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FINANCIAL RESOURCES AS A STRATEGIC DRIVER ON PERFORMANCE OF AGENCY BANKING IN COMMERCIAL BANKS IN KENYA

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Strategic Drivers, Financial Resources, Agency Banking, Commercial Banks.

ABSTRACT

The study sought to establish the influence of financial resources on the performance of agency banking in commercial banks in Kenya. The study reviewed previous studies done to support the research objectives from which the research gaps were extracted. The study used descriptive survey research design. The target population for this study was the 18 commercial banks in Kenya licensed by Central Bank of Kenya to operate agency banking. The branch managers, ICT managers, operations managers, human resource managers and customer relations managers were the key targets respondents in the study. Primary and secondary data was collected using questionnaires and checklist guide respectively. Inferential analysis was carried out to establish the relationship between the independent variables and the dependent variable. The study established that Financial Resources had a positive significant influence on the performance of agency banking among the commercial banks in Kenya. The financial resources availed to agency banking through shareholders' fund, liquidity ratio and value of assets also positively influenced the performance of agency banking. The study concluded that financial resources were essential in steering the performance of agency banking thus recommending that the commercial banks through the management ought to uphold these strategic drivers in order to enhance the performance of agency banking.

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1. Introduction

1.1 Background of the Study

Financial resources are important organizational resources. No organization has ever succeeded without financial resources (Dess, Lumpkin & Eisner, 2010). Therefore it becomes imperative for institutions, firms, organizations and business entities to consider financial management in order to enhance their performance and more so mitigate exposure to financial risks (Rao, 2013; Sarker, 2013).

Financial management is concerned with organization's decisions on how to source for funds, how to control financial resources through financial controls, prudent allocation of financial resources and accountability measures. It is fundamental for the success of any entity. According to Enida and

Kume (2015) and Rosenberg and Richard (2010), the rationale for financial management is raising funds for both short-term and long-term use and enhancing proper utilization of the funds.

As a strategy like any other, agency banking would require resources and mainly finances so as to support the operations that are aimed at enhancing the success of the strategy. Commercial banks have to set aside adequate budget to the agency banking doctrine if they intend to reap the best out of the strategy. According to Ramanujam (2016), commercial banks whose certain methods of banking such as agent banking have failed to achieve the projected results have majorly cited poor financing as the major cause. without adequate financing, marketing the product/strategy, training the agents and obtaining the best systems to consolidate the agents would not be possible hence affecting the entire idea.

1.2 Statement of the Problem

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 NIC Bank, Credit Bank, Ecobank, Jamii Bora showing mixed performance of their agency segment of their business CBK 2017). Other commercial banks which have not adopted agency banking like Stanbic Chartered Bank, Commercial Bank of Africa, Citi Bank continue to register better performance compared to their peers in the same tier (CBK, 2017). This shows a growing concern on the impact of agency banking on performance of commercial banks in Kenya which is the focus of the study.

Empirical studies have shown mixed results on the relationship between strategic drivers and performance of business organizations. In their study, Jerop and Juma (2014) found that adopting key strategies such as innovation had a significant influence on the performance of commercial banks in Kenya. Buyuksalvarci and Abdioglu (2011) did a study on expansion through strategic agencing and performance of Turkish firms and established that opening or appointing agencies had positive relationship with firm performance through enhancing the market expansion and product diversification. These studies have been carried out in varied contexts and may not be generalized to a Kenyan context. The current study therefore seeks to feel these gaps by assessing the effect of financial resources as a strategic driver on the performance of agency banking in commercial banks in Kenya.

1.3 Objectives of the Study

1. To assess the influence of financial resources on performance of agency banking in commercial banks

1.4 Research Hypotheses

The study sought to test the following null hypotheses:

H_{o1}: There is no significant influence of financial resources on performance of in commercial banks in Kenya

2. Literature Review

2.1 Theoretical Review

The Pecking Order Theory (POT) postulates that the cost of financing increases with asymmetric information. The theory was first put forward by Donaldson in the year 1961 and popularized by Myers and Majluf (1984). The theory states that companies prioritize their sources of financing (from internal financing to equity) according to the cost of financing, preferring to raise equity as a financing means of last resort. Hence, internal funds are used first, and when that is depleted, debt is issued, and when it is not sensible to issue any more debt, equity is issued.

Myers and Majluf (1984) argued that equity is a less preferred means to raise capital because when managers (who are assumed to know better about true condition of the firm than investors) issue new equity, investors believe that managers think that the firm is overvalued and managers are taking advantage of this over-valuation hence placing a lower value to the new equity (Murray & Vidhan, 2018).

Pecking order theory starts with asymmetric information managers know more about their company's prospects, risks and value than outside investors. Asymmetric information affects the choice between internal and external financing and between the issue of debt or equity hence, there exists a pecking order for the financing of new projects (Zeidan & Galil, 2018).

The theory explains the hierarchy in which firms determine the source of capital to finance their operations. As pointed out in the theory, firms mainly prefer internal financing as the main source of finance for their operations. Myers and Majluf (1984) expounded that to resolve information asymmetry firms wouldn't require issuing new securities but instead use retained profit to support investment opportunities. The theory explains why raising ordinary share capital will be costly as outsiders and insiders asymmetric on information increases. According to the theory, to prevent selling understated securities, firms with considerable information asymmetry should go for debt (Myers, 1984). Issue of new common stock is one of the financial structure scenarios that can cause decline in stock price. In the event that external finance is required, firms are most likely to issue the safest security first that is to say they start with debt, then possibly convertible debt then equity comes as last resort (Frank & Goyal, 2003).

In concurrence with Myers and Majluf (1984), Tanwar (2013) argued that managers will always prefer the internal financing and would only resort to issuing shares as a last resort. Tanwar (2013) further explained that pecking order theory points out the negative inverse relationship between profitability and debt ratio within an industry although it did not fully explain the financial structure differences between industries. Managers would attempt to issue equity when its market value is higher (Myers & Majluf, 1984). Naturally, the stock price usually falls when a stock issue is announced. That may create equity an expensive source of financing and direct firms to underinvest. Debt on the other hand needs fixed interest payments, that is less sensitive to information asymmetries (Murray & Vidhan, 2018).

The pecking order theory can be explained from the perspective of asymmetric information and the existence of transaction costs. Myers (1984) suggests that asymmetric information and transaction costs overwhelm the forces that determine optimal leverage in the trade-off models. To minimize these financing costs, firms prefer to finance their investment first with internal cash flows. Only if there's residual financing need will they use external capital in the following order; first safe debt, then risky debt and finally equity issues (Matemilola, & Bany-Ariffin, 2011). So, contrary to the trade-off theory, the pecking order theory predicts no long run target financial structure. There is no optimal debt-equity mix because there are two kinds of equity, retained earnings at the top of the pecking order and the issue of new shares at the bottom (Myers, 1984).

As pointed out in the POT theory, firms through the managers ought to have well-defined order of preferences as far as planning for the source of financing is concerned. In this case therefore, the shareholders stand to be the first option who can also be referred to as the internal sources of financing. Through the shareholders' equity, the firm is able to obtain its financing without incurring debts from external sources or issuance of new stocks. Solomon and Barrack (2015); Tomaskova (2010); Kamau (2012) and Mutie and Mwende (2015) in their studies have extensively advocated that pecking order theory is best suited to explain internal equity as a source of financing. Through collecting deposits, banks are able to turn deposits such as fixed deposits and minimum account balances from their clients as a from of internal financing that is safe debt in line with the Pecking Order Theory. This theory therefore will be used in this study to assess the influence of financial resources on the performance of agency banking in commercial banks in Kenya.

2.2 Conceptual Framework

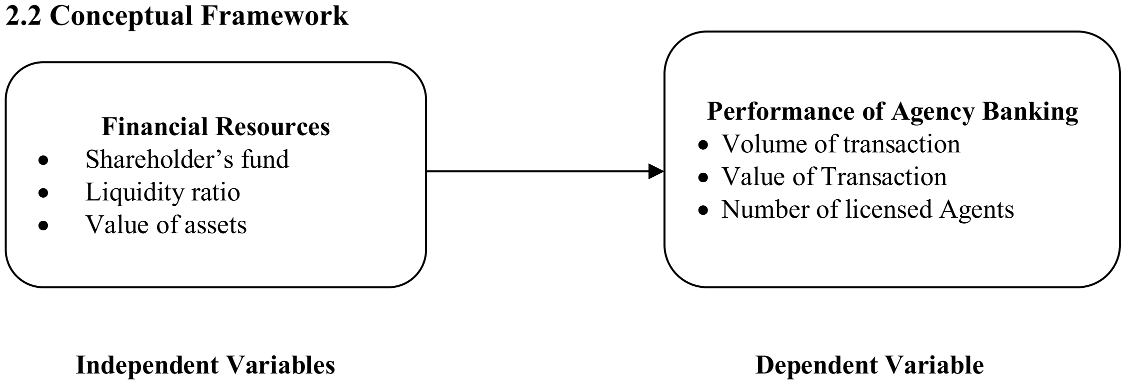

Fig. 1: Conceptual Framework

2.3 Empirical Review

Klingebiel and Rammer (2014) did a study on the relationship between financial resources and innovation performance of organizations in UK. The study aimed at establishing the role of resource allocation to organizational innovativeness and performance. In this regard, the scholars used a correlational research design to find out the extent to which resource allocation correlated with innovativeness of the organizations. They used cluster sampling to come up with a sample size of 216 respondents. In their findings, Klingebiel and Rammer (2014) stated that allocation of financial resources to the organizational departments, led to enhanced innovativeness among the employees and this enhanced the performance of the departments and the organizations in particular. Klingebiel and Rammer (2014) further found that many performing organizations in UK laid more emphasize on financial resource mobilization as a competitive strategy and it's on this basis that measures were taken by the organizations to enhance innovativeness among them being resource allocation (Monday, Akinola, Ologbenla & Aladeraji, 2015).

Faderai (2016) did a study on the impacts of adequate financial resource allocation on performance of government owned firms in Ghana. The study aimed at establishing the ability of effective financial resource allocation to enhance performance of government institutions (Faderai, 2016). The study employed descriptive survey research design and had a sample of 109 respondents. Faderai (2016) found that most of the government owned firms in Nigeria were underfunded and this affected their performance negatively. Faderai (2016) further established that most of the projects by government firms were given little attention and monitoring thus giving some individuals a chance to misappropriate the resources allocated to the projects thus leading to their collapse. Faderai (2016) concluded that resource allocation was an essential aspect of ensuring success of organizational projects and performance of the organization in the long run (Jackson, 2015).

3. Research Methodology

The study employed descriptive research design. The target population for the study was all the commercial banks in Kenya. Specifically, the study focused on commercial banks with agency banking since the subject matter of the study is one the performance of agency banking in commercial banks. A total of 303 bank branches from all the 18 commercial banks with agency banking in Nairobi County were surveyed using a structured questionnaire. The data was analysed using content analysis for the qualitative data and descriptive and inferential analysis for the quantitative data.

4. Research Findings and Discussions

4.1 Response Rate

The study had a sample of 303 respondents drawn from 42 commercial banks in Kenya based on the categories of tier one, tier two and tier three. A total of 303 questionnaires were issued out to the respondents. Out of these, a total of 251 questionnaires were returned fully filled implying a response rate of 82.8%. A total of 52 questionnaires were either returned partially filled, not filled at all or were not returned at all thus implying a non-response rate of 17.2%.

4.2 Financial Resources

The study sought to examine the influence of financial resources on the performance of agency banking in commercial banks in Kenya. The study aimed at establishing the role played by shareholders' fund, liquidity ratios and the value of assets as the main aspects of organizational financial resources on the performance of agency banking. The respondents were asked to rate the extent to which their respective commercial banks focused on the main aspects of financial resources to steer the performance of agency banking. The findings as shown in Table 1 revealed that liquidity ratio was the main aspect of financing upheld by the banks with a mean of 3.84 followed value of assets with a mean of 3.79 and shareholders' fund with a mean of 3.54. The findings imply that most of the banks preferred maintaining high levels of liquidity in order to be in apposition to finance their operations. This is mainly enhanced by agency banking which according to CBK (2018) accounts to more than 25% of the total deposits in most of the banks with agency banking.

Table 1: Rating the aspects of Financial Resources

	N	Minimum	Maximum	Mean	Std. Dev.
Shareholder's Fund	251	1.00	5.00	3.54	1.19
Liquidity Ratio	251	1.00	5.00	3.84	1.06
Value of Assets	251	1.00	5.00	3.79	1.24

The respondents were further asked to indicate their level of agreement on given statements on financial resources and performance of agency banking among the commercial banks based on a 5-point Likert's scale. The findings as shown in Table 2 revealed that 58.2% of the respondents agreed that the size of the shareholders' fund was significant in steer the operations of the banks and that their respective shareholders preferred internal findings to equity which is cheaper and easily accessible. The findings imply that financial resources streamline the ability of the commercial banks to focus on other strategies such as agency banking and run them into success.

The findings concur with those by Rabo (2015) who found out that for any financial service to be effectively extended to the final-end customer, it is imperative to have adequate resources allocated to the service so as to enable other operations such as marketing and hiring of personnel through which the service is offered. Financial resources determine the extent to which a bank reaches out to more customers which on the other hand promotes the agents thus steering the performance of agency banking.

Table 21: Level of agreement with statements on Financial Resources

Statement	**Mean**	**Std. Dev.**
The size of the Shareholder's fund is significant in supporting the operations of agency banking	3.49	1.25
The shareholders prefer internal funding to equity to support operations of agency banking	3.77	1.09
The bank's management is empowered to allocate resources from shareholders fund to support operations of agency banking	3.82	1.04
The bank has put appropriate measures to maintain its liquidity ratio for better financing of its projects and operations	3.70	1.05
Agency banking operations has improved liquidity ratio of the bank in the past	3.84	1.24
Through agency banking, the bank has managed to meet the mandatory CBK 20% liquidity requirement.	3.70	1.26
The bank has invested adequately in government securities, stocks and bonds to support long term performance of the bank	3.73	1.24
The bank, through agency banking has improved its value of assets	3.98	1.14
Increase in value of assets has significantly improved performance of agency banking	3.66	1.29

4.3 Performance of Agency Banking

The study sought to establish the performance of agency banking in Kenyan commercial banks. The main aspects used to measure performance were volume of transactions through agency banking, value of the transactions as well as the number of licenced agents. In 2018, the value of banking transactions undertaken through agents increased from Ksh.1 trillion (USD 10.4 billion) in December 2017 to Ksh.1.18 trillion (USD 11.7 billion) in December 2018. The increase was attributed to the growth of transactions relating to transfer of funds, cash deposits and cash withdrawals. These transactions experienced a growth of 21.8 percent, 14.4 percent and 7.6 percent respectively, from the previous year. The increase in number and value of transactions underlines Kenyans' growing confidence and acceptability of the agency banking model by banks and the public. Despite the overall increase in the value of transactions, there was a decline in transactions relating to payment of retirement and social benefits and payment of bills in the year 2018 as highlighted in Table 3. The decline in the payment of retirement and social benefits was due to the change from the old card based system to the new Inua Jamii payment model 'Choice Model' that provides multiple payment systems based on bank accounts that promises flexibility for the beneficiaries.

Table 3: Value of Transactions in Kshs.'M'

Transactions	2017	2018	% change	Cumulative (2010 to 2018)
Cash Deposits	791,701.83	906,043.63	14.40%	3,038,084.66
Cash Withdrawals	175,242.56	269,160.40	7.60%	1,068,849.41
Payment of Bills	13,683.15	11,568.45	-15.50%	44,791.31
Payment of Retirement and Social Benefits	18,990.50	1,096.46	-94.20%	39,143.78
Transfer of Funds	376.11	458.06	21.80%	1,163.95
Total	1,074,820.40	1,188,326.99	10.60%	4,192,033.11

4.4 Financial Resources and Performance of Agency Banking

H_o: *There is no significant influence of financial resources on performance of agency banking in commercial banks in Kenya*

The study sought to establish the influence of financial resources on the performance of agency banking in commercial banks in Kenya. The linear regression model analysis results are as herein shown in form of model summary, ANOVA test and regression coefficients. The model summary shown in Table 4 revealed that the R^2 for the model was 0.307. This is to imply that 30.7% of the variations in performance of agency banking are as a result of financial resources.

The ANOVA results are as shown in Table 4. As the findings reveal, the F-statistic for the model is 110.141 at a significance level of $0.000<0.05$. This is an implication that financial resources significantly influence the variations in the performance of agency banking among commercial banks in Kenya.

The regression coefficients as shown in Table 4 on the other hand revealed that the Beta coefficient for financial resources was 0.176. This implies that a unit change in financial resources would lead up to 17.6% increase in the performance of agency banking. The p-value for the variable was 0.000 which is less than the standard P-value of 0.05. This is to mean that financial resources had a significant influence on the performance of agency banking. To this end, we therefore, reject the null hypothesis that there is no significant relationship between financial resources and performance of agency banking among commercial banks in Kenya.

Table 4: Regression Results for Product Innovation

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.554[a]	.307	.304	2.95825

a. Predictors: (Constant), Financial Resources

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	963.874	1	963.874	110.141	.000[b]
	Residual	2179.058	249	8.751		
	Total	3142.932	250			

a. Dependent Variable: Performance of Agency Banking

b. Predictors: (Constant), Financial Resources

Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.270	.776		1.636	.103
	Financial Resources	.176	.017	.554	10.495	.000

a. Dependent Variable: Performance of Agency Banking

4.5 Discussion of the Findings

The study sought to establish the influence of financial resources on the performance of agency banking in the commercial banks in Kenya. The descriptive analysis of the study findings revealed that most of the respondents were in agreement that liquidity ratio and value of assets were the key aspects of financial resources influencing the efficiency and effectiveness of the banks towards investing in the agency banking. The respondents agreed that the size of the shareholders' fund was significant in supporting operations of agency banking and that most of the shareholders preferred internal funding to equity or other sources of external funding to support the operations of agency banking. Most of the respondents indicated that agency banking had enabled their respective banks to meet the CBK's mandatory liquidity requirement of 20%. The value of assets in most of the banks had improved as a result of agency banking which steered the total customer deposits. Through increased assets value, the bank is able to attract more revenue from investors through which they are able to invest more in the agency banking to enhance its performance. The inferential analysis of the study model revealed that financial resources had a significant and positive influence on the performance of agency banking in the commercial banks in Kenya.

5. Conclusion And Recommendations

5.1 Conclusions of the Study

The study concluded that financial resources were positively significant in enhancing the performance of agency banking in commercial banks in Kenya. The sources of financial resources that are more reliable and cheap contribute significantly to the performance of agency banking. Through adequate financing, the banks are able to come up with better means of enhancing the effectiveness of agency banking hence enhancing its overall performance. Firm size on the other hand significantly moderate the relationship between financial resources and the performance of agency banking. The more reputable the bank is the more it is likely to obtain financing from investors and shareholders thus enhancing its viability in the agency banking.

5.2 Recommendations of the Study

Financial resources are the backbone to the performance and success of every organization especially in the modern era characterized by increased dynamism and competition. For the commercial banks, financial resources are also key to their performance and more so to propelling the success of their new products as it is the case of agency banking. The management of the banks are obliged to ensure that the agency banking wing is properly and adequately funded in order to enhance its performance. The sources of financial resources should be those that are easily accessible and with minimal costs through which the banks enhance the performance of the agency banking.

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