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THE EFFECT OF AGENCY CONVENIENCE ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN ISIOLO COUNTY, KENYA

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ABSTRACT

The purpose of this study was to determine the effect of agency convenience on financial performance of commercial banks in Isiolo County, Kenya. A descriptive survey research design was used, targeting Cooperative Bank, KCB, and Equity Bank, which control over 90% of authorized banking agents in the region. The target population included 102 staff in Equity bank, 123 staff in Cooperative bank, and 80 staff in KCB bank, which was a total of 305 banks. The study adopted the Yamane's formula (1967) to result to a sample size of 58 staff in Equity bank, 70 staff in Cooperative bank, and 45 staff in KCB bank, which was a total of 173 staff. Stratified sampling was applied to select respondents from the finance and accounts departments of these banks. Data were collected via structured questionnaires and supplemented with secondary financial data. The pilot research used a sample size of 10% for this investigation, with 17 respondents randomly selected to fill out the survey in Meru County. To ensure the data was reliable, Cronbach's alpha was applied, which measures internal consistency. The questionnaires included in this study underwent a validation process to guarantee their content and face validity, as well as to gauge their overall quality. The analysis revealed a significant positive correlation between agency convenience and the financial performance of commercial banks, with a Pearson correlation coefficient of 0.751, indicating a strong relationship. The regression analysis further confirmed that agency convenience is a crucial determinant of financial success, as evidenced by its standardized coefficient (β = 0.304) and a highly significant p-value of 0.000. The study concluded that agency convenience was a vital contributor to the financial performance of commercial banks. The study concluded that banks that prioritized and enhanced the accessibility and ease of use of their agency banking services had substantial improvements in their financial outcomes. It is imperative that bank managers prioritize the convenience of agency services. This can be achieved by expanding the network of agents to ensure that services are accessible in both urban and rural areas, as well as by leveraging digital platforms to streamline transactions and reduce wait times. Enhancing the user experience through technology will not only increase customer satisfaction but also drive higher transaction volumes, which are crucial for financial success.

Keywords: *Agency Convenience, Financial Performance, Commercial Banks, Isiolo County, Kenya*

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INTRODUCTION

The many innovations, technological advancements, and stringent restrictions that commercial banks face make them among of the most susceptible firms in the corporate sector (Owiredu & Kwakye, 2020). The banking sector is vital to economic performance because it increases saves and lends money, but it is also subject to several dynamics, the majority of which are detrimental to its efficiency. And hence, much like retail banks, commercial banks necessitate well-intentioned initiatives to encourage performance (Kaweesi, 2023). To stay competitive, modern banks are embracing agency banking as one of its primary features. Because of this, several banks, including those in the developing world, have grown their operations and become more stable (Fuertes, 2020).

As time has progressed, agency banking has expanded from offering only the most basic services to providing clients with access to every feature of a full-service bank, including some not available in physical branches (Sporta & Muganda, 2021). Agency banking provides a variety of services, including account opening, cash transfers, salary and remittance collections and disbursements, third-party bill payment, and withdrawals of funds (Ongongo & Mang'ana, 2022),

Financial institutions are always looking for new ways to streamline their operations and make them more efficient and user-friendly for their customers. Thus, banks have developed tactics to attract new clients and keep existing ones as they migrate from traditional branch banking to agency banking (Kimathi, 2022). Adopting agency banking is a response to the need to save operational and administrative expenses. Because of this, competition in the banking industry has heated up, making the shift to agency banking a must for any bank that wants to survive (Batae et al., 2021).

Banks favor agency banking because: (a) it's cheap to offer the service, which means high returns; (b) it expands the bank's customer base; (c) it allows the bank to set up shop in places it wouldn't have otherwise been able to afford; and (d) it attracts the unbanked (Owiredu & Kwakye, 2020). The assurance of reduced expenses expanded consumer reach, and enhanced sales efficiency. New entrants are challenging more established firms by capitalizing on technological advancements and more cost-effective delivery methods, attracted by the ease of agency banking services (Namaganda, 2020).

Due of the limited level of adoption among target clients, many Kenyan banks that have adopted agency banking have not fully realized its benefits. The majority of Kenya's agency banking transactions originate from just three banks; KCB Bank, Equity Bank, and Cooperative Bank and these three account for more than 70% of the sub-sector, according to the Central Bank of Kenya's (CBK) Annual bank supervision report (2023). This is indicative of the widespread and inadequate performance of this banking model in the industry. Nakanwagi (2023) states that the impact of agency banking on commercial banks' total performance may be gauged by looking at how efficient, effective, and significant it is.

Problem Statement

With the introduction of agency banking, the contribution of commercial banks to the country’s economic growth has even doubled (World Bank, 2021). Commercial banks operating agency banking continue to show mixed performance on the agency segment of their business with some banks like Equity bank, KCB, Cooperative Bank posting good performance while other banks like SBM Bank, Credit Bank, Ecobank, Kingdom Bank showing mixed performance of their agency segment of their business (CBK, 2023).

While other banking strategies like mobile banking, ATM, e-banking have been embraced by all the commercial banks, agency banking has only been adopted by 50% of the banks. Despite the embrace of agency banking among most of the commercial banks in Kenya, the agency banking sub-sector continues to be dominated by three banks (Equity Bank, Cooperative Bank and KCB Bank). Other banks hardly generate significant amounts of revenue from the banking mode, with others recording continuous decline in the value and among of transactions from agency banking (CBK, 2022).

While the cumulative volume of transactions through agency banking increased from 139.8 million in 2017 to 158.4 million in 2022, over 92% of this growth was from three banks (Equity, KCB, Cooperative banks). The value of transactions increased from Kshs.1.074 trillion in 2017 to Kshs.1.829 trillion in 2022, where 89% of the growth was from the three banks. CBK (2023) further notes that while the volume and value of transactions through agency banking have significantly grown over the years, over 75% of the banks with agency banking have seen their volume and value of transactions decline implying that the cumulative growth has been attributed to the three banks.

Moreover, CBK (2022) noted that agency banking has been stagnant in over 80% of the banks, despite the agents having grown from 53,833 in 2017 to 82,780 in 2022; where 92% of these agents are from the 3 banks. This raises a question on what has been ailing agency banking, where compared to other banking strategies, agency banking is highly dominated by a few banks. Based on the previous studies, there is limited focus on the specific context of performance of agency banking in commercial banks in Kenya. Despite the existing literature on agency banking, there is a notable research gap in understanding the effect of agency banking on financial performance of commercial banks in Kenya.

Purpose of the Study

To examine the influence of change communication on organizational performance of Isiolo County government, Kenya.

Research Hypothesis

$H_0$1: Agency convenience has no significant effect on financial performance of commercial banks in Isiolo County, Kenya.

LITERATURE REVIEW

Theoretical Review

The Diffusion of Innovation Theory was developed by Rogers (1962) and it provides a thorough framework for comprehending the progressive diffusion of innovations across social systems (Lozano & Mandrile, 2020). Agency banking represents a significant innovation in the financial services sector, offering customers convenient access to banking services through third-party agents located closer to their communities (Kamya, 2022). By applying the Diffusion of Innovations theory to this context, we can elucidate how the convenience factor inherent in agency banking contributes to its adoption and diffusion among consumers, ultimately impacting the financial performance of commercial banks (Gurisha, 2023).

At the heart of the Diffusion of Innovations theory lies the concept of adopters, categorized into innovators, early adopters, early majority, late majority, and laggards. Innovators and early adopters are typically the first to embrace an innovation, driven by their openness to new ideas and willingness to take risks (Soetan & Umukoro, 2023). In the case of agency banking, these early adopters are likely to be individuals who value convenience and are quick to recognize the benefits of accessing banking services through nearby agents rather than traditional bank branches. These adopters serve as influential catalysts in the diffusion process, as their positive experiences and endorsements encourage others to follow suit (Alam et al., 2020).

The diffusion process is facilitated by various factors, one of the most prominent being the relative advantage of the innovation compared to existing alternatives. In the context of agency convenience, agency banking offers a distinct advantage over traditional banking methods by providing customers with greater accessibility and flexibility in conducting financial transactions (Batae et al., 2021). Customers no longer need to travel long distances to reach bank branches, as agency agents are often located within their local communities, thereby reducing both time and effort expended in accessing banking services. This relative advantage drives the adoption of agency banking among consumers seeking convenient and hassle-free banking experiences (Chamboko et al., 2021).

Empirical Review

Research conducted by Silva et al., (2020) examined the effects of agency banking on financial performance, specifically looking at evidence from Brazilian commercial banks. The study used regression analysis on financial data from major Brazilian banks, employing a quantitative research technique. Agency banking greatly improved client convenience, especially in underserved areas, which resulted to higher service use and better financial results, according to the study's findings.

The authors Jadiyappa et al. (2020) looked at the relationship between agency banking and financial inclusion using data from commercial banks in India. The research employed a mixed-methods strategy, surveying bank clients and employees in addition to analyzing financial data quantitatively. According to the findings, agency banking was essential in making banking more convenient for consumers by bringing services directly to their homes, which was particularly helpful for those living in rural regions. The convenience factor has a favorable effect on the financial performance of commercial banks and helped increase financial inclusion.

Using the Commercial Bank of Ethiopia as a case study, Melese (2020) examined how agency banking services affected customer satisfaction. To carry out the research, the study used a descriptive research strategy and a qualitative research methodology. The Addis Abeba location of the Commercial Bank of Ethiopia served as the site of the research. Participants were clients of CBE-based agents that provide agency banking services. A total of 384 agency bank clients were surveyed for the study. In order to conduct this study, questionnaires were used to gather primary data. After pilot research, the content was thoroughly examined to ensure validity. By comparing the objectives with their corresponding elements, the researcher made sure that all objectives were sufficiently addressed. We used quantitative approaches to examine the data. Explanatory, correlational, and multiple regression analyses were all employed in the research. The survey found that customers are more satisfied when services are easy to use.

Customer satisfaction was the focus of Mburu's (2022) investigation of the impact of agency banking service delivery. The research goals were investigated using a descriptive survey approach in the study. Clients of DTB agents were the focus of this research. In Nairobi, there were 165 agents from DTB. The DTB region of Nairobi is comprised of the following areas: Town, Mombasa Road/Industrial Area, Buruburu Branch, Nairobi South, Thika Road, Meru, Ngong Road/Ngong, Kitengela/Machakos, and Thika Branch accordingly. To get the necessary sample size of 117 DTB agents, the researcher employed stratified selection. From this pool, 351 clients were selected. Questions were asked in order to gather information. A pilot study, as well as testing for validity and reliability, were conducted on the questionnaire prior to collection. The results showed that many people were satisfied with the service's ease, particularly with its post-benefit, benefit, decision-, transaction-, and access-related aspects. Not all aspects of service ease were significantly related to customer satisfaction, according to the multiple regression results.

METHODOLOGY

A descriptive survey research design was used, targeting Cooperative Bank, KCB, and Equity Bank, which control over 90% of authorized banking agents in the region. The target population included 102 staff in Equity bank, 123 staff in Cooperative bank, and 80 staff in KCB bank, which was a total of 305 banks. The study adopted the Yamane's formula (1967) to result to a sample size of 58 staff in Equity bank, 70 staff in Cooperative bank, and 45 staff in KCB bank, which was a total of 173 staff. Stratified sampling was applied to select respondents from the finance and accounts departments of these banks. Data were collected via structured questionnaires and supplemented with secondary financial data. The pilot research used a sample size of 10% for this investigation, with 17 respondents randomly selected to fill out the survey in Meru County. To ensure the data was reliable, Cronbach's alpha was applied, which measures internal consistency. The questionnaires included in this study underwent a validation process to guarantee their content and face validity, as well as to gauge their overall quality.

RESULTS AND DISCUSSION

Response Rate

The sample population was issued with the questionnaires and their response rates is as shown in Table 1.

Table 1: *Response Rate*

Respondents	Sampled	Response	Percentage
Equity Bank	58	50	
Cooperative Bank	70	58	
KCB	45	37	
Total	173	145	84%

All 173 respondents were issued questionnaires, and 145 of these were returned fully completed, resulting in a response rate of 84%. Meanwhile, 28 questionnaires were either partially filled, left blank, or not returned, indicating a non-response rate of 16%. Dawadi et al. (2021) noted that a response rate between 40% and 80% is sufficient to draw conclusions and make recommendations. Therefore, this study met the necessary threshold.

Reliability Results

A pre-test study was conducted in Marsabit county, whereby 4 directors, 5 managers and 2 staff were randomly selected to answer the questionnaires. Their responses were examined through Cronbach alpha to ascertain the reliability of the questionnaires as indicated in Table 2.

Table 2: *Reliability Results*

Instrument	Cronbach's Alpha
Agency Convenience	0.796
Financial Performance	0.711

Agency Convenience, achieved a Cronbach's Alpha of 0.796, whereas the financial performance had 0.711. This indicates a strong level of internal consistency, suggesting that the items used to measure the convenience provided by the agency are closely related in content and likely measure the same underlying construct. The fact that the reliability coefficient is well above the acceptable threshold of 0.7 means that the results related to this variable can be considered reliable for further analysis.

Descriptive Statistics of Agency Convenience

Table 3 provides a detailed statistical summary of respondents' perceptions of agency convenience, as measured through six specific statements. These statements assess various aspects of convenience related to the use of bank agency services, with each response rated on a Likert scale ranging from 2.00 to 5.00.

Table 3: Agency Convenience

Statement	N	Min	Max	Mean	Std. Dev
Using our bank's agency services is straightforward and uncomplicated	145	2.00	5.00	4.0690	.71351
Accessing and utilizing our bank's agency services is easy	145	2.00	5.00	3.7862	.88338
Customers frequently utilize our bank's agency services for their transactions	145	2.00	5.00	4.2069	.59973
The operating hours of our bank's agency services are convenient for customers	145	2.00	5.00	4.0345	.66053
The availability of our banks agency services for extended periods meets customers' needs	145	2.00	5.00	3.8759	.79829
The agency convenience provided by our bank positively impacts its financial performance	145	3.00	5.00	4.2690	.54333
Valid N (listwise)	145				

The first statement, "Using our bank's agency services is straightforward and uncomplicated," has a mean score of 4.0690, with a standard deviation of 0.71351. This relatively high mean indicates that respondents generally agree that the bank's agency services are easy to use. The standard deviation suggests moderate variability in responses, indicating that while most respondents find the services straightforward, there is some degree of disagreement or varied experience among the users.

For the second statement, "Accessing and utilizing our bank's agency services is easy," the mean score is slightly lower at 3.7862, with a higher standard deviation of 0.88338. The lower mean, compared to the first statement, suggests that while respondents generally agree that accessing the services is easy, there is a slightly lower level of consensus on this aspect of convenience. The higher standard deviation indicates greater variability in responses, which could reflect differences in accessibility across different locations or for different customer demographics.

The statement "Customers frequently utilize our bank's agency services for their transactions" has the highest mean score of 4.2069, with a standard deviation of 0.59973. This indicates strong agreement among respondents that the bank's agency services are widely used by customers. The relatively low standard deviation suggests a high level of consensus, implying that customer utilization of these services is consistently recognized as a significant aspect of agency convenience.

Regarding the statement on the operating hours of our bank's agency services are convenient for customers, the mean score is 4.0345, with a standard deviation of 0.66053. The mean score indicates that respondents generally agree that the operating hours are convenient, though the slightly lower mean compared to other statements suggests there may be some room for improvement in this area. The standard deviation, while moderate, indicates that most respondents share this perception, with some variability likely due to differences in individual customer needs or preferences.

The statement "the availability of our bank's agency services for extended periods meets customers' needs" has a mean score of 3.8759 and a standard deviation of 0.79829. The mean score, slightly below 4.0, suggests that while respondents generally agree that extended availability meets customer needs, there is some variability in this perception. The higher standard deviation indicates that opinions on this aspect are more diverse, possibly reflecting differences in customer requirements for extended service hours.

Finally, the statement "the agency convenience provided by our bank positively impacts its financial performance” has the highest mean score of 4.2690, with the lowest standard deviation of 0.54333 among all the statements. This high mean score reflects a strong agreement among respondents that agency convenience has a positive impact on the bank’s financial performance. The low standard deviation indicates a high level of consensus, suggesting that this is a widely accepted view among the respondents.

In summary, the analysis of Table 4.5 reveals that respondents generally perceive the bank's agency services as convenient, with high mean scores across all statements. The data suggests strong agreement on the positive impact of agency convenience on financial performance, the frequent utilization of services by customers, and the straightforward nature of the services. However, there is slightly more variability in perceptions related to the ease of access, operating hours, and extended availability, indicating areas where customer experiences may differ more widely. These findings highlight the importance of agency convenience as a key factor in customer satisfaction and financial performance, while also pointing to potential areas for improvement in service delivery.

Dimbia and Wanjohi (2023) titled “Agency Banking and Financial Inclusion: A Case of Kenya Commercial Banks in Siaya County” examines the role of agency banking in promoting financial inclusion in Kenya. The study reveals that the convenience offered by agency banking, including extended operating hours and ease of access, significantly improves financial inclusion and customer satisfaction. This aligns with the reported high means for statements like “The operating hours of our bank's agency services are convenient for customers” and “Customers frequently utilize our bank's agency services for their transactions" in the provided table.

Secondary Data on Performance of Agency Banking

The data from Table 4 highlights the robust growth of agency banking in terms of both the number of agents and the financial value handled through these channels. Despite some fluctuations in transaction volume, the overall upward trend in the number of agents and the value of transactions indicates that agency banking has become an integral part of the banking sector’s strategy to reach a wider customer base and facilitate financial inclusion. The dominance of a few major banks in this sector points to competitive advantages in scale and network efficiency, which could continue to shape the market dynamics in the coming years.

This analysis suggests that while agency banking has largely been successful, banks need to be mindful of external factors that could impact transaction volumes and values. Continuous innovation and adaptation will be essential for maintaining growth and overcoming challenges that could arise from economic shifts or competitive pressures. The stability in the number of banks adopting agency banking also indicates a mature market, where future growth might come more from deepening existing networks rather than from new entrants.

Table 4: Secondary Data on Performance of Agency Banking

Measurement Aspects	2019	2020	2021	2022	2023
Number of banks with Agency banking	18	19	20	21	21
Number of Agents	53, 833	59,578	67,314	72,617	78,371
Volume of Transactions	139.8M	157.3M	162.9M	118.7M	156.3M
Value of Transactions (Ksh.‘M’)	1.074T	1.188T	1.22T	1.073T	1.59T
Market Distribution (Equity, KCB, COOP)	85%	85%	90%	91%	91%

Correlation Analysis

The null hypothesis stated that Agency convenience had no significant effect on financial performance of commercial banks in Isiolo County, Kenya. Therefore, the study conducted a correlation analysis to test the hypothesis as shown in Table 5.

Table 5: *Pearson Correlation of Change Management*

		Financial Performance	Agency Convenience
Financial Performance	Pearson Correlation	1	.751
	Sig. (2-tailed)		.000
	N	145	145
Agency Convenience	Pearson Correlation	.751	1
	Sig. (2-tailed)	.000	
	N	145	145

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

Agency convenience was established to be strongly correlated with financial performance ($r = 0.751$, $p < 0.01$). This indicates that the ease of using agency banking services significantly contributes to the bank's financial success. The high correlation suggests that when customers find the agency services convenient and accessible, they are more likely to engage in transactions, thereby enhancing the bank's overall financial performance.

SUMMARY

The analysis revealed a significant positive correlation between agency convenience and the financial performance of commercial banks, with a Pearson correlation coefficient of 0.751, indicating a strong relationship. The regression analysis further confirmed that agency convenience is a crucial determinant of financial success, as evidenced by its standardized coefficient ($\beta = 0.304$) and a highly significant p-value of 0.000. These findings suggest that when agency banking services are convenient and accessible to customers, there is a notable improvement in financial performance. The ease of use, coupled with the accessibility of these services, encourages higher transaction volumes and customer engagement, leading to increased revenue generation and profitability for the banks.

CONCLUSION

Agency convenience was a vital contributor to the financial performance of commercial banks. The study concluded that banks that prioritized and enhanced the accessibility and ease of use of their agency banking services had substantial improvements in their financial outcomes. As customer satisfaction and engagement were closely linked to the convenience of service, banks enhanced making agency banking as seamless and user-friendly as possible to drive financial success.

Recommendation of the Study

It is imperative that bank managers prioritize the convenience of agency services. This can be achieved by expanding the network of agents to ensure that services are accessible in both urban and rural areas, as well as by leveraging digital platforms to streamline transactions and reduce wait times. Enhancing the user experience through technology will not only increase customer satisfaction but also drive higher transaction volumes, which are crucial for financial success.

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