

Influence of Customer Satisfaction on Market Penetration Strategy of Agency Banking at Cooperative Bank of Kenya - Nakuru Town

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Abstract

A major pre-occupation of commercial banks in Kenya today is how to achieve sustainable competitive advantage in a complex and challenging context of the commercial banking sector. Commercial banks need to strategically re-position themselves to attract and retain customers and make optimal use of their resources by striving to be efficient, effective, and engaging in continuous improvement to ensure their survival and sustainability. The purpose of the study was to assess the influence of customer satisfaction on market penetration strategy of agency banking at Cooperative Bank of Kenya in Nakuru Town. A descriptive survey design was used, with the sampling frame comprising the 400 clients who access the agency banking services of Coop KwaJirani outlets in Nakuru Town. Primary data was collected by use of a questionnaire while secondary data was accessed from the official website of Cooperative Bank of Kenya. The study sample was determined using purposive sampling. Data was analyzed with the aid of the Statistical Package for Social Sciences (SPSS). Descriptive statistics (frequencies, percentages, means and standard deviation) were used to analyze the data. Correlation method was used to determine the relationship between independent and dependent variables. The results are presented in the form of tabular summaries, graphs and figures. The results of the study shows that there is a strong positive significant correlation between having an active account and school fees payment (0.638) as well as enquiry of services (0.790). Cash deposit as well as money transfer had a moderate significant correlation of 0.522 and 0.464 respectively. These implies that customers are happy with services offered at Coop KwaJirani outlets. It is expected that this study will inform policy and law enactment in the banking industry whereby the regulators of the agency banking would be enlightened on the various aspects of product quality and customer service standards and the extent of challenges experienced in the implementation of agency banking.

Key words: Agent banking, Customer Satisfaction, Market Penetration Coop KwaJirani outlets

1.0 Introduction

Agency banking is a means through which commercial banks have expanded the number of bankable clients by diversification from the old brick and mortar branch networks to creation of agency relationships with

other organizations in a bid to reach out to more clients. Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or receive government benefits or a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more (Kamar, 2006).

Globally, retailers and post offices are increasingly utilized as important distribution channels for financial institutions. The points of service range from post offices in the outback of Australia where clients from all banks can conduct their transactions, to rural France where the bank Credit Agricole uses corner stores to provide financial services, to small lottery outlets in Brazil at which clients can receive their social payments and access their bank accounts. In Malaysia, as at 2012, during the pilot run of agent banking, more than one million transactions worth more than Malaysian Ringgit (RM) 190 million had been conducted through 2,322 agency banking outlets. In India, under the Business Correspondent model, banks are entitled to engage intermediaries to disburse small value credits, recover principal and interest payments, collect small value deposits, sell micro insurance or pension products and receive or deliver small value remittances. In Bangladesh, the Central Bank has provided 10 licenses to banks to offer the full range of mobile financial services. In Ghana, up to 11% of the clients who use banking services, do not have accounts with the financial institutions and instead use agency banking facilities to transact their payment services. (Kumar, 2006).

In Kenya, the main regulator of the commercial bank is the Central Bank of Kenya (CBK). It was established in 1966 out of a desire to have an independent monetary and fiscal policy. The banking sector was liberalized in 1995 and exchange controls lifted. The sector has seen tremendous growth since then and currently, the CBK recognizes 44 commercial banks in Kenya (CBK, 2012). The players in the industry have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. Secondly, the low levels of financial inclusion at 32% of bankable population means that a huge proportion of potential clients are totally excluded from financial services.

Vision 2030 for Kenya to be a middle income country has established ambitious targets which include: Economic growth rate of 10% per annum from 2012; raising savings and investment rate to Gross Domestic Product (GDP) from 14% to 25% to 30%; increasing bank deposits from 44% to 80% of GDP and significantly reducing the cost of capital. In order to achieve Vision 2030 targets, there is urgent need to rapidly and massively scale up financial inclusion (Kenya Vision, 2030). Secondly, the Central Bank of Kenya (CBK) has identified a number of financial inclusion challenges in Kenya: High cost of financial services, barriers to entry-minimum balances, information asymmetry and long distances to nearest financial services points. Therefore, the Central Bank of Kenya (CBK) has set out to address the challenges through promotion of innovative financial inclusion strategies like mobile financial services, creation of new institutions like the credit reference bureaus; addressing delivery channel costs through agency banking, review of branching regulations and setting up of currency centres across the country to reduce cash handling costs (Kenya, 2030).

The financial innovations in the Kenyan banking industry range from institutional innovations including introduction of a credit referencing bureau in 2009, embracing of mobile banking with the most conspicuous innovation being the M-Pesa service by the mobile telephone operator Safaricom that has been integrated by commercial banks to support their mobile banking platforms. Other institutional innovations by Kenyan commercial banks include agency banking and investments in brokerage and investment banking businesses through acquiring of brokerage firms and investment banks. The introduction of Islamic Banking has also revolutionised the banking industry in Kenya. Among the notable process innovations in Kenya

include office automations and computerization of operations leading to sophisticated software in the management of data. Other process innovations include the Automated Teller Machines (ATMs) upgrades to handle bills payments more especially electricity and telephone bills. The introduction of internet banking platforms has also facilitated the growth of electronic commerce among the clients of Kenyan commercial banks. Lastly, examples of product innovations in the Kenyan banking industry include introduction of new deposit accounts, new types of loans, credit cards, debit cards and bank assurance products (CBK, 2012).

2.0 Literature Review

A banking agent is a retail or postal outlet contracted by a financial institution or a bank network operator to process clients' transactions. Rather than a branch teller, it is the owner or an employee of the retail outlet who conducts the transaction and lets clients deposit, withdraw, and transfer funds, pay their bills, inquire about an account balance, or receive government benefits or a direct deposit from their employer. Banking agents can be pharmacies, supermarkets, convenience stores, lottery outlets, post offices, and many more (Pandey, 2011).

Banking agents are usually equipped with a combination of point of sale card reader, banking agent, barcode scanner to scan bills for bill payment transactions. Clients that transact at the agent use their banking agent to access their bank account or e-wallet respectively. Identification of clients is normally done through a personal identification number (PIN), but could also involve biometrics. With regard to the transaction verification, authorization, and settlement platform, banking agents are similar to any other remote bank channel (Mokogi, 2003).

Services can be classified by whether or not or to what degree a client's presence is necessary in the provision of the service. Dyer and Singh (1998) holds that the people based customer services involve professionals like bankers, accountants and car mechanics or unskilled labour for example messengers and tea girls. Where the client is present and the seller of the service is in direct contact with the buyer, the former must add something to the service in order that it may attract a repeat purchase by the buyer. This something may be in the form of personalization of the service. The banking industry has a high level of interaction between the buyer and the seller of the service in the area of trade facilitation and the various other services rendered in handling of services (Pandey, 2011).

Many companies set up string customer services, maintenance service, technical service and consumer information. Dyer and Singh (2008) viewed customer service as an important international tool for a firm or company. An active customer service department coordinates all the company's services, creates consumer satisfaction loyalty and helps the company to further set itself apart from competitor. Many companies have not been as successful as they would have liked in achieving customer satisfaction through their routine activities. Success has evaded many organizations in their customer service initiatives.

Quality customer service and customer satisfaction is influenced by several variables. These variables have been categorized as follows: Firstly, are the place related variables that depict the physical aspects that relate to the agency banking outlet and can be identified as follows: Condition of the systems and processes to offer the agency banking service and the convenient location of the outlet. Secondly, are the personnel related variables which pertain to the interpersonal relationship between the agency banking staff, supervisors, managers and any other staff member who interact with the customers of the agency banking outlet (Pandey, 2011). These attributes can be generalized as those which the agency banking outlet carries out so as to satisfy customer needs such as assisting clients to make account enquiries, deposit and withdraw cash, access bank statements and transfer funds. It also includes response to customer complaints and the speed; fastness, courtesy, attitude, knowledge, reliability and helping nature of the personnel (Dyer & Singh, 2008).

Thirdly, are the product related variables which are those that mainly relate to the services offered by the agent banking outlets. These variables are as follows: variety of services offered, availability of new services as well as quality control of services offered at the agency banking outlets. Fourthly, are the promotion related variables which relate to mainly to the promotion of the agency banking services as well as services offered so as to attract more customers? This could be through putting regular advertisements in the media and waivers and price reductions (Kumar, 2006). Lastly, process related variables are those variables that are undertaken by the agency banking outlet so as to improve their services and at the same time appeal to a wide range of customers hence boosting their service quality. They include provision of customer complaint management systems like feedback boxes and dedicated telephone lines to assist in gathering feedback, complaints, compliments and assist in determining the areas for improvement and opportunities for growth(Dyer & Singh, 2008).

3.0 Objective of Study

To establish the influence of customer satisfaction on market penetration of agency banking at Cooperative Bank of Kenya, Nakuru Town - Kenya.

4.0 Methodology

The study employed a descriptive survey design. (Orodho, 2005)holds that a descriptive survey is a method of collecting information or administering a questionnaire to a sample of individuals. It can be used when collecting information about people attitudes, opinions, habits or any of the variety of education or social issues. The design enable the researcher to summarize the findings in a way that shall evaluate the factors influencing market penetration strategy of agency banking at Cooperative Bank of Kenya, Nakuru Town. According to (Kombo& Tromp, 2006)target population refers to members of areal set of people, events and objects to which a researcher intends to generalise the results of the research. This study targets the 10 clients from each of the 40 Coop KwaJirani agency banking outlets in Nakuru Town to make a target population of 400 clients.

The researcher targeted a group of people believed to be reliable for the study. The researcher categorised the 400 customers who are estimated to access agency services into five groups based on the services accessed by the clients namely cash deposits and withdrawal, fees payment, utility payment, money transfer and enquiry services. Therefore, the sampling frame was 80 clients who access cash deposits and withdrawal, 80 clients who access fees payment services, 80 clients who access utility payment services, 80 clients who access money transfer services and 80 clients who access enquiry services from the Coop KwaJirani outlets in Nakuru town. The sampling frame will be sufficient to assist the researcher to get a broad view of the effects of agency banking on the market penetration strategy of Cooperative Bank of Kenya in Nakuru Town.

The study employed purposive sampling technique since it targets people reliable for the study. In this method the researcher purposely targeted a group of people believed to be reliable for the study (Kombo, 2006). The sampling frame of 80 clients per agency banking service was therefore used to select a sample of 20% for each category which will include 16 clients per service to make a total sample size of 80 clients made of 16 clients who access cash deposits and withdrawal services, 16 clients who access fees payment services, 16 clients who access utility payment services, 16 clients who access money transfer and 16 clients who access enquiry services at the Coop KwaJirani outlets in Nakuru Town as shown in Table 4.1.

Table 4.1 Sample Procedure

Services Sought by Respondents	Sampling Frame	Sample Size	Percentage (%)
Cash Deposits and Withdrawals	80	16	20%
Fees Payment	80	16	20%
Utility Payment	80	16	20%
Money Transfer	80	16	20%
Enquiry Services	80	16	20%
Total population	400	80	100%

Data was collected by use of questionnaires. The questionnaires was availed to the respondents by the researcher and collected within 72 hours after administration. The target respondents were clients of the authorized agents who have used the various agency banking services offered by Coop KwaJirani outlets. Before collection of the filled questionnaires; the researcher relied on telephone calls to remind the shop stewards to assist in getting the respondents to fill the questionnaires. This assisted the researcher to attain a high response rate. The data collection tools enabled a trade-off between cost, speed, accuracy, detail, comprehensiveness, response rate, clarity and anonymity which are useful for validity and reliability. Permission to disseminate questionnaires was sought through an introduction letter. The data collected was handled confidentially and was only be used for the purpose of this study. The respondents were assured of the data confidentiality and they were to be given a lee way to participate voluntarily in the provision of information. The respondents were also being free to withdraw if the nature of questions is contrary to their value systems.

5.0 Results and Discussion

(i) Level of Satisfaction with Effectiveness of Customer Services Available at Coop Kwa Jirani Outlets

The level of satisfaction with effectiveness of customer Services at Coop KwaJirani was sought from the respondents. In the scale given they were supposed to indicate satisfaction level. Results in Table 5.1 indicate moderate response in school fees payment, bill payment and money transfer by a mean of 3.1833, 3.2000 and 3.2333 respectively. This is an indication that satisfaction was moderate in the three services mentioned. Cash deposit showed a high response of 34(56.7%) with mean and standard deviation of 3.6333 and 0.6903 respectively. This is an indication that satisfaction was high with cash deposits and/or withdrawal.

Table 5.1 Level of Satisfaction with Effectiveness

Services	Very High	High	Moderate	Low	Very Low	Mean	Standard Deviation
Cash Deposit and/or Withdrawal	5 (8.33%)	34 (56.7%)	17 (28.3%)	2 (3.3%)	2 (3.3%)	3.6333	0.6903
School Fees Payment	3 (5%)	14 (23.3%)	37 (61.7%)	3 (5%)	3 (5%)	3.1833	0.8136
Utility Bills Payments	0 (0%)	15 (25%)	42 (70%)	3 (3.3%)	0 (0%)	3.2000	0.5184
Money Transfer	0 (0%)	17 (28.3%)	40 (66.7%)	3 (5%)	0 (0%)	3.2333	0.5389
Enquiry Services	9 (15%)	27 (45%)	21 (35%)	3 (5%)	0 (0%)	3.7000	0.8013

(ii) Level of Satisfaction with Efficiency of Services at Coop Kwa Jirani Outlets

In a scale of very high, high, moderate, low and very low respondents were supposed to indicate their level of satisfaction with efficiency in Coop KwaJirani Services. Results in Table 5.2 indicates that moderate satisfaction with in services; school fees payments, bill payments, money transfer and enquiry services with a mean of 3.0500, 3.0000, 2.9500 and 3.1500 respectively. The satisfaction was high in cash deposits with mean of 3.5667 and standard deviation of 0.7790. School fees payment had a standard deviation of 0.7223.

Table 5.2 Level of Satisfaction of with Level of Efficiency

Services	Very High	High	Moderate	Low	Very Low	Mean	Standard Deviation
Cash Deposit and/or Withdrawal	8 (13%)	20 (33.3%)	30 (50%)	2 (3.3%)	0 (0%)	3.5667	0.7790
School Fees Payment	0	14 (23.3%)	38 (63.3%)	5 (8.3%)	3 (5%)	3.0500	0.7223
Utility Bills Payments	0 (0%)	12 (20%)	39 (65%)	6 (10%)	3 (5%)	3.0000	0.7255
Money Transfer	0	12 (20%)	36 (60%)	9 (15%)	3 (5%)	2.9500	0.7592
Enquiry Services	3 (5%)	21 (35%)	24 (40%)	6 (10%)	6 (10%)	3.1500	1.0399

(iii) Level of Satisfaction with the Process of Complaint Management Available at Coop Kwa Jirani Outlets

The research sought to find the level of satisfaction with process of complaint management available at Coop KwaJirani. Results in Table 5.3 indicate that customers were highly satisfied with the process of complaint management at Coop KwaJirani. This as indicated by the mean of 3.6167, 3.7667, 3.6167 and 3.7000 being cash deposit and/ or withdrawal, school fees payment, utility bills payment, and enquiry services respectively. School fees payment showed a high level, with 49(81.7%) indicating a high level of satisfaction.

Table 5.3 Level of Satisfaction with the Process of Complaint Management

Services	Very High	High	Moderate	Low	Very Low	Mean	Standard Deviation
Cash Deposit and/or Withdrawal	5 (8.3%)	34 (56.7%)	14 (23.3%)	7 (11.7%)	0 (0%)	3.6167	0.9434
School Fees Payment	0 (0%)	49 (81.7%)	8 (13.3%)	3 (5%)	0 (0%)	3.7667	1.3803
Utility Bills Payments	3 (5%)	36 (60%)	16 (26.7%)	5 (8.3%)	0 (0%)	3.6167	1.1846
Money Transfer	3 (5%)	25 (41.7%)	26 (43.3%)	3 (5%)	3 (5%)	3.3667	0.9081
Enquiry Services	6 (10%)	36 (60%)	15 (25%)	0 (0%)	3 (5%)	3.7000	0.9679

(iv) Level of Reliability of Services Offered by Coop Kwa Jirani Outlets

The research sought to find the level of reliability of services offered at Coop KwaJirani Outlets. They were supposed to indicate the level in a scale, of very high, high, moderate, low and very low. Results in Table 5.4 indicates low reliability with regard to many respondents. Cash deposit indicated a moderate reliability with a mean of 3.1167. School fees payment showed a low level of reliability with a mean of 2.2333.

Table 5.4 Level of Reliability

Services	Very High	High	Moderate	Low	Very Low	Mean	Standard Deviation
Cash Deposit and/or Withdrawal	2 (3.3%)	15 (25%)	31 (51.7%)	12 (20%)	0 (0%)	3.1167	0.8165
School Fees Payment	0 (0%)	7 (11.7%)	11 (18.3%)	31 (51.7%)	11 (18.3%)	2.2333	0.5389
Utility Bills Payments	0 (0%)	5 (8.3%)	13 (21.7%)	34 (56.7%)	8 (13.3%)	2.5000	0.7223
Money Transfer	0 (0%)	9 (15%)	31 (51.7%)	14 (23.3%)	6 (10%)	2.7167	0.8647
Enquiry Services	0 (0%)	12 (20%)	24 (40%)	15 (25%)	9 (15%)	2.6500	0.8645

6.0 Correlation Analysis**Correlation Between Having Active an Active Account and Customer Satisfaction at Coop KwaJirani**

The research sought to determine the correlation between customer having an active account and customer satisfaction in services offered at Coop KwaJirani outlets. From correlation matrix in Table 6.1, there is strong positive significant correlation between having an active account and school fees payment (0.638) as well as enquiry of services (0.790). Cash deposit as well as money transfer had a moderate significant correlation of 0.522 and 0.464 respectively. These implies that customers are happy with services offered at Coop KwaJirani outlets probably due to on the spot services offered as opposed to long queues in the banking halls. Service quality is an important tool to measure customer satisfaction (Hazlina, 2011) the satisfaction that is derived from these services could be of good quality hence the high correlation.

Table 6.1 Correlations Between having an Account and Customer Satisfaction.

	Have an active account with Co-operative Bank	Cash Deposit and/or withdrawal	School Fees Payment	Utility Bills Payment	Money Transf er	Enquiry Services	
Have an active account with Co-operative Bank	Pearson Correlation	1	.522**	.638**	.212	.464*	.790**
	Sig. (2-tailed)		.004	.001	.278	.013	.000
	N	60	60	60	60	60	60

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

7.0 Recommendations

From the study it can be deduced that opportunity exists for the bank of penetrating the market through agency banking. The Bank should strengthen the agency banking because it has shown positive results. Customers are satisfied with the services they provided at the outlets. The bank should penetrate further to the market through agency banking by licencing more Coop KwaJirani outlets. Further research should be carried out to find out why there is a weak non-significant correlation of 0.212 between having an active account and utility bills payments at 0.05 confidence level.

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