Agent Banking As a Diversification Strategy: Case of Kenya Commercial Bank

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UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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AGENT BANKING AS A DIVERSIFICATION STRATEGY: 
CASE OF KENYA COMMERCIAL BANK

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in Partial Fulfillment of the Requirement for the Degree of
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AFRICA

SPRING 2016
DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University – Africa for academic credit

Signed:

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This proposal has been presented for examination with my approval as the appointed supervisor.

Signed:

___________________________________________ Date: ____________________

Dr. Zachary Mosoti

Signed:

___________________________________________ Date: ____________________

Dean, Chandaria School of Business
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Tuwei Vincent K., 2015
ABSTRACT

The study sought to determine and explain the extent to which Kenya Commercial Bank has been able to adopt agent banking as a diversification strategy. To achieve this purpose, the study was guided by the following research questions. What are the factors that influence agent banking as a diversification strategy? Has KCB drawn competitive advantage from its agent banking business? Is agent banking sustainable and consistent with KCB’s future plans?

Reviewed literature revealed that over a long period in the past diversification has been a game changer for many businesses and institutions when it came to the reduction of risks and increasing revenue bases. The reviewed literature pointed out big renowned corporations in the world today which have succeeded as a result of embracing diversification. It also captured those that have tumbled due to failure to innovate and diversify accordingly.

As a follow up to the literature review’s outcome, the research study went ahead to find the empirical evidence to support or refute the findings of the literature study. The researcher utilized a descriptive study design in the explanation of the phenomena and characteristics about the subject population, who in this study comprised of bank staff and the bank’s appointed agents. The descriptive study was deemed to be appropriate in discovering and measuring the relationships among the variables deduced from the feedback presented by the respondents in the respective questionnaires administered to them. The total population of the study was 200, with each group having 100 respondents each. The study was carried out within Nairobi CBD especially towards the downtown where Agent banking is a thriving business. This was done within the months of September and October 2015. The data collected was analyzed with the use of inferential and descriptive statistics aided by computer software and the final research document submitted as per the set dates.

The empirical evidence from the study revealed enormous contributions that agent banking had made to improve service delivery to the bank’s customers. The study revealed that the bank had sought to diversify to this line of business as a way to ensure excellent service delivery to its large population of customers. The bank established this line of business to bring on board the small scale business people found in the informal
city addresses. In doing so the bank established a mutually beneficial relationship with the appointed agents as it saw them increase their customer numbers and also their earnings from the commission paid to them by the bank. The study went ahead to reveal that from the new line of business the bank had been able to cultivate competitive advantage by attracting more customers and improving on customer satisfaction. The bank’s strategy as revealed by the study was greatly embraced by the appointed agents who are among the key stakeholders as they co-own the business with the bank.

From the study it was revealed that the strategy was very consistent with bank’s ambitions and safely in the long run. The benefits of agent banking were seen in all aspects of increasing revenues, financial inclusion, market penetration and customer loyalty. All of which are cornerstones to successful business. The study concluded that KCB had been able to tap into the abundant human resources in the many educated but unemployed Kenyans and that the strategy was consistent and sustainable accordingly. Finally the study recommended further support and facilitation of agent banking by the bank to overcome the few challenges associated with it to reap maximum benefits.
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DEDICATION

To my sisters Gloria, Sharon and Debrah.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

The main aspect of formulating a competitive strategy is aligning a company to the environment within which it operates. The firm’s environment falls in three subcategories namely; industry environment, remote environment and the operating environment. These environments present both opportunities and threats alike to the firm depending on how they adapt to it (Gunasekaran, Rai and Griffin, 2011). The strategies that firms often use are classified into two main categories; grand strategies and generic strategies. Diversification strategy is one of the grand strategies used by firms to respond to their environments, it is divided into two namely; concentric and conglomerate forms of diversification (Porter, 1998). Diversification is a way to reduce risk by investing in a variety of assets or business ventures (Zhou, 2008). Diversification is thus a common and fundamental concept in both daily personal life and business.

Basically, Diversification is defined as the venturing of a firm into new lines of activity and business through a process of internal development that entails changes in the prevalent administrative systems as well as other related management procedures (Hitt, Hoskisson and Kim, 2013). From the definition we can deduce the fact that the decision of a company to venture into a new different line from the usual activities it undertakes is anchored on the choice of the entry mode into that business.

Most organizations pursue opportunities for geographical market diversification. This is due to the fact that with geographical expansion comes population market and thus volume sales. The common order for geographical diversification is from local to national to regional and eventually to international levels. The pace and degree of penetration usually differs from one location to another depending on the market and profit potentials (Thompson and Strickland, 2005). Among the factors known to influence and determine market and profit potentials are the population income levels, accessibility and product awareness among an array of other factors.
Agency banking business refers to the business carried out by an authorized and approved agent on behalf of a financial institution. Retail agents in this case are networks of third-party outlets that handle financial transactions on behalf of a financial services provider that appoints them (Jansen, 2010). Agency business has a tradition and history in developed markets through the use of outlets such as post offices, retail stores etc. This has found its way to developing countries like Kenya whereby services through authorized agents are becoming the norm of the day with companies such as Kenya Power, Nairobi Water using Nakumatt and Posta to collect bills from their consumers. The business of agency in the banking industry began not so long ago and has been largely welcome by customers due to the convenience it has brought in a service characterized by long queues and delays.

Diversification as earlier mentioned is a strategy whereby a firm strives to increase profitability and market position within the industry through increased sales and accessibility to its products or services by potential customers. This leads to increase in revenues and thus high profits improving a firm’s financial position (Eisner, Tom and Dess, 2010). Diversification as a strategy allows a firm to venture out to new lines of business that are completely different from its current ones. Firm efforts to diversify may either be internal or external based on company objectives (Marlin, Dan, Bruce and Scott, 2004).

Internal or concentric diversification is a type of diversification whereby a firm ventures into a different but related line of business (Marlin et al, 2004). It involves increases the firm’s product portfolio or market presence. On the other hand, external or conglomerate diversification is a type of diversification which seeks to achieve similar results as concentric diversification but with a different product portfolio from the firm’s current line of operations.

Firms employ either concentric or conglomerate diversification to expand the scope of operations. The firm does so by adding products, services, markets or even a stage of production to the existing array of business activities. Diversification as a growth strategy is regarded by most investors and entrepreneurs as the way to go in present day business as it serves to increase earnings and spread out risks (Eisner et al, 2010).
Higher sales volumes usually attributed to good performance without much concern to the profit margins, high sales volumes is usually the aim of most business stakeholders. It is usually assumed that the higher the units sold the higher the profits thus “good business is derived from volumes” (Amit and Livnat, 2008).

The banking sector in Kenya has continued to register solid growth over the past few years in addition to being one of the most vibrant and lucrative sectors of the economy (Okoth, 2013). The industry has consistently continued to offer huge profit opportunities for the major players. Kenya has earned accolades and global recognition from the expansion extension of financial services to millions of poor and rural households via mobile banking and agency banking of late (Standage, 2009). Agency banking that has been used by major banks to market and deliver services to the grassroots means an entity that has been contracted by an institution and approved by the Central Bank of Kenya to provide the services of the institution in a certain locality (Central Bank of Kenya, 2012).

There are 44 registered commercial banks licensed to operate in Kenya (Central Bank of Kenya, 2014). These banks offer various financial services that are very important to the economy such as lending, issuing of cheques, making payments, receiving payments, disbursing money and forex services among others. Despite availing all the aforementioned important services commercial banks in Kenya have been criticized for their high lending rates which have discouraged many from borrowing (Xinhua, 2013).

Not all the 44 commercial banks operating in Kenya have embraced agency banking. Only about four banks have embraced agency banking they include; KCB, Equity, Postbank, Cooperative and Chase bank. The banks which are interested in market penetration and boosting of their service portfolio have found it expensive to open branches in almost everywhere that their services are required. This led to the adoption of the agent banking model as a way to reach the grassroots and have the people there consume banking services without necessarily having to travel to the urban centers (Jansen, 2010).

Kenya Commercial Bank is the largest bank in the region with a reputable presence across the region courtesy of its branch network. It is one of the banks that have adopted agent banking with the name KCB Mtaani. KCB Mtaani is doing well in terms of penetration to the
grassroots and reaching out to the rural population which is largely unbanked. KCB Mtaani offers a range of services that include accepting deposits, cash withdrawals, cashing cheques among other services (Waithatu, 2014).

In this study, KCB Mtaani the bank’s agent banking division was looked into as a strategy by the bank to diversify. This was considered since despite agency banking being a financial service it was deemed different from the day to day banking operations associated with banks since time immemorial in Kenya. This being a recently established line of business targeting a unique population of market masses thus the interest.

The major successes the bank has achieved since the inception of KCB Mtaani and the challenges faced by the bank both during inception and in the implementation of agent banking were within the scope of the study. Agent banking being a new product from the bank which has also been adopted by its peers like any other strategy comes with challenges. The most obvious one being implementation. The success that comes along is also of interest as it is from this that the bank is able to pick on what to improve on and what to drop completely.

Agent banking is in the domain of competition with mobile money transfer where the bank has partnerships with leading service providers as well. Analysts in the Kenyan financial sector have indicated a stiff competition of the same as they both seek to leverage on convenience. Each of the services is strongly being marketed by its proponents in the rush to carve a huge pie out of the unbanked Kenyan population thought to have substantial amounts of money circulating within such communities (Waithatu, 2014).

1.2 Statement of the Problem

From a financial perspective, diversification offers a firm many advantages that include reduction of risks and costs, asset depreciation coverage (Berger and Ofek, 2005). These advantages generally involve synergies creation and improvement of long-term strategic assets which in this case comprises of distribution channels and brand improvement (Li and Greenwood, 2004).
Diversification being a growth strategy that seeks to improve a firm’s profitability and financial position through increased sales volumes emanating from new product lines launched and new markets ventured into (Wan, 2005). The higher the levels of diversification that a firm delves in the consequent improvement of a firm’s position financially and in the market. This goes hand in hand with company missions and visions of most companies if not all whereby growth and eventual success are the ultimate aims. Diversification as a strategy serves this path well (Lynch, 2008).

On the flipside, different studies in corporate literature such as those by Jansen (2010), Berger and Ofek (2005) have joined the bandwagon to advance the idea that the demerits of diversification might outweigh the merits. This is anchored on the fact that the higher the degree of diversification the higher the responsibilities and challenges are expected. This school of thought goes ahead to opine that firms ought to focus on a single line of business so as to reap the maximum gains emanating from management expertise and specialization in one field. This leaves a disclaimer to the firms to diversify at own risk. To justify this view is an overall observation on the negative impacts of diversification on firm performance (Lang and Stulz, 2009).

Diversification as a strategy has been adopted by most banks in Kenya if not all. The forms of diversification taken by these institutions include mobile banking, internet banking, bancassurance, agent banking and consultancy services. The establishment of the agent banking business idea by commercial banks in Kenya has gone a long way in opening up markets in the rural areas and in frontier locations whereby most of the population is unbanked. In these locations also setting up banks would also be expensive because of the poor infrastructure and the lack of appreciation of banks by locals who feel that they are institutions meant for the rich (Githira, 2008).

The agency banking model adopted by the four banks in this country have gone a long way in creating awareness and improving the brand of the financial institutions which with time will have the locals embrace having bank accounts in future. It also represents a significant opportunity to reduce transaction costs such as travels it also serves to reduce the cost of service delivery as the banks don’t have to hire staff and set up branches to offer their services (Mwangi, 2012).
Past studies that have been done on diversification strategy have always focused on insurance companies. Megwa (2005) studied the impact of technology on insurance companies, Thuo (2008) assessed the diversification strategy by Kenya- Re Corporation and Githira (2008) looked into the factors that influence diversification strategies of insurance companies in Kenya.

In the banking industry previous studies have concentrated on the performance of commercial banks in Kenya. These studies have mostly looked into strategies such as restructuring and mergers mainly. One study by Mwangi (2012) though looked into the diversification strategy by commercial banks choosing to focus on agent banking but across all the commercial banks that have embraced it. This was deficient in the fact that the banks have various factors that are unique to each particular banking institution.

From the above layout of information it is clear that very few studies have been done as far as diversification and commercial banks in Kenya is concerned with no study having been done on agent banking within a particular bank. This proves that there is a wide knowledge gap gaping in terms of information on the progress of diversification strategies within the banks in Kenya is concerned. Specifically on agent banking which seems to be taking root across the country’s banking arena and particularly in Kenya Commercial Bank.

Kenya Commercial Bank was of interest in this study being Kenya’s largest bank and also the region’s largest. The banks KCB Mtaani model has spread out fast to many parts of the country since it was launched and seems to be successful.

1.3 Purpose of the Study

The purpose of this study is to determine how agency banking as a diversification strategy has been applied by Kenya Commercial Bank.

1.4 Research Questions

This study will endeavor to answer the following research questions:

1.4.1 What are the factors that influence agent banking as a diversification strategy?
1.4.2 Has Kenya Commercial Bank drawn competitive advantage from its agent banking business?

1.4.3 Is the agent banking diversification strategy by Kenya Commercial Bank sustainable and consistent with the bank’s future plans?

1.5 Importance of the Study

1.5.1 Management

Strategy formulation is often a task dedicated to the top management. In this case this study provides an in-depth view of KCBs decision to diversify and start an agent banking division. This study is expected to give the management of KCB information on the sustainability of this strategy and also how aligned it is to the banks overall objectives. It also aims to identify the competitive advantages that the bank may accrue from agent banking; thereby the management will be in a position to safeguard it.

1.5.2 Researchers and Academicians

The study intends to add to the existing pool of knowledge in strategy and banking. It is also expected to act as reference point in the study of diversification in the financial services industry in Kenya. Finally, the study is expected to form a basis where researchers and academicians may build their studies on in future.

1.5.3 Entrepreneurs and Investors

This caliber of beneficiaries is known for their acumen in the exploitation of business opportunities as they present themselves. Part of the opportunities will present themselves in the study and the resulting report. It will also enable them to understand the industry more and thus make informed decisions as appertains to investment.

1.6 Scope of the Study

The study was conducted among the several KCB Mtaani agents within Nairobi CBD. At the bank level, Kenya Commercial Bank staff at the branches charged with agent banking took part in the study. The study was carried out within the months of July and August 2015.
In conducting this study, the limitations that were experienced included; the willingness of respondents to provide accurate information, the ability to schedule appointments with the top managers, the quality of information collected confidentiality especially on financials and interviewer errors. To ensure these limitations were mitigated, introductory statements to explain clearly the purpose of the study were prepared, while at the same time guarantee the respondents were assured of the utmost confidentiality of their personal and business information. On the same level, training of the research assistant skills and employing the services of quality checkers to ensure completeness of data collected was undertaken.

1.7 Definition of Terms

1.7.1 Diversification Strategy

This is a corporate strategy to enter into a new market or industry which the business is not currently in, whilst also creating a new product for that new market (Fitzroy, Ghobadian and Hulbert, 2012).

1.7.2 Competitive Advantage

An advantage that a firm has over its competitors, allowing it to generate greater sales or margins and retain more customers than its competitors. There can be many types of competitive advantages including the firm’s cost structure, product offerings, distribution network and customer support (Porter, 2008).

1.7.3 Agents

In the case of agent banking, an agent is an appointed entity which carries out authorized services on behalf of the bank to clients within a particular locality (Ivatury, Gautam and Ignacio, 2008).

1.7.4 Sustainable

This refers to the extent to which a certain chosen business strategy can be maintained as the firm continues to derive competitive advantage from it (Anderson, Sweeney, Williams and Martin, 2008).
1.8 Chapter Summary

This chapter provided an introductory brief into the intended area of study. It outlined the main objectives of the study which were; factors influencing agent banking, competitive advantage drawn from agent banking and the sustainability and consistency of agent banking in regard to the bank’s overall strategy. The geographical area within which the study is to be conducted is also covered. It also goes further to preempt the challenges that may be experienced in the study and how the researcher intends to mitigate them. In essence, the chapter dissects the insights into the studies that have been done as far as strategy is concerned within the banking industry and attempts to raise questions which aim at taking the study in this field a notch higher. In Chapter two, the study endeavored to conduct a comprehensive literature review of various sources of information. In detail, the chapter explored information available on the study objectives. The research questions guided the literature review chapter. Chapter three mainly covered the data collection methods and procedures. Chapter four covered data analysis and chapter five the summary, recommendations and conclusions on the study respectively.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents an overview of the literature on the topic of diversification, on previous studies undertaken and expert opinions in the discipline. This chapter will examine both the historical and current studies done in the field of diversification in business, with greater emphasis on more recent studies. The study will analyze how Kenya Commercial Bank has managed to implement the diversification strategy mainly through the introduction of the agent banking wing of business and provide sound ways on how the bank can be able to grow and sustain agent banking to deliver on their ambitious future plans.

2.2 Factors Influencing Agent Banking as a Diversification Strategy

There are various factors that are known to influence the concept of diversification and agent banking in particular. These factors range from factors that are within the organization’s domain and organizations actually have the power to influence them to work in any manner it may wish. There are also those factors that are beyond the control of the organization where organizations usually align to them or simply comply. These factors are discussed as follows:

2.2.1 The Concept of Diversification: Historical Perspective

Diversification can be defined as the overall risk reduction in an investor’s portfolio despite being comprised of ideally highly risky independent investments. When various investments are pooled together in a group the risk seems to reduce as opposed to each investment put separately on its own. Various unique factors associated with unrelated independent securities are the driving force for diversification (Fitzroy et al, 2012).

The concept of diversification has a long history spreading into literature both ancient and traditional as alluded to by the famous saying “don’t put all your eggs in one basket.” This ideally meant don’t have all your fortune in one unit or sector just in case. In essence the mathematical idea around diversification influences portfolio management at critical levels (Ivatury et al, 2008).
In ancient literature, diversification can be traced to the famous play The Merchant of Venice by William Shakespeare (2007). Antonio, the merchant in the play says, “My ventures are not in one bottom trusted, nor to one place, nor are my whole estate upon the fortune of this present year. Therefore, my merchandise makes me not sad”(pp 7). This he was saying in reference to his merchant ships that had not come to dock. His assertions confirm that even in the ancient times business people diversified their investments.

Furthermore, diversification is alluded to in the scriptures both the Bible (2015) and the Qur'an (2008). In the Bible there is a verse that advises the division of investments among many places for it is hard to know the risks that lie ahead. The Koran also advises the splitting of assets into thirds, one third liquid, one third in real estate and the other third in business. This further proves that the concept of diversification is intended to be inculcated into the everyday values of a human being from a spiritual perspective; this serves to confirm the importance of diversification in everyday living.

In modern organizational business set-ups big companies have engaged in diversification over the years to be able to re-invent themselves and remain relevant in the dynamic business world of today. Companies such as 3M of Minnesota USA is a good example of such a firm which has stood the test of time by diversifying through various innovations. In the spirit of diversification through innovation 3M is among the top ten most innovative companies worldwide (Trott, 2014). Diversification enjoys a rich history and uniqueness owing to the fact that it remains unchanged despite the long history. The diversification of the biblical times remains the same as that being applied in today’s modern business world.

2.2.2 Types of Diversification Strategies

There are two general types of diversification strategies; related and unrelated. Related diversification also known as concentric diversification, refers to the type of diversification when their value chains possess competitively valuable cross-business strategic fits. On the other hand, unrelated diversification also known as conglomerate diversification is the type of diversification where a firm’s value chains are so dissimilar that no competitively valuable cross-business relationship exists (David, 2009).
Most companies prefer concentric diversification strategies so that they are able to capitalize on synergies through; transferring available technological capabilities or valuable expertise from one business to another, combining related activities into a single operation to attain low costs, exploit the use of a well-known brand name and other forms of cross business collaboration to create competitively valuable strengths and capabilities. That’s not to say conglomerate diversification isn’t popular or plays second fiddle to concentric diversification, conglomerate diversification is important in its own standing and is usually paired with good returns. This is so if well managed and executed since it is laced with more risks and uncertainties. In the principle of the financial cardinal rule of “the higher the risk the higher the returns” Conglomerate diversification is a “gold-mine” in its own right (David, 2009).

Diversification being a type of strategy; strategy being about agreeing priorities and then implementing those priorities towards the realization of organizational purpose (Ackermann and Eden, 2011). In this spirit diversification strategies are becoming less popular as organizations are finding it difficult to manage diverse business activities. Earlier in the 1960s the trend was to diversify so as not to be dependent on a single industry.

However, since the late 1980s diversification has been on the retreat. According to Porter (2008) management of organizations found that it couldn’t manage the beast of diversification. Hence businesses are moving to sell off or close down less profitable units or divisions in order to specialize on the core business which it is good at.

Although many firms are successful in operating in a single industry that they are good in, new technologies or fast-shifting buyer preferences can decimate a business. An example of such is Kodak films, a very successful company initially but with the adoption of digital cameras it has since went into oblivion. Such a case clearly demonstrates the need to diversify in business (Gottschalk, 2007).

In the Case of Kenya Commercial bank it was very prudent to venture into diversification as one of the available strategies to improve the firm’s fortunes having such a picturesque history. In the spirit of working towards success KCB ventured into agent banking business which is a concentric type of diversification strategy (Gachiri, 2013).
2.2.3 When to Diversify

As mentioned initially, diversification is a “beast” that is difficult to manage. As long as the firm has its in-tray full trying to capitalize on profitable growth opportunities in its current industry of operation, there’s no urgency to diversify (Thompson and Strickland, 2005). However, there’s still the big risk of having all of the firm’s “eggs” in one industry basket. This begs the question where is the departure point between diversification and not to diversify?

If the demand for the industry’s products are being eroded by the emergence of substitutes, alternative technologies or fast shifting buyer preferences that the firm can’t cope with in that particular industry (Barney and Hesterl, 2008). This signals the need for diversification as the company in no time becomes unprofitable, unattractive and its prospects set for downward plunge. In such a situation when the single and core business of the company encounters diminishing market opportunities and stagnating sales then diversifying is necessary from a reactive point of view to save the company (Ackermann, Brown and Eden 2008). On the other hand a firm may seek to diversify but from a proactive approach (Tavana, 2014).

This is when; It spots opportunities for expansion into industries whose technologies complement its present business, It can leverage existing capabilities by expanding into other businesses, diversifying into related businesses opens the avenue for cost reduction, It has a very powerful brand name that can be used to drive up sales (Tavana, 2014).

Upon the successful analysis and drawing of conclusions, the decision to diversify leaves the company with wide-open possibilities. It can diversify into a closely related business or move into a completely new business that is not related to the current operations (Schindler and Cooper, 2008).

However, diversification must do more for a firm rather than simply to spread its business risks across various industries. In principle, diversification is considered a success when it adds to shareholder value (Maurice and Thomas, 2011). Daft (2010) insinuated that, in line with the principle of success for diversification, a move by any firm to diversify must pass three tests. In consideration of the above mentioned facts on the ideal time to diversify
together with the mandatory tests to be discussed below, it is clear that KCB had come of age to diversify and agent banking was the closest bet for the bank.

2.2.3.1 The Industry Attractiveness Test

The industry to be entered must be lucrative enough to yield consistently good returns on investment. It is very hard to justify diversification into an industry where profit expectations are simply lower than that of the company’s present business. In the case of KCB, agent banking business is very lucrative and the ends it serves are bound to last a while into the future.

2.2.3.2 The Cost of Entry Test

The cost of entry into the new industry must be “reasonable”. It shouldn’t be so high that it erodes the profitability margins and potential for good profits. It is however important to note that the more attractive an industry’s prospects are for growth and good long term profitability, the more expensive it is enter. Agent banking for KCB requires a minimal cost to be able to enter and the institution being a bank in itself provides a venture to prove its proficiency and excellence (Xu, 2007).

2.2.3.3 The Better-off Test

This essentially requires that diversifying into a new business must offer potential for the company’s existing businesses and the new business to perform well together under a single corporate umbrella than they would perform operating as independent stand-alone businesses. Diversification moves that satisfy all the three tests have the greatest potential to grow shareholder value in the long-run. Those that can pass only one or two are suspect and susceptible to uncertain futures (Besanko, Dranove, Schaefer and Shanley, 2007).

2.3 Benefits of Agent Banking to KCB

KCB has benefited greatly from the concept of Agent banking; the bank has been able to reap a good return on its investment in this venture. This includes the bank raising the amount of deposits it received and consequently triggering off other related programs as follows.
2.3.1 Diversification in the Banking Industry

In the last three decades, the financial sector has witnessed phenomenal transformation in its operations and objectives. The emergence of advanced technologies, deregulation, disintermediation and the wave of consolidation in the financial sector have been instrumental in triggering off diversification of operations (Standage, 2009). This has resulted in banks transcending their normal operations and venturing into insurance, investment, mortgage business, asset finance, asset management among others. The general trend has always been towards downstream universal banking where financial institutions have undertaken traditionally non-banking activities such as investment banking, mortgage finance, banc-assurance, and securitization etc. (Githira, 2008).

Diversification helps a banking institution in various ways. Some of the benefits that the financial institutions derive from diversifying are as follows.

2.3.1.1 Product-Process Innovation

Through diversification a bank is able to undertake various innovations in its product portfolio or in its business processes. In the case of KCB diversification to agent banking has led to innovation and consequent introduction of other products such as the Pepea card that is designed to be used to pay fare, shop and fuel. This was made possible due to the availability of the various outlets in form of banking agents where customers can top up their cards conveniently (Obura, 2015).

2.3.1.2 Mobilization of Capital

By diversifying a bank is able to marshal capital from its new ventures which can be used to finance the bank’s operations. This generally improves the bank’s financial position and even attracts potential investors (Gupta, Gollakota and Srinivasan, 2007). In KCB’s scenario, agent banking together with other programs such as internationalization has contributed to the bank improving its capital base to the point of having to form a holding company to effectively manage its ambitious growth (Obura, 2015).
2.3.1.3 Compensate for the Unevenness in Geographical Presence

Most banks especially in the developing world are unevenly present across their countries of operation. Regions especially the remote ones usually don’t have banks operating within them. Diversification into related businesses helps the banks to reach such regions due to the challenges in infrastructure that do not allow them to set up branches in such areas. Agent banking has seen KCB reach to the remotest localities in Kenya where most banks haven’t been able to due to the aforementioned challenges (Okoth, 2013).

2.3.1.4 Benefit from the Advent of Advanced Technology

Banks may choose to diversify in order to take advantage of the capabilities that the new technologies they acquire come with. The technologies integrate operations making it very easy to diversify into other lines of business and still manage them effectively. Technology has made agent banking secure and reliable, this is evidence that KCB has taken advantage of the available technology to create a lucrative venture within its portfolio. This has enabled KCB retain its position as the regional financial services giant (Hitt, Ireland and Hoskisson, 2015).

2.3.1.5 Exploit Economies of Scale

Owing to large operational bases that some banks have courtesy of huge customer bases or branch network. These banks can reap from economies of scale associated with diversifying into a related service for the existing customers such as insurance. KCB being the largest bank in the region both in the terms of customer base and branch network has been able to realize economies of scale even more with the introduction of agent banking. This results in the reduction of operational costs incurred by the bank (Okoth, 2013).

2.3.1.6 Diversify Risk

This is a direct benefit of diversification as a strategy. It helps in the spreading of risks and reduces overdependence on one line of business.

However, the decision to diversify in whichever industry is not an end in itself it is only a means to an end. The next task that usually follows is the decision on how to diversify. The
decision on how to diversify is again subject to the type of diversification chosen; concentric or conglomerate diversification (Lynch, 2008).

In concentric diversification, the major activities anticipated relate to mostly marketing since the firm is usually remaining within its current line of business. In many cases firms seek to increase their market share and presence through this type of diversification. In practice concentric diversification is usually perceived as easy to implement and manage. Concentric diversification is also known to be more susceptible to risk than the conglomerate since the firm ventures into related business lines. This means they are faced by similar challenges across the board and if one was to be adversely affected the rest would also fell the effect (Hitt et al, 2015).

In conglomerate diversification, where new products in new markets are involved the scenario is different. The entry and general startup of this type of diversification is known to be costly and require huge commitment of resources and time. The advantage associated with this type of diversification is the resultant reduction in the dependence on one line of business which leaves the firm exposed to risks in a particular line of business. The risks in normal business operations under this type of diversification are spread out across the different departments and business units such that any adverse effect resulting in huge losses on one business unit will not be replicated on another business unit. The revenue streams associated with conglomerate diversification are also known to be considerably huge. This makes it very attractive except for the initial requirements which demand huge financial resources, time and commitment for success to be realized (Lynch, 2008).

The financial industry is not an exception to this; diversification could either be concentric or conglomerate (Croushore, 2007). Most financial institutions have adopted the concentric mode of diversification the world over choosing to venture into businesses that are closely related to their own such as insurance. There are also a few that have chosen to go the conglomerate way; Equity bank is an example of such an organization with its recent foray into the telecoms industry that is yet to take off. There is also the unique instance of a firm adopting both related and unrelated diversification.
This can be summarized as follows:

**Figure 2.1 Dimensions of Diversification.**
(Source: Rieple and Haberberg, 2008).

The entry modes into new business units may take any of the three forms namely; acquisition, internal start-up or joint ventures with other companies. KCB by diversifying to agent banking chose concentric mode of diversification which is easy to learn and understand due to its nature of being related to the mainstream business. Through agent banking KCB is able to diversify its operational risks such as transporting huge amounts of cash which is not required in agent banking. This compounds in the reduction of risks such as theft of the cash in transit as has been witnessed in the past (Rieple and Haberberg, 2008).

2.4 The Future of Agent Banking

2.4.1 The Concept of Agent Banking

The advent of technology has enabled banks to interact with its customers in a remote way through established local retail outlets (Obura, 2015). This technology involves bank customers being issued with the bank’s cards that have appropriate security features such as chip and personal identification number (PIN). The bank issues point of sale (POS) gadgets which are controlled and connected to the bank; through a mobile network or satellite wireless technology to the retail outlets who are the “banking Agents” (Ivatury et al, 2008).
This technology works in an integrated way with the bank whereby; if a customer wishes to make a deposit to the bank. He needs to visit the retail store, swipe his card which puts him in direct communication with the bank. Then proceeds to key in the amount intended to be deposited. The bank then goes ahead to accept the deposit by deducting money from the retailer’s account that is equivalent to the customer’s deposit. The concept behind this is the retailer having an account with the bank and being given a particular ceiling amount that he operates within in concurrence with the bank (Jansen, 2010).

On the other hand when a customer wishes to make a withdrawal, the customers simply gets in touch with the bank by swiping the card and entering the PIN number. Then requests for the amount he wishes to withdraw, the bank system then reimburses the retailers account with the amount of money withdrawn by the bank customer (Waithatu, 2014). This ensures security and saves a lot of time and money that the bank customers would have to travel all the way to the bank to make withdrawals or deposit money. The retail store owner then goes to the bank periodically to balance the transactions and is paid a commission by the bank for the transactions (Gachiri, 2013).

Based on an established sequence of events and the retailer’s credit history over some time, the banks give interest free overdrafts to them to fund agent banking transactions. This may be during school opening period when a lot of withdrawals are transacted or during the planting season in some regions of this country. In such instances, the retail outlet’s POS authorizes as many transactions as long it does not go below the retail stores account balance at the bank (Ivatury et al, 2008).

The retail outlet manger has the option of increasing the amount of money in the store’s account at the bank by simply depositing more funds using the system (Gachiri, 2013). In this model the responsibility and accountability stops with the bank. It is the banks duty to ensure that it is repaid, the customers are not involved in the entire overdraft arrangement thus in the case of a default on repaying the overdraft by the “agent bank” the customer does not need to be involved in the recovery circus. The overdraft in this case is a form of credit extension arrangement between the bank and the retail store (Mwangi, 2013).
2.4.2 Adoption of Agent Banking as a Diversification Strategy

The fact that offering the normal banking services of paying and receiving in the traditional urban centers as before seems to have been saturated. This has reached the point of satiety whereby increased market penetration through marketing is being affected by the law of diminishing returns. This has forced banks and other financial institutions to look into other ways of growing and increasing their presence through focusing on new services (Eijkman, 2013).

The financial institutions are developing new products that meet the consumer wants either on their own or in partnership with other firms in complementing industries. These other lines of businesses established by the financial institutions especially in Kenya have proven to yield very attractive results making many players to follow suit. In the case of Agent banking it started in 2011 with Equity bank (Okoth, 2013), after proving to be a game changer KCB and Cooperative banks followed suit and marketed theirs aggressively dethroning Equity agent. Currently, the rest of the players have followed suit; Postbank, National, Chase bank among others have ventured into agent banking business as a diversification strategy (Xinhua, 2013).

The adoption of agent banking by banking institutions KCB included has all the signs of a long haul plan as the intentions and target market of this product are far from being covered adequately.

2.4.3 Attractiveness of the Industry and Market

The attractiveness of an industry or a market is one of the greatest considerations before the decision to diversify is arrived at. Although analysts and experts attach varying degrees of importance to the factor of attractiveness of both industry and market. The fact is that for such a decision to be made this factor has to feature somewhere (Warren, 2008).

However, the attractiveness of the industry or market should not be looked into in isolation but also associated consequent factors should be considered. There are cases when an industry is attractive but the dimension taken to enter into the market or industry fails and
results in significant loss in income and security. In other instances for some reason the cost of entry is so low that proves so much gain for the company (Xu, 2007).

But upon taking a closer scrutiny such a move may be “disastrous” as the new venture may fail to pick and subject the entire company to massive losses in the long run. The dimensions of market attractiveness are divided into; market size, market potential, possibility for market development. Due to the advent of technology many opportunities for new market and product development are up for implementation (Warren, 2008).

Diversification into new lines of business in the current practice of business is about gaining more market share and reaching out to those who can’t access your products. This has made many business organizations move in to tap into these opportunities by diversifying strategically to net them. This is being done through acquisitions, green fields and joint ventures (Lynch, 2008).

Agent banking is one such decision to tap into the massive numbers of the unbanked population mostly in the rural areas (Mantilla, Mwangi and Kibaara, 2009). With the new constitution and devolution means more money which was initially centralized in Nairobi finds its way to the grassroots. While it is expensive to set foot all over the grassroots, technology has enabled financial institutions such as KCB to venture into Agent banking in order to tap into the new market. This is an indicator of a bright future full of potential for the agent banking business in which KCB Mtaani is poised to reap it big (Obura, 2015).

2.4.4 Government Regulatory Policies

The government policies on financial institutions regulations through the Central Bank of Kenya in the case of the banking industry has been updated to enable the industry players seize the opportunities available to make their services more accessible or easily accessible. It has even allowed them to form subsidiaries and expand their business portfolios. This has gone a long way to promote diversification to a great extent (Central Bank of Kenya, 2012).

The government regulation policies are also designed to control quality and promote ethical practices in any kind of business by ensuring compliance to set rules and regulations. This has also enabled order and bestowed trust on the new services licensed by the regulator and
authorized to be carried out. This is because for a service or product to be adopted and taken as expected the target market must be assured of security and professionalism in all aspects (Central Bank of Kenya, 2012).

### 2.4.5 Dynamic Capabilities

In the study of the diversification strategy, among the key drivers and key success factors for this strategy is the dynamic capabilities. It is either a firm has dynamic capabilities or key strengths that are being underutilized and need to be redeployed or engaged elsewhere or those to start a new project altogether. Diversification is usually not likely to succeed in the event of absence of these capabilities (Lynch, 2008).

Diversification is not serendipity especially in this era of a dynamic business environment where innovation and research is key to remaining afloat and relevant. This proves that a firm’s capabilities whether technology, strategic location, tangible assets or any other key factor for production should be utilized optimally. This could be through expanding existing businesses or diversifying into new and lucrative lines of business (Warren, 2008).

### 2.4.6 Financial Health

Diversification depends on financial health of a firm to a large extent. This is because the topic on diversification is basically about money. Money is the main driver of diversification activities and it can only be executed successfully in the event of a sound financial health background. The cost of entry into the new field to diversify into should be considered and analyzed on the basis of the financial health of the firm. Be it green-field, acquisition or joint-venture; the financial status of the firm at present its future prospects and the time taken to recoup the investment should be keenly considered (Tavana, 2014).

A firm must have sufficient funds to maintain the new project as it continues running its other normal activities interfered. In some instances, firms are forced to seek external sources of finance such as loans, rights issues or even selling off their unproductive assets or business units. This is usually done after it has been established that finally the returns will be favorable shifting to the new venture than keeping to the current project that has reached point of saturation (Spratt, 2008).
2.4.7 Availability of a Skilled Workforce

The fact that neither diversification nor its implementation is a serendipity gamble proves that for a firm to execute a successful diversification strategy, then it has to have the necessary human resources. The employees of the firm must be equivalent to the task to be able to lay out and nurture the diversification agenda to its realization. Diversification requires close monitoring especially at the initial stages. This calls for highly qualified self-driven individuals who know what is expected of them and are committed to this engagement (Lynch, 2008).

Being a greenhorn in any aspect is challenging and requires lots of patience, this is a fact that can’t be ignored. This then dictates that there is need to have individuals who are patient and ready to take risks who will take on the project from the onset till it picks on well. A workforce that works as a team and is ready to learn is the perfect necessary recipe for successful diversification. Kenya as a nation is rich in human resources and in this regard KCB is able to bank the success of agent banking on the knowledgeable workforce it has and the agents themselves (KCB, 2014).

2.4.8 Infrastructural Capabilities

Infrastructural capabilities here refer to distribution channels, networks access to key markets etc. Diversification of any kind; related or unrelated is poised to succeed whenever these capabilities are available. It enables the firm to easily reach out to its new target market in many ways, it may piggy back on existing products make use of the current product distribution chain to access markets (Bowersox, Closs and Cooper, 2010).

The concept of marketing is very important because it usually bridges the gap from production to meeting the consumer needs. However, marketing is very expensive to set up and takes time but in the case of an existing strong brand and market networks this could be simplified. This makes the diversification process simpler and saves a lot of resources for the organization (Xu, 2007).

The availability of relevant infrastructure to support a firm’s intention to diversify enables the firm evade many hurdles in the entire process. The hurdles include: The premium paid to
acquire or set up the necessary infrastructure, over run other firms competing for the same market as they set up their operations, cultural, ethical or environmental issues of concern before commencing operations, the managements learning ability to efficiently manage the new operational activities of the firm. Hence the infrastructural advantage is a key head start for a successful diversification venture. KCB has an edge over its peers in the banking industry having the largest branch network across the region. Owing to the fact that the banking agents are supported by individual branches proves that KCB has the capability to set up as many banking agent outlets conveniently (Gupta et al, 2007).

2.5 Chapter Summary

This chapter has provided a detailed and comprehensive literature review on the study objectives. It highlighted and reviewed inputs and contributions from other scholars who have done research and studies on the concept of diversification as a strategy in business and the key factors for its success. The chapter also sought to distinguish between the two types of diversification and what each of them means for a business organization. The chapter further went ahead to look into agent banking concept as a strategy to diversify. Why commercial banks in Kenya are moving towards the agent banking model and the key success factors for agent banking. It also highlighted how the agent banking concept operates. In Chapter Three, the study provided the methodology that will be applied accordingly. In detail, the chapter defined the research design, sampling design, methods of data collection and data analysis.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The researcher in this chapter covered the research methodology that he used in the study. This chapter discusses the research design, the population of study, the sampling design, sampling frame, the sampling technique and the sample size. The chapter also covers data collection methods, data analysis and the data presentation methods that will be used.

3.2 Research Design

A survey design is a communication approach that entails questioning people and recording their responses (Lee and Lings, 2008). In this study, the research design was descriptive in nature. This was used to obtain data that concerns the prevailing status of the phenomena so as to describe what exists in respect to the study variables of the research. The descriptive study was critical in drawing conclusions while at the same time describing the characteristics of the population. This design was deemed appropriate in identifying the extent of success of agent banking as a diversification strategy by KCB.

Descriptive research obtain information concerning the current status of a phenomenon in order to describe what exists with respect to variables or conditions in a situation. Descriptive surveys also provide details of interest at a single point in time. This research design was adopted for the study because of the need to collect cross sectional data and to conduct comparative study (Zikmund, Babin, Carr and Griffin, 2010)

3.3 Population and Sampling Design

3.3.1 Population

A population is any entire collection of people, animals, plants or things from which we may collect data (Easton and Mcoll, 2012). The population represents the entire set of units of analysis or the total collection of elements on which inference is to be made (Cooper and Schindler, 2008).
In this study, the population of study comprised of the KCB Mtaani appointed agents and the KCB bank staff charged with the agent banking business. KCB has a total of 7,181 appointed agents countrywide, 2,317 of them operate in Nairobi County with 334 of them operating within the CBD. The 334 agents operating within the CBD were the target population in this study. KCB has a total of 173 branches countrywide with nine of them at the heart of Nairobi CBD. 205 staff members within its Nairobi CBD branches were subjects of this study. In each of the branches ten members of staff concerned with agent banking business serving at the operations section were targeted for the study. Moi Avenue branch had 20 members of staff selected for purposes of the study owing to their scale of operations (KCB, 2014).

Both the appointed agents and the bank staff mandated with the supervision and oversight of agent banking are actively involved in this line of business in each of the branches. Their relationship is mutual and would be a great source of information for the research.

### 3.3.2 Sampling Design

#### 3.3.2.1 Sampling Frame

According to Cooper and Schindler (2008) a sampling frame is the list of the entire population from where a sample size is selected. It represents a complete and correct list of population of members. In this study, the sample frame comprised the 334 KCB Mtaani appointed agents and 205 KCB staff both totaling to 539.

According to Blumberg, Cooper and Schindler (2008) and Saunders, Lewis and Thornhill (2012), the sample size has to be large and should possess some proportional relationship to the size of the population from which it is drawn. The sample size is determined by a three based criterion, this being level of precision, the level of confidence, and the degree of variability in the attributes being measured. In this case 100 KCB Mtaani agents and 100 KCB bank staff were selected to participate in the study. This was deemed representative enough as it captured at least a third of the population and more in both cases. In this study, the entire population of the banking agents was 334 and a sample size of 100 was selected to participate in the study. For the case of the bank staff 100 out of the entire population of 205 staff members working in the branches within the CBD participated in the study. The bank
staff were labeled as category A whereas the agents as category B. The representation here is as follows:

\[ n = \frac{N}{1 + N(e)^2} \]

Where N: is 205 for A and 334 for B.

e is 10%.

\[ A = \frac{205}{1 + 205(0.1)^2} = 68 \]

\[ B = \frac{334}{1 + 334(0.1)^2} = 78 \]

From the above findings the minimum participants in the study for it to be truly representative were 68 for the bank staff and 78 for the agents. In this study 32 more bank staff were included in the study to make the total number 100 for questionnaire A and 22 more banking agents were added to make it 100 for questionnaire B also.

**Table 3.1: Sample Distribution**

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Respondents</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mtaani Agents</td>
<td>100</td>
<td>50%</td>
</tr>
<tr>
<td>KCB Staff</td>
<td>100</td>
<td>50%</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
<td>100%</td>
</tr>
</tbody>
</table>

### 3.3.2.2 Sampling Technique

This study adopted a stratified sampling technique for the case of the bank staff and a random sampling technique for the case of the banking agents. Cooper and Schindler (2008) define simple random sampling as selecting a subset of individuals chosen from a larger set of a population and stratified sampling as a method of sampling where a population is divided into smaller groups known as strata based on certain characteristics. In this study, the
selected elements comprised of KCB Mtaani appointed agents who are the driving force of the agent banking agenda and KCB staff drawn from each of the branches within the CBD. The staff within the branches were categorized according to their roles and only those in the operations section concerned with running agent banking business selected to participate. The study directly contacted the appointed agents and KCB staff with the aim of administering questionnaires for them to fill in the questions therein. All the 334 KCB Mtaani agents operating in the CBD were subjected to the random sampling technique to obtain the research sample since they all had similar attributes of interest to the study.

3.3.2.3 Sample Size

The sample size represents a subset of sampling units from a population (Collis and Hussey, 2009). This gives the entire number of population elements from which data is to be collected. The selection of 100 appointed agents and 100 KCB bank staff was arrived at to ensure diversity of opinion is upheld and as a way to reduce bias in the study.

3.4 Data Collection

The study relied on primary data which was collected using two different questionnaires that were in line with the study objectives. Questionnaire A and B were administered to the bank employees and agents respectively. The questions in study are directly related to the research questions. In the development of the questionnaires the variables for which the information was collected had to be identified followed by their operational definition. The questionnaires were crafted in three parts each; the first part covered the general information about the respondents in both questionnaires, the second parts covered factors influencing agent banking in the different contexts respectively. The third part in both questionnaires covered the performance of “agent” banks, opportunities for agent banking and the challenges of agent banking in the respective contexts accordingly.

The questionnaires consisted of both open ended and closed questions covering all the variables of study. The questionnaires also used the Likert scale type of questions. Open ended questions allow free responses from the respondents without providing or suggesting any structure for the responses. The closed ended questions limit the responses from the
respondents. The Likert scale types of questions were used to determine the respondent’s attitudes or feelings about a given subject. In most cases it is used to measure the level of the respondent’s satisfaction or consent rate (Cooper and Schindler, 2008).

3.5 Research Procedure

As per the research design, the study adopted the use of the questionnaire as the data collection tool. To pre-test the tool, the questionnaire was piloted on five interviewees drawn from the targeted appointed agents and one bank staff. The pilot study helped the researcher to approximate the interview duration and correct any inconsistencies that may arise from the data collection tool. However, the six interviewees were excluded from the final study. The questionnaires were administered manually mainly due to the operational environment of most KCB Mtaani appointed agents and the fact that few staff from the bank were interviewed.

Pre-testing the data collection instrument is also expected to aid in ensuring the validity of the research instrument is maintained. It also provided an opportunity for revisions on the structure of questions prior to the final study. After the questionnaire was tested it was delivered to the intended respondents by hand. To ensure the questionnaire quota was met, the researcher made a follow up with the respondents.

After data collection, the questionnaire underwent data screening and cleaning. Thereafter, it was followed by questionnaire coding, data entry and finally data analysis with the help of the statistical package for social sciences (SPSS) program in order to develop inferences to the subject of study.

3.6 Data Analysis

Inferential statistics was used in the analysis of data collected from the respondents. Correlation analysis was used to establish the relationship between Agent banking as a diversification strategy and the growth of KCB. The data was analyzed using the Statistical Package for Social Sciences (SPSS) and Microsoft Excel. The results were presented in the form of tables, figures and graphs, accompanied with appropriate and detailed explanations.
3.7 Chapter Summary

Chapter three covered the research methodology, outlining the research design that the researcher used in the study. The chapter also justified the need for a research design as it was relevant in this study. It also sought to expound on the study population size, the sampling technique, the sample frame and sample size used to undertake the study. Chapter four covers the research findings after the research was done and raw data processed.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This study was carried out with the intention to establish the extent to which agent banking has been used as a diversification strategy by Kenya Commercial Bank. This chapter presents the results and findings of the study in the order of the research questions as outlined in the preceding chapter. The two different questionnaires A and B administered in the study to the different groups of respondents; who double up as key stakeholders owing to their stake in the agent banking business have their responses presented accordingly. The first section presented some of the background information of the respondents in both questionnaires. The second section presented findings on the factors that influence agent banking as a diversification strategy. The third section presented findings on whether the bank has been able to derive competitive advantage from agent banking business. The final section presented findings on the sustainability of the strategy in the long run. The order of presentations of findings above is the same for both the questionnaires A and B as noted above.

Coincidentally, ninety responses of each of the questionnaires A and B were received which represents 90% of the total sample size in both cases. The 10 persons in each of the groups whose responses were not received despite being sent numerous reminders were deemed to have refused to participate in the study. Therefore the recording and analysis of findings proceeded with the responses in hand.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>RESPONSE RATE</th>
<th>DISTRIBUTION</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>Questionnaires Issued</td>
<td>A 100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td></td>
<td>B 100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Questionnaires Returned</td>
<td>A 90</td>
<td>90</td>
<td></td>
</tr>
<tr>
<td></td>
<td>B 90</td>
<td>90</td>
<td></td>
</tr>
</tbody>
</table>
The research findings have been presented in detail as per the four headings of the respective questionnaires in sections as follows. The findings from both questionnaires A and B are presented simultaneously as follows.

4.2 General Information

The researcher in this study considers the background information to be very meaningful and attaches a lot of importance to it because of the role it plays in laying the foundation for the understanding and interpretation of the responses issued by the respondents in the study.

4.2.1 The Gender of the Respondents

The figure 4.1 presents the results of findings of the study with respect to the gender of the bank’s employees who participated in the study. As shown in figure 4.1 the findings of the study revealed that of the bank’s employees that participated in the study, 44% were female and the remaining 56% were male.

![Figure 4.1: Gender of Bank’s Employees](image)

On the other hand the gender of the banking agents who participated in the study is shown in figure 4.2 where the study revealed that 64% of the agents who participated in the study were male whereas 36% percent were female. This indicates that the agent banking business of Kenya Commercial Bank is male dominated.
4.2.2 Age of the Respondents

Figure 4.3 presents the findings of the study in regards to the age of the bank’s employees who participated in the study. From figure 4.3 it is depicted that amongst the 90 bank employees who participated in the study, 44% were aged between 25 and 30 years, 39% aged between 30 to 35 years, 11% aged between 35 to 40 years and only 6% aged over 40 years.

Figure 4.3: Age of the Bank’s Employees

For the banking agents who participated in the study, the findings of the study are shown in figure 4.4. From the research’s finding presented in figure 4.4; a majority at 44% of those who participated in the study were aged between 26 and 30 years old. 29% of them were
aged between 20 and 25 years old while the remaining 27% were aged over 30 years. From these findings we can safely conclude that the agent business is dominated by the youth.

**Figure 4.4: Age of the Agents**

### 4.2.3 Level of Education of the Respondents

Figure 4.5 presents the results of the study in respect of the level of education attained by the bank’s employees who participated in the study. As depicted in figure 4.5, a majority of the bank’s employees which stands at 66% have attained bachelor’s degree level of education, 29% of them have attained master’s level of education and a paltry 5% had qualifications classified as others. This is amongst the bank’s employees who participated in the study.

**Figure 4.5: Level of Education of Bank’s Employees**

Similarly figure 4.6 presents the study’s findings on the level of education attained by the banking agents who participated in the study. Figure 4.6 shows that majority of the appointed
agents who took part in the study at 38% had attained certificate level of education in various fields. The following majority at 29% classified as others had attained professional qualifications not classified under any of the classifications stated herein, this category also included those who didn’t complete the various courses they pursued and instead tried a hand in business. 19% indicated that they had attained diploma level of education also in various fields. Only 14% of the respondents indicated that they had attained bachelors level of education.

Figure 4.6: Level of Education among the Agents

4.2.4 Position Held in the Organization

Figure 4.7 presents the study’s findings on the positions within which the roles of the bank staff who participated in the study fall into. As shown in figure 4.7, 39% of the employees who participated in the study performed roles classified under general management. 38% of them had their roles classified under financial management, 21% had theirs classified under sales and marketing and a paltry 2% classified as others.
Figure 4.7: Position Held in the Organization

4.2.5 Years Worked for the Bank

Figure 4.8 represents the responses of the bank employees who participated in the study in respect to the time in years they have worked for the bank. From figure 4.8, the responses from the study revealed that 47% of the bank’s employees who participated in the study have worked for the bank for between 1 to 5 years. 34% of them for between 5 to 10 years and the remaining 19% for more than 10 years.

Figure 4.8: Years Worked for the Bank

4.2.6 Category of the Employees’ Roles in the Organization

Figure 4.9 represents the responses of the bank’s employees who participated in the study with regards to the category of their roles and functions in the bank. As shown in the figure 4.9, majority of the bank’s employees who participated in the study quantified as 86% perform operational tasks while the remaining 14% serve at the policy level.
Figure 4.9: Category of Roles

4.2.7 Primary Business Agent is Involved In

The agents who participated in the study were involved in different types of businesses in their premises as shown in figure 4.10. From figure 4.10 a majority of the agents who took part in the study at 32% were involved in retail type of businesses. Closely following at 31% were those engaging in distributorship businesses. 21% of the respondents indicated that they engaged in wholesale businesses. The remaining 16% were hardware business people.

Figure 4.10: Primary Business Agent is Involved In
4.3 Factors Influencing Agent Banking as a Diversification Strategy

This was the first objective of this study aiming to establish the factors that influence agent banking as a diversification strategy. The subsections below present a summary of the research’s findings as regards to the bank staff and the appointed agents’ perspective simultaneously as follows.

4.3.1 Time Served as a KCB Mtaani Agent

The time served by each of the individual appointed agents was sought to give an insight into how lucrative the business might be to the independent business operators serving as agents. This would guide the quest to unearth the main motivating factors for agent banking. This is diagrammatically explained in figure 4.11. Figure 4.11 is a presentation of the responses of the appointed agents as regards to the length of time in years they have been in the agent banking business. From figure 4.11 it is evident that a majority of the banking agents who participated in the study had been in the business for two years, they constituted 47% of the total population that took part in the study. 30% of the respondents responded as having been in the business for over two years, this being the second largest majority. The remaining 23% of the respondents responded as to having been in the agent banking business for only one year.

![Figure 4.11: Time Served as a KCB Mtaani Agent](image_url)
4.3.2 Knowledge of KCB Agent Services

This subsection sought to find out the ways through which the current appointed agents got to learn of the service before deciding to join in offering the same service. Figure 4.12 shows the responses of the agents who took part in the study in detail. Figure 4.12 is a presentation of the responses of the appointed agents that took part in the study on how they learnt of the existence of the KCB Mtaani agent banking service. A majority of the agents who took part in the study constituting 53% responded as having learnt of the KCB agent banking through mass media. The second lot constituting 27% responded as having learnt of the KCB agent banking service via a referral from someone. The remaining 20% responded as having learnt through other means of the existence of such a service by KCB.

![Figure 4.12: Knowledge of KCB Agent Services](image)

4.3.3 Ease of Service Delivery

This subsection sought to establish whether the agents who took part in the study experienced any difficulty while servicing agent banking customers at their premises. The responses are as follows. Figure 4.13 presents the responses of the appointed agents as regards to the ease or otherwise of service delivery they experienced when serving their customers. From the responses in figure 4.13, a majority of the banking agents gave responses as to having not been experiencing difficulties while serving their customers this was 78% of the respondents. The remaining 22% responded as to having been experiencing difficulties while serving their customers. When asked to explain further most of them cited user issues and slight infrastructural problems. In detail most of the banking agents who reported difficulties had
problems in using computer systems with some not knowing at all. Another group that had difficulties when serving clients complained of network issues that interrupted transactions hence taking too long to serve customers.

![Bar Chart]

**Figure 4.13: Ease of Service Delivery**

**4.3.4 Trend in Customer Numbers**

This subsection sought to establish the trend in customer numbers seeking agent banking services from the agents since being appointed as agents. The responses are as follows. From figure 4.14, 77% of the respondents who took part in the study responded as to having witnessed increased customer numbers at their premises since they were appointed as KCB Mtaani agents. 16% of the respondents responded as having not noticed any change in their customer numbers since they started offering agent banking services. The remaining 7% responded as to having realized a decline in customer numbers at their premises.
4.3.5 Factors Influencing Agent Banking

On the part of the bank staff in regard to the first objective of this study, their perspectives on the factors influencing agent banking were captured in both Likert scale format and descriptive statistics format. The findings were summarized and presented as follows.

Correlations

From the results of the correlation presented in table 4.2, nearly all the factors covered in the study showed strong levels of correlation. The highest notable levels of correlation being between the cost of entry and that of the need for market segmentation which stood at 0.830 (95% confidence level). The correlation between stand-alone appeal and accessibility of agent channels to customers was also at a notable high of 0.648.

As acknowledged in the preceding paragraph there were those factors that according to the bank staff’s responses showed low levels of correlation. Factors such as stand-alone appeal and attractiveness of the industry recorded the lowest at 0.032 followed by stand-alone appeal and infrastructural factors with correlation levels at 0.047. Taking the assumption that a correlation of 0.5 and above is significant it is in order to conclude that most of the factors under study in this particular research are interdependent of each other and their combination give a strong support for the bank to pursue agent banking as a diversification strategy.

Figure 4.14: Trend in Customer Numbers
Table 4.2: Factors Influencing Agent Banking

<table>
<thead>
<tr>
<th></th>
<th>Infrastructural factors</th>
<th>Attractiveness of the Industry</th>
<th>Need for market segmentation</th>
<th>Cost of entry</th>
<th>Accessibility of agent channels to customers</th>
<th>Stand-alone appeal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructural factors</td>
<td>1</td>
<td>.627**</td>
<td>.353**</td>
<td>.425**</td>
<td>.214*</td>
<td>-.047</td>
</tr>
<tr>
<td>Attractiveness of the Industry</td>
<td>.627**</td>
<td>1</td>
<td>.593**</td>
<td>.445**</td>
<td>.271**</td>
<td>-.032</td>
</tr>
<tr>
<td>Need for market segmentation</td>
<td>.353**</td>
<td>.593**</td>
<td>1</td>
<td>.830**</td>
<td>.465**</td>
<td>.257*</td>
</tr>
<tr>
<td>Cost of entry</td>
<td>.425**</td>
<td>.445**</td>
<td>.830**</td>
<td>1</td>
<td>.618**</td>
<td>.365**</td>
</tr>
<tr>
<td>Accessibility of agent channels to customers</td>
<td>.214*</td>
<td>.271**</td>
<td>.465**</td>
<td>.618**</td>
<td>1</td>
<td>.648**</td>
</tr>
<tr>
<td>Stand-alone appeal</td>
<td>-.047</td>
<td>-.032</td>
<td>.257*</td>
<td>.365**</td>
<td>.648**</td>
<td>1</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

From the figure 4.15, the responses of the bank staff in regards to their opinion on the major reason why the bank chose to pursue agent banking. The responses were, 6% percent which was the least group of respondents felt that the bank was pursuing competitive strategy avenues. The next 22% were of the opinion that the bank was trying to expand its geographical coverage in order to increase its presence in the market it operates in. 33% of the bank staff were of the view that the bank was trying to open up new market frontiers with the agent banking package and thus aspired to make inroads into new markets. The majority of the bank staff were of the opinion that the bank was mainly interested in decongesting the branches and taking services to the customers’ doorsteps, they were of a 39% proportion. The responses herein reinforce the correlation findings in the correlation table 4.2 on the main motivating factors for the pursuit of this strategy by the bank. For instance the highest correlation between cost of entry and need for market segmentation at 0.830. It justifies the
responses of most of the bank staff stating decongestion of branches and opening up markets respectively as the key motivating factors for the implementation of agent banking services.

**Figure 4.15: Purpose for Establishing Agents’ Branches by the Bank**

Figure 4.16 presents the responses of the bank staff in regards to the introduction of agent banking as a strategy to enhance service delivery. Again to underscore in a descriptive statistics the relationships established from the SPSS output in table 4.2. Accordingly a whooping majority at 92% were of the view that agent banking enhanced service delivery with a paltry 8% objecting. This can be associated to the nature of most financial services where the least time spent the better.

**Figure 4.16: Agent Banking as a Strategy to Enhance Service Delivery**
4.4 Has KCB Drawn Competitive Advantage from Agent Banking Business?

The second objective of this study was to establish if the bank had drawn any form of competitive advantage from its agent banking business. This objective in this study is the most important to the bank as it is literally an overall report card. Correlation was used to process the data from the responses of the bank staff and descriptive statistics to present the responses from the agents. This resulted in the identification of various relationships in different degrees and consequently considered in the study as follows.

4.4.1 Have you Benefitted from Agent Banking?

This subsection presents the findings of the study on the opinion of the agents who participated in the study, as to whether they had benefitted from the agent banking business or not. The responses are as follows. As shown in figure 4.17 a majority of the banking agents at 88% responded as to having benefitted from agent banking business. The remaining 12% were of a different opinion of not having benefitted from agent banking business being hosted in their premises.

![Figure 4.17: Have you Benefitted from Agent Banking?](image)

Figure 4.17: Have you Benefitted from Agent Banking?
4.4.2 Any Prospects of Expanding the Agent Banking Business?

This subsection presents findings of the study as regards to the level of satisfaction and therefore the prospects of expanding the agent banking services within the agent’s premises. The findings of the study are as follows. Figure 4.18 shows the study’s findings which coincidentally correspond and are alike to those of subsection 4.4.1. 88% of the respondents indicated having an intention to expand the agent banking business in their premises. The remaining 12% percent responded as to having no intentions to expand the agent banking business in their business premises.

![Bar Chart](image)

**Figure 4.18: Any Prospects of Expanding the Agent Banking Business?**

4.4.3 Has KCB been Supportive in the Agent Banking Business?

This subsection of the study presents the findings of the study as regards to the bank’s support to its appointed agents in the agent’s perspective. The findings are presented in the figure 4.19. As shown in figure 4.19, 96% of the respondents responded in agreement as to having received support from KCB in line with the agent banking business. Only 4% of the respondents responded to the contrary citing lack of support by KCB in the agent banking business.

The respondents were further asked what they would recommend to KCB to do to enhance agent banking in an open ended question format. Most of them who constitute those who responded as having received enough support from KCB responded that the bank should
continue as it has been doing. The minority who were of the response that KCB wasn’t supportive responded urging the bank to ensure that they reach out to all agents and help them solve the problems they face. The problems they cited include the breakdown in service network while serving their customers. This they said impacted extremely negatively on them as their customers were very disappoints whenever that happened.

![Graph showing 96% Yes and 4% No responses to KCB being supportive in the Agent Banking Business](image)

**Figure 4.19: Has KCB been Supportive in the Agent Banking Business?**

### 4.4.4 Advantages Gained from Agent Banking

Of great importance to the bank is the benefit emanating from agent banking business line. In this study this has been structured to capture the problems it has solved and the contribution to enhanced customer service away from the normal banking services. The findings of the study are presented as follows.

**Correlations**

From table 4.3 the results of the correlation analysis indicated high levels of relationships. This as it were pointed out that with the introduction of agent banking by the bank several benefits were realized. The most important observation to be considered here is that the advantages sought by the agent banking service ‘occur as a package’. These combined give the bank the much sought after competitive advantage.
As seen in table 4.3 the highest correlation was recorded between time-factor and minimized operational cost at 0.712 (95% confidence level). The correlation between effectiveness in banking services and minimized operational cost together with that between efficiency in market diversification and minimized operational cost were both at 0.707. Also conspicuously notable is the correlation between efficiency in market diversification and time factor at 0.700.

With the assumption that a correlation of 0.5 and above is significant it is appropriate to conclude that effectiveness in banking services led to minimized operational cost. Minimized operational cost was also realized as a result of efficiency in market diversification and also as a result of minimized time of service. Reduced time of service led to improved customer relations and also efficiency in market diversification led to improved customer relations.

Table 4.3: Advantages Gained from Agent Banking

<table>
<thead>
<tr>
<th></th>
<th>Effectiveness in banking services</th>
<th>Minimized operational cost</th>
<th>Efficiency in market diversification</th>
<th>Time factor</th>
<th>Improved customer relations</th>
<th>Elimination of fraud cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effectiveness in banking services</td>
<td>1</td>
<td>.707**</td>
<td>.497**</td>
<td>.448**</td>
<td>.468**</td>
<td>.186</td>
</tr>
<tr>
<td>Minimized operational cost</td>
<td>.707**</td>
<td>1</td>
<td>.707**</td>
<td>.712**</td>
<td>.461**</td>
<td>.388**</td>
</tr>
<tr>
<td>Efficiency in market diversification</td>
<td>.497**</td>
<td>.707**</td>
<td>1</td>
<td>.700**</td>
<td>.554**</td>
<td>.469**</td>
</tr>
<tr>
<td>Time factor</td>
<td>.448**</td>
<td>.712**</td>
<td>.700**</td>
<td>1</td>
<td>.566**</td>
<td>.484**</td>
</tr>
<tr>
<td>Improved customer relations</td>
<td>.468**</td>
<td>.461**</td>
<td>.554**</td>
<td>.566**</td>
<td>1</td>
<td>.394**</td>
</tr>
<tr>
<td>Elimination of fraud cases</td>
<td>.186</td>
<td>.388**</td>
<td>.469**</td>
<td>.484**</td>
<td>.394**</td>
<td>1</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).
The banking industry being a service based sector depends so much on the quality of service for one to gain an edge over its peers. Of concern in this subsection as regards to quality of service to the customers is the fact that competitive advantaged is derived from the same directly. This fact informs the study’s quest to look into the various aspects of improving service delivery in this sector as an indicator of competitive advantage.

4.5 Is the Agency Banking Strategy by KCB Sustainable and Consistent with the Bank’s Future Plans?

The third and final objective of this study was to establish whether agent banking as a diversification strategy is in line with Kenya Commercial Bank’s long term plans thereby its sustainability. The responses from both the bank staff and agents were analyzed and presented as follows.

4.5.1 The Range of the Bank’s Agents in Number

This subsection presents the overall findings of the study as regards to the number of agents the bank has contracted. This is according to the staff of each of the branches operating within the CBD. The idea is arriving at an average as is presented in figure 4.20. Figure 4.20 presents the numerical range of the number of contracted agents per branch within the CBD. From the figure 4.20 most of the staff gave responses of their branches having contracted between 0 and 100 agents at 46%, followed by 31% with contracted agents ranging between 201 and 300 and finally 23% with contracted agents ranging between 101 and 200.

![Figure 4.20: The Range of the Bank’s Agents in Number](image-url)
4.5.2 Contribution of the Agents to the Bank’s Diversification Agenda

The views of the bank staff who are actually architects and professional implementers of agent banking were sought on the part played by the agents. This mainly delved on whether they were contributing to the bank’s diversification agenda. The responses of the bank staff were as follows. From figure 4.21 the views of the majority of the bank staff were in strong agreement that contracted agents made a huge contribution to the bank’s diversification agenda at 54% of the responses. 29% were in agreement indicating moderate support in this regard. 16% gave a neutral response while a paltry 1% disagreed.

![Pie chart showing contributions of agents](image)

**Figure 4.21: Contribution of the Agents to the Bank’s Diversification Agenda**

4.5.3 Effectiveness of Agent Banking

This subsection presents the responses of the bank staff as regards to the effectiveness of agent banking in each of the branches they work in. The responses are presented as follows. From figure 4.22, 44% of the bank staff who participated in the study opined that agent banking was highly effective. 28% of the staff gave a moderate endorsement on the effectiveness of agent banking. 17% of the responses were in wavering agreement opining as somewhat effective whereas 7% gave the responses of a less effective scenario. A paltry 4% were of the most negative opinion opining that agent banking was not effective at all.
4.5.4 Bank’s Commitment to Diversification

The bank’s commitment to diversification is deemed key for the success of agent banking. The said commitment can be looked into in various ways key being the perception of its own staff. The study sought the opinion of the bank staff on the same and the responses were as follows. From figure 4.23 the majority of the bank staff at 91% gave the response of the bank being fully committed to diversification. A paltry 9% were of the view that the bank isn’t committed to diversification. From the responses of the bank staff depicted herein it is therefore appropriate to conclude the bank is determined to see agent banking grow and expand in the long run.

To wrap up the views of the bank’s staff in regard to the bank’s commitment to agent banking business, an open ended question was asked on the staff’s general opinion on agent banking. Majority of the bank staff was of the opinion that agent banking was a good strategy. The reasons they advanced to support their responses was the fact that the banking industry especially in Kenya had become very competitive. Agent banking they said was a cheap way of ensuring financial inclusion and market penetration to the low end segment of the market at a lower cost. Others also felt that it was a way of enhancing the bank’s brand image and amplifying its presence. From their responses we can conclude that according to the bank staff who participated in the study, it is worthwhile for the bank to invest in agent banking.
The responses from the banking agents who took part in the study were as shown in figure 4.24. As shown in figure 4.24 the majority of the banking agents who took part in the study constituting 97% responded that the bank had been supportive in improving service delivery at the agencies. The remaining 3% responded to the contrary that the bank hadn’t been supportive in improving service delivery at the agencies.

The majority of the respondents who responded that the bank had been supportive in improving service delivery went ahead to answer a subsequent open ended question. Most of them responded of having received the bank’s support as regards to improving service delivery through provision of advertising and signage materials. They also cited provision of the necessary infrastructure at fair prices in their responses.
4.5.6 Impact of Adopting Agent Banking on Primary Business

In this subsection the responses of the banking agents who took part in the study were analyzed and presented as follows. As shown in figure 4.25, a majority of the responses constituting 42% of the respondents gave a seven out of ten on the impact agent banking had on their business. This was closely followed at 40% by those who gave an eight out of ten assessment. 13% of the respondents gave a nine out of ten rating while the remaining 4% gave a six out of ten rating.

Finally in this section the responses of the respondents to the last question on the questionnaire which was open ended were analyzed and the general views were highlighted as follows. Most of the respondents were of the opinion that agent banking was a good idea which was mutually beneficial to the bank and to the appointed agents as well. They furthermore registered their commitment to continue as agents to the bank in the future. The respondents underscored their positive responses with one request to the bank, that of improving the network infrastructure within which agency banking services runs.
4.6 Chapter Summary

In this chapter the researcher has presented the analyzed findings of the study accordingly as issued by the respondents. The presentation of the findings is inclusive of the findings of both questionnaires A and B. For both questionnaires the first section provides the findings on the general information of the respondents. After the general background information, presentations on the factors influencing agent banking followed for both questionnaires but in their unique perspectives. This was then followed by presentation of findings on whether KCB had been able to derive competitive advantage from agent banking again taking different scopes as noted above. Finally, the chapter presented findings on the sustainability and consistency of agent banking with the bank’s long term strategy.
CHAPTER FIVE

5.0 SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a discussion forum for the findings analyzed in chapter four. In doing so it also links and relates the findings to the concepts and frameworks earlier discussed in chapter two. This chapter then proceeds to highlight the conclusions based on specific objectives and proposes measures for improvement.

5.2 Summary

The purpose for carrying out this study was to establish the extent to which agent banking has been used as a diversification strategy by Kenya Commercial Bank. Kenya Commercial Bank’s position as the leading financial institution in the region and also having adopted agent banking guided its selection. This study was guided by the following three research questions as noted in chapter one sub heading 1.4: What are the factors that influence agent banking as a diversification strategy? Has Kenya Commercial Bank drawn competitive advantage from its agent banking business? and Is the agent banking diversification strategy sustainable and consistent with the banks future plans?

The study targeted two different stakeholders involved in the agent banking business to form the population of study. Two different questionnaires A and B were administered to the respondents with questions contextualized and triangulated accordingly. The structure of the questions from both dimensions led to a common denominator on the objectives of the study. In this regard a quantitative descriptive research design was adopted in the study.

The population in this study was constituted of bank staff working in the branches within the CBD and business owners appointed as banking agents by the bank. In both cases a sample of 100 was selected to participate in the study. Of the 100 questionnaires A and B each issued to both groups, 90 filled questionnaires were returned. This coincidentally represented a response rate of 90% in both cases which was very good. The data obtained from the responses was analyzed using quantitative techniques; this was done by utilizing descriptive statistics coupled with correlation. The data at hand was then organized according to the
research objectives noted in chapter one and the presentation of the same were done with the aid of tables and figures. Computer packages namely Microsoft excel and SPSS came in handy to execute the task.

An overview of the responses from the study reveal in the background information section that the participants in the study in both cases were male. All the respondents in both cases had some form of formal education which can be linked to the success in the implementation of agent banking. Also important to note is the stringent prequalification requirements demanded from prospective agents to the grassroots business owners. This ensures serious and determined business people get the opportunity to partner with the bank and get to benefit mutually.

The results of the study shows the effects of ‘factors influencing agent banking’ driving the implementation of agent banking business in both contexts. The bank seeking to endear itself to new customers in far flung areas who for a long time have been left out. The appointed agents on their part seeking commission and to attract more customers to their premises by being able to get banking services and make purchases both at a go.

Based on the results of the study several factors deemed to have influenced the clamor for setting up agent banking services by banks in Kenya, seemed to have worked together and coincided for the end results to be arrived at. This is clearly elaborated from the bank’s staff point of view as well that of the appointed agents of the bank. Each of the players in fulfilling his or her objectives coincidentally also helps in attaining the others goals hence the conclusion of a strongly mutual relationship.

Both sets of respondents in this study indicated through their responses of their successes brought about by agent banking in their domains. The bankers indicted that the agent banking product had come with other benefits which are crucial to positioning the bank ahead of its competitors. Among them is the reduction of the time that clients usually have to wait to get served and netting new customers from new frontiers. On the domain of the agents increase in customer numbers in their business premises was notable with most indicating intention to be in the business for the long haul.
Basing on the research questions on which the study was founded on, there is a triangulated consensus from both stakeholders that participated in the study that the idea of agent banking is sustainable and falls within the future objectives of the bank. Diversification being the new craze in corporate Kenya to try to bolster earnings seems very viable in this case. The fact that agent banking can be reinforced to perform better by adopting modern technology to improve service technology comes handy for the bank.

5.3 Discussion

The results from the respondents who took part in the study have further been discussed in view of the research questions as they appear in 1.4. Generally this section aims to compare and relate the study’s findings to the theoretical facets captured in the literature review section in chapter two of this thesis.

5.3.1 Factors Influencing Agent Banking as a Diversification Strategy

According to Barney and Hesterl (2008) a firm may seek to diversify if the demand for the industry’s products is being eroded by the emergence of substitutes, alternative technologies or fast shifting buyer preferences. On the other hand a firm may seek to diversify when it spots opportunities for expansion into industries whose technologies complement the present business (Tavana, 2014). The findings of the study on the factors that influence agent banking as a diversification strategy according to the bank’s staff revealed that the bank relied on many factors before it ventured into agent banking. The factors include; infrastructure, industry attractiveness, the need for market segmentation, the cost of entry, accessibility of agent channels to customers and stand-alone appeal. All the aforementioned factors were found to be interconnected to one another in guiding the bank’s decision to venture into agent banking business. This was captured in the correlation analysis carried out on the same factors.

The actions of the bank to roll out agent banking services as revealed in this study were motivated by a proactive approach to take advantage of its existing capabilities to leverage on existing opportunities as observed by Tavana (2014). The capabilities that comprise of bank’s superior infrastructure being the largest bank in the region, skilled workforce and a
heritage of service (KCB, 2014) coupled with the low cost of entry and the urge to venture into the lucrative industry were the key drivers according to the study. This was expected to result in increase in customer numbers, improve on service delivery which would result in customer loyalty and increased deposits since the normal services of paying and receiving had been saturated (Eijkman, 2013). As a corporate social responsibility the bank found this venture as an opportunity to create jobs.

A major objective of the bank to reach out to as many customers as possible so as to realize increased deposits and uptake of loans fits into domain of the factors driving it into agent banking. At least in the bank staff’s responses, since the bank established the service, transactions on the agent banking platforms have seen an upward trend. This compliments the study by Mwangi (2012) on agent banking as a diversification strategy by commercial banks. The study looked into agent banking in the scope of the commercial banks in general and recommended it as a strategy to improve on financial inclusion.

The agents’ who participated in the study revealed that they had only served for a short time as KCB agents. Majority of the agents responded as to having served for two years at 47%, 30% of them having served for over two years and the remaining 23% for one year as shown in figure 4.11. This finding coupled with the recorded increasing trend in customer numbers as shown in figure 4.14 where 77% of the respondents recorded increasing customer numbers. This could be interpreted to mean a success in the decongestion of branches and indeed financial inclusion to more people at the grassroots. From the responses of the agents who took part in the study the bank had also added another feather in its crown. That of expanding its geographical coverage by penetrating even more into the grassroots to find the customers even in their remotest workplaces which in this regard is downtown Nairobi.

According to Lynch (2008) one of the major benefits of diversification is the spreading of risks. As regards to this study, the risks are in the form of business performance and security of the money. As shown in figure 4.14, 77% of the appointed agents who took part in the study recorded increasing customer numbers. This revelation that more customers are seeking their services from the appointed agents is evidence that the bank has passed on a considerable portion of the risk of handling cash to the agents. This is because the money in
the agents’ custody is given in consideration of the money in the account held by the agent with the bank and earns a commission from serving the bank’s clients (Jansen, 2010).

KCB has been able to proactively take advantage of a knowledgeable population to enhance its financial business as noted by Waithatu (2014) in his article on Standard Digital. This was reflected in the responses of both the bank staff and the agents. 92% of the bank staff as shown in figure 4.16 were of the opinion that agent banking was a good strategy to enhance service delivery. Similarly 78% of the bank’s agents as shown in figure 4.13 responded as to being conversant with discharging agent banking services. This is in concurrence with Lynch (2008) whereby a firm must have highly-qualified self-driven individuals for the firm to successfully implement a diversification strategy. The Knowledgeable population is a key resource identified by the bank as lying unexploited. The findings of the study reveal how the bank has been able to utilize a competent human resource to end in a mutually beneficial venture.

The findings of the study are in line with Thomson and Strickland (2005) on the best time to diversify where KCB finds itself in the midst of tight competition where diversification is necessary to save the banks revenues and profits. With its competitors such as Equity bank which is also a key player in the agent banking business presenting stiff competition. From the study it is revealed that agent banking is a way of reaching out to the majority unbanked population where other banks are fighting for the same. This is a sure way of increasing deposits to the bank (Xinhua, 2013).

5.3.2 Has Kenya Commercial Bank Gained Competitive Advantage From its Agent Banking Business?

The roll out of agent banking business by KCB as a diversification strategy in the domain of this study resulted in various benefits both to the bank and to the agents. KCB is one among many banks in Kenya that have agent banking services, most of its fierce competitors offer the same service too (Okoth, 2013). The main issue strategy wise which is an objective in the study is whether the bank has been able to gain competitive advantage from this business line. Competitive advantage is known to emanate from consistent and continuous innovation (Trott, 2014). In the case of KCB, as a financial services institution which is mainly a service
institution competitive advantage is always gained from improving service delivery to the customers (David, 2009). Findings of the study on whether the bank had gained competitive advantage from agent banking business revealed that indeed the bank had gained from this line of business. From the responses of the banking agents responding to the effect that they had recorded increased customer numbers to their premises since being appointed KCB agents is evidence enough. The fact that they have been in the business for such a relatively short time is evidence enough of the degree of lucrative in the sector.

Majority of the appointed agents who took part in the study at 88% as shown in figures 4.17 and 4.18 responded as to having benefitted from agent banking and even considered expanding agency banking within their premises in both instances respectively. The agents in this type of business are key stakeholders just as the bank is and depend on one another for both of them to succeed. This mainly concerns the effort by each to improve on customer service and delight the customer to ensure the continued loyalty to KCB and KCB Mtaani services. The responses from the agents echo satisfaction on their part and thus cultivation of loyalty to the bank to build a strong grassroots customer base through informal marketing.

Similarly the bank staff’s responses on the advantages of agent banking to the bank with most of them revolving around improved customer service cost reduction. The correlation that was recorded between time factor and minimized operational cost which was the highest at 0.712 (95% confidence level) captured on the key areas of leverage to realize profitability in the banking sector. Strong correlations of 0.707 was recorded between minimized operational cost and efficiency in market diversification and 0.700 between time factor and efficiency in market diversification. According to Gupta et al (2007), by diversifying a bank should be able to marshal capital from its new ventures so as to improve on the bank’s financial position. According to the findings of the study, KCBs scenario is that of minimized operational costs resulting from the reduced lead time in service hence increasing in profit margins. The bank staff majority was also split between agent banking being used to bring about effectiveness in banking services and improved customer relations with a correlation of 0.468 (95% confidence level). Effectiveness in banking services literally brings about improved customer relations. Whichever way, both of them are key objectives of the bank. The need to decongest branches and ensure quick service to the customers and the ability to
reach out to new geographical areas ahead of your competitors are key for the bank to assert its dominance in the industry is achieved with being effectiveness in the way an institution operates. The banking industry being a service industry is anchored on maximum customer satisfaction for one to gain competitive advantage over the peers (Warren, 2008).

From the study it is also revealed that some of the problems usually associated with the financial sector such as operational cost, lead time, customer relations and fraud had reduced significantly since the bank adopted agent banking. This could be attributed to the fact that the banks customers especially the low end ones who usually form the bulk of the numbers had been redistributed and given the choice to visit the nearest agent. This resulted in short lead time hence efficiency and effectiveness which aggregate in cost reduction. The sensitive issue of fraud and finances had been dissected and decentralized to some degree making it easier to identify the source and address the problems accordingly to the customers’ satisfaction. Elimination of fraud is one of the key factors to customer loyalty and trust (Jansen, 2010).

On the same note the study revealed that most of the agents were satisfied with working with the bank as agents. Most of them indicated plans to even expand their agency commitments after having benefitted from offering the service on behalf of the bank. This in itself confirmed that the bank had built a loyal relationship with the business owners who would also act as their ambassadors to rake in more customers. The responses of the agents who are key stakeholders in the business undertaking to continue working with the bank is an indication of an investment paying off as the full and successful implementation of a strategy requires a lot of resources both financial and time (Ackerman and Eden, 2011). The study also revealed the majority of the agents were satisfied with the support they received from the bank. This showed the bank was fully committed on the same and was in it to make meaningful gains.

5.3.3 Is the Agency Banking Strategy by KCB Sustainable and Consistent with the Bank’s Future Plans?

According to Maurice and Thomas (2011) a strategy is considered successful when it adds to shareholder value. On this basis profitability and growth in all aspects are expected for
growth in shareholder value to be realized (Xu, 2007). This applies to the subject of the study, KCBs strategy of agent banking has to show prospective addition to shareholders value in the long run given all the resources within the banks disposal. In the agent banking business the bank relies heavily on the appointed agents for the success of the business unit. This can only be realized when they are motivated and facilitated to achieve maximum potential in their localities of operation. Being a mutual relationship, the success of the agents is the success of the bank (Jansen, 2010).

Based on the study’s findings and in consideration of the underlying facts, the bank’s agent banking business shows signs of continued growth and opportunities. From the number of agents per branches of the bank operating in the CBD, to effectiveness of agent banking as a diversification strategy and the bank’s commitment is enough evidence. Agent business is registering increased activity day in day out with the majority of branches having about 100 appointed agents subscribed. This is a considerable number considering that they act on behalf of the bank and more specifically a branch. Taking the findings of the study as it were is an indicator of a positive uptake of the agent banking service by KCB. The seemingly positive uptake by both the stakeholders and market masses is an indication of a bright future ahead for the business.

Having underscored the cardinal role played by the agents to ensure the success of agent banking, it is prudent for the bank to offer maximum support as they own the platform (Ivatury et al, 2008). An internal survey through the filling in of questionnaires by the bank staff most of them who were lower levels of management indicated a consensus that the bank was giving its best to enable agent banking prosper. The bank’s staff further indicated their commitment to see the bank succeed in the agent banking venture. 54% of the staff as shown in figure 4.21 were in strong agreement that the agents were key in the success or failure of agent banking as they provided the point of access for the bank’s services to the customers at their convenience. The staff of the bank also observed to a satisfactory degree that the strategy was effective with about 72% of them strongly confirming that it was actually effective.

On the other hand the responses from the Banking agents that the bank had been supportive in the quest to enhance service delivery and therefore attract more customers and retain the
present ones. An overwhelming 97% as shown in figure 4.24 of the agents who participated in the study admitted that the bank was supportive and cooperated with them to improve on service delivery at the banking agents. This in itself is enough evidence to the effect that the business is sustainable and consistent to the bank’s prospects of increasing revenues and reaching out to more customers thus the bank’s attention to the agents (Porter, 2008). Most of the issues raised by the agents for the bank to consider, to ensure an improvement in service quality were actually not in the banks domain but that of their network provider (Ivatury et al, 2008). This means that the bank had actually done well on its part and that if the same problem persisted they could consider acquiring their own equipment. This fits within the sustainability and consistency provisions as with acquisition comes more scope of control (Jansen, 2010).

Finally, the fact that financial inclusion of a majority of the population in the country is an aim firstly for the government and most financial institutions KCB included makes sense if the bank did the same in the cost effective way (KCB, 2014). With the Kenyan economy growing and money being generated in all fronts of the country including the remotest previously given a wide berth by the elitist financial structure. The need to reach this emerging population where they operate is growing despite being expensive. Cost effective ways have to be sought to reach them, agent banking is the ready option. The agent banking business which is a result of the renewed government policies to make financial services accessible to the citizens in the grassroots is anchored on legislations that border on affirmative action which are not about to be changed, at least not anytime soon (Central Bank of Kenya, 2012). The regulator’s assurances coupled with the bank’s commitment, 92% of its staff affirming that the bank is actually committed to diversification and the agents admitting positive impact to their business as a result of adopting agent banking. These factors put together in the domain of the study gives an assuring future for agent banking and affirms the consistency of the same with the bank’s long term goals.

5.4 Conclusion

This section of the research project presents the conclusions drawn from the discussion of the research’s findings and also those discussions from previous chapters on the concept of
diversification strategy, its degree of success in this case and consequently the recommendations of the same in perspective of the study objectives.

5.4.1 Factors Influencing Agent Banking as a Diversification Strategy

This study objective sought to establish the motivation behind agent banking that has seen banks embrace it. KCB adopted agent banking as a diversification strategy for various reasons. This study came to the conclusion that the bank found it opportune to take advantage of the enterprising educated Kenyans who had ventured into business due to the limited employment opportunities. The study also came to the conclusion that the bank chose agent banking since it is cheap to start and run and that it is an excellent way of market penetration in the financial sector.

5.4.2 Has KCB Gained Competitive Advantage from Agent Banking?

As regards to this objective the study the bank gained competitive advantage in this line of business owing to the fast spread of the same. The bank was able to embrace and utilize technology to its advantage. This saw reduction in costs of service delivery thereby possibly increasing profit margins. The bank also got to strengthen and continue with its grip in the banking business by adding the agents into its fray of indirect marketers. Wholesomely the bank fared very well in this business line and leveraged to gain competitive advantage over its peers.

5.4.3 Is Agent Banking Strategy Sustainable and Consistent with the Bank’s Future Plans?

The bank has streamlined its agent banking business with its long term strategies and employed structures to root it into the bank’s system. The bank’s systems have cultivated loyalty in the agents who are key stakeholders in the business. Agent banking at least in the informal parts of the CBD has enabled the bank to penetrate effectively. This has rewarded the bank in its quest to increase revenues in the long run.
5.5 Recommendations

5.5.1 Recommendations of the Study

This section presents the limitations and shortcomings of the study. It also gives recommendations for further studies based on discussions in previous chapters. The section also gives insight on what can be done to improve on agent banking further.

5.5.1.1 Factors Influencing Agent Banking as a Diversification Strategy

There is need for banks to consider other factors in the establishment of more banking agents. This includes large retail stores and petrol stations where consumers are known to spend. This will be very convenient to the consumers and will save them a lot of money usually charged on credit card transactions in such places. This will go a long way in creating meaningful partnerships with such establishments where spending volumes are considerably high.

5.5.1.2 Has KCB Gained Competitive Advantage from Agent Banking?

In order for the bank to gain more competitive advantage and do so consistently, it should consider establishing an independent customer service center dedicated to agent banking. This is because the banking agents themselves have little or in some instances have no formal knowledge of financial systems. This usually reduces the efficiency of the service and as such the bank should consider a call center on the same to sort out the simple procedural problems periodically experienced in a quick dial. This will ensure satisfactory service to the customers and hence breed more loyalty to the bank.

5.5.1.3 Is Agent Banking Strategy Sustainable and Consistent with the Bank’s Future Plans?

The issue of sustainability is key in any strategy as huge amounts of resources are usually spent on key strategic endeavors. The bank should consider reviewing its agency banking model and embracing of latest technology to give it an edge over its rivals in service delivery and root it more into its system. Since agent banking is cost efficient to the bank and offloads
operational risks from the bank to the agent the bank should also consider training prospective agents on few security procedural issues and use of the system.

5.5.2 Recommendations for Further Research

The research was carried out within the Nairobi CBD where the researcher sought information from agents as well as the bank staff within the same locality. KCB being a regional bank operating across Eastern Africa is a large bank and to get a clear perspective of its agent banking business it would be prudent to sample from across the country or even the region in the absence of resource constraint. This is important because the city residents’ pattern of consuming financial services tends to vary a great deal with that of the rural populations in the different parts of the country.

A further research could be carried out in a frontier region of this country on the same. This is to ensure the perspective and picture of the entire country is captured for purposes of decision making as the saying goes customer is always right, the customer has to be treated accordingly regardless of the locality.
REFERENCES


APPENDICES

Appendix I: Cover Letter.

UNITED STATES INTERNATIONAL UNIVERSITY

RE: Survey Questionnaire

Dear Respondent,

I am a graduate student studying for a Degree in Master of Business Administration (MBA) at the United States International University. The purpose of the study is to establish the extent to which agent banking has been used as a diversification strategy by KCB.

You are part of the selected sample of respondents whose views I seek on the above-mentioned study. Your honest answers will be completely anonymous, but your views, in combination with those of others are extremely important in this research. All the information you provide will be treated with strict confidentiality and used for the purpose of completing this study only. Please answer the questions as accurately as possible. Tick the appropriate answer for each question and answer all questions please.

I guarantee that all information will be handled with strict confidentiality.

Thank you for your cooperation

Vincent Tuwei
Appendix II:

Questionnaire A
PART 1: Background Information

1. Gender

Male [  ]
Female [  ]

2. Age

25-30 [  ]
30-35 [  ]
35-40 [  ]
Over 40 [  ]

3. Level of education

Doctorate [  ]
Masters [  ]
Bachelors [  ]

4. Your position in the organization

General management [  ]
Financial management [  ]
Sales and Marketing [  ]
Others, please specify _____________________________
5. How many years have you worked for the Bank?

1-5 [  ]

6-10 [  ]

More than 10 years [  ]

6. Which category does your role fall into within the organization?

Policy [  ]

Operational [  ]

**PART II: What are the factors that influence agent banking as a diversification strategy?**

1. To what extent do the following factors influence opening up of agent banking network as a diversification strategies in your bank? Tick appropriately using a Likert scale of 5 where 5= Very great extent, 4= Great extent 3= Moderate extent and 2= Less extent and 1= No extent at all.

<table>
<thead>
<tr>
<th>A</th>
<th>Infrastructural factors</th>
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<tbody>
<tr>
<td>B</td>
<td>Attractiveness of industry</td>
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<tr>
<td>C</td>
<td>Need for market segmentation</td>
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<tr>
<td>D</td>
<td>Cost of entry</td>
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<td>E</td>
<td>Accessibility of agent channels to customers.</td>
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<td>F</td>
<td>Stand-alone appeal</td>
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</tbody>
</table>
2. What is the major purpose for establishing agents’ branches in your bank?
   
i) Decongestion of branches [ ]
   
ii) Opening up market to new customer segments [ ]
   
iii) Expanding geographic coverage of the bank [ ]
   
iv) As a Competitive strategy [ ]
   
3. Would you recommend agent banking as a strategy in enhancing service delivery in the banking sector?
   
   Yes [ ]
   
   No [ ]

PART III: Has Kenya Commercial Bank drawn competitive advantage from its agent banking business?

4. Agent banking is a strategy that brings some of the following advantages in the banking sector. Which of the advantages listed below have been realized in KCB?

<table>
<thead>
<tr>
<th>Advantage</th>
<th>Not at all</th>
<th>Not really</th>
<th>Maybe</th>
<th>Definitely</th>
<th>Most Definitely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effectiveness in banking services.</td>
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<td>Minimized operational cost.</td>
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<td>Efficiency in market diversification.</td>
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<td>Time factor.</td>
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<tr>
<td>Improved customer relations</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Elimination of fraud cases.</td>
<td></td>
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</table>
PART IV: Is agent banking as a diversification strategy by Kenya Commercial Bank sustainable and consistent with the bank’s future plans?

1. What is the range of the bank’s agents in number currently?

0-100 [ ]

101-200 [ ]

201-300 [ ]

301-400 [ ]

401-500 [ ]

500 and above [ ]

2. Do you agree that agents have contributed to the diversification agenda of the bank in the country?

Strongly agree [ ]

Agree [ ]

Neutral [ ]

Don’t agree [ ]

Strongly disagree [ ]

3. How effective is agent banking as a diversification strategy in your bank (KCB).

Highly effective [ ]

Effective [ ]
Somewhat effective [ ]

Less effective [ ]

Not effective at all [ ]

4. Do you think the bank is fully committed to diversifying its activities?

Yes [ ]

No [ ]

5. What is your opinion on the adoption of agent banking in Kenya Commercial bank?

.................................................................
.................................................................
.................................................................
.................................................................
.................................................................

End

Thank you.
Questionnaire B

PART I: Background Information

1. Gender
   Male [ ]
   Female [ ]

2. Age
   20-25 [ ]
   25-30 [ ]
   Over 30 [ ]

3. Level of Education
   Masters [ ]
   Bachelors [ ]
   Diploma [ ]
   Certificate [ ]
   Others, please specify……………..

4. What is your primary business?
   Hardware [ ]
   Retail [ ]
   Distributors [ ]
   Wholesalers [ ]

PART II: What factors influence agent banking as a diversification strategy?

1. For how long have you been a KCB Mtaani Agent?
   1 year [ ]
   2 years [ ]
   Over 2 years [ ]

2. How did you get to know of KCB agent services?
3. Do you experience difficulty when serving KCB Mtaani customers?
   Yes [  ]
   No [  ]
4. If yes, please specify the challenge.
   ……………………………………………………………………………………………………
   ……………………………………………………………………………………………………
5. What is the trend of your customer numbers since you were appointed a KCB Mtaani Agent?
   Increasing [  ]
   Declining [  ]
   No Change [  ]

PART III: Has Kenya Commercial Bank drawn competitive advantage from agent banking business?

1. Would you say you have benefitted from being a KCB agent?
   Yes [  ]
   No [  ]

2. Do you see yourself expanding the agent banking service in your premises?
   Yes [  ]
   No [  ]

3. Has KCB been supportive enough in the agent banking business?
   Yes [  ]
4. What would you recommend to KCB to do to ensure this service attracts more customers?

PART IV: Is agent banking as a diversification strategy by Kenya Commercial Bank sustainable and in line with the bank’s future plans?

1. Has the bank been supportive in ensuring improved service delivery at the agent banking points?
   Yes [ ]
   No [ ]

2. If yes what did they do?

3. On a scale of 1 to 10 how would you rate the impact that adoption of agent banking service has had on your business?

4. What is your opinion on the entire KCB Mtaani service this far and what would you advise the bank to improve on?
End

Thank you.