International Journal of Economics, Commerce and Management
United Kingdom Vol. IV, Issue 10, October 2016
http://ijecm.co.uk/ ISSN 2348 0386

EFFECT OF AGENCY STRATEGIC MANAGEMENT PRACTICES ON PERFOMANCE OF BANKS: CASE STUDY OF COMMERCIAL BANKS WITHIN KISII COUNTY, KENYA

Diana Nyaboke Onsarigo
MBA Student, Jomo Kenyatta University of Agriculture and Technology, Kenya
dianaonsarigo@gmail.com

Wallace N. Atambo
Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya

Abstract

In this era of ever changing global economy with every organization striving to achieve contemporary advantage since the changes present both opportunities and challenges, each bank has developed a strategy unique to its corporate culture but all of these banks have the same desire to be the customer's number one choice for their banking products. The study was based on the effects of agency strategic management practices on the performance of commercial banks in Kisii County, Kenya. The general objective of the study was to determine the effects of agency banking on the performance of commercial banks in Kenya. The specific objectives of the study was to establish the extent to which expansion strategy on geographical coverage, internal regulations controls, customer care security and agency monitoring and evaluation strategies influence commercial bank performance. The study was guided by Porter's generic competitive strategy, technology acceptance model and bankers theory. The target population which was the totality of the cases comprised of 398 respondents. The sample size was 20% of the target population which comprised of 80 respondents. The study employed a descriptive survey research design. The questionnaire was used for data collection. Data was analyzed with both qualitative and quantitative methods. A Likert scale was used for in-depth data analysis. Findings revealed to a moderate extent of 3.52 that inadequate cash, liquidity risk, reputational risk and nature of systems of agency banking influence the performance of banks.

Keywords: Strategic management; Strategy; Performance; commercialization; Kenya

INTRODUCTION

Organizations exist as open systems hence there is constant interaction within the environment in which they operate. In this era of ever changing global economy with every organization striving to achieve competitive advantage since the changes present both opportunities and challenges, Johnson et. al. (2003) notes that the organizations must find ways of operating by developing new competencies as the old competencies gained are quickly eroded due to changes in both internal and external environment. Because organizations cannot run away from innovation which sustains them, there is need for them to change with the changes in the environment otherwise they would be irrelevant. To ensure survival and success, organizations need to develop capability and capacity to manage threats and exploit emerging opportunities promptly. This requires formulation of competitive strategy that refers to the positioning of a firm to maximize the value of the capabilities that distinguish it from its competitors. The Kenyan business environment has experienced many changes among them: international, privatization, increased competition, acceleration implementation of economic reforms, increased customer demands, privatization and commercialization of public sector, price decontrols and liberalization of both domestic and foreign markets (Aosa, 1992).

The Kenyan banking industry has faced some challenges including: stiff competition among the existing local banks as they offer substitute products, offer loaning services at different rates. Microfinance and Savings and Credit Societies (Sacco) institutions are emerging key players in delivery of financial services. However, it is expected that the banking sector will continue to grow especially in retail banking segment, as major consumer segments remain largely unbanked. According to the CBK Annual Report (2010) the banking sector has continued to experience significant factors simultaneously. Commercial banks need to establish a sustainable strategy into their core business activity in the markets and communities where they operate.

Statement of the Problem

From the foregoing background literature, (Aosa, 1992, Ndungu, 2010, CBK Annual report, 2010), the commercial banking sector in Kenya has become more visibly competitive. Each bank has developed a strategy unique to its corporate culture, but all of these banks have the same desire to be the customer's number one choice for their banking products and services. The commercial banking industry in Kenya has been in a state of constant change that due to economic liberalization, competition has become stiff, forcing Commercial banks to conform to the changing economic environment. The operations of banks in Kenya are regulated by the Banking Act Cap 488, Companies Act Cap 486, and the Central Bank of Kenya. As at

December 2009 there were 46 banking and financial institutions. The Kenyan banking industry is facing challenges including: stiff competition among the existing banks as they offer substitute products and offer loaning services at different rates. Microfinance institutions (MFI) and savings and credit societies (SACCO) institutions are emerging key players in delivery of financial services. In addition the entrance \into the industry of such players as insurance agencies, cheque cashing services and mobile money services continue to toughen the competition. Commercial banks may have billions at their disposal but most of this goes to big corporate and high net worth clients while majority of Kenyans remain excluded with very few holding bank accounts. As a result some commercial banks in Kenya have begun to offer banking services through retail agent outlets such as grocery shops, post offices and supermarkets accessed within local communities while others have not. Based on the above premises this study therefore seeks to investigate agent banking operations as a competitive strategy for Commercial banks in Kisii County.

General Objective of the Study

To evaluate effects of agency strategic management practices on bank performance.

Specific Objectives of the Study

1. To determine the effect of expansion strategy of geographical coverage of agency banking on the performance of banks.
2. To establish the effect of internal regulation controls strategies of agency banking on the performance of banks.
3. To establish the effect of customer care security strategies of agency banking on the performance of banks.

Agent Banking Expansion Strategy

Agent banking refers to contracting of a retail or postal outlet by a financial institution or a mobile network operator to process bank clients' transactions. It is different from a branch teller, since it is the owner or an employee of the retail outlet who conducts the transactions, ranging from: deposits, withdrawals, funds transfers, and bill payments, account balance inquiry, receiving government benefits or direct deposits from employers. Banking agents may include: pharmacies, supermarkets, convenience stores, lottery outlets and post offices (CGAP, 2006).

The trend of agent banking is evident in many nations all over the globe, such as in Australia where post offices are used as bank agents, France utilizing corner stores, Brazil making use of lottery outlets to provide financial services, Kenya pioneering the mobile financial services, Nigeria, South Africa and the Philippines (Siedek, 2008). Retail outlets are forced to extend their limited sources of financing in a bid to meet the regulations so as to fulfill the legal requirements necessary to operate as banking agents. Such requirements usually involve having a specific level of capital investment to assure the regulators of the sustainability of the venture.

Inability of the retail outlets to fulfill these requirements prevents the expansion of retail banking to areas of low income earners. Unless the tight regulations are eased, few retail outlets would be able to meet the standards required by the policy makers (Ivatury and Lyman, 2006). Financial institutions can only be allowed to work through retail outlets if the laws permit it. Regulators determine what kind of, if any, financial institutions are permitted to contract banking agents, what products can be offered at the retail outlets, how financial institutions have to handle financial transactions and all aspects regarding the operation of agency banking.

Without the approval of the lawmakers, agent banking would not be operational. Lawmakers also provide guidelines and alterations of the policies regarding operation of agent banking from time to time, which necessitates the banking agents to change their operations to be in line with the prevailing laws of the land (Ivatury and Mas, 2008). Agent banking involves a number of technologies in order for the financial institutions to keep track of the transactions done by the retail outlet. These technologies include: point-of-sale (POS) card readers, mobile phones, barcode scanners to scan bills for bill payment transactions, Personal Identification Number (PIN) pads, and personal computers (PCs) that connect with the financial institution's server using a personal dial-up or other data connection. All these technologies require expertise and capital investment in acquiring the technological equipment which is a challenge to the retail outlets that have limited capital (Ivatury, 2006).

RESEARCH METHODOLOGY

Research Design

According to Orotho (2006) research design is the scheme, outline or plan that is used to generate answers to research problems. It is the conceptual structure within which research is conducted and constitutes the blue print for collection, measurement and analysis of data. A descriptive survey research design was used in this study. Kothari (2005) defines descriptive research as all those studies concerned with specific predictions, narration and characteristics concerning individual groups or situations. This is because it allows for collection of information by way of interviews or administration of questionnaire to a sample of individuals. The method was further considered appropriate since it allowed for collection of qualitative information such as those aimed at measuring attitudes, opinions or habits which this study aimed at.

Target Population

Population can be defined as a complete set of individuals, cases, objects with some common observable characteristics of a particular nature distinct from other population. Target population is defined as the population to which a researcher will generalize the results of a study (Kothari, 2004). The population of the study constituted of seven Commercial Banks actively operating agent banking in Kisii county which included: KCB, Cooperative bank, Equity bank, Chase Bank,I$ M bank, post bank and national bank giving a total population of 398 respondents. The bank managers in the commercial banks who comprised of the branch manager, the operations/service quality manager and the sales manager in each of the seven banks, the heads of agent banking of the seven commercial banks, and the bank agents in Kisii county of the seven commercial banks.

Sample design

According to Kombo (2006), the term sample design refers to the part of research plan that indicates how the cases are to be selected for observation. Mugenda and Mugenda (2005) acknowledge 10% to 30% of the target population to be the sample population of the study as it gives the in-depth of the study, for this study 20% was used to draw the sample size of 80 respondents to the study.

Data Collection Instruments

The main tools of data collection for this study were structured questionnaires. The questionnaires were used for data collection because it offers considerable advantages in the administration. It also presents an even stimulus potentially to large numbers of people simultaneously and provides the investigation with an easy accumulation of data. Anonymity helped to produce more candid answers than is possible in an interview. The questionnaire comprised of close-ended questions.

Reliability of Research Instruments

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trial. To maintain the reliability, survey findings was analyzed and interpreted logically and sent back to the respondents for checking the distortion (Kothari, 2004). Also, Cronbach's alpha methodology, which was based on internal consistency was determined and checked against the standard deviation of 0.7. If the calculated Cronbach alpha is greater than 0.7 then the instrument is more reliable but if it is less than 0.7 then it is unreliable. The study selected a pilot group of 10 individuals from the target population to test the reliability of the research instrument as recommended by Mugenda and Mugenda (2009).

ANALYSIS AND FINDINGS

Data collected was analyzed using descriptive statistics. Descriptive statistics involved the use of frequencies and percentages.

Expansion strategy of agency banking on bank performance

The researcher used a Likert scale to establish the extent to which agency banking services had been utilized across Kisii County (Table 1).

Table 1. Expansion Strategy

Practice	5-very great Extent	4 – great extent	3-moderate extent	2- less extent	1- no extent	£fi	£wifi	£wifi/£fi
Cash withdrawal	11	13	26	10	7	67	212	3.16
Cash deposit	15	17	23	11	1	67	235	3.51
Processing of accounts	8	4	12	30	13	67	165	2.46
Loan repayment	18	13	23	8	5	67	232	3.46
Payment of utility	26	14	16	9	2	67	254	3.79
Bill payment	14	17	26	5	5	67	231	3.45

According to table 1 above the researcher established that cash withdrawal contributes to a great extent of (3.16) as an indicator of expansion strategy of agency banking as it reflects that by a moderate extent more customers use agency banking for cash withdrawal. Also, cash deposit influence the expansion strategy of agency banking by a moderate extent of 3.51, the financial performance of agency banking and its expansion strategy is influenced by a great extent of (3.51) from this result the researcher can make a conclusion that for agency banking to have sound expansion strategy and financial performance management of cash deposits that guarantee customer security must be put in place. From the data analyzed above, (2.46) which is a less extent agreed that processing of accounts by agents is not fully done by agent banking hence hinders the expansion strategy of agency banking. From this data for agency banking to take off fully agency banking should embrace fully processing of accounts of customers to expand more agency banking. Loan repayment accounts to a moderate extent of (3.46) on the expansion of agency banking; this also shows that more emphasis should be made on loan repayment through agency banking to have a wide coverage of services to customers. Payment of utilities contributes positively to expansion strategy and performance of agency banking to a great extent of (3.79), further a moderate extent of (3.45) agreed that payment of utilities accounted to a great extent on the expansion strategy of agency banking. In conclusion for agency banking to have a good expansion strategy more services of money transactions should be offered to customers and sensitization should be carried out over the same.

Effects of agency strategic Management Practices on performance of banks

The researcher sought to establish the effect of agency strategic management practices on the performance of banks.

Table 10: strategic management practices on banks

Practice	5-very great Extent	4 – great extent	3-moderate extent	2- less extent	1- no extent	£fi	£wifi	£wifi/£fi
Untrained staff	7	32	21	6	1	67	239	3.57
Inadequate cash in agents till	3	40	15	7	2	67	236	3.52
Systems failure	11	31	24	1	0	67	253	3.77
Data loss	3	7	41	15	1	67	197	2.94
Operational risk	17	25	11	10	2	67	240	3.58
Liquidity risk	8	6	24	30	2	67	198	2.95
Reputation risk	4	20	16	24	4	67	200	2.98
Legal issues	2	3	44	16	2	67	188	2.81

From table 2, it was revealed with a great extent of 3.57 that untrained staff as a negative impact on the performance of banks arguing that this staff does not fully sensitize customers on the products they offer and the terms and conditions available. It was also reported with a moderate extent of 3.52 that inadequate cash in agents till affects the performance of agency banking which in turn affect the sales volume of sales in banks since inadequate liquidity has a direct influence on customer persuasions on the products banks offer. Further it was shown with a great extent of 3.77 that systems of agency banking influences positively agency banking as this plays a critical role for efficient service delivery. Also, it was shown with a moderate extent of 2.94 that data loss impacts negatively on agency banking as this makes customers lose confidence on customers. Further a moderate extent of 3.58 was of the views that operational risks influences directly on agency banking as this encourages or discourages customers depending on the cost of transaction. Further a moderate extent of 2.98 reaffirmed that reputation risk plays a critical role on the performance of agency banking as this plays a critical role of creating trust to customers on agency banking.

RESEARCH IMPLICATIONS AND RECOMMENDATIONS

Recommendation on expansion strategy

From the analysis of data the result revealed that there is low level of technical competence, poor handling of emergencies as well as frequent interruption to network that affect agency banking. Strategies should be developed that will enhance access to technology that will improve the technical hitches that is associated with online service delivery of agency banking.

Recommendation internal regulation strategy

For effective management and use of agency banking planning and funding should be given priority to streamline the deployment and use agency banking, develop in-service training for staff to improve their capacity for using technology and develop multimedia mechanisms for dissemination of information and improvement of agency banking.

Recommendation on customer care strategy

Emphasis should be focused on organizational strategies for improving geographical access through the building of new facilities of agency banking and increased access to primary services such as account opening this will expand agency banking that will translate to performance.

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