

AGENCY BANKING AND GROWTH OF MICRO AND SMALL ENTERPRISES IN KENYA

Ronald Angwenyi Orina

MBA Student, College of Human Resource Development,
Jomo Kenyatta University of Agriculture and Technology, Kenya
ronangwe@yahoo.com

Abstract

This was a cross sectional study conducted in 341 agency banking-micro and small enterprises spread across Nairobi City County in Kenya. The main aim of the study was to establish the link between selected agency banking dimensions and growth of the enterprises. Even though the study yielded some contradictory results, on observed statistical significance and nature of association between selected dimensions and growth from those in the previous studies, such contradictions brought to the fore the remoteness in the link between agency banking dimensions and growth of the enterprises. The findings of the study also brought to the fore a twist in such link by providing inadequate evidence on the existence of significant differences in growth among the micro and small enterprises under study. Furthermore, the explanation of 17.5 percent variations in growth of agency banking micro and small enterprises by the selected agency banking dimensions in the study implied that, the selected dimensions did not significantly influence growth of such enterprises and could not be used to inform a shift in policy to aid growth of such enterprises in Kenya.

Keywords: Agency Banking, Principal Bank Incentives, Regulatory Framework, Internal Control, Micro and Small Enterprises

INTRODUCTION

The use of the agency banking model by banks has continued to improve access of banking services since its launch in 2010. As at 30th June 2013, CBK had authorized 13 commercial banks to offer banking services through third parties (agents). Since 2010, a total of 19,649 agents had been contracted facilitating over 58.6 million transactions valued at Kes. 310.5

billion. The increased number and value of transactions demonstrate the increased role of agent banking in promoting financial initiatives being championed by the Central Bank (CBK, 2013, Ndungu & Njeru, 2014). In spite of this good performance, agency banking businesses (MSEs) in Kenya, still face obstacles in their growth. Some of the obstacles include: Inadequate float, insufficient capital, insecurity and robberies (Atandi, 2013); less hours of work, quality of agents and commissions earned (Ndungu and Njeru, 2014); lack of trust and incentives in managing a network of retail agents (Lehman, Gates and Gates, 2010); policies, procedures, technology, operations and awareness and risks associated with agency banking (Gacheri, 2013).

Despite the obstacles, agency banking is expected to gain in importance as banks roll out more products. Together with ATMs (Automated Teller Machines), mobile and internet banking, agent outlets may then leave bank branches to become customer care centers providing more complex transactions and relationship banking (Ombutura & Mugambi, 2013). As such, there is need for literature to provide adequate empirical evidence of the observed statistical significance and nature of association between the obstacles and growth of agency banking businesses in Kenya. This kind of information is useful to banks and agents in informing necessary strategies, required to survive in the dynamic business environment and particularly, in the growth of agency banking businesses both in numbers and in size. Unfortunately, the relationship between the dimensions and growth of such businesses is still remote.

Problem Statement

Despite their significant importance, Micro and small enterprises (MSEs) across the whole world and Kenya in particular, are still faced with numerous challenges that inhibit their growth. In spite of 13 commercial banks adopting 21,813 agents (Micro & Small Enterprises) in their agency banking, their growth (MSEs) has not been as exponential as expected and numbers in agency outlets are below projection (Vutsengwa & Ngugi, 2013). A number of selected agency banking dimensions may explain this. Although a number of countries over the past several years have issued regulations defining the terms and conditions of using bank agents, there has not been any global guidance to supervisors that directly addresses how best to supervise such use, and whether to supervise agents themselves (Lauer, Dias & Tarazi, 2011). Commercial banks engaged in agent banking operations apply tight controls, measures and regulations to govern agent banking operations (Chiteri, 2013). Regulations often prohibit banks from contracting agents on an “exclusive” basis in order to promote commercial viability, financial inclusion, and competition (Tarazi & Paul, 2011).

From a public policy standpoint, there may be benefits to use incentives on nonbanking correspondents (agents). The use of incentives cannot go against the very dynamic of the

market. However, managing incentives is complex not only in their design, but also in their implementation. The type of incentives used may vary and must be adapted to the circumstances of each case. Nonetheless, basic difficulties inherent in an agent model cannot be solved with incentives (CGAP, 2013). Thus, this study was set to explore the link between selected agency banking dimensions and growth of the MSEs in Kenya. The findings were useful in supplementing the existing empirical evidence on agency banking and growth of the MSEs (agents).

Specific Research Objectives

More specifically the research sought to:

- i. Explore the relationship between selected agency banking dimensions and growth of MSEs in Kenya
- ii. Assess the nature of association between selected agency banking dimensions and growth of MSEs in Kenya
- iii. Examine whether there are significant differences in growth among banking agency MSEs in Kenya
- iv. Find out the extent to which the selected agency banking dimensions inform policy shift in growth of MSEs in Kenya

Research Questions

- i. Does a relationship exist between selected agency banking dimensions and growth of MSEs in Kenya?
- ii. What is the nature of association between selected agency banking dimensions and growth of MSEs in Kenya?
- iii. Are there significant differences in growth among banking agency MSEs in Kenya?
- iv. To what extent do the selected agency banking dimensions be relied on to inform policy shift in growth of MSEs in Kenya?

LITERATURE REVIEW

Theoretical Review

Agency Banking

Agency banking is a diversification strategy which was introduced to expand access to financial services, especially in remote areas where it has been expensive for banks to maintain a presence, owing to smaller volumes (Beck, Cull, Fuchs & Getenga, 2010). In Kenya, agency banking was introduced into the banking industry in May 2010 after the CBK publicized

prudential guidelines on agency banking to allow banks and other financial institutions to provide financial services through nonbank agents such as: limited liability partnerships, sole proprietorships, partnerships, societies, cooperative societies, state corporations, trusts, public entities and any other entity which the regulator may prescribe (CBK, 2010). The use of information and communication technology (ICT) in agency banking significantly reduces costs and increases the reach of banking, making correspondents an attractive vehicle for the underserved low income population (Kumar, 2005). Reaching poor clients in rural areas is often prohibitively expensive for financial institutions since transaction numbers and volumes do not cover the cost of a branch (Kitaka, 2001). Reaching new segments of the population, efficiency, enhancement of bank's reputation, better customer service and satisfaction (Brogdon, 1999; Jayawardhena & Foley, 2000) are some of the benefits of agency banking.

Services that can be offered through agency banking include: cash deposit taking, cash withdrawals, school fees payments, utility payments, balance enquiry and mini-statements (Coop Bank 2013). CBK (2013) report indicate that up to end of 2013, 13 commercial banks had been authorized to offer banking services through third parties (agents) with Equity bank (*Equity Mashinani*), Co-operative Bank (*Coop KwaJirani*), Post Bank (*BenkiYangu*) and Kenya Commercial Bank(*KCB Mtaani*) claiming the largest share. The report further indicates that a total of 21,816 agents contracted by the banks have facilitated over 69.2 million transactions valued at around Kenya Shillings 366.8 billion as at June 2013. As a result of agency banking, bank agents have contributed to 12.3 per cent in deepening access with 76.3 per cent of Kenyans having access to financial services (CBK, 2014).

Micro and Small Enterprises

Bashir (2008) noted that MSEs are the first step towards development in economies towards industrialization. A healthy MSE sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills and is widely considered to be vital to a country's competitiveness. The dynamic role of MSEs in developing countries insures them as engines through which the growth objectives of developing countries can be achieved (Edmore, 2011). Pelham (2000) hailed MSEs for their pivotal role in promoting grassroots economic growth and equitable sustainable development. According to the 1999 Baseline Survey (CBS, ACEG and K-REP) there were 1.3 million MSEs which contributed 18 percent of Kenya's Gross Domestic Product (GDP) with the survey stating that about 64 percent of the MSEs are in trade. In recognizing the critical role MSE's play in the Kenyan economy, the Government through vision 2030 envisages the strengthening of MSEs to become the key industries of tomorrow by

improving their productivity and innovation (Ministry of Planning, National Development & Vision 2030, 2007). MSEs tend to be large in number, accounting for about 90 percent of all enterprises in many African countries and over 80 percent of new jobs in a given country (Reinecke 2002). With their large number, comes increased competition and continuous technological breakthroughs and rapidly changing customer requirements demanding strong market orientation if MSEs are to be successful (Shiu & Walker 2007). Yet, market saturation is a major problem for MSEs related to a lack of access to higher value markets and a lack of innovation. Without innovation through new product development and access to higher value markets, the potential for success for MSEs is low (Kantor, 2001).

Taking advantage of their sizes, which make MSEs potentially more flexible, and better able to adapt to the rapidly changing global economy and the political pressure of rising unemployment (Kantor 2001), a positive relationship between agency banking and growth of MSEs may be used to improve and enhance growth of agency banking through better policies, improved incentives and better controls from commercial banks and other stakeholders in the industry.

Theoretical Framework

Some theories that attempt to explain the relationship between the dimensions of this paper have been fronted. They include agency banking and diffusion of innovations theories. Their relevance and application to the study have been discussed.

Agency Theory

The 1976 article —Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure by Jensen and Meckling helped establish agency theory as the dominant theoretical framework of the corporate governance literature, and position shareholders as the main stakeholder (Lan et al. 2010, Daily et al. 2003). The adoption of the agency logic increased during the 1980's as companies started replacing the hitherto corporate logic of managerial capitalism with the perception of managers as agents of the shareholders (Zajac et al. 2004). Given the separation of ownership and control, and the diverging risk profiles of the participating parties (Eisenhardt 1989, Jensen 1989), it cannot be expected that risk-averse managers (agents) will act in the interest of risk-neutral shareholders (principals) as it may not be in the manager's self-interest to pursue shareholder wealth maximization (Bonazzi et. al. 2007, Lan et al. 2010, Demsetz et al. 1985). Jensen et al. (1985) argue that the three prominent problems with management that cause the conflict of interest are, 1) the choice of effort, 2) differential risk exposure, and 3) differential time horizon. The agency problem in separating ownership and

control is therefore the assumed diverging goals of the —cooperating parties – the residual claimant and manager (Donaldson 1990, Hendrikse 2003).

In order to resolve agency and risk-sharing problems in principal-agent relationships, agency theory prescribes two formal (and ideal) types of management mechanisms to govern these relationships. One is outcome-based management mechanism where both principals and agents can observe outcomes, and the principals reward agents based on measured performance outcomes (Ekanayake, 1988). The outcome-based management mechanism emphasizes results regardless of how the agents achieve them (Choi & Liker, 1995). The other management mechanism is behavior-based which when applied, principals can monitor agents' behaviors and efforts which otherwise are unknown to the principals. The behavior-based management mechanism emphasizes tasks and activities in agents' processes that lead to the outcomes of the agents (Eisenhardt, 1989). However, a noted problem with performance based pay is that “dysfunctional behavioral responses where agents emphasize only those aspects of performance that are rewarded” is present (Prendergast 1999). As such, just as the principal may learn which incentives work the best, the agent learns which aspects of performance the principal is interested in and primarily seeks to optimize these exact aspects (Shapiro 2005, Brickley et al. 1994). The consequence becomes a system where everything is driven towards meeting measurable targets and not necessarily towards creating real value and growth (Porter 1992).

Relevance and Application of Agency Theory

Agency theory explains the importance of the relationship between the banks (Principal) and the MSEs (Agent). Banks are responsible for the actions of their agents and thus must be able to come up with supervision and monitoring procedures to ensure that they do not suffer losses, material or reputational due to the actions of their agents. In concurrence with the theory, some unscrupulous agents deviate from compliance to laid bank procedures for their own interest. Examples are where agents split a single deposit transaction into several transactions in order to increase their commissions. Since customers do not pay for deposits, banks are disfranchised whenever a deposit transaction is multiplied over by an agent as they have to pay from their profits for each of these deposit transactions.

The other concern is where an agent is compromised by fraudsters in abating frauds to customers account like card skimming which have been traced to agents. In such instances banks are forced to increase their surveillance which calls for more and more supervision resulting in a vicious cycle of cost of agent's administration. Through the use of agency theory in this study, the role of regulatory framework in guiding the relationship between the bank and the

MSEs in ensuring growth was assessed. The theory helped determine how banks can use their internal control to mitigate risk for growth and if through providing proper incentives (reward) the agents will be able to conform to what the Banks (Principal) expect of them. The theory was therefore relevant in addressing the three independent variables central to this study.

Diffusion of Innovations Theory

Diffusion of Innovation (DOI) Theory, developed by E.M. Rogers in 1962, is one of the oldest social science theories. According to Lin and Chen (2007), innovation is a dominant factor for a firm's competitiveness within its environment. It fuels organizational growth, drives future success and is the engine that allows businesses to sustain their viability in a global economy. Firms must be able to create and commercialize a stream of new products and processes that extend the technology frontier, while at the same time keeping a step or two ahead of their rivals. Innovation diffusion theory focuses on how ideas and concepts gain widespread adoption. The theory according to Rodgers (1995), considers a set of attributes associated with widespread adoption of technological innovation. Rodgers defines these attributes as: Relative advantage which refers to the degree to which an innovation is perceived to be better than the idea it supersedes; Compatibility, the degree to which an innovation is perceived to be consistent with the existing values, past experiences, and needs of potential adopters; complexity, referring to the degree to which an innovation is perceived to be difficult to understand and use; trial ability, the degree to which an innovation may be experimented on a limited basis and finally, observability, the degree to which the result of innovation are visible to others.

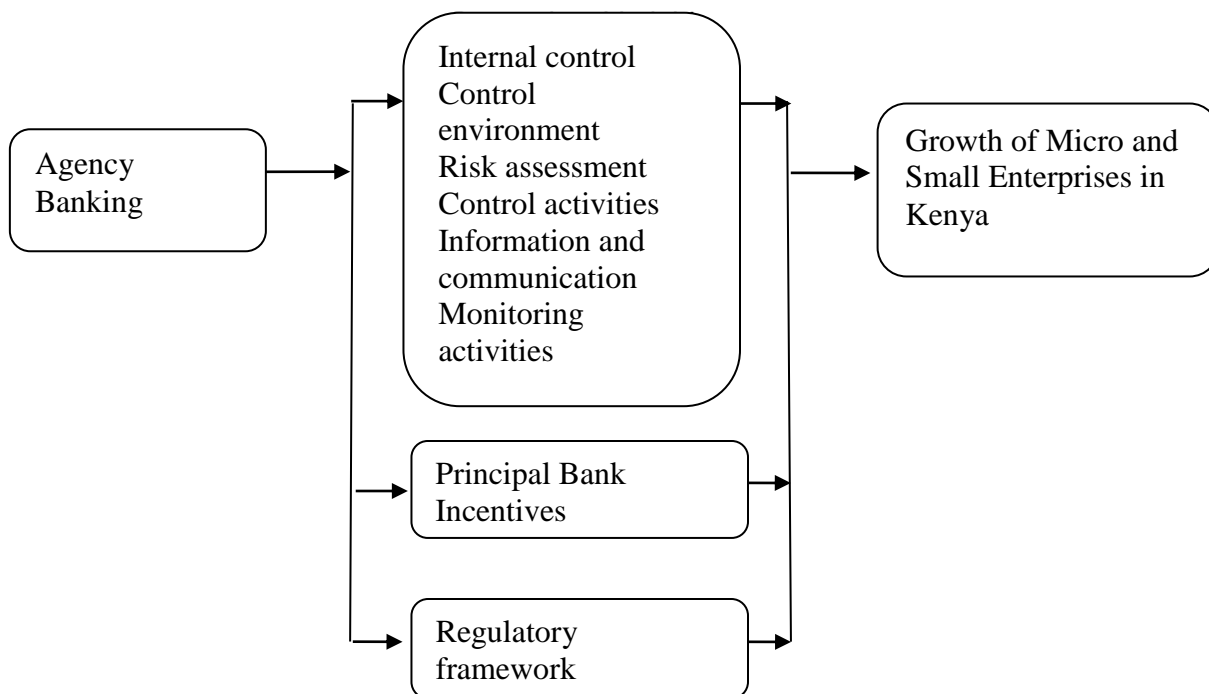
Relevance and Application of Diffusion of Innovations Theory

Agency banking is clearly an innovation that requires time to reach critical mass. According to CBK (2013) only 13 out of 46 commercial banks have adopted agency banking with 21,816 MSEs having been recruited to act as bank agents. There is still a long way to go and with MSEs viewed to be a fertile ground with regard to innovation, the growth of agency banking will easily be achieved. The rate of diffusion of agency banking will depend on many factors such as MSEs putting in place proper incentives, having proper regulatory framework and banks coming up with tight and more flexible internal controls all of which are subject to this study. Banks however still need to come up with initiatives to popularize the agency banking such as advertisements, road shows, pricing strategies to create push and pull at the agency as well as many more initiatives until the agency banking has attained the critical mass.

Conceptualization

The conceptualization of the study was based on agency theory behavioral based management mechanism in which the principal can monitor agents' behavior and effort. The concept was anchored on mitigation of risk, provision of proper incentives and use of regulatory framework in guiding the relationship between the bank and the MSEs in ensuring growth. Figure 1 contains the conceptualization framework.

Figure 1: Conceptualization Framework



METHODOLOGY

Research design

The study employed descriptive research design. Descriptive research involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection (Glass & Hopkins, 1984). Descriptive studies report summary data such as measures of central tendency including the mean, median, mode, deviance from the mean, variation, percentage, and correlation between variables. Survey research commonly includes that type of measurement, but often goes beyond the descriptive statistics in order to draw inferences. Three main purposes of descriptive research are to describe, explain, and validate findings. Description emerges following creative exploration, and serves to organize the findings in order

to fit them with explanations, and then test or validate those explanations (Krathwohl, 1993). Descriptive studies can yield rich data that lead to important recommendations.

Target Population

Target population in statistics is the specific population about which information is desired. According to Bryman and Bell (2003) a population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. Cooper and Schindler (2003) describe a population as the total collection of elements whereby references have been made. Thus the population should fit a certain specification, which the researcher is studying and the population should be homogenous. The target population of this study was 8,468 bank agents for three banks operating agency banking in Nairobi County and distributed in the 16 sub county administrative units. See their categorization in appendix II.

Sampling Design

Sampling design describes how the sampling unit, sampling frame and procedures of the study are conducted (Cooper and Schindler, 2003). Bryman and Bell (2003) underscores the importance of selecting a representative sample through making a population frame. A population frame is a systematic list of subjects, elements, traits, firms or objects to be studied. From the population frame the required number of subjects, respondents, elements, firms are selected in order to make a sample. Saunders et al. (2009) posit that an appropriate sample size when no proportion in the target population is estimated to bear the characteristic to be measured can be arrived at by use of the following formula:

$$n = (z^2 pq) / e^2$$

Where:

n is the minimum sample size required

z is the standard normal deviate that is, 1.96 for 0.05 margin of error

p is the proportion in the target population estimated to bear the characteristic, recommended to be 50% if there is no estimate available of the proportion in the target population assumed to have the characteristic of interest.

q is the proportion not having the characteristic (1-p)

e is the margin of error required (set at 5% in the current study)

$$n = (1.96)^2 \cdot (0.5) \cdot (0.5) / (0.05)^2 = 384 \text{ (approx)}$$

For this research a total sample size of 384 was considered adequate. This was picked as a proportion of 8,468 using stratified random sampling method. See appendix II for the distribution of respondents (agents) by sub county administrative units in Nairobi County.

Data collection Procedures and Instruments

As documented by Maxwell (2005) data collection methodology is the precise, systematic gathering of information relevant to the research sub-problems, using methods such as interviews, participant observation, focus group discussion, narratives and case histories. The researcher used a questionnaire, a formalized set of questions for obtaining information from respondents with the overriding objective of translating the researcher's information needs into a set. The instrument was designed to address specific questions that respondents were willing and able to answer to address the research concerns. The research questions served two main functions: helped the researcher focus the study and gave guidance on how to conduct the study. The researcher conducted a pilot study prior to the actual research study. This enabled the researcher to determine the level of clarity and validity of the possible questions to be administered. The Likert scale was used on quantitative type questions to assess how strongly the respondent agreed with given statements. The researcher used drop and pick method in collecting questionnaires and employed the services of data administrators

Data Analysis Approach

Maxwell (2011) defines data analysis as a mechanism for reducing and organizing data to produce findings that require interpretation by the researcher. The questionnaires were grouped according to areas demarcated in sample distribution. The questionnaires were coded and analyzed by use of Statistical Package for Social Sciences (SPSS). Data was analyzed using inferential statistics. Correlation analysis and multiple regression analysis were used. Multiple linear regression was used to establish the predictive power of the study model specified by the following equation:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \varepsilon$$

Where: Y = Growth of micro and small enterprises

X₁ = Control environment

X₂ = Risk assessment

X₃ = Control activities

X₄ = Information and communication

X₅ = Monitoring activities

X₆ = Principal bank incentives

X_7 = Regulatory framework

ε = Error term/Erroneous variables and β_0 is the intercept

Decision Criteria

t-test was used to test for observed statistical significance of the independent variables. Any variable that had a probability value of less than 0.05 ($p \leq 0.05$) was taken to be statistically significant while a variable that had a probability value greater than 0.05 ($p \geq 0.05$) was taken to be statistically insignificant. Pearson product moment correlation coefficients were used to establish the strength of association between independent variables and the dependent variable. A variable that had a coefficient close to one (± 1) was taken to be strongly associated; a variable with a coefficient close to 0.5 (± 0.5) was taken to be moderately associated while a variable that had a coefficient close to zero (± 0.0) was taken to be weakly associated. A variable with a correlation coefficient of 0.00 was taken to have no association (zero association) with the dependent variable. F-test (ANOVA) was used to find out whether or not there were significant differences in growth among agents (MSEs) in Kenya. A probability value less than 0.05 ($p \leq 0.05$) depicted significant differences while a probability value greater than 0.05 ($p \geq 0.05$) depicted lack of significant differences. The coefficient of determination R^2 was used to find out the extent to which selected banking agency dimensions inform policy shift in growth of MSEs in Kenya. A determination coefficient less than 0.7 ($R^2 \leq 0.7$) depicted that the selected agency banking dimensions informed less than 70% change in growth of MSEs while a coefficient greater than 0.7 ($R^2 \geq 0.7$) depicted that the selected agency banking dimensions informed more than 70% change in growth of MSEs in Kenya.

EMPIRICAL FINDINGS

On the relationship that exist between selected agency banking dimensions and growth of SMEs (agency banking businesses) in Kenya, the study indicated that risk assessment ($t=3.374$, $p=0.001$) and control activities ($t=2.644$, $p=0.009$) were statistically significant and good predictors of growth while information and communication ($t=1.824$, $p=0.069$), monitoring activities ($t=1.927$, $p=0.055$), principal bank incentives ($t=0.390$, $p=0.697$) and regulatory framework ($t=0.534$, $p=0.594$) were statistically insignificant and poor predictors of growth. Nonetheless, the study did not provide enough evidence, on the relationship between control environment and growth of the agency banking businesses in Kenya. This is because the computed probability value for the variable was found to be zero ($p=0.000$). See table 1 for details.

Table 1: Coefficients^a

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	3.238	.290		11.148	.000
	Control environment	-.200	.056	-.259	-3.572	.000
	Risk assessment	.131	.039	.203	3.374	.001
	Control activities	.133	.050	.186	2.644	.009
	Information and communication	.089	.049	.113	1.824	.069
	Monitoring activities	.080	.042	.126	1.927	.055
	Principal bank incentives	.012	.032	.021	.390	.697
	Regulatory framework	.018	.034	.036	.534	.594

a. Dependent Variable: Growth of micro and small enterprises

On the nature of association that exist between the selected agency banking dimensions and growth of agency banking businesses in Kenya, the study indicated that, control environment had a negative weak association ($r = -0.048, 0.373$) with growth while regulatory framework had a positive moderate ($r = 0.031, 0.565$) association with growth. The rest of the dimensions in the study, were found to have positive weak association with growth at 90% significance level; risk assessment ($r = 0.242, 0.000$), control activities ($r = 0.312, 0.000$), information and communication ($r = 0.196, 0.000$), monitoring activities ($r = 0.239, 0.000$) and principal bank incentives ($r = 0.075, 0.169$). Table 2 has the details.

Table 2: Correlations

		Growth of micro and small enterprises	Control environment	Risk assessment	Control activities	Information and communication	Monitoring activities	Principal bank incentives	Regulatory framework
Growth of micro and small enterprises	Pearson Correlation	1	-.048	.242**	.312**	.196**	.239**	.075	.031
	Sig. (2- tailed)		.373	.000	.000	.000	.000	.169	.565
	N	341	341	341	341	341	341	341	341
Control environment	Pearson Correlation	-.048	1	.402**	.300**	.465**	.320**	.099	-.610**
	Sig. (2- tailed)	.373		.000	.000	.000	.000	.068	.000
	N	341	341	341	341	341	341	341	341
Risk assessment	Pearson Correlation	.242**	.402**	1	.431**	.359**	.201**	.163**	-.190**
	Sig. (2- tailed)	.000	.000		.000	.000	.000	.003	.000
	N	341	341	341	341	341	341	341	341

Control activities	Pearson Correlation	.312**	.300**	.431**	1	.449**	.599**	.063	-.325**
	Sig. (2-tailed)	.000	.000	.000		.000	.000	.248	.000
	N	341	341	341	341	341	341	341	341
Information and communication	Pearson Correlation	.196**	.465**	.359**	.449**	1	.439**	.131*	-.308**
	Sig. (2-tailed)	.000	.000	.000	.000		.000	.016	.000
	N	341	341	341	341	341	341	341	341
Monitoring activities	Pearson Correlation	.239**	.320**	.201**	.599**	.439**	1	.113*	-.254**
	Sig. (2-tailed)	.000	.000	.000	.000	.000		.036	.000
	N	341	341	341	341	341	341	341	341
Principal bank incentives	Pearson Correlation	.075	.099	.163**	.063	.131*	.113*	1	.161**
	Sig. (2-tailed)	.169	.068	.003	.248	.016	.036		.003
	N	341	341	341	341	341	341	341	341
Regulatory framework	Pearson Correlation	.031	-.610**	-.190**	-.325**	-.308**	-.254**	.161**	1
	Sig. (2-tailed)	.565	.000	.000	.000	.000	.000	.003	
	N	341	341	341	341	341	341	341	341

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

* . Correlation is significant at the 0.05 level (2-tailed).

On whether or not there existed significant differences in growth among agency banking businesses in Kenya, the study did not provide enough evidence to believe that, there are such significant differences, as the computed value for analysis of variance was found to be zero ($p=0.000$). See table 3 for details.

Table 3: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30.783	7	4.398	10.084	.000 ^b
	Residual	145.217	333	.436		
	Total	176.000	340			

a. Dependent Variable: Growth of micro and small enterprises

b. Predictors: (Constant), Regulatory framework, Principal bank incentives, Risk assessment, Monitoring activities, Information and communication, Control activities, Control environment.

On the extent to which the selected agency banking dimensions used in the study, could be relied on to inform policy shift in growth of MSEs in Kenya, the study indicated that the dimensions only explained 17.5% variations in growth of MSEs and as such could not be relied

on to inform any policy shift to assist in growth of the agency banking businesses in Kenya. This is so as the coefficient of determination was found to be less than 70% ($R^2 \leq 0.7$). A coefficient of determination less than 0.7 was considered statistically insufficient. See details in table 4.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.418 ^a	.175	.158	.660

a. Predictors: (Constant), Regulatory framework, Principal bank incentives, Risk assessment, Monitoring activities, Information and communication, Control activities, Control environment

DISCUSSION

The study provided no evidence to whether or not control environment had a significant or insignificant relationship with growth. This contradicts the findings of McKendrick (2011) which indicated that firms still experience significant control deficiencies in today's control environment. The study also indicated that risk assessment had a significant and positive weak association with growth. This concurs with the findings of Gunderson and Hachigian (2010) which reported a significant relationship between risk assessment and a firm's progress towards its financial goals, a component of growth. The study found out that control activities had a significant positive weak association with growth. This is supported by the work of Poupart (2010) whose findings reported a significant relationship between control activities and attainment of firm's objectives (which includes growth) indicating that control facilitated the attainment of such objectives. The study indicated that information and communication had a non-significant positive weak association with growth. This contradicts the findings of Navarro (2010) who found out that information and communication had a significant positive strong association with earnings (a subset of growth) in microenterprises. The study indicated that monitoring activities had an insignificant positive weak association with growth. Nonetheless, the study did not find results that neither support nor contradict this position.

The study indicated that the principal bank incentives had an insignificant positive weak association with growth. This contracts the findings of Main et al. (1996) who found a significant positive strong association between increased shareholder wealth and executive compensation which are subsets of both growth (shareholder wealth) and incentives to agents (executive compensation) in relation to the current study. The study indicated that regulatory framework had an insignificant somewhat strong association with growth, which contradicts the findings of Cingano and Barone (2010) which indicated a significant strong negative association between regulation and growth.

On whether there existed significant differences in growth among agency banking micro and small enterprises, no finding was found to contradict the position of this study within the Kenyan Context. The 17.5 percent variations explained by the selected agency banking dimensions on growth of the enterprises were considered statistically inadequate and could not be relied on to draw conclusions required to change business policy by commercial banks to accelerate the growth of agency banking enterprises in Kenya.

CONCLUSIONS

Even though the study yielded some contradictory results, on observed statistical significance and nature of association between selected dimensions and growth from those in the previous studies, such contradictions brought to the fore the remoteness in the link between agency banking dimensions and growth of the enterprises. The findings of the study also brought to the fore a twist in such link by providing inadequate evidence on the existence of significant differences in growth among the micro and small enterprises under study. Furthermore, the explanation of 17.5 percent variations in growth of agency banking micro and small enterprises by the selected agency banking dimensions in the study implied that, the selected dimensions did not significantly influence growth of such enterprises and could not be used to inform a shift in policy to aid growth of such enterprises in Kenya. Nonetheless, such contradictions and inconsistencies in findings could be blamed to low level of education among respondents, making it difficult for them to understand and respond to the survey questions as asked. Consequently, the study recommended a review of the study to include more variables because the findings intimated that 82.5 percent variations in growth of the enterprises under study were explained by extraneous variables that are not part to those already used in the study.

REFERENCES

- Atandi, F.G. (2013), Challenges of agent banking experiences in Kenya. *International Journal of Academic Research in Business and Social Science*. August 2013, Vol. 3, No. 8 ISSN: 2222-6990
- Beck, T., Robert, C., Michael, F., Getenga, J., Gatere, P., Randa, J. and Trandafir, M. (2010). Banking sector stability, efficiency and outreach in Kenya in: Christopher Adam, Paul Collier and Njuguna Ndung'u (Eds.): Kenya: Policies for Prosperity
- Bolton, D. L. and Lane, M. D. (2012). 'Individual entrepreneurial orientation: Development of a measurement instrument', *Education and Training*, 54, 2, pp. 219-233.
- Bonazzi, L. and Islam, S. (2007). 'Agency theory & corporate governance: A study of the effectiveness of board in their monitoring of the CEO', *Journal of Modeling in Management*, 2, 1, pp.7 – 23
- Brickley, J., Smith, C. & Zimmerman, J. (1994). 'Ethics, Incentives, & Organizational Design', *Journal of Applied Corporate Finance*, 7, 2, pp. 20-30
- Brogdon, C. (1999). *Banking and the Internet: Past, present and possibilities*.
- Bryman, A. and Bell, E. (2003). *Business Research Methods*, Oxford: Oxford University

- CBK (2010), Monetary Policy Statement, Central Bank of Kenya, December 2010, Nairobi.
- CGAP (2013), Incentives for the Introduction of Agents by Banca de las Oportunidades in Colombia. Public Version.
- CGAP (2010), "Update on Regulation of Branchless Banking in Colombia."
- Chiteli, N. (2013). Agent Banking Operations as a Competitive Strategy of Commercial Banks in Kisumu City. *International Journal of Business and Social Science* Vol. 4 No. 13; October 2013
- Choi, T. and Liker, J. (1995). Bringing Japanese continuous improvement approaches to US manufacturing: the roles of process orientation and communications. *Decision Sciences*, 26, 589-620.
- Cingano, F. and Barone, G. (2010). Service regulation and growth: evidence from OECD countries
- Cooper, D.R., & Schindler, P.S. (2003). *Business Research Methods*. (8th ed.). Boston: McGraw-Hill Irwin.
- Daily, C., Dalton, D. & Cannella Jr., A., (2003). 'Corporate Governance: Decades Of Dialogue & Data', *Academy of Management Review*, 28, 3, pp. 371-382.
- Donaldson, L. (1990). *The ethereal hand: Organizational economics and management theory*. Englewood Cliffs, N. J.: Prentice-Hall.
- Edmore, M. (2011). Underhill Corporate Solutions. National Credit Regulator.
- Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of Management Review*, 14: 532–550.
- Ekanayake, S. (1988). A stakeholder theory of the modern corporation: Kantian capitalism, in Beauchamps, T. and Werhane, P. H. (Eds), *Ethical Issues in Business*, Prentice-Hall, Englewood Cliffs, NJ. 166-171.
- Fiss, P. C., & Zajac, E. J. (2004). The diffusion of ideas over contested terrain: The (non)adoption of a shareholder value orientation among German firms. *Administrative Science Quarterly*, 49: 501–534.
- Gacheri, M.R. (2013). An investigation of challenges facing agent banking implementation in Kenya. Department of Business Administration. Kenyatta University Institutional Repository.
- Glass, G. V., & Hopkins, K. D. (1984). *Statistical Methods in Education and Psychology* (2nd ed.). Englewood Cliffs, N. J.: Prentice-Hall.
- Gunderson, D.S., and Hachigian, L.P. (2010). *Analyzing, Managing and Disclosing Risk in the Emerging-Growth Company*. New York / San Diego
- Hendrikse, G. (2003), *Economics & Management of Organizations*, McGraw-Hill Education, New York., USA
- Jayawardane V. K. (2000), *Nobodies to somebodies: the rise of the colonial bourgeoisie in Sri Lanka*. Colombo: Social Scientist Association and Sanjiva Books
- Jensen, M. (1986). "Agency Costs of Free Cash Flow, Corporate Finance and Takeovers."
- Jensen, M. (1989). "Eclipse of the Public Corporation." *Harvard Business Review*, 67(5):6
- Jensen, M.C. and Meckling, W.H. (1976). "Theory of the firm: Management behavior, agency costs and Capital Structures". *Journal of Financial Economics*, 3(4), 305- 60.
- Kantor, P. (2001), "Promoting Women's Entrepreneurship Development based on Good Practice Programmes: experiences from the North to the South". SEED Working Paper No. 9, International Labour Organization.
- Krathwohl, D. R. (1993). *Methods of educational and social science research*. New York: Longman.
- Lan, L. & Heracleous, L. (2010). Rethinking Agency Theory: the View from Law', *Academy of Management Review*, 35, 2, pp. 294-314.
- Lauer, K., Dias, D. and Tarazi, M. (2011). *Bank Agents: Risk Management, Mitigation, and Supervision*. No.75.

- Lehman, J., Gates, M., and Gates, B. (2010). Operational Challenges of Agent Banking Systems. Global Savings Forum.
- Lin, C.Y., Chen, M.Y. (2007). Does innovation lead to performance? An empirical study of SMEs in Taiwan. *Management Research News* 30 (2), 115-132.
- Main, B.G., Bruce, A. and Buck, T. (1996). "Total Board Remuneration and Company Performance", *Econ. J.*, 106: 1627-1644.
- Maxwell, J. A. (2005). *Qualitative research design: An interactive approach* (2nd ed.). Thousand Oaks, CA: Sage.
- Maxwell, J.A. (2011). "Book Review: Realist Approach for Qualitative Research. London: Sage." *Qualitative Sociology Review* 8(3):90-92.
- McKendrick, J. (2011). *Moving to New ERP Environments: 2011 OAUG Governance, Risk and Compliance Best Practices Survey*, Unisphere Research, February 2011.
- Mircea, T. (2010). *Banking sector stability, efficiency and outreach in Kenya in: Christopher Adam, Paul Collier and Njuguna Ndung'u (Eds.): Kenya: Policies for Prosperity*
- Navarro, L. (2010). *The Impact of Internet Use on Individual Earnings in Latin America. Economic Commission for Latin America and the Caribbean.*
- Ndungu, C. G., & Njeru, A. (2014). *Assessment of Factors Influencing Adoption of Agency Banking in Kenya: The Case of Kajiado North Sub County. International Journal of Business and Commerce* , 3 (8), 91-111.
- Ndungu, C.G., and Njeru, A. (2014). *Assessment of Factors Influencing Adoption of Agency Banking in Kenya: The Case of Kajiado North Sub County. International Journal of Business and Commerce Vol. 3, No.8: Apr 2014[91-111] (ISSN: 2225-2436).*
- Ombutora, E. K. & Mugambi, F. (2013). *Role of agency banking on the performance of banking agent entrepreneurs: A case study of Co-operative Bank Co-op Jirani in Kibera, Nairobi. International Journal of Social Sciences and entrepreneurship. Vol.1, Issue 5, 2013*
- Pelham, A.M. (2000), *Marketing Orientation and Other Potential Influences on Performance in Small and Medium-Sized Manufacturing Firms, Journal of Small Business Management, January, 48-67.*
- Porter, M. E. (1992). *Capital Disadvantage: America's Failing Capital Investment System, Harvard Business Review, 65-83*
- Poupart, O. (2010). *Autorite des Marches Financiers. Risk Management and Internal Control Systems. Reference Framework.*
- Prendergast, C. (1999). *The Provision of Incentives in Firms', Journal of Economic Literature, 37, 1, pp. 7-63*
- Reineck, K.H. (2002). *Examples for the design of structural concrete with strut-and-tie models. Publication of ACI Committee 445: shear and torsion. Farmington Hills: American Concrete Institute.*
- Rogers, E M (1995). *Diffusion of innovations: 4th edition New York: Free Press, 518pp*
- Saunders, M., Lewis, P. & Thornhill, A. (2009) *Research methods for business students, 5th ed., Harlow, Pearson Education.*
- Shapiro, S., 2005, *'Agency Theory', Annual Review of Sociology, 31, 1, pp. 263-284*
- Tarazi, M., and Paul, B. (2011). "Regulating Banking Agents." *Focus Note 68. Washington, D.C.: CGAP, March.*
- The cooperative Bank Group Annual report & accounts (2003). *Business Strategy*
- Vutsengwa, R. M. & Ngugi, K. (2013), *An assessment of the challenges facing commercial banks in sustainability of agency banking in Kenya: A case of commercial banks, International Journal of Social Sciences and Entrepreneurship. Vol.1, Issue 2, 2013, 1 (2), 613-620.*

APPENDICES

APPENDIX I: QUESTIONNAIRE

Serial No.....

The questionnaire is meant to collect information on Agency Banking and Growth of Micro and Small Enterprises in Kenya. Kindly answer the questions by writing a brief statement or ticking in the boxes provided as will be applicable. The information provided will be treated as strictly confidential and at no instance will your name be mentioned in this research. This research is intended for an academic purpose only.

SECTION ONE: DEMOGRAPHIC INFORMATION

1. Name of principal bank (Optional).....
2. Gender Male Female
3. Age: Below 19 years 20-29 years 30-39years 40-49 years
4. For how long have you operated this business?
 - i. Less than one year
 - ii. Between 1-2 years
 - iii. Between 3-4 years
 - iv. Over 5 years
5. What is your highest level of education? (Please tick one)
 - i. Secondary
 - ii. Undergraduate
 - iii. Tertiary College
 - iv. Postgraduate
 - v. other (specify)

SECTION TWO: GROWTH OF MICRO AND SMALL ENTERPRISES

6. The following are statements about growth of your agency banking business. To what extent do you agree with these statements? Guide: Strongly Disagree (1), Disagree (2), Neutral (3), Agree (4), Strongly Agree (5)

No	Description	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
i	I have experienced an increase in customer deposits over the last one year					
ii	The number of my customers has increased over the last one year					
iii	I now handle more cash than one year ago					
iv	My customers over the counter transactions have increased in the last one year					
v	I have experienced an increase in number of competitors (agents) in the last one year					
vi	I now work for more hours than before					
vii	My total commissions earned have been on the increase in the last one year					
viii	I have experienced an increase in customers withdrawals in the last one year					

ix	I now have more colleagues (employees) in this business than before					
x	I have experienced an increase in number of transactions with my principal bank than before					

SECTION THREE: INTERNAL CONTROL

7. To what extent do you agree with the following statements regarding your agency business? Guide: Strongly Disagree (1), Disagree (2), Neutral (3), Agree (4), Strongly Agree (5)

CONTROL ENVIRONMENT		Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
i	My bank provides a control environment that incorporates integrity and ethical values					
ii	My bank provides a control environment that has requisite standards, processes and structures					
iii	My bank provides a control environment that assigns specific authority and responsibility					
iv	My bank provides a control environment that enforces accountability					
v	My bank provides a control environment that has requisite management philosophy and operating style					
RISK ASSESSMENT		Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
i	My bank provides a risk assessment framework that has processes for risk identification					
ii	My bank provides a risk assessment framework that has processes for risk analysis					
iii	My bank provides a risk assessment framework that has processes for risk response					
iv	My bank provides a risk assessment framework that has limits for risk tolerances					
v	My bank provides a risk assessment framework that has means for discussion of risk severity					
CONTROL ACTIVITIES		Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
i	My banks' control activities provide for development of processes that contribute to mitigation of risks					

ii	My banks' control activities provide for control over technology					
iii	My banks' control activities provide for deployment through policies and procedures					
iv	My banks' control activities provide for performance reviews					
v	My banks' control activities provide for segregation of duties					
INFORMATION AND COMMUNICATION		Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
i	My banks' information and communication provide for consideration on how the business interacts with third parties					
ii	My banks' information and communication provide for means of verification of source of information					
iii	My banks' information and communication provide means of retention of information used in financial reporting					
iv	My banks' information and communication provide means of ensuring reliability and protection of information					
v	My banks' information and communication provide means of assessing the impact of technology in terms of speed, means and quality of information					
MONITORING ACTIVITIES		Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
i	My banks' monitoring activities provide for timely reporting of deficiencies					
ii	My banks' monitoring activities provide for means of ascertaining whether all internal control components are present and functioning					
iii	My banks' monitoring activities provide for reporting of serious matters to senior management					
iv	My banks' monitoring activities provide for means of addressing effectiveness of internal control components					
v	My banks' monitoring activities provide means of building on-going evaluation into routine operations					

SECTION FOUR: PRINCIPAL BANK INCENTIVES

7. The following are statements about principal bank incentives on growth of your business. To what extent do you agree with these statements? Guide: Strongly Disagree (1), Disagree (2), Neutral (3), Agree (4), Strongly Agree (5)

		Strongly disagree(1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
i	I receive subsidies from my bank to achieve greater coverage					
ii	I receive co-financing from my bank to extend my network					
iii	My bank has the best incentive model for agents					
iii	My bank provides market knowledge on agency banking to agents					
iv	My bank has no target on number of guaranteed transactions					
v	My bank helps agents in establishing their businesses					
vi	My bank offers her agents training on critical success factors					
vii	My bank gives special offers on commissions for good performance					
viii	My bank helps agents in broadening their sources of finance					

SECTION SEVEN: REGULATORY FRAMEWORK

8. Comment on the principal bank regulatory framework on growth of your agency business. Guide: Strongly Disagree (1), Disagree (2), Neutral (3), Agree (4), Strongly Agree (5)

		Strongly disagree(1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
i	Requirements on good reputation, no criminal record and no insolvency hinder growth of my agency business					
ii	A requirement on verification of customer identity hinders growth of my agency business					
iii	My bank's regulation on commercial terms of engagement hinder growth of my agency business					
iv	Requirements on agent compensation in terms of fees and revenue hinder growth of my agency business					

v	My bank's regulation on training and management of agents hinder growth of my agency business					
---	---	--	--	--	--	--

APPENDIX II: DISTRIBUTION OF BANK AGENTS IN NAIROBI CITY COUNTY

	Sampling Ratio	EQUITY		COOP		KCB	
		Pop. Freq.	Sample	Pop. Freq.	Sample	Pop. Freq.	Sample
Dagoretti	0.045	145	7	131	6	82	4
Embakasi North	0.045	781	35	763	34	625	29
Embakasi Central	0.045	86	4	63	3	73	3
Embakasi East	0.045	75	3	45	2	64	3
Embakasi South	0.045	62	3	39	2	49	2
Embakasi West	0.045	45	2	46	2	39	2
Kamukunji	0.045	188	9	162	7	136	6
Kasarani	0.045	258	12	205	9	172	8
Kibera	0.045	201	10	103	5	79	3
Langata	0.045	298	12	221	10	252	11
Makadara	0.045	311	14	233	11	201	9
Mathare	0.045	79	4	59	3	62	3
Roysambu	0.045	89	5	45	2	52	2
Ruaraka	0.045	77	3	45	2	52	2
Starehe	0.045	402	18	360	17	376	17
Westlands	0.045	206	9	189	9	142	6
TOTAL		3303	150	2709	124	2456	110

Source: Coop Bank, Equity and KCB-Financial Reports, 2014