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INFLUENCE OF BANK BRANCHES SPREAD ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KAKAMEGA COUNTY

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ABSTRACT

The objective of this study was to assess the influence of bank branches spread on financial performance of commercial banks. The study was guided by theory of financial intermediation. The research design used was correlational design. The sampling technique used was stratified random sampling. Data was collected from primary sources. Primary data was collected using questionnaires. The instrument was administered by the researcher on the selected respondents. Quantitative data was analyzed using descriptive and inferential statistics. Descriptive analysis summarized data in form of central tendency as well as dispersion and inferential analysis was used to test hypotheses. Descriptive analysis included; frequencies, mean, standard deviation and percentage while inferential analysis involved correlation analysis and multiple linear regression analysis. The results revealed that bank branch spread influence financial performance of commercial banks in Kakamega County. Bank branch spread had significant effect on financial performance of banks in Kakamega County. Therefore, the study recommended that commercial banks should increase their spread in branch network countrywide with the view of tapping new crop of customers to open fresh accounts and increase bank deposits.

Key Words: *Bank Branches, Financial Performance*

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INTRODUCTION

In the past Kenyan commercial banks have been accused of not reaching out in areas where the transaction or deposit size is very low (Dzombo, Kilika & Maingi, 2017). In places with low deposits, the volumes are usually low, and the costs of serving are high. The banks did not see any sense to open up branches in areas with low volumes and the high cost of operation. The above situation has changed though, and most firms have embraced the concept of financial inclusion where they strive to open up to the new areas by biometric devices and mobile money. This practice has opened up access to financial services even in the remotest areas of the country. Thus, Kenya has attracted worldwide acclaim by expanding financial services to millions of poor households via financial inclusion strategies (Ndambuki, 2016).

Banks depending on customers deposits on their investment, therefore they use these deposits on lending and another kind of investment. The bank profits come from the difference between interest and fees which received on services from one side and paid interest and fees on deposits and other financial sources. Also, when banks plan to open a new branch or offer a new service, a primary objective should be achieving adequate return while minimising risks, i.e., covering the cost and increasing the total revenue, which leads to achieving the bank's main goals. Therefore, banks looking to increase their deposits to enhance their ability to lend and thus earning more profits and improve the performance indicators. Therefore, banks invest their resources in service development and generate new services to address customer needs and achieve a suitable return to enhance their performance (Garg & Agarwal, 2014).

Kalunda and Ogada (2019) indicated that financial inclusion had a statistically significant positive effect on bank performance. The study recommends that commercial banks should take an active role in increasing financial inclusion as it is consistent with banks' profit motive. Aduda and Kalunda (2016) determined that financial literacy programs have positive but weak impact on financial performance of banks. The use of agents and representatives had positive and strong effect on performance of banks. The proliferation of ATMs and Mobile banking services had positive but weak effect on financial performance of banks. Bank branch spread had positive but weak effect on financial performance of banks.

The commercial banks are headquartered at Nairobi although most of them such as Kenya Commercial Bank and Equity Bank have branches in 46 remaining counties. Due to strong competition in the banking industry, actors within the formal sector are now realizing the benefits of adopting new ways of delivering banking to the low-income and rural individuals (FSD, 2018). Kakamega County has 12 commercial bank branches. Commercial banks in Kenya have embraced financial inclusion through opening of several branches in rural areas, Islamic banking services and products, financial literacy, agency banking, mobile banking, electronic card banking. Therefore, it is vital to examine the influence of financial inclusion on financial performance of commercial banks in Kakamega County.

Statement of the Problem

Commercial banks have quickly recognized that financial inclusion is a viable strategy for expanding formal financial services into the unbanked regions of the country such as urban, rural or the marginalized areas (Lenka & Barik, 2018). According to the Central Bank of Kenya (2018), the overall performance remains uneven among banks despite strong growth in profitability, assets base, return on assets and return on equity. There is a significant difference gap between the top five banks and the bottom five banks across the key performance indicators. The return on assets (ROA) increased by 0.2 percentage point, while return on equity (ROE) rose by 1.9 percentage point. Tier I banks (large banks) recorded the highest profitability, while Tier III banks (small banks) recorded negative ROA, ROE and profit before tax in 2018. Further, the share of fees and commission has consistently been on a

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downward trajectory, declining from about 25 percent one and half decades ago to 14 percent by the end of 2018 (CBK, 2018). This comes at the backdrop of improved public confidence in the banking subsector, agency banking and integration of mobile phone platforms in the provision of banking.

Dichotomy outcome exists among researchers in regard to financial inclusion and financial performance. It is not clear whether financial inclusion influences performance positively or negatively; or insignificantly. While some researchers find financial inclusion affecting performance positively (Okoth & Muia, 2020; Kalunda & Ogada, 2019; Aduda & Kalunda, 2016); others find financial inclusion to be affecting performance negatively (Teka, 2019; Vekya, 2017; Ondieki, 2015). Shihadeh, Hannon, Guan, Ul Haq and Wang (2018) showed that financial inclusion has a significant negative impact on banks' performance in Jordan. Some studies have found financial inclusion to be affecting performance under insignificant positive relationship (Waithera, 2015; Ndambuki, 2016). Mapharing and Basuhi (2017) financial inclusion were statistically insignificant with financial performance of commerical banks in South Africa. Despite all these studies and many others, this area still remains grey and inconclusive relationship on bank branches spread and financial performance of commercial banks in Kenya and hence there was need to fill this gap by conducting this study.

Objectives of the Study

The objective of this study was to assess the influence of bank branches spread on financial performance of commercial banks in Kakamega County.

The study was guided by the following hypothesis;

- H_0**:** Bank branches spread has no significant influence on financial performance of commercial banks in Kakamega County.

LITERATURE REVIEW

The Theory of Financial Intermediation

This theory was postulated by Douglas (1984). According to the theory, commercial banks and other financial intermediaries are the main sources of external funds to firms. Faure (2013) argues that financial intermediaries exist not only because of the divergence of requirements of lenders and borrowers, but for specialized services they provide such as insurance services (insurance companies), retirement fund products(retirement funds, investment products(unit trusts) and overdraft and deposit facilities(banks) and so on.

Financial intermediation theory also argues that information asymmetry arises in the financial system and markets between borrowers and lenders because borrowers generally know more about their investment projects than lenders do (Claus & Grimes, 2013). According to the theory, financial intermediaries act as middlemen hence leading to net cost savings. The model provides strong predictions about the contracts used by financial intermediaries and thus provides a setting to analyze important issues in banking policy. According to Adrian and Shin (2015) financial intermediaries do not only transfer money and securities between firms and savers- they also create new financial products. Adrian and Shin (2015) further argue that since the financial intermediaries are generally huge, they create economies of scale in analyzing the credit worthiness of potential borrowers, in processing and collection of loan facilities and in pooling of risk and thus helping individual savers diversify.

In recent years, fundamental economic forces have affected the traditional role of banks in financial intermediation between borrowers and lenders. Beck, Lundberg and Majnoni (2016) observed that as a source of funds for financial intermediaries, deposits have steadily declined in importance. In addition, the financial performance driven by traditional banking activities such as business lending has declined in recent years. As a result, banks have increasingly changed their business

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models to new nontraditional financial activities in order to maintain their position as financial intermediaries. Adrian and Shin (2015) further observed that financial intermediaries have historically been heavily regulated.

Financial inclusion aspect such as digital infrastructure and agency banking are therefore being adopted by Kenyan commercial banks in order to improve financial inclusion and financial performance. This study is heavily anchored on the financial intermediation theory.

The theory was used to inform the independent variables branch network spread and digital infrastructure, dependent variable financial performance of commercial banks in Kenya. Agency banking and digital infrastructure have provided an avenue for banks to change their business models to new non-traditional financial activities in order to maintain their position as financial intermediaries. The theory also explains the importance of financial intermediation to financial inclusion and financial performance.

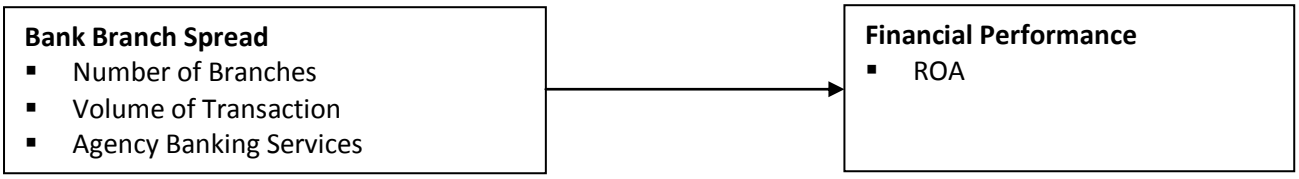

Figure 1: Conceptual Framework

Bank branches spread and Financial Performance

Awuah (2012) observes that traditionally, firms have used their branch network to retain their market share and since this network addresses the importance that customers place on location, firms with extensive branch network suffer less switching costs as compared to those with few outlets. This strategy ensures that customers have a greater access to a firm's services and products thereby creating competitive advantages for the firm.

Branches can also present physical entry barrier to rivals as they involve huge fixed costs and many firms normally shy off at having to spend large portions of their capital on branch expansion. Such fixed costs are usually passed on to the customers before the new branch breaks even and this may prove to be costly for the customers (Northcott, 2004). This strategy thereby keeps the number of competitors to a minimum thereby presenting the firm with the opportunity to grow its products and services at its own pace (Claessens, Dobos, Klingebiel & Laeven, 2013)

Nyatika (2017) sought to establish the link between spread in branch network and commercial banks financial performance in Kenya. To achieve this goal, the researcher adopted a correlation design to test the relationship between the variables. The study population involved all the 39 commercial banks in Kenya, the study utilized published sources of data that were derived from CBK annual reports in a duration spanning for years (2012-2016). This study established that spread in bank branch networks significantly ($p< 0.05$) predicts return on assets. The study established that an interaction between spread and operational efficiency significantly ($p<0 .05$) predicts return on assets. In addition, the interaction of spread and operational efficiency significantly explains the variance in return on assets over and above the additive effects of spread on return assets. Hence operational efficiency moderates the relationship between spread of branch networks and return on assets.

Adelowotan (2016) investigated the effect of branch network growth and bank's performance in Nigeria. The study took place in between 1981 and 2013 involving all the banks in Nigeria. The study utilized Ordinary Least Square (OLS). A pooled data analysis was adopted, the main study variables were as follows; number of bank branches in the

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study period and growth in total assets proxied as independent variable. Growth in bank branches was positively related to asset growth in rural, urban and foreign areas.

Kazumine (2016) tested whether Japanese regional banks entered the banking industry in other regions including the neighboring countries and the impact this had on lending-based income. The study adopted 3 lending-based income indicators as dependent variable; the assessment was done with the help of panel data from regions banks in Japan. As a consequence, it was established that regional banks that entered new markets in other regions recorded positive impacts in the all three indicators of lending-based income.

Financial Performance

Islam (2014) analyzed the financial performance of National Bank Limited using financial ratio. The study adopted both qualitative and quantitative methodology in determining the financial performance of the bank. The study determined that financial analysis is a structural and logical manner of assessing the overall financial performance of financial institutions. The most commonly applied method in the financial analysis of business entities with stakeholder interests is ratio analysis. In the analysis of financial performance of financial institutions, few categories of financial ratios are identical. The stakeholders tend to concentrate on the business regarding profitability, asset management, solvency, and liquidity ratio analysis.

Okinyi (2012) studied the performance and financial ratios of commercial banks in Kenya from 2006 up to 2010. The study sought to determine the factors that shape bank's performance through the measure of return on assets and return on equity. The study adopted quantitative survey method and covered all 49 commercial banks in Kenya. The findings showed that capital adequacy, liquidity and the size of the bank explained the variations in performance of the banks over time. The study showed that larger banks earn superior returns compared to the smaller banks. The study concluded that certain banks in Kenya seem to be earning higher returns in comparison to their competitors even though they operate under the same micro-economic environment. The research recommends that there is need to move forward and study the variations in the Return on Assets and Return on Equity.

Empirical Review

Oranga and Ondabu (2018) sought to determine the effect financial inclusion on financial performance of listed banks in Kenya. The specific objectives were to examine effect of financial literacy programs, increased proliferation of ATMs and Mobile banking services and to determine the effect of bank branch spread on performance of listed banks in Kenya. The study adopted a descriptive research design, and the study population included management and operational level employees of the 11 banks listed on the Nairobi Securities Exchange. A census study was conducted with primary data being collected using questionnaires. The results of the studied determined that financial inclusion elements have a positive and strong impact on the financial performance of banks in terms of return on equity. The proliferation of ATMs and Mobile banking services had positive but weak effect on financial performance of banks. Bank branch spread had positive but weak effect on financial performance of banks.

Aduda and Kalunda (2012) set out to examine influence of financial inclusion on stability of commercial banks in Kenya. The study specific objectives were to establish the effect of agency banking, mobile banking and branch spread on stability of commercial banks in Kenya. Positivism philosophy, longitudinal and explanatory non–experimental research designs were used. The target population was all the 43 commercial banks in Kenya. The study used secondary data collected from annual reports of the Central Bank of Kenya (CBK); commercial banks audited published financial statements and annual data from the Kenta National Bureau of Statistics (KNBS) for the

period between2007 and 2015. The results indicated that bank spread had a statistically significant effect on bank stability. Agency banking also had a significant effect on bank stability. In addition, mobile banking usage was also found to have a significant effect on bank stability.

Kalunda and Ogada (2019) sought to establish effect on financial Inclusion on financial performance of commercial banks in Kenya. The specific objective of the study was to establish effect of branch network, financial literacy and agency banking on performance. A sample of 30 commercial banks for a 9-year period from 2005-2013 were analyzed. A financial inclusion index was computed and three financial performance measures Return on Assets (ROA), Return on Equity (ROE) and (Net Interest Margin (NIM) were computed and separately regressed with the Index of Financial Inclusion to test the effect. The study revealed that the level of financial inclusion in Kenya as depicted by the index of financial inclusion was low during the study period with a progressive marginal increase. The study also indicated that financial inclusion had a statistically significant positive effect on all the three measures of bank performance.

Shihadeh, Hannon, Guan and Wang (2018) investigated the relationship between financial inclusion and banks' performance in the economy of Jordan using annual data of 7 commercial banks from 2009 to 2014. To ensure the robustness of the results, the study used six different measures of FI. These include credits for small and medium enterprises (SMEs), deposits for SMEs, number of ATMs, number of ATM services, number of credit cards, and financial literacy. The study found a significant impact of FI on performance when measured by gross income, and ROA, although the study displays different results when considering the effect of FI variables separately. Thus, FI contributes to enhance the banks' performance.

Iqra and Lohdi (2015) examined the impact of financial inclusion on banks profitability in Karachi. Specifically, the study focused on the effect of agency banking and branch network on the profitability. The data was collected from the sample size of 149 respondents. The SPSS software was used to statistically analyze the data, moreover descriptive statistics, correlation statistics and regression statistics were utilized to test the research hypotheses. The main variables are financial inclusion and bank's profitability while the sub variables are usage of financial services, access of financial services, cost of financial services and revenue generation. The findings and results of the research indicate that there is an insignificant relation amongst the variables.

Shihadeh and Liu (2019) examined whether financial inclusion influences banks' performance and risks. The study examined the relationship between enhancing the financial literacy, branch network and banks performance and risk. The study used data from Bank Scope, World Bank economic development, and financial development databases for 189 countries and 701 banks. The study used the empirical approach to testify to the study hypothesis. The study presents global evidence that enhancing financial inclusion, with branches as the main tool for banking penetration, and other financial inclusion indicators could help the banks to achieve more return and decrease the risks. This evidence not only supports the global agenda to enhance financial inclusion but also encourages banks to invest in more branching and penetration.

Aluoch, Odondo and Ndede (2018) sought to establish the effect of financial inclusion on performance of commercial banks in Kenya. Specifically, the study sought to: establish the effect of mobile banking on the performance of commercial banks in Kenya, to establish the effect of agency banking on performance of commercial banks, and to establish the effect of financial literacy on performance of commercial banks. The study adopted correlation research. Primary data

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were gathered using both structured and semi-structured questionnaires. The study estimated an R^2 of 0.501, implying that 50.1% of changes in the bank's performance are explained by the independent variables. It further revealed that mobile banking and agency banking had significant positive effects on banks performance.

METHODOLOGY

The study design was correlational since it seeks to explore and examine the influence of financial inclusion on financial performance of commercial banks in Kakamega County. The study targeted 279 employees from eleven commercial banks in Kakamega County. The staff included managers, supervisors and staff (Kenya Bankers' Association, 2017). In this research the sampling frame comprised of managers such as branch manager, operational managers, credit managers and sales managers, supervisors of different section and other employee such as tellers, credit officers, customer care officers, sales agents among others of 11 commercial banks in Kakamega County. Primary data was collected by use of questionnaires. The study adopted content validity. Data was collected, edited, coded and then was analyzed by the researcher using SPSS version 26.

FINDINGS AND DISCUSSIONS

Descriptive statistics

Descriptive analysis for this section used percentages, frequencies, means and standard deviation to show the response from the respondents as shown in the tables below for each variable. The respondents were required to state their level of agreement on various statements on each variable. The level of agreement ranged from 1-strongly agree, 2-agree, 3-fairly agreed, 4-disagree and 5- strongly disagree. The results were as follows.

Bank branches spread

The sampled respondents were provided with 5 statements related to bank branches spread. The relevant results were as shown in Table 1.

Table 1: Bank branches spread

Statements	1	2	3	4	5	Mean
The volume of transactions in the bank changes with the changes in the number of branches	32 (39.5)	32 (39.5)	8 (9.9)	5 (6.2)	4 (4.9)	4.02
The number of customers served by the bank has increased due to spread of bank branches	12 (14.8)	46 (56.8)	13 (16)	6 (7.4)	4 (4.9)	3.69
The cost associated with management of branches are influenced by the spread of bank branches across the country	29 (35.8)	38 (46.9)	10 (12.3)	3 (3.7)	1 (1.2)	4.12
Customer service agents have led to reduction in customer service costs	10 (12.3)	53 (65.4)	11 (13.6)	5 (6.2)	2 (2.5)	3.79
Bank branches are sufficient to provide banking services to cater for the needs of today's sophisticated and demanding customers	17 (21)	50 (61.7)	7 (8.6)	3 (3.7)	4 (4.9)	3.90

From Table 1, the results revealed that 39.5% of the sampled respondents agreed that the volume of transactions in the bank changes with the changes in the number of branches while the same percentage agreed that there is increase in volume of transaction. On the other hand, 56.8% of the sampled respondents agreed that the number of customers served by the bank has increased due to spread of bank branches and additional 14.8% strong agreed. However, 16.0% of the respondents were undecided.

The study also established that 46.9% of the sampled respondents agreed that The cost

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associated with management of branches are influenced by the spread of bank branches across the country and further 35.8% strongly agreed. Only one of the respondents strongly disagreed. The results further revealed that 65.4% and 12.3% of the respondents were agreed and strongly agreed respectively that Customer service agents have led to reduction in customer service costs. However, 13.6% of the respondents were not sure in regard to reduction in customer service cost.

Lastly, 61.7% and 21.0% of the sampled respondents agreed and strongly agreed that bank branches are sufficient to provide banking services to cater for the needs of today 's sophisticated and demanding customers. Athanasoglou et al. (2007) argue that spread in branch network results into an increase in sales, risk reduction and cost minimization. Claeys and Vennet (2008) posit that expanding branch networks improves the branch effectiveness in generating revenues from retail banking

Financial Performance

The sampled respondents were provided with 5 statements related to performance of commercial banks. The relevant results were as shown in Table 2.

Table 2: Performance

Statements	1	2	3	4	5	Mean
There has been increase in return on asset due to financial inclusion	18 (22.2)	39 (48.1)	11 (13.6)	12 (14.8)	1 (1.2)	3.75
The bank's profitability can be attributed to financial inclusion	11 (13.6)	51 (63)	8 (9.9)	7 (8.6)	4 (4.9)	3.72
Financial inclusion has led to an increase in shareholder return	5 (6.2)	56 (69.1)	14 (17.3)	5 (6.2)	1 (1.2)	3.73
Customer base has increased as a result of financial inclusion	5 (6.2)	56 (69.1)	7 (8.6)	12 (14.8)	1 (1.2)	3.64
Financial inclusion has led to an increase in gross revenue	19 (23.5)	46 (56.8)	9 (11.1)	5 (6.2)	2 (2.5)	3.93

From Table 2, 48.1% of the respondents agreed that there had been increase in return on asset due to financial inclusion while 22.2% strongly agreed with a mean of 3.75. The results also revealed that 63.0% and 13.6% of the respondents agreed and strongly agreed respectively that the bank's profitability can be attributed to financial inclusion. Majority of the respondents agreed financial inclusion had led to an increase in shareholder return as shown by 69.1% and 6.2% strongly agreed that financial inclusion had led to an increase in shareholder return. The results also revealed that 17.3% were undecided.

The results also revealed that 69.1% of the respondents agreed that customer base had increased as a result of financial inclusion while 6.2% strongly agreed. However, 14.8% of the respondents disagreed that customer base had increased as a result of financial inclusion. Lastly, majority of the respondents (56.8%) agreed that financial inclusion has led to an increase in gross revenue and further 23.5% strongly agreed on the same.

Inferential Analysis

The objective of this study was to establish the influence of Bank branches spread on financial performance of commercial banks in Kakamega County. This objective sought to test the null hypothesis which posited;

H_0**:** Bank branches spread has no significant influence on financial performance of commercial banks in Kakamega County.

Regression analysis was conducted to find the proportion in the dependent variable (financial performance) which could be predicted from the independent variable (bank branches spread). Table 3 showed the analysis results.

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Table 3: Regression Results of Bank branches spread and Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Change
1	.711[a]	.505	.499	.4251130	.505	80.672	1	79	.000

a. Predictors: (Constant), Bank branches spread

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	14.579	1	14.579	80.672	.000[b]
	Residual	14.277	79	.181		
	Total	28.856	80			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Bank branches spread

coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.392	.226		6.153	.000
	Bank branches spread	.626	.070	.711	8.982	.000

a. Dependent Variable: Financial Performance

From the table 3 above the value of R square was 0.505 this showed that bank branches spread explained 50.5% of variance in financial performance of commercial banks in Kakamega County. From the ANOVA table significance of the model had a value F (1,80) =80.672, P<0.01 this showed that it's significant at 99% confidence level hence the model is feasible. This implied that bank branches spread is a useful predictor of financial performance of commercial banks. The simple linear regression equation was as shown below

Y_{pf}=1.392+0.626 Bank branches spread

The unstandardized regression coefficient value of bank branches spread was 0.626 and significance level of p<.001. This indicated that a unit change in bank branches spread would result to significant change in performance by 0.626. The findings were in agreement with Musyoka (2011) who found that there was a positive relationship between bank branch network and financial performance of the banks. Claeys and Vennet (2015) posit that expanding branch networks improves the branch effectiveness in generating revenues from retail banking notwithstanding the costs involved and developing channels of distribution for example call centres, online banking and ATMs. Spread in branch network widens the market segments giving more customers access to products and services. Claeys and Vennet (2014), in his study argue that customers are willing to spend extra premiums as result of convenience when choosing banks.

However, Mchembere and Jagongo (2017) found branch networking is negative and a statistically insignificant factor of bank profitability among commercial banks in Kenya. Gul et al. (2011) cite that an increase in the number of bank branches or bank network reduces bank profitability as indicted by return on assets, net interest margin, return on equity, and return on capital employed. Researching factors that affect profitability of banks in Nigeria, Ayanda et al. (2013) found that there is insignificant link between the number of bank branches and banks' profitability. Hoffmann (2011) suggested that high cost of operations lead to lower profit margins since it means that the organization is spending more in order to get output. It is important to note that due to competition and market regulations, a bank that is faced by high cost

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of operations cannot pass the whole burden to the customers through increasing the bank fees and charges and therefore this means that the bank has to shoulder it (Andrés & Arce, 2012).

The study hypothesis (H_0) stated bank branches spread has no significant influence on financial performance of commercial banks in Kakamega County. The results indicated that bank branches spread has significant influence on financial performance of commercial banks. The hypothesis was therefore rejected. The results indicated that a single increase in bank branches spread would lead to 0.294 unit improvement in financial performance of commercial banks.

CONCLUSIONS AND RECOMMENDATIONS

The objective of the study was to establish influence of Bank branches spread on financial performance of commercial banks in Kakamega County. Descriptive statistics revealed that the volume of transactions in the bank changes with the changes in the number of branches. The cost associated with management of branches is influenced by the spread of bank branches across the country. The results also revealed that commercial bank branches are sufficient to provide banking services to cater for the needs of today's sophisticated and demanding customers.

Pearson Correlation results revealed a significant relationship between bank branches spread and financial performance of commercial banks. Linear regression analysis revealed that bank branches spread significantly accounts for variance in financial performance of commercial banks in Kakamega County. The analysis results revealed that when other variables are controlled in the model, a unit change in bank branches spread would results to a significant change in financial performance in the same direction. Hence, bank branches spread is a significant predicator of financial performance of commercial banks in Kakamega County. Therefore, the null hypothesis was rejected.

From the results, the study concluded that bank branches spread has significant effect on financial performance of commercial banks in Kakamega County. Increase in bank branches spread would results to increase in financial performance of commercial banks in Kakamega County. Hence spread in branch networks play an instrumental role in improving access to banking products or services and addressing specific customer. Bank branch spread has resulted to increase in volume of transactions and personalized customer services.

Financial literacy is vital for bank branch spread Therefore, the study recommended that the banks should embark on aggressive drive on financial literacy to ensure that their customers have skills that will help them make sound financial decision in-order to avoid loan defaults and improve loan performance and at the same time increase awareness of their products and services. This means banks will make more profits and improve on the loan performance ration.

Areas for Further Studies

The study shows that only 58.4% of the variations in dependent variable are explained by the dependent variable meaning that 41.6% of the variations are explained by other factors other than selected financial inclusion aspects. Further research can be conducted to look at other factors that may financial performance in regard to financial inclusion. Examples of these factors could size of commercial banks, operation cost and government policies.

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