK has a moderating effect on banking. Further research on this moderating variable is therefore important in order to establish its relationship with agency banking. The study also recommends simulation of this study in the other towns in Kenya.

5.6 Limitations of the Study
There were limitations in relation to some respondents who were not comfortable with giving out information about the performance of their business. They were given an assurance that the information provided was in confidence and would be used for research purposes only.
REFERENCES


Hamblen, M. (2008,). *Start-up pushes for mobile banking among the poor in Latin America*.


APPENDICES

APPENDIX I: RESEARCHER’S INTRODUCTION LETTER

Dear Sir/Madam

Re: AGENCY BANKING TRANSACTIONS ON FINANCIAL PERFORMANCE OF SMALL SCALE ENTERPRISES IN KIAMBU TOWN, KENYA

I am an MSC student of Accounting and Finance department in Kenyatta University. One of the requirements for the degree programme is to undertake a research on the above topic.

It is my humble request that you fill out the questionnaire attached in order for me to obtain the necessary data on my research. No specific reference will be made in regards to your business.

I will be grateful if you would answer all the questions as candid as possible.

Thank you for your support.

Regards

Judith T. Nyambura
Tel: 0720320629
Email: thogorijj@gmail.com
APPENDIX II: QUESTIONNAIRE

SECTION A: BIO-DATA AND GENERAL INFORMATION

1. What is your age?
   18-25 [ ]  25-34[ ]  35-45[ ] Above 46 [ ]

2. Indicate Gender.
   Male [ ]       Female [ ]

3. Which category describes your position in the business? (Please tick one)
   Business owner [ ]   Employee [ ]

4. How long (in years) have you been operating your Primary Business?
   2-4 [ ]       4-6[ ]       Over 6[ ]

5. How long (in years) have you operated an agency business for?
   2-4 [ ]       4-6[ ]       Over 6[ ]

6. Which bank does your agency business operate on behalf of? (Please tick all that apply)
   Cooperative Bank [ ]   Equity Bank [ ] Kenya Commercial Bank [ ]

7. Approximately what proportion of the number of transactions indicated above would you apportion to the following?

<table>
<thead>
<tr>
<th>Agency banking transactions</th>
<th>Percentage of transactions per day</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0-20%</td>
</tr>
<tr>
<td>Cash withdrawals</td>
<td></td>
</tr>
<tr>
<td>Cash deposits</td>
<td></td>
</tr>
<tr>
<td>Payments of bills &amp; utilities</td>
<td></td>
</tr>
<tr>
<td>Opening bank accounts</td>
<td></td>
</tr>
<tr>
<td>Others(Specify)</td>
<td></td>
</tr>
</tbody>
</table>
SECTION B: FINANCIAL TRANSACTIONS OF AGENCY BANKING

8. Indicate the approximate number of agency banking transactions you make on a daily basis.
   
1-20 [ ] 21 -40 [ ] 41-60 [ ] Above 60 [ ]

9. Indicate the average number of transactions from these transactions
   a) Cash withdrawals

<table>
<thead>
<tr>
<th>Cash withdrawals(Kshs)</th>
<th>Average no of transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>100-2,500</td>
<td></td>
</tr>
<tr>
<td>2,501-5,000</td>
<td></td>
</tr>
<tr>
<td>5,001-10,000</td>
<td></td>
</tr>
<tr>
<td>10,001-20,000</td>
<td></td>
</tr>
<tr>
<td>20,001-35,000</td>
<td></td>
</tr>
<tr>
<td>35,001-50,000</td>
<td></td>
</tr>
<tr>
<td>50,001 and above</td>
<td></td>
</tr>
</tbody>
</table>

   b) Cash deposits

<table>
<thead>
<tr>
<th>Cash deposits(Kshs)</th>
<th>Average no of transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-5,000</td>
<td></td>
</tr>
<tr>
<td>5,001-10,000</td>
<td></td>
</tr>
<tr>
<td>10,001-20,000</td>
<td></td>
</tr>
<tr>
<td>20,001 and above</td>
<td></td>
</tr>
</tbody>
</table>

   c) Other transactions

<table>
<thead>
<tr>
<th>other transactions (Kshs)</th>
<th>Average no of transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account opening</td>
<td></td>
</tr>
<tr>
<td>bill payments</td>
<td></td>
</tr>
<tr>
<td>Balance enquiry</td>
<td></td>
</tr>
</tbody>
</table>

10. To what extent do you agree with the following statements?
KEY : SD= Strongly disagree  D=Disagree  N=Neutral A=Agree SA=Strongly Agree

<table>
<thead>
<tr>
<th></th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>The value of commissions earned from the Agency business has increased my income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers who transact at the banking agent usually purchase from the primary business hence increase in value of goods/services sold</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**SECTION B: COMMON COSTS**

11. To what extent do you agree with the following statements?

KEY : SD= Strongly disagree  D=Disagree  N=Neutral A=Agree SA=Strongly Agree

<table>
<thead>
<tr>
<th></th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>The costs incurred in the primary business before engaging in agency banking would have limited my business’s long term survival and growth.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agency banking has enabled cost saving for my businesses due to shared operational costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The cost saving attributed to shared operational costs has in turn increased on my profits.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. Please indicate the costs that you believe agency banking has enabled you to save on due to cost sharing?

<table>
<thead>
<tr>
<th>Operational cost</th>
<th>Cost saving</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Rent</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>ii. Security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii. Salaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>iv. Others</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Specify).........</td>
<td></td>
<td></td>
</tr>
<tr>
<td>v. Others</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Specify).........</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SECTION C: AGENCY LIQUIDITY

13. How often does the bank monitor agents to ensure sufficient liquidity?

Vey often [    ]
Often [    ]
Rarely [    ]
Never [    ]

14. Does the bank dictate the minimum and maximum cash limits that you can hold as an agent.

Yes [    ]
No [    ]

15. How often does the business suffer from lack of cash for withdrawals and deposits?

Vey often [    ]
Often [    ]
Rarely [    ]
Never [    ]

16. To what extent do you agree with the following statements?

KEY : SD= Strongly disagree  D=Disagree  N=Neutral  A=Agree  SA=Strongly Agree

<table>
<thead>
<tr>
<th>Statement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of liquid cash (float) at agent outlets leads to frustration and is</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>one of the reasons that leads to loss of customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of liquidity by agency bankers leads to reduced profits and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>productivity per day</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SECTION D: REGULATORY FRAMEWORK

17. The following statements relate to Central bank of Kenya’s regulation being important in financial performance of agency banking agents? Please rate the extent to which these apply. SD= Strongly disagree D=Disagree N=Neutral A=Agree SA=Strongly Agree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agent approval fees paid during registration to be an agent are affordable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I understand agency banking regulations by CBK</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The rules and policies developed by CBK on the operations of agency banking have ensured increased financial performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The vetting procedure and due diligence from CBK is tedious</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers are aware of all the permissible activities of an agent as approved by the CBK and hence effect on commissions earned.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approval by CBK allowing an a small scale enterprise to work as an agent for multiple banks has promoted financial performance of my business.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

18. Do you believe your business profits have grown after taking on agency banking?

Yes [ ]

No [ ]

19. If Yes, Approximately what percentage (%) increase in profits has your business realized as a result of incorporating agency banking alongside your primary business?

0-10% [ ]

10-20% [ ]

21-30% [ ]

Above 30% [ ]

20. What motivated you to get into agency business? (Please tick all that apply)

- Attract new customers due to agency banking services [ ]
• Publicity of my business due to association with major bank [ ]

• Share operational costs between primary business and agency banking [ ]

• Attractive commissions paid for agency banking services [ ]

Others (Specify)__________________________________________________________

21. Apart from the factors discussed above, what other factors affect the financial performance of your banking agency business?
................................................................................................................................................
................................................................................................................................................
................................................................................................................................................

22. What recommendation would you make to increase the financial performance of a banking agency business?
................................................................................................................................................
................................................................................................................................................
................................................................................................................................................
................................................................................................................................................

THANK YOU FOR YOUR RESPONSES
APPENDIX III: CONFIDENTIALITY AGREEMENT

I……………………………………………….. Of identification number…………………………

Accept the role of being a research assistant for the study of Judith Thogori Nyambura, an MSC student in Kenyatta University. My primary duty will be to administer questionnaires to all the businesses’ allocated to me. I commit to observe confidentiality of all information received.

Research Assistant:

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

Witnessed by:

Name………………………………..   Date……………………….. Signature………………
APPENDIX IV: RESEARCH PERMIT

THIS IS TO CERTIFY THAT:

Ms. Judith Thigori Nyambura of Kenyatta University, 43844-100 Nairobi, has been permitted to conduct research in Kiambu County on the topic: AGENCY BANKING TRANSACTIONS ON FINANCIAL PERFORMANCE OF PRIMARY BUSINESSES OF SMALL AND MICRO ENTERPRISES IN KIAMBU TOWN, KENYA for the period ending 13th April, 2018.

Signature

Director General

National Commission for Science, Technology & Innovation