

**ALTERNATIVE BANKING STRATEGIES AND ORGANIZATIONAL  
PERFORMANCE OF TIER THREE BANKS IN NAIROBI, KENYA**

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**A THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS  
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DEGREE IN STRATEGIC MANAGEMENT OF THE KENYA METHODIST  
UNIVERSITY**

**SEPTEMBER, 2025**

**DECLARATION**

I declare that this thesis is my original work and has not been presented in any other university

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## **DEDICATION**

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## ABSTRACT

The adoption of alternative banking channels has increasingly influenced how commercial banks in Kenya perform. Notably, services like mobile banking, internet banking, and ATMs are central to enhancing banks' operational efficiency, improving customer interaction, and driving overall institutional performance. Understanding how these alternative strategies impacted various performance indicators, played a vital role in guiding strategic choices and strengthening competitive advantage in Kenya's banking industry. The study examined the impact of adopting alternative banking strategies and performance of the commercial banks in the country, grounding its analysis in the Resource-Based theory, the Technology Acceptance Model, and the Diffusion of Innovations Theory and Bank-Led Theory, the research examined how the adoption and strategic integration of alternative strategies affected key performance metrics, including financial performance, customer satisfaction, operational efficiency, and strategic outcomes. The study utilized a descriptive research approach to evaluate how alternative banking strategies influence performance of tier-three commercial banks operating in Nairobi City. The study focused on all 21 banks in this category, targeting a total population of 2,123 employees spanning senior, middle, and operational levels. Data was gathered using structured questionnaires administered to a purposive sample of 160 staff members across the three management levels. The data analysis was carried out using SPSS Version 26.0, incorporating descriptive, diagnostic, and inferential statistics. Results from the bivariate analysis revealed that mobile banking, agency banking, and internet banking each had a meaningful positive influence on the performance of the banks. When evaluated together in a multivariate context, mobile banking ( $\beta = 0.460$ ,  $p < 0.05$ ), agency banking ( $\beta = 0.475$ ,  $p < 0.05$ ), and internet banking ( $\beta = 0.115$ ,  $p < 0.05$ ) continued to demonstrate statistically significant contributions to enhanced bank performance. In contrast, ATM banking ( $\beta = -0.051$ ,  $p = 0.451$ ) showed no significant effect due to its p-value exceeding the 0.05 threshold. These findings highlight the critical role of digital banking strategies in improving financial outcomes, enhancing customer experiences, and boosting operational efficiency. The study advocates for increased investment in digital infrastructure, greater customer education, and broader use of technology to streamline banking services. Ultimately, the results enrich the current literature on alternative banking and offer practical guidance for banks aiming to enhance performance through digital innovation.

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## ABBREVIATIONS AND ACRONYMS

|                |  |
|----------------|--|
| <b>ABA</b>     | : American Bankers Association   |
| <b>ATMs</b>    | : Automated Teller Machine   |
| <b>BB</b>      | : Branchless Banking   |
| <b>BBVA</b>    | : Banco Bilbao Vizcaya Argentaria  |
| <b>CBK</b>     | : The Central Bank of Kenya  |
| <b>EFT</b>     | : Electronic Fund Transfer   |
| <b>IBM</b>     | : International Business Machines  |
| <b>ICT</b>     | : Information and Communication Technology                                 |
| <b>KCB</b>     | : Kenya Commercial Bank  |
| <b>NACOSTI</b> | : National Commission for Science, Technology & Innovation<br>Headquarters |
| <b>PDA</b>     | : Personal digital assistant   |
| <b>POS</b>     | : Point of Sale  |
| <b>POS</b>     | : point-of-sale  |
| <b>RBV</b>     | : the Resource-Based View  |
| <b>SPSS</b>    | : Statistical Package for Social Sciences                                  |
| <b>TAM</b>     | : The Technology Acceptance Model  |
| <b>U.S</b>     | : The United States  |
| <b>UTAUT</b>   | : the Unified Theory of Acceptance and Use of Technology                   |

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the Study**

Recent significant changes have shaped the global financial landscape, particularly within the banking industry, largely triggered by the 2008 financial crisis. Financial institutions have since evolved strategically, focusing on long-term sustainability while navigating dynamic business environments that influence productivity and performance (Adeyemi, 2022). According to Deloitte (2021), banks have consistently adapted to meet strategic, regulatory, and operational challenges, with the past few decades witnessing a transformation driven by advanced technological systems that optimize efficiency and competitiveness. As a cornerstone of economic systems, the banking industry facilitates financial intermediation, capital allocation, and economic stability, with performance measured through profitability, asset quality, liquidity, and efficiency. Its resilience is continually tested by risks such as credit defaults, market volatility, and operational pressures, yet strong performance enhances institutional sustainability, investor confidence, and overall economic growth, affirming its role as a vital measure of economic vitality.

Tier-three banks, generally characterized as smaller regional or community financial institutions, are essential to the growth of local economies across the globe. They offer crucial banking services to underbanked communities and small enterprises, helping to bridge financial access gaps. Globally, these banks represent about 35% of banking assets

in emerging markets but only around 15% in advanced economies (World Bank, 2021). They often maintain closer customer relationships, resulting in stable loan portfolios despite smaller capital bases. In the United States, community banks (tier three) hold approximately 20% of total banking assets, with an average Return on Assets of 1.1%, outperforming larger banks slightly (Federal Deposit Insurance Corporation [FDIC], 2023). However, regulatory compliance and technology costs challenge their growth. In Mexico, tier three banks account for about 10% of banking assets. They enjoy higher Net Interest Margins of around 4.5%, reflecting riskier lending, but their Return on Equity (ROE) fluctuates between 5-8% due to economic volatility (Comisión Nacional Bancaria y de Valores [CNBV], 2022).

Japan's regional banks, constituting roughly 15% of banking assets, face low profitability amid prolonged low-interest rates, with ROA averaging 0.2-0.3% (Financial Services Agency [FSA], 2023). Consolidation efforts aim to improve efficiency. In Europe, regional banks in Germany, France, and Spain represent between 15-25% of banking assets. Their ROEs range from 3-6%, supported by strong local ties and ongoing digital innovation. Overall, tier three banks face scale and technological challenges but remain critical to financial inclusion and regional economic growth globally.

Tier three banks in Africa, often community or regional banks, play a big role in financial inclusivity by serving underserved rural and peri-urban populations. Despite limited scale, these banks support local economic development through microloans and small business financing. In Nigeria, tier three banks contribute about 12% of total banking assets. They face challenges related to capital adequacy and non-performing loans (NPLs) averaging 6-

8%, but remain vital for SMEs and rural clients (Central Bank of Nigeria [CBN], 2023). Return on Assets (ROA) hovers around 1%. In South Africa, regional banks hold approximately 10% of assets with ROAs near 1.2%, benefiting from advanced banking infrastructure but constrained by high regulatory costs (South African Reserve Bank [SARB], 2023).

Ghana's tier three banks account for roughly 15% of the banking sector, with NPLs around 7% and ROA between 0.8-1.1percent. Digital adoption is increasing to improve reach (Bank of Ghana [BoG], 2022). In Uganda, tier three banks constitute nearly 8% of assets. These banks face liquidity challenges but maintain strong community ties, with average ROA near 0.9% (Bank of Uganda, 2023). Tanzania's regional banks make up about 7% of the market, focusing heavily on agriculture and SMEs. ROA is modest at 0.7-1%, with ongoing efforts to improve digital banking (Bank of Tanzania [BOT], 2023). In Rwanda, tier three banks represent 5-6% of assets but show promising growth, with ROAs above 1% and low NPLs under 5%, supported by government initiatives to enhance financial inclusion (National Bank of Rwanda [NBR], 2023). Across Africa, tier three banks face challenges like limited capital and technology adoption but remain key to expanding banking access and supporting grassroots economic growth.

In Kenya, tier three banks—often referred to as community or microfinance banks—are instrumental in advancing financial inclusion by reaching marginalized groups, especially those residing in rural and peri-urban regions (Central Bank of Kenya [CBK], 2023). These banks primarily focus on micro, small, and medium enterprises (MSMEs), agricultural financing, and individual savings, thereby contributing significantly to Kenya's economic

development. As of 2023, tier three banks hold about **7-9%** of the total banking sector assets, reflecting steady growth within the financial ecosystem (CBK, 2023). While their asset base is smaller compared to tier one and tier two banks, tier three banks have reported an average Return on Assets (ROA) of approximately 1.0-1.3%, which is competitive among regional counterparts (Karanja et al., 2021).

Non-performing loans (NPLs) in these banks average between **5-7%**, slightly higher than the overall banking sector, due to their exposure to higher-risk customer segments with limited collateral (Ndungu & Otieno, 2022). Nonetheless, the integration of digital banking platforms and mobile money services, such as M-Pesa, has enhanced operational efficiency and expanded customer outreach (Wachira & Njuguna, 2023). Regulatory support from the Central Bank of Kenya, focusing on capital adequacy and governance, has strengthened tier three banks' stability (CBK, 2023). Despite challenges including limited capital, stiff competition from mobile money operators, and operational constraints, these banks remain instrumental in advancing Kenya's financial inclusion agenda by offering tailored financial services to MSMEs and low-income earners (Auriol & González Fanfalone, 2024).

### **1.1.1 The Alternative Banking Strategies**

IBM Global Services describes these alternative methods as strategic electronic banking delivery channels used by banks to enhance service quality and operational efficiency. These channels enable customers to access banking services digitally, eliminating the need for in-person visits to bank branches or direct interaction with bank personnel (Nguyen & Tran, 2023). These methods, often referred to as branchless banking, represent a modern strategic approach that leverages electronic platforms rather than traditional brick-and-

mortar branches (Patel & Kumar, 2022). While frequently integrated with physical branch networks, these approaches are also employed independently, allowing banks to strategically reduce physical branch presence in certain scenarios (Ochieng, 2023).

Researchers also describe these approaches as virtual banking, high-tech banking, direct banking, online banking, and e-banking (Smith & Lee, 2021). Technological advancements have made it possible for customers to perform banking transactions easily from virtually anywhere, catering especially to those with time constraints who find it inconvenient to visit physical branches (Khan et al., 2022). Common types of alternative banking methods include agency banking, mobile banking, and e-banking, which allow customers to transact without the necessity of physical bank visits, thereby reducing operational costs and enhancing competitive advantage for banks (Adeyemi, 2022; Gonzalez & Silva, 2023).

In India, for instance, the banking sector utilizes variety of alternative methods like debit cards, e-banking, mobile banking, POS terminals, credit cards, and ATMs (Sharma & Singh, 2022). Across the globe, banks adopt multiple approaches—such as banking through social media, telephone services, internet platforms, mobile applications, and ATMs—to address the wide-ranging preferences and requirements of their clientele (Wang et al., 2023). Agency banking, a collaborative arrangement between banks and retail outlets, further extends banking services to customers through non-traditional locations, enhancing accessibility and ultimately contributing to increased profitability for banks (Ngugi & Oloo, 2021; Patel et al., 2023).

Mobile banking allows customers to use their mobile phones or PDAs to access banking services, leveraging ICT advancements to facilitate convenient banking transactions (Ofori

& Boateng, 2022). Internet banking provides customers with online access to banking services through bank websites, offering flexibility and accessibility beyond traditional banking hours (Martinez & Johnson, 2021). ATMs, automated electronic devices, enable customers to perform various banking tasks independently, including withdrawals, deposits, and account inquiries, without requiring direct interaction with bank personnel (Singh & Mehta, 2022).

### **1.1.2 Performance of Banks**

Smith (2023) clarifies that firm performance includes the returns to shareholders, reflecting both the value of the organization and the returns received by investors. Product market performance is assessed through metrics such as sales and market share, while financial performance is evaluated based on factors like profits, return on investment, and asset management. Performance signifies the achievement of goals, involving action, execution, and fulfillment of objectives. The attainment of these goals is compared against predetermined speed, completeness standards, cost-effectiveness, and accuracy, measuring success and adherence to set benchmarks.

According to Galor (2000), firm performance is measured across four dimensions: business outcome in terms of quality in the service, firm productivity, and overall quality standards; firm results including employee satisfaction levels in their jobs, absenteeism rates, and rate in turnover; capital market outcomes such as returns, firm growth, and stock prices; and financial accounting outcomes represented by profits and return on assets. Contemporary scholars have introduced non-financial metrics like new product development, customer satisfaction, and market share to complement financial performance measures.

Financial analysis of organizational performance involves evaluating financial and liquidity efficiency, solvency, repayment capacity and profitability measures (Mutai & Miroga, 2023). The CAMELS framework, widely used for assessing competitive advantage, is preferred by banking regulatory authorities for its comprehensive evaluation of the financial soundness, credit risk, market risk exposure, and institutional stability (King et al., 2006).

### **1.1.3 Tier Three Banks in Kenya**

The Central Bank of Kenya (CBK) categorizes commercial banks in three distinct tiers using factors such as total assets, market presence, capital strength, and customer deposit levels (CBK, 2024). As of now, tier three includes 24 banks, collectively representing 9.8% of the overall banking industry, 8.4% of total deposits, and 2.6% of both deposit and loan accounts. Despite this tier's smaller size, the banking industry continues to thrive. Total net assets rose by 7.2% in 2023, increasing from Kshs 4.9 trillion to Kshs 5.25 trillion. Gross loans grew by 8.1%, rising from Kshs 3.0 trillion in 2022 to Kshs 3.24 trillion in 2023 (Mugane & Njuguna, 2019; Njenga & Muriuki, 2020). Additionally, pre-tax profits increased by 11.5%, from Kshs 188.9 billion in 2023 to Kshs 210 billion in 2024 (CBK, 2024).

Tier three banks have been essential to the financial system but are currently encountering considerable challenges. Their pre-tax profits fell by 3.5% from 2022 to 2023, with several banks reporting losses. According to Njenga and Muriuki (2020), First Community Bank registered a loss of approximately Kshs 55 million and Jamii Bora Bank experienced a shortfall of Kshs 520 million, while Consolidated Bank posted a deficit totaling Kshs 300

million. Additionally, interchange banks such as Dubai and Imperial Bank in Kenya were placed under receivership as a result of capital shortfalls, liquidity challenges, high levels of non-performing loans, and poor governance structures (Miriri & Jorgic, 2015). These challenges reveal the risks in Kenya's tier three banks, raising concerns about potential financial instability.

The study is highly relevant amidst these sector dynamics. It sought to fill gaps in understanding how the adoption of alternative banking strategies impacts bank performance metrics such as profitability, customer satisfaction, and operational efficiency within a specific urban context (Njenga & Muriuki, 2020). Key gaps include a need for deeper insights into customer behavior, technological infrastructure adequacy, and regulatory implications on channel effectiveness. Addressing these gaps will provide banks and policymakers with actionable insights to optimize channel strategies, enhance financial inclusion, and sustain sector growth in Kenya's dynamic banking landscape (Kenyan Banking Authority [KPA], 2023).

In tier-three banks, several unique dynamics and challenges are occurring that may not be as prevalent in larger or more established banks. Firstly, these banks often operate with limited financial resources, which affects their ability to invest in advanced technology, marketing, and human resources (Nguyen & Tran, 2023). This limitation can hinder their competitiveness and growth in a rapidly evolving banking landscape. For instance, a study by Wanjala and Gachanja (2020) found that tier-three banks allocated an average of 5% of their total assets to technology investments, compared to 12% in larger banks.

Additionally, tier-three banks tend to face higher customer acquisition costs due to their smaller customer base and lesser brand recognition, which can reach up to 25% of their operational budget. This can complicate their efforts to scale operations effectively. They also face stringent regulatory demands, especially regarding regulations of anti-money laundering (AML) and customer recognition (KYC), which can result in compliance costs that may reach up to 15% of their overall expenses (Omondi & Muturi, 2013). Moreover, these banks often focus on niche markets, such as micro, small, and medium enterprises (MSMEs) or underserved communities (Ochieng & Mwangi 2023). This specialization necessitates distinct operational strategies and customer engagement approaches that differ from those employed by larger banks. Despite increased adoption of alternative banking strategies, tier-three banks face challenges such as system downtimes and security concerns, which can negatively impact customer trust and satisfaction; a recent survey indicated that 40% of customers experienced service interruptions in the past year (Odhiambo, 2023).

Finally, despite the shift toward alternative strategies, many tier-three banks continue to experience significant foot traffic in their physical branches. For example, it was reported that 65% of customers still prefer in-person transactions, reflecting a continued reliance on traditional banking services (Muhuni & Ouma 2024). This reliance is more pronounced than in larger banks, indicating a dual operational model that combines modern approaches with established practices. These factors contribute to a distinct operational environment for tier-three banks, influencing their performance, growth strategies, and overall competitiveness in the banking sector.

## **1.2 Statement of the Problem**

Commercial banks operate as vital links within the financial system, facilitating access to credit, savings, and financial intermediation for both consumers and businesses. The sector plays a critical role not only in sustaining national economies but also in stabilizing the broader international market (Nguyen & Tran, 2023). However, persistent changes driven by advances in information and communication technology (ICT), shifting competition, evolving social trends, and globalization have significantly disrupted traditional banking operations. These dynamics have escalated operational costs and exerted pressure on profitability, forcing banks to reconsider their conventional models of service delivery. To safeguard financial stability and maintain competitiveness, commercial banks are increasingly turning to alternative strategies such as digital platforms, strategic partnerships, and diversified service channels (Patel & Kumar, 2022).

Globally and regionally, the banking industry has undergone substantial transformation over the last two decades, particularly following the 2008 financial crisis, which exposed institutional vulnerabilities and accelerated regulatory reforms (World Bank, 2021). In advanced economies, performance indicators such as profitability, liquidity, and efficiency are now closely tied to innovations like mobile banking, fintech integration, and artificial intelligence, which enhance customer experience and reduce transaction costs. Similarly, in Sub-Saharan Africa, the rise of mobile money and agency banking has redefined access to financial services in contexts where traditional penetration remains low. Yet, despite these innovations, banks across the continent continue to grapple with challenges such as infrastructure gaps, rising compliance costs, cyber risks, and volatile macroeconomic

environments. These realities underscore the growing need for adaptive alternative strategies to strengthen resilience and sustain performance outcomes in the highly competitive banking landscape (The Organisation for Economic Co-operation and Development [OECD], 2022).

In Kenya, the banking sector plays a pivotal role in driving economic growth through capital mobilization, investment financing, and ensuring financial stability. According to the CBK, (2023), commercial banks dominate the financial system, holding more than 90% of total financial assets. Despite this dominance, tier three commercial banks—classified as small banks—continue to face performance constraints arising from limited capital bases, intense competition, and escalating operational costs. Recent industry trends highlight a major shift toward alternative banking platforms, with mobile and internet transactions accounting for over 80% of all banking transactions in 2023, up from 62% in 2020 (CBK, 2024). While this transition reflects growing digital adoption, tier three banks reported a 12% decline in profitability during the same period, with digital migration challenges and rising costs identified as key barriers.

Despite this shift, the adoption of alternative banking strategies faces challenges such as network failures, system downtimes, transaction errors, and security considerations, which could hinder their effectiveness in improving bank performance. Furthermore, high customer traffic in physical bank branches, even with the implementation of alternative banking solutions, as seen with Equity Bank's over-the-counter charges Ochieng and Mwangi (2023), raises concerns about the overall efficiency and success of these strategies. The research problem, therefore, is the extent to which alternative banking strategies

mitigate operational costs while enhancing performance, considering these ongoing challenges and the continued reliance on traditional banking services.

Motondi and Bula (2020) argue that unreliable alternative strategies may lower customer perceptions of service quality, impacting bank credibility and profitability. This study aimed to evaluate how alternative banking strategies influence the performance of the commercial banks in Kenya. Although many researches have investigated alternative banking approaches and the effects, most have concentrated on Western countries

For instance, Baganzi et al. (2021) studied internet banking adoption and customer satisfaction, finding a positive link between customer satisfaction and internet banking. In Kenya, Aaronson et al. (2019) explored the impact of deposit levels on Kenyan commercial bank performance, revealing a favorable association between deposits and ROA. Mbogo and Ibrahim, (2022) investigated impact of financial industry innovations on local bank performance, showing significant effects on banks in Kenya. Okiro and Ndungu (2021) examined mobile and internet banking's impact on financial institution performance in Kenya, highlighting various challenges faced by mobile banking. Given these conditions, this research aims to address existing gaps in the literature by investigating how the implementation of alternative banking strategies influences the performance of commercial banks in Kenya especially tier 3 category.

### **1.3 Objectives of this study**

#### **1.3.1 General Objective**

The study sought to explore the effect of alternative strategies on performance outcomes of tier three commercial banks in Nairobi, Kenya.

### **1.3.2 Specific Objectives**

The study sought to fulfill below specific research objectives:

- i. To explore effects of the agency banking on performance of tier three commercial banks in Nairobi, Kenya.
- ii. To establish effects of mobile banking on performance of tier three commercial banks in Nairobi, Kenya.
- iii. To assess the effect of internet banking on performance of tier three commercial banks in Nairobi, Kenya.
- iv. To establish the effect of Automated Teller Machines banking on performance of tier three commercial banks in Nairobi, Kenya.

### **1.4 Study Hypotheses**

The study aimed to evaluate the following hypotheses:

- H<sub>01</sub>** : The agency banking strategy has no significant effect on the performance of tier 3 commercial banks in Nairobi, Kenya.
- H<sub>02</sub>** : The mobile/phone banking strategy has no significant effect on the performance of tier 3 commercial banks in Nairobi, Kenya.
- H<sub>03</sub>** : The internet banking strategy has no significant effect on the performance of tier 3 commercial banks in Nairobi, Kenya.

**H<sub>04</sub>** : The ATM banking strategy has no significant effect on the performance of tier 3 commercial banks in Nairobi, Kenya.

### **1.5 Significance of the Study**

The study's outcome might prove highly valuable to a range of stakeholders, including commercial banks, customers, policymakers, researchers, and technology providers. Each of these groups stands to gain valuable insights and benefits from this research outcome. For commercial banks, the study could provide crucial insights into how alternative banking strategies impact their performance. By understanding the effects of ATM banking, agency banking, mobile banking, and internet banking, banks might make more informed decisions about investments in these technologies. The findings may help banks enhance their operational efficiency, customer satisfaction, and competitive edge in the market. Additionally, the study might reveal best practices and strategies for integrating alternative banking strategies effectively.

Customers may benefit from improved banking services as a result of this study. By highlighting the importance of alternative banking strategies, the research might encourage banks to enhance their offerings, making banking more accessible, convenient, and efficient for customers. This could lead to better customer experiences, increased financial inclusion, and more personalized banking services that cater to diverse needs of customers in Nairobi City County.

For policymakers, the study could provide important information and findings that may guide the formulation of regulations and policies designed to encourage the adoption and integration of alternative banking strategies. Understanding the impact of these strategies

on bank performance might help policymakers create a supportive regulatory environment that encourages innovation, protects consumer interests, and ensures consistency and security within banking industry.

The research may also contribute to the academic wealth of knowledge concerning banking and finance, particularly in the context of emerging markets like Kenya. Researchers might build on the findings to explore related topics, such as the role of technology in financial inclusion, the adoption of fintech solutions, and how digital transformation could affect the banking sector. The study's theoretical frameworks and empirical data may provide a solid foundation for further research and scholarly inquiry.

Technology providers, including fintech companies and IT service providers, could gain valuable insights from the study regarding the needs and preferences of banks and their customers. By understanding the impact of alternative banking strategies on bank performance, technology providers may develop and offer more tailored solutions that address the particular issues and opportunities encountered by commercial banks in Nairobi City County. This could lead to more effective partnerships between banks and technology providers, fostering innovation and growth in the banking sector.

## **1.6 Scope of the Study**

The methodological framework included descriptive research design to detail how alternative banking strategies influenced bank performance. The study targeted Tier three commercial banks in Kenya, applying a layered random sampling approach to secure a sample that accurately reflected various kinds of banking institutions. Data were collected through structured questionnaires for primary data and bank reports and financial

statements for secondary data. Quantitative data analysis involved regression analysis to explore relationships and descriptive statistics to summarize findings.

Geographically, the study was confined to Kenya, chosen for its high concentration of commercial banks and its importance as a financial hub. The focus on this urban area aimed to provide detailed insights into the impacts of alternative banking strategies to the bank performance, with potential lessons for other similar regions.

### **1.7 Limitation of the study**

The study concentrates on a sample of commercial banks located in Nairobi City County. As a result, if the sample size was limited or maybe not sufficiently representative of the broader banking sector, it may affect generalizability of findings, the results might not have truly represented wider market patterns. Moreover, stratified random sampling may not have captured all the nuances of different bank categories. Therefore, the study increased the sample size to ensure a more diverse representation of commercial banks, including various sizes, types, and market segments. The use of enhanced stratified sampling methods enabled the selection of a more diverse and representative sample.

Primary data collection through structured questionnaires encountered challenges such as non-response bias, where some participants chose not to respond or provided incomplete or inaccurate information. Additionally, relying on self-reported data from bank managers and staff introduced subjectivity and bias. To reduce potential biases, the study adopted a mixed-methods approach by supplementing structured questionnaires with interviews. Ensuring anonymity and confidentiality further encouraged more honest and accurate responses.

The study examined various alternative banking strategies, each with unique characteristics and adoption rates. Differences in technological infrastructure, user experience, and security features across these strategies complicated the analysis and led to varying impacts on bank performance. To address this, the study conducted separate analyses for each alternative banking channel to account for their unique characteristics and impacts. This approach provided a more nuanced understanding of how each channel individually affected bank performance. Additionally, qualitative methods were considered to explore user experiences and perceptions in greater detail.

### **1.8 Delimitation of this study**

The study was geographically delimited to Kenya, focusing specifically on how alternative banking strategies influenced commercial banks within this urban area. Consequently, findings and conclusions from this research may not have directly applied to other regions within Kenya or countries which have different economic, regulatory, and cultural contexts. Regarding the timeframe, the research explored the impact of alternative banking strategies on bank performance within a defined period. The limited timeframe of the study constrained its capacity to observe long-term patterns or developments that may have emerged after the study period.

Efforts were undertaken to obtain a representative sample of commercial banks in Nairobi City. Nonetheless, the research findings were constrained by the selected sample size and sampling methods, which could have impacted their relevance to the broader banking sector. The research was confined to commercial banks operating within Kenya, omitting other financial entities and sectors that form part of the wider financial services industry.

The results were constrained by the state of technological infrastructure and the prevailing regulatory environment in the country during the period of the research. Any subsequent changes in technology adoption rates or regulatory frameworks may not have been reflected in the study's conclusions.

While the study primarily examined selected performance metrics such as profitability, customer satisfaction, and operational efficiency, it did not comprehensively cover other dimensions of bank performance, such as risk management or innovation. Methodologically, the study employed quantitative methods supplemented by qualitative insights. Nevertheless, challenges in the data gathering strategies and evaluation methods could have impeded the thoroughness and range of the study's outcomes.

### **1.9 Assumptions of this Study**

The research assumed that commercial banks in Nairobi City County possessed adequate technological infrastructure to support alternative banking strategies like mobile banking, internet banking, and ATM services. It also assumed that these banks complied with local regulatory requirements governing the implementation and operation of these strategies. Furthermore, the study assumed that customers in Nairobi City County were sufficiently willing and able to adopt and utilize alternative banking strategies without significant barriers related to digital literacy, connectivity issues, or trust concerns.

Data collected from commercial banks, including financial reports and performance metrics, were assumed to be accurate and reliable for analysis purposes. It was also assumed that bank managers and staff had the necessary insight into the operational impacts and customer responses related to these strategies, as reported in structured

questionnaires and interviews. Economically, the study assumed a relatively stable environment within Nairobi City County during the study period, without significant economic fluctuations that could have independently influenced bank performance apart from alternative banking strategies.

In terms of market dynamics, the study assumed a competitive banking landscape in Kenya, where commercial banks actively competed for market share and customer satisfaction through various service offerings, including alternative banking strategies. Methodologically, the study assumed that the selected research methodologies, such as sampling techniques and data analysis methods, were valid and appropriate for investigating the association between alternative banking strategies and bank performance within the specific context of Kenya.

### **1.10 Definition of Key terms**

**Agency banking** : A banking arrangement where a licensed financial institution partners with retail agents to provide a range of banking services on its behalf, often in locations where it is not viable to establish a full-service bank branch (Mwangi & Atieno, 2020).

**ATM banking** : This form of banking utilizes self-service machines, enabling customers perform fundamental financial transactions independently, without direct interaction with bank personnel. The transactions include cash withdrawals, deposits, ledger inquiries, and account transfers (Khan & Ali, 2021).

- Internet banking** : A type of banking that involves delivering banking services via the internet. Customers can access their accounts, carry out transactions, and manage their finances from a distance using a secure website or mobile application offered by their bank (Kavila & Kilika, 2023).
- Mobile banking** : The use of mobile devices like smartphones and tablets to carry out banking operations and access financial services enables users to perform functions such as checking account balances, sending funds, paying bills usage and conducting mobile wallet transactions through apps or SMS (Uwamariya & Loebbecke, 2020).
- Performance** : In a general sense, performance refers to the outcomes, achievements, or results of an entity or activity, often measured against specific objectives, standards, or benchmarks (M'mata & Weda 2022).
- Performance of commercial banks** : This specifically refers to the effectiveness and efficiency with which commercial banks achieve their financial and operational goals. Key metrics include profitability, asset quality, liquidity, capital adequacy, customer satisfaction, and market share among others (Nduta & Wanjira, 2019).

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter reviewed relevant literature that related to this research topic. It includes a discussion of theoretical foundations, an examination of empirical studies, the development of conceptual framework, and the definition and measurement of the study's key variables.

#### **2.2 Theoretical Review**

This segment analyzed the various theoretical frameworks employed in the study, including the Technology Acceptance Model, Agency Theory, and Resource Based View Theory.

##### **2.2.1 Resource Based Theory**

The Resource-Based Theory (RBT) was introduced by Wernerfelt in 1984 and later improved by Barney in 1991, suggests that a firm can attain and sustain a competitive advantage through leveraging internal resources which are valuable, unique, hard to replicate, and not readily substitutable commonly referred to as the VRIN criteria (Barney, 1991). These resources may be tangible or intangible and must be effectively leveraged to generate long-term superior performance. For tier-three commercial banks in Kenya, essential resources encompass technological assets like mobile banking applications, online banking infrastructure, and ATM networks.as well as skilled personnel and unique distribution methods like agency banking (Barney, 1991; Muhuni & Ouma 2024). When these resources are properly managed and integrated into organizational capabilities, they

enhance operational efficiency, improve customer service, and strengthen competitive positioning (Grant, 1996; Peteraf, 1993).

Later refinements emphasize that resource heterogeneity and immobility are vital for sustaining competitive advantage, as resources that are difficult to replicate or transfer provide durable differentiation (Barney, 2019 ; Peteraf, 1993). However, scholars like, Khan and Ali (2021) and more recent critics (Wang et al., 2021) argue that RBT underestimates the dynamic nature of markets and customer preferences, particularly in rapidly evolving sectors like financial services. Despite this, RBT remains highly relevant for analyzing tier three commercial banks in Kenya, which face challenges from digital disruption and evolving consumer needs (Muhuni & Ouma 2024; Mbogo & Ibrahim, 2022). The theory directly supports objective i (agency banking) and objective ii (mobile banking), emphasizing how banks leverage internal assets to enhance outreach and service delivery. It also aligns with objective iii (internet banking) and objective iv (ATM banking), which depend on robust technological infrastructure and human capital for performance improvement (Wernerfelt, 1984; Grant, 1996; Mbogo & Ibrahim, 2022). Even amid regulatory and market uncertainties, RBT underscores that well-managed internal resources remain critical for sustained performance in Kenya's tier three banking sector (Barney, 2019; Wang et al., 2021).

### **2.2.2 The Technology Acceptance Model (TAM).**

The TAM theory, first proposed by Fred Davis in 1986 and later developed by Davis and collaborators in 1989, focuses on the premise that the decision to adopt a new technology is primarily shaped by two key perceptions: Perceived Usefulness (PU), which refers to an

individual's conviction that the technology will enhance their job performance, and Perceived Ease of Use (PEOU), which reflects the belief that using the technology will be straightforward and require minimal effort. (Davis, 1986; Davis et al., 1989). These beliefs influence individuals' attitudes toward a given technology, ultimately impacting their intentions to use it and their actual usage behavior. The Technology Acceptance Model has been utilized in research on banking and financial services to explore how both customers and staff adopt digital solutions like mobile banking applications, internet banking systems, and automated teller machines (ATMs) (Khan & Ali 2021; Martins et al., 2014). Within the context of Kenya's tier-three commercial banks, TAM provides a valuable framework for analyzing the adoption of digital banking innovations., where the adoption of user-friendly and efficient digital platforms is crucial for improving service delivery and overall performance, TAM offers a valuable theoretical lens.

Venkatesh and Davis (2000) advanced the original TAM by introducing TAM2, which integrated aspects of social persuasion and rational thought processes to provide a more comprehensive explanation technology adoption. Building on this, Venkatesh and colleagues later developed the UTAUT in 2003, offering a more comprehensive model to gain deeper insight into how users adopt and engage with a system or technology, which expanded the model by including facilitating conditions and other contextual variables affecting technology adoption. Despite its wide application, TAM has faced criticism for its limited attention to environmental, infrastructural, and cultural factors, which are particularly salient in developing economies where technology adoption can be hindered by such barriers (Bagozzi, 2007). Nonetheless, The Technology Acceptance Model (TAM) continues to be highly applicable to this research, offering a strong foundation for

evaluating how customer perceptions influence the uptake of mobile banking, internet banking, and ATM services. This theory directly anchors objective ii (mobile banking), objective iii (internet banking), and objective iv (ATM banking), offering a predictive model to understand how technology acceptance impacts the performance of tier three commercial banks in Kenya.

### **2.2.3 The Diffusion of Innovations Theory**

Diffusion of Innovations Theory was first developed by Everett Rogers in 1962, with significant refinements in subsequent editions, notably the fifth edition in 2003 (Rogers, 2003). This theory explores the mechanisms, reasons, and pace at which new ideas, technologies, or products are adopted within societies and cultural systems. It outlines five main characteristics that affect the likelihood of adoption which are: Relative advantage (the perceived benefit over current alternatives); Compatibility (the degree to which the innovation aligns with existing values and user requirements); Complexity (how easy or difficult it is to understand and use). Trialability (the opportunity to experiment with the innovation before committing). Observability (how visible and noticeable the outcomes are to others) (Rogers, 2003).

Additionally, Rogers categorized people into five groups according to how quickly and readily they adopt new innovations: innovators, early adopters, early majority, late majority, and laggards. In banking, these adopter categories help explain how customers and financial institutions embrace technologies such as agency banking, mobile banking, and ATMs at different paces. The theory also highlights the importance of communication

mediums, temporal factors, and societal structures in facilitating or hindering diffusion (Rogers, 2003).

Further contributions by scholars like Moore and Benbasat (1991) expanded on the theory by focusing on technology adoption within organizations, incorporating user perceptions and organizational context alongside innovation characteristics. This expansion is important for understanding how banks, particularly tier three commercial banks, integrate new technologies into their service offerings. The Theory has been widely applied in fintech research across developing countries, shedding light on factors affecting the slow uptake of digital banking services due to cultural, economic, and infrastructural challenges (Kamau & Otieno, 2022; Mwangi & Otieno, 2020). Critics of the theory argue that it underestimates institutional and infrastructural barriers and socio-economic disparities, which significantly affect adoption in less-developed financial sectors (Mutua et al., 2023b). Despite its limitations, the theory remains highly applicable to this study, offering a robust conceptual foundation for examining how innovations such as agency banking and mobile banking are adopted and diffused among tier-three banks and their clientele in Kenya. The theory is thus anchored on objective i (agency banking) and objective ii (mobile banking), offering insight into adoption processes and how they influence bank performance.

#### **2.2.4 Bank-led Theory**

The Bank-led Theory gained prominence in the early 2000s, particularly through the influential work of Lyman et al (2006), who conducted research under the Consultative Group to Assist the Poor (CGAP). This theory centers on the idea that formal financial

institutions, predominantly banks, are best suited to extend financial services to underserved or unbanked populations by leveraging a network of agents and digital infrastructure, while maintaining direct control over customer relationships. The fundamental premise is that banks, due to their regulatory compliance, capital reserves, and established trust, can manage systemic risks better than informal or non-bank entities. Banks use intermediaries such as third-party agents, automated teller machines (ATMs), and mobile banking platforms to deliver services cost-effectively and at scale, overcoming the limitations of traditional brick-and-mortar branch networks, especially in rural or low-income areas. By doing so, the bank-led model aims to promote financial inclusion while safeguarding the integrity and stability of the financial system.

Further empirical studies have reinforced the efficacy of the bank-led approach in various developing countries. For instance, Kumar et al. (2006) highlighted its success in India, where banks have partnered with local agents to reach remote villages. Similarly, Ivatury and Mas (2008) noted the model's role in Brazil and South Africa, where it facilitated expansion into markets previously inaccessible to traditional banking. These studies underscore how the bank-led framework allows for greater scalability and sustainability compared to purely non-bank-led models. Nonetheless, critics caution that the bank-led model can be conservative and risk-averse, potentially limiting innovation and excluding nimble fintech companies or community-based organizations that could offer more tailored or affordable solutions (Donovan, 2012).

Moreover, the emphasis on regulatory compliance may slow down the speed of service delivery and restrict accessibility in highly informal economies. Despite these criticisms,

the Bank-led Theory continues to be highly relevant to the study, as it provides a valuable framework for analyzing how tier-three commercial banks in Kenya leverage agency banking and ATM services as strategic approaches to improve their performance. This theory aligns closely with Objective i, which examines the effect of agency banking, and Objective iv, focusing on ATM banking, by explaining how banks deploy these digital channels to expand customer reach, reduce costs, and improve service efficiency.

### **Theoretical Anchor of the Study**

Among the various theories discussed, the Resource-Based Theory (RBT) serves as the primary theoretical anchor for this study. The primary aim of the study is to explore how tier-three commercial banks in Kenya utilize internal assets—such as agency banking systems, mobile and internet banking technologies, and ATM networks—to improve their performance. This is consistent with fundamental concept of Resource-Based Theory (RBT), which maintains that sustainable competitive advantage stems from possessing resources that are valuable, uncommon, hard to duplicate, and not easily substitutable Barney (1991) directly aligns with the study objectives that investigate the effects of these internal technological and infrastructural resources on bank performance.

While other theories like the Technology Acceptance Model (Davis, 1986), Diffusion of Innovations Rogers, (1962), Bank-led Theory and Agency Theory Jensen and Meckling (1976) provide important perspectives on technology adoption, innovation diffusion, institutional roles, and governance, respectively, the Resource-Based Theory offers a more comprehensive framework that focuses on how internal capabilities are strategically deployed to achieve competitive advantage. This makes RBT particularly relevant to

understanding the performance implications for tier three banks as they implement various digital banking channels.

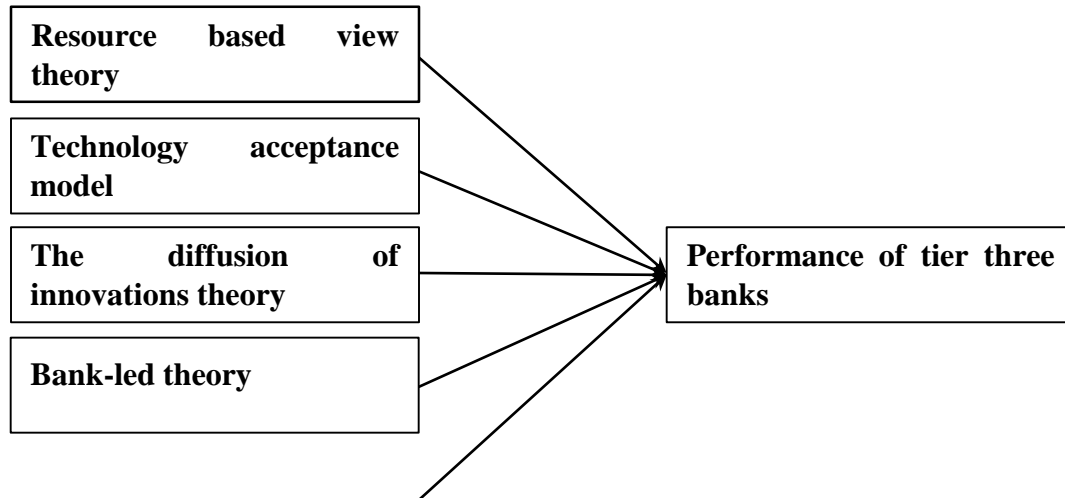
Consequently, this study is anchored primarily on RBT to examine the role of internal resources in enhancing performance, while drawing on complementary theories to enrich the understanding of technological adoption and operational dynamics within Kenya's tier three commercial banks.

### **2.2.5 Theoretical Framework**

The theoretical foundation of this study is grounded in four key theories that explain the relationship between alternative banking strategies and the performance of Tier Three commercial banks in Kenya. The Resource-Based View (RBV) theory highlights how internal resources — such as technology and human capital — provide competitive advantages and influence organizational performance. The Technology Acceptance Model (TAM) supports the understanding of how users perceive and adopt banking technologies based on perceived usefulness and ease of use. The Diffusion of Innovations Theory adds a broader perspective on how innovations like mobile and internet banking spread within organizations and among customers over time. Lastly, the Bank-led Theory contextualizes how banks in Kenya implement and control financial service delivery through in-house or proprietary channels. Together, these theories provide a comprehensive lens through which to examine the influence of alternative banking strategies on both the adoption process and resulting bank performance. The conceptual relationships are illustrated in Figure 2.1.

**Figure 2. 1:**

*Theoretical Framework*



**Source: Author (2025)**

## **2.3 Empirical Review**

### **2.3.1 Agency Banking and Performance**

Agency banking has been widely adopted in many developing countries, particularly across Africa, as a means of enhancing financial inclusion and reducing banking costs. Numerous empirical studies have examined how agency banking affects financial inclusion, customer convenience, and the operational efficiency of banks.

In Kenya, Dimbia (2024) demonstrated that agency banking significantly reduces operational costs for banks while facilitating access to financial services in regions where establishing traditional branches would be prohibitively expensive or logistically unfeasible. The study emphasized that through agency outlets, banks are able to reach

remote and financially marginalized populations at lower cost, expanding their customer base. Dimbia further highlighted that agents reduce congestion in banking halls by decentralizing services to local communities. However, the study cautioned that the contribution of agency banking to broader financial inclusion was limited, concluding that there was no significant relationship between agency banking and the expansion of financial services at the macroeconomic level. This finding suggests that while agency banking enhances access at the micro level, its systemic contribution may be less pronounced.

In Uganda, Pyoko et al. (2023) stressed the importance of regulatory frameworks in supporting the growth of agency banking. Their study revealed that without clear regulation, agents and banks face challenges of accountability and trust, undermining adoption. They recommended policies that balance the interests of both banks and agents, ensuring fair remuneration, monitoring, and consumer protection. This shows that while agency banking can expand outreach, its success is highly dependent on an enabling policy environment.

Within Kenya's commercial banking sector, Sporta and Muganda (2021) investigated the obstacles encountered by 15 commercial banks in implementing agency banking. Using a descriptive survey design, their findings indicated that agency banking had a significant positive influence on operational efficiency, particularly by reducing costs of branch-based transactions and enabling banks to handle higher transaction volumes. However, the study emphasized that success depends on digital readiness, organizational structure, and

workforce adaptability. It recommended that banks adopt digital strategies aligned with their level of digital maturity to maximize agency banking's potential.

Similarly, Koori et al. (2020), focusing on commercial banks in Nairobi County, assessed agency banking's influence on access to services. Using structured questionnaires and Likert scales, they found that agency banking played a pivotal role in increasing access to banking services among the unbanked and enhancing the availability of products in informal settings. Their recommendation was for banks to scale up adoption and provide broader product offerings at agency outlets.

Financial performance outcomes have also been linked to agency banking. In Kenya, Kimotho (2022) conducted a descriptive and inferential analysis using data from 41 banks offering agency banking services. The study revealed a strong positive correlation between agency banking and non-interest income generation, indicating that banks derive significant financial benefits from this channel. The recommendation was that agency banking should be strategically integrated into revenue diversification plans.

Amal (2020) examined agency banking in Kenya since its introduction in 2010, using secondary data and a quantitative approach. The findings confirmed that agency banking positively influences key performance indicators such as non-funded income and market expansion. The study recommended that banks continue investing in agency networks as a way of deepening inclusion and reducing transaction costs. Importantly, Amal also noted a persistent gap in agent training, warning that insufficient training reduces the reliability and effectiveness of the service.

Customer experience has been another focus of research. Koori et al. (2020) illustrated that agency banking enables customers to carry out transactions such as deposits, withdrawals, and balance inquiries conveniently at nearby outlets. The extended business hours of agents allow transactions outside normal banking hours, offering flexibility and reducing reliance on branches. Similarly, Dimbia (2024) emphasized that many customers feel more comfortable transacting with local agents whom they already trust, as opposed to navigating the formalities of commercial banks. These findings highlight agency banking's role not only in accessibility but also in improving customer confidence and satisfaction.

Despite these positive outcomes, contrasting evidence exists. For instance, while Koori et al. (2020) found a strong link between agency banking and enhanced financial inclusion, Dimbia (2024) concluded that the overall connection between agency banking and financial deepening at the national level was weak. This divergence underscores the need for more contextual studies to determine whether agency banking's benefits are primarily localized or whether they translate into systemic inclusion across the sector.

Taken together, the reviewed studies reveal several research gaps. First, although agency banking has been shown to reduce costs, improve access, and generate non-interest income, few studies comprehensively assess its long-term effects on rural banking performance, especially in underserved areas where physical infrastructure is limited. Second, while convenience and customer satisfaction have been well-documented, issues such as agent training, liquidity management, and fraud control remain inadequately addressed. Third, although Kenya has been at the forefront of agency banking adoption, most studies focus

on large banks, leaving a gap in understanding its role in smaller commercial banks, which face distinct constraints.

The empirical evidence reviewed shows that agency banking enhances efficiency, inclusion, and financial performance, but its effectiveness varies depending on location, regulation, and institutional capacity. For Kenya, where banking innovations have advanced rapidly, the relevance of studying agency banking lies in identifying how it contributes to the performance of different tiers of banks, particularly tier-three institutions that face unique challenges of scale and competition. This justifies the present study's focus, as it seeks to bridge the knowledge gap by contextualizing agency banking within smaller banks and determining how it shapes organizational performance in Kenya's dynamic financial sector.

### **2.3.2 Mobile Banking and Performance**

The growing prevalence of mobile phone usage has revolutionized financial services globally, enabling banks to enhance customer experience while reducing operational costs. In Africa, and specifically in Kenya, mobile banking has become an indispensable part of the financial landscape, driven by the widespread adoption of mobile money platforms such as Mpesa. By allowing customers to transact anytime and anywhere, mobile banking has expanded financial access, improved service delivery, and influenced the overall performance of financial institutions.

Kamau (2021), in a study conducted in Nairobi, Kenya, observed that banks offering mobile banking services enabled customers to manage their accounts efficiently by accessing loans, transferring funds, receiving alerts, requesting checkbooks, making

payments, monitoring balances, and keeping updated with exchange and interest rates. The findings highlighted how mobile banking creates efficiency both for customers and banks by streamlining transactions and minimizing reliance on physical branches. Kamau recommended that banks expand the functionality of mobile platforms to capture more customer segments and reduce congestion in banking halls, thereby boosting performance indicators such as service quality and customer satisfaction.

Similarly, Mohamud and Warui (2021) examined mobile banking adoption in Kenya using the diffusion of innovation theory. Their study revealed that banks providing diverse mobile services significantly enhanced customers' perceptions of service quality, which in turn drove adoption rates. However, the study noted that security concerns posed barriers to wider uptake. The authors recommended that financial institutions invest in robust cybersecurity measures and customer education campaigns to strengthen trust. This finding directly links mobile banking to institutional performance, as secure and trusted platforms ensure sustained usage and reduced reputational risks for banks.

The influence of mobile banking on service quality in Kenya was further emphasized by Mugane and Njuguna (2019) who studied the adoption of mobile-based services such as checkbook requests, cash transactions, account statements, and mobile-to-bank transfers. The study, focusing on leading commercial banks in Kenya, found that mobile banking reduced queues and waiting times in banking halls, leading to enhanced service efficiency. Mugane and Njuguna (2019) concluded that the continuous integration of mobile solutions into banking systems was necessary to maintain competitiveness. His recommendations

included regular upgrades of mobile applications and increased integration with existing mobile money platforms such as Mpesa to expand reach and improve customer retention.

At the global level, Odhiambo (2023) projected that mobile banking would be embraced worldwide by financial institutions due to its low operational costs and potential for financial inclusion. The study, which reviewed global banking practices across Africa and Asia, attributed the rapid adoption of mobile banking to the increasing use of smartphones and the demand for convenient financial services. Odhiambo emphasized that Kenyan banks, in particular, had positioned themselves as leaders in mobile innovation but recommended that they focus on aligning mobile services with financial literacy programs to address challenges in rural areas. This recommendation highlights the need for context-specific strategies to ensure mobile banking contributes effectively to institutional performance.

Wanjala and Gachanja (2020), in a case study of commercial banks in western Kenya, observed that mobile banking offered significant convenience and time savings to customers while allowing banks to cut operational costs and expand their customer base. According to the findings, mobile banking was becoming central to the banking experience as more customers owned smartphones with internet access. Wanjala and Gachanja (2020) recommended that banks invest in network infrastructure and customer training to bridge digital literacy gaps. This study underlined the direct relationship between mobile banking and financial performance, as reduced costs and wider market penetration translate to increased profitability and competitiveness.

Kirimi et al. (2022) conducted a survey on customer attitudes toward mobile banking in Nakuru County, Kenya. Their findings indicated that customers valued mobile banking for its simplicity, efficiency, privacy, and accessibility. Interestingly, the study found that mobile banking boosted customer confidence by enabling them to monitor transactions in real time, reducing the risk of fraud. The authors recommended that banks continue innovating in user-friendly interfaces and transaction transparency to strengthen customer trust. For banks, this translates into greater loyalty and long-term performance gains.

From a strategic perspective, Mutua et al. (2023a) investigated how mobile banking contributes to profitability among commercial banks in Kenya. Their study revealed that banks used mobile platforms not only to enhance customer convenience but also to diversify their services, including savings, loans, and wealth management. They found that mobile applications helped banks attract new clients, expand their market share, and improve non-interest income. The authors recommended greater investment in mobile app development to sustain profitability and competitive advantage. This demonstrates the growing role of mobile banking as a driver of financial performance and institutional sustainability.

Despite the evident advantages, challenges persist. Wanjala and Gachanja (2020) noted issues such as system downtimes, cybersecurity risks, and low digital literacy among rural populations. These challenges reduce the effectiveness of mobile banking and limit its ability to fully enhance financial performance. Furthermore, gaps remain in rural infrastructure, where poor network coverage and limited smartphone penetration hinder

adoption. Wanjala recommended partnerships between banks, telecom operators, and government agencies to address infrastructural and security challenges.

The reviewed studies consistently affirm that mobile banking improves customer service quality, operational efficiency, and profitability for banks. Evidence from Kenya, Kamau (2021), Omondi (2013), Wanjala and Gachanja (2020), Kirimi et al. (2022), and Mutua et al (2023) demonstrates that mobile banking has been instrumental in reducing costs, expanding market reach, and strengthening customer loyalty. Studies conducted in Nairobi, Kisumu, Nakuru, and western Kenya confirm the transformative impact of mobile banking across diverse settings, though the extent of adoption and outcomes vary. Global insights Odhiambo (2023) further contextualize Kenya's leadership in mobile banking innovation while emphasizing the importance of financial literacy and inclusive strategies.

However, the studies also reveal gaps. First, most research has focused on urban and peri-urban contexts, leaving rural regions underexplored despite their potential for financial inclusion. Second, while findings highlight benefits such as convenience, efficiency, and profitability, limited attention has been given to the long-term sustainability of mobile banking in the face of cybersecurity threats and infrastructural constraints. Third, there is insufficient synthesis of how mobile banking impacts broader institutional performance beyond customer satisfaction and cost efficiency, particularly regarding strategic competitiveness and resilience.

Therefore, this study sought to address these gaps by examining the influence of mobile banking on the performance of commercial banks in Kenya, with particular attention to how mobile platforms contribute to financial inclusion, profitability, and operational

efficiency. The findings will provide insights that justify the continued investment in mobile innovations and inform strategies for strengthening banking performance in both urban and rural contexts.

### **2.3.3 Internet Banking and Performance**

Internet banking, also referred to as online banking, has become one of the most transformative innovations in the global financial services sector. It enabled individuals to access and manage a wide range of financial products and services remotely through internet-connected devices such as desktops, laptops, tablets, and smartphones. By using secure web-based platforms and digital channels, customers were able to conduct transactions without the need to visit physical branches. This technological shift fundamentally altered banking operations by providing real-time access to services such as funds transfers, bill payments, loan applications, account management, and investment services. Moreover, internet banking supported the rapid growth of e-commerce by facilitating secure and convenient payment options that allowed consumers to transact globally (Tiony & Yin, 2023).

Studies in Kenya by Mwangi and Atieno (2020) and Karanja et al. (2022) emphasized that payment authorization mechanisms—including digital wallets, electronic cards, and two-factor authentication—had greatly enhanced transaction security, strengthening internet banking as a reliable alternative to conventional banking systems.

The increased adoption of online banking services reflected customer demand for convenience, flexibility, and autonomy over their financial affairs. Njenga and Muriuki

(2020), in a study focusing on Kenyan commercial banks, observed that internet banking lowered the reliance on physical branches and frontline staff, allowing banks to reduce operational costs significantly. Their findings suggested that banks that invested in digital infrastructure experienced improved profitability and competitiveness due to leaner operating models.

Kamau and Otieno (2022) highlighted the Kenyan context further, noting that rural populations benefitted most from online banking platforms since physical bank branches were often scarce in such regions. Customers could check balances, download statements, pay utility bills, and even apply for loans without traveling long distances to banking halls. This accessibility not only enhanced customer satisfaction but also fostered loyalty, positioning internet banking as a vital contributor to financial inclusion.

Despite these benefits, concerns about security and trust remained pressing issues. Mutua et al. (2023b), in a cross-sectional survey of Kenyan banking clients, reported that fears of cyber fraud, identity theft, and data breaches discouraged some users from fully adopting online banking. They recommended that financial institutions strengthen encryption technologies, enforce multi-factor authentication, and communicate privacy policies more transparently to build trust. Wachira and Gathenya (2023), also studying Kenyan banks, found that the design and usability of digital platforms played a critical role in customer engagement. Poorly designed interfaces, complicated navigation, and limited customer support reduced the effectiveness of internet banking platforms. Their study recommended that banks adopt user-centered design strategies, simplify navigation, and invest in customer education to bridge gaps in digital literacy.

Internet banking also transformed internal banking operations. Okello and Onyango (2021) found that Kenyan banks adopting online banking integrated digitized back-office processes, enhanced transaction monitoring, and applied real-time analytics to personalize services. Their study emphasized that this digital transformation enabled banks to tailor financial products based on customer transaction histories and preferences, thereby improving customer experiences while maximizing cross-selling opportunities. In addition, the convergence of internet and mobile banking in Kenya created omnichannel platforms, where customers could seamlessly switch between app-based transactions and web-based functionalities. This integration strengthened financial inclusion efforts by reaching diverse customer segments, including previously underserved populations.

The COVID-19 pandemic further accelerated internet banking adoption. Mwangi and Atieno (2020) noted that during the lockdown period in Kenya, customers increasingly turned to online banking platforms to continue accessing essential financial services. Their findings showed a marked increase in first-time users, which forced banks to upgrade digital infrastructures, enhance cybersecurity frameworks, and diversify online offerings. However, Mutua et al. (2023b) observed that the pandemic also exposed digital inequality: elderly customers, low-income households, and those in remote areas often lacked access to stable internet connections or digital literacy. They recommended that banks develop inclusive strategies such as simplified interfaces, rural internet penetration programs, and targeted digital literacy campaigns to avoid exacerbating financial exclusion.

Globally, Tiony and Yin (2023) predicted the widespread embrace of internet banking by financial institutions, attributing this growth to the low operational costs, broad

accessibility, and increasing demand for convenient digital solutions. Kenyan studies aligned with this global trend but highlighted context-specific challenges such as intermittent internet connectivity and varying levels of trust in digital systems. Ochieng and Mwangi (2023) added that internet banking had improved customer confidence by offering privacy, efficiency, and convenience, further noting that users in Kenya appreciated the ability to access services securely from any location. Mutua et al. (2023a) emphasized profitability benefits for Kenyan banks, noting that internet banking supported market expansion, enhanced revenue streams, and allowed institutions to attract new clients while retaining existing ones through value-added services.

While the body of research demonstrates that internet banking significantly improved both customer experiences and institutional performance, notable gaps remain. First, most Kenyan studies concentrated on adoption and customer satisfaction but paid limited attention to the long-term financial performance indicators directly attributable to internet banking. Second, although security was widely acknowledged as a barrier, there was insufficient exploration of the effectiveness of specific cybersecurity interventions in the Kenyan context. Third, studies pointed to usability and digital literacy challenges, but few provided empirical evidence on the success of training programs or simplified interface rollouts.

Future research is therefore needed to assess how advanced technologies—such as artificial intelligence, blockchain, and predictive analytics—could enhance internet banking services in Kenya. Investigating hybrid banking behavior, where customers alternate between physical and digital platforms, would also shed light on how banks can maintain

competitiveness in both channels. Moreover, exploring the role of internet banking in driving deeper financial inclusion, particularly among marginalized rural communities, remains critical.

In summary, internet banking has been pivotal in modernizing Kenya's financial sector by expanding access, lowering operational costs, improving customer satisfaction, and strengthening institutional competitiveness. However, persistent challenges related to security, usability, and digital inequality continue to limit its full potential. Addressing these gaps offered not only an opportunity for banks to maximize efficiency and profitability but also a pathway to achieving inclusive financial growth. This makes internet banking an essential area of ongoing academic and practical inquiry.

#### **2.2.4 Automated Teller Machine (ATM)**

Automated Teller Machines (ATMs) were self-operated electronic devices that enabled customers of financial institutions to carry out a variety of financial transactions without the direct assistance of bank staff. These transactions included cash withdrawals, deposits, balance inquiries, transfers between accounts, and utility bill payments. ATMs utilized debit and credit cards, which acted as secure access tools for account information. Debit cards were directly linked to users' bank accounts, providing instant access to funds, while credit cards allowed access to a credit line subject to established limits. The management and authorization of credit card transactions were governed by global networks such as MasterCard and Visa, alongside local financial regulators, ensuring secure and standardized processing (Mwangi & Atieno, 2023).

The convenience of ATMs revolutionized how customers interacted with financial institutions. In Kenya, Wachira and Njuguna (2023) observed that ATMs provided 24-hour access to essential banking services, unlike traditional banking halls that operated within restricted working hours. This flexibility was especially critical in urban areas with fast-paced lifestyles, but it also extended essential services to rural regions with limited branch infrastructure. The findings showed that ATMs enhanced customer satisfaction by reducing dependence on physical bank visits. The authors recommended further expansion of ATM networks in underserved rural counties to strengthen financial inclusion and address inequities in access to formal banking.

From the institutional perspective, ATMs enhanced efficiency. Mutua et al. (2023b) found that Kenyan banks that invested heavily in ATM networks experienced significant cost reductions in teller services, alongside increases in transaction volumes processed electronically. Their findings emphasized that ATMs were not only customer-serving machines but also strategic tools for banks to expand service outreach and reduce operational expenses. The study recommended that banks adopt hybrid strategies that combined ATMs with digital channels, ensuring both traditional and tech-savvy customers were served effectively.

Despite their benefits, challenges of uneven ATM distribution persisted. Wachira and Njuguna (2023), studying Kenyan counties, found that ATMs were concentrated in urban centers and towns, leaving rural populations underserved. Infrastructure deficits such as unreliable electricity, poor road networks, and heightened security risks discouraged banks from deploying machines in rural settings. As a result, rural communities remained reliant

on informal systems or mobile money for transactions. The researchers recommended targeted government–bank collaborations to address infrastructural constraints and subsidize ATM installations in marginalized areas to promote financial inclusion.

Technological advancements in ATMs had transformed their role over time. Karanja et al. (2022), examining developments in Kenya, reported that modern ATMs now incorporated biometric authentication, contactless RFID-based transactions, and integration with mobile banking. These features enhanced security, user experience, and convenience, reducing vulnerabilities such as card skimming and identity theft. Their findings further recommended continuous technological investment to counter cybercrime risks and align ATM functions with emerging digital financial ecosystems. Regulatory frameworks, such as the Electronic Fund Transfer Act (EFT Act), were highlighted as vital in safeguarding consumer rights and ensuring dispute resolution mechanisms remained effective.

However, competition from mobile banking significantly reshaped ATM use. The CBK (2023) reported that mobile banking transactions had surpassed ATM transactions, largely due to the ubiquity of mobile phones and the dominance of platforms such as M-Pesa. While ATMs remained crucial for cash withdrawals, mobile banking offered broader flexibility for payments, transfers, and account management. The report recommended that banks reposition ATM services by integrating them into broader digital strategies, ensuring their continued relevance in an increasingly cash-lite economy.

One emerging solution was the integration of ATM services with mobile platforms. Wachira and Gathenya (2023) found that Kenyan banks increasingly pursued omnichannel models, allowing customers to initiate transactions on mobile devices and complete them

at ATMs, or receive immediate confirmations via SMS. This convergence enhanced convenience, strengthened customer loyalty, and aligned with banks' digital transformation agendas. They recommended continuous innovation in creating seamless mobile-ATM interfaces to promote financial inclusion across both urban and rural demographics.

Nonetheless, risks associated with ATM banking required constant attention. NetXMS (2024) also documented challenges such as ATM fraud, card skimming, and service outages due to poor maintenance. These issues undermined customer trust and limited satisfaction. The authors recommended banks invest in robust security systems, continuous monitoring, and consumer education campaigns to build digital literacy and trust. They further suggested targeted training for vulnerable groups, such as older adults, who faced greater difficulties adapting to evolving ATM technologies.

Looking toward the future, ATMs were expected to remain complementary within digital financial ecosystems. Mutua et al. (2023b) proposed that Kenyan banks should explore integrating artificial intelligence into ATM monitoring to detect fraudulent activity, blockchain technology to enhance security, and big data analytics to deliver personalized services. Their study highlighted the need for research into hybrid models where customers alternated between physical ATMs and digital channels depending on circumstances. They recommended exploring customer preferences to optimize ATM roles within rapidly digitizing economies.

The reviewed literature consistently demonstrated that ATMs improved financial access, customer satisfaction, and operational efficiency in Kenya and other global contexts.

Findings showed that ATMs provided critical 24-hour services Ochieng, (2023) reduced teller-related costs (Mburu & Wanjiru, 2021), and introduced advanced security features (Kimani et al., 2023). However, gaps remained in their distribution across rural areas and in addressing security risks (Wachira & Gathenya, 2023). Furthermore, while mobile banking increasingly overtook ATMs in transaction volume (CBK, 2023), ATMs continued to play a vital complementary role in cash-dependent contexts.

The gaps identified were threefold: first, insufficient research explored how ATM–mobile banking integration influenced financial inclusion in Kenya; second, uneven rural deployment of ATMs remained underexplored from a policy perspective; and third, few studies examined customer behavioral patterns in hybrid banking models.

The justification for this research therefore lay in the need to evaluate the contribution of ATMs to banking performance in Kenya within a rapidly digitizing financial sector. This was relevant because understanding ATM roles in an evolving ecosystem would inform banks’ strategic investments, support financial inclusion, and guide policymakers in balancing physical and digital financial infrastructure.

### **2.2.5 Research Gaps**

The reviewed literature revealed a conceptual gap in understanding the direct relationship between gender distribution and organizational performance in the banking sector. While Karanja et al. (2022) and Adegbite and Olayemi (2023) examined gender disparities in senior management, they mainly emphasized representation without fully interrogating how such disparities translated into measurable outcomes for tier three commercial banks. Similarly, Okiro and Ndungu (2019) focused on leadership inclusivity but stopped short of

linking gender dynamics to specific indicators of financial or operational performance. The absence of a comprehensive theoretical framework that connected gender inclusion with tangible organizational outcomes limited the ability to explain the practical implications of gender imbalances in leadership and management structures.

There also existed a contextual gap, as most global and regional studies were situated in broader financial institutions or multinational corporations, with limited focus on the unique environment of tier three commercial banks in Kenya. For example, Ngalo et al (2023) explored gender issues in Nigerian commercial banks, while Tiony and Yin (2023) examined employee diversity in Kenyan tier one banks. However, both studies generalized findings across financial institutions, overlooking the specific realities of smaller banks that operated under resource constraints, intense competition, and stricter regulatory challenges. These conditions significantly shaped human resource dynamics, suggesting that gender disparities in tier three banks might have had different effects compared to larger institutions. This created the need for a context-specific study to address these gaps.

An empirical gap was also evident. Although existing research recommended policy reforms, mentorship programs, and leadership development initiatives to address gender inequalities, there was little empirical evidence on the effectiveness of these interventions in the Kenyan banking context. For instance, Kamau and Otieno (2021) proposed mentorship and succession planning as remedies, but they did not provide data linking these interventions to employee retention or bank performance. Likewise, Miriri and Jorgic, (2015) highlighted diversity training in larger banks but lacked evidence from tier three institutions. This absence of robust, context-specific empirical findings justified the

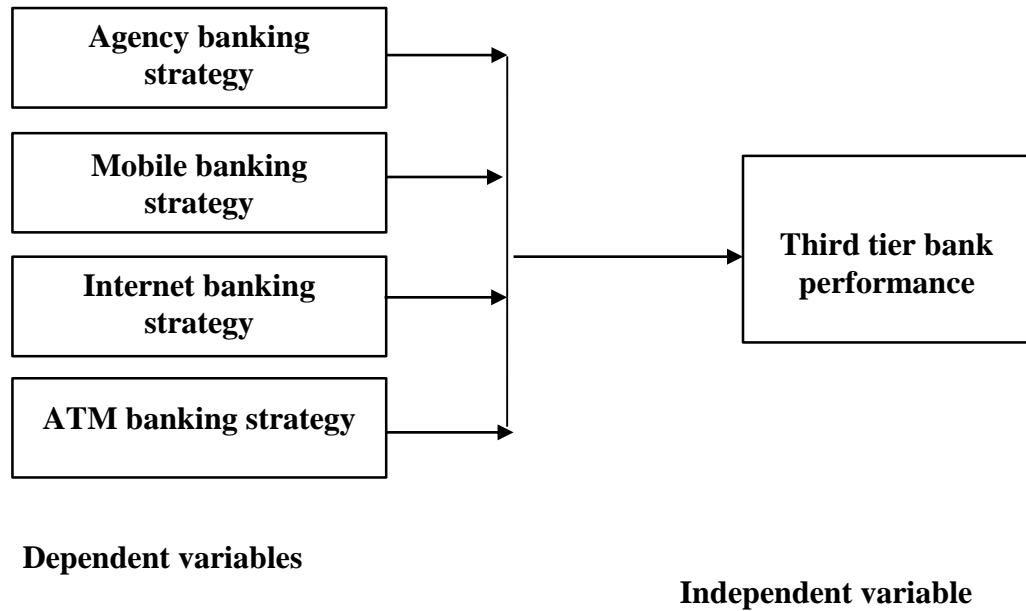
present study, which aimed to generate evidence that could inform strategies tailored to the operational realities of Kenya's tier three commercial banks.

## **2.4 Conceptualization**

A conceptual framework outlines how the research variables are interconnected. According to Pinto et al. (2025), A variable refers to a quantifiable characteristic that can vary among different individuals or entities. In the conceptual framework, the independent variables consist of agency banking strategy, mobile banking strategy, internet banking strategy, and ATM banking strategy, whereas the dependent variable is the performance of tier-three commercial banks.

**Figure 2. 2:**

*Conceptual Framework*



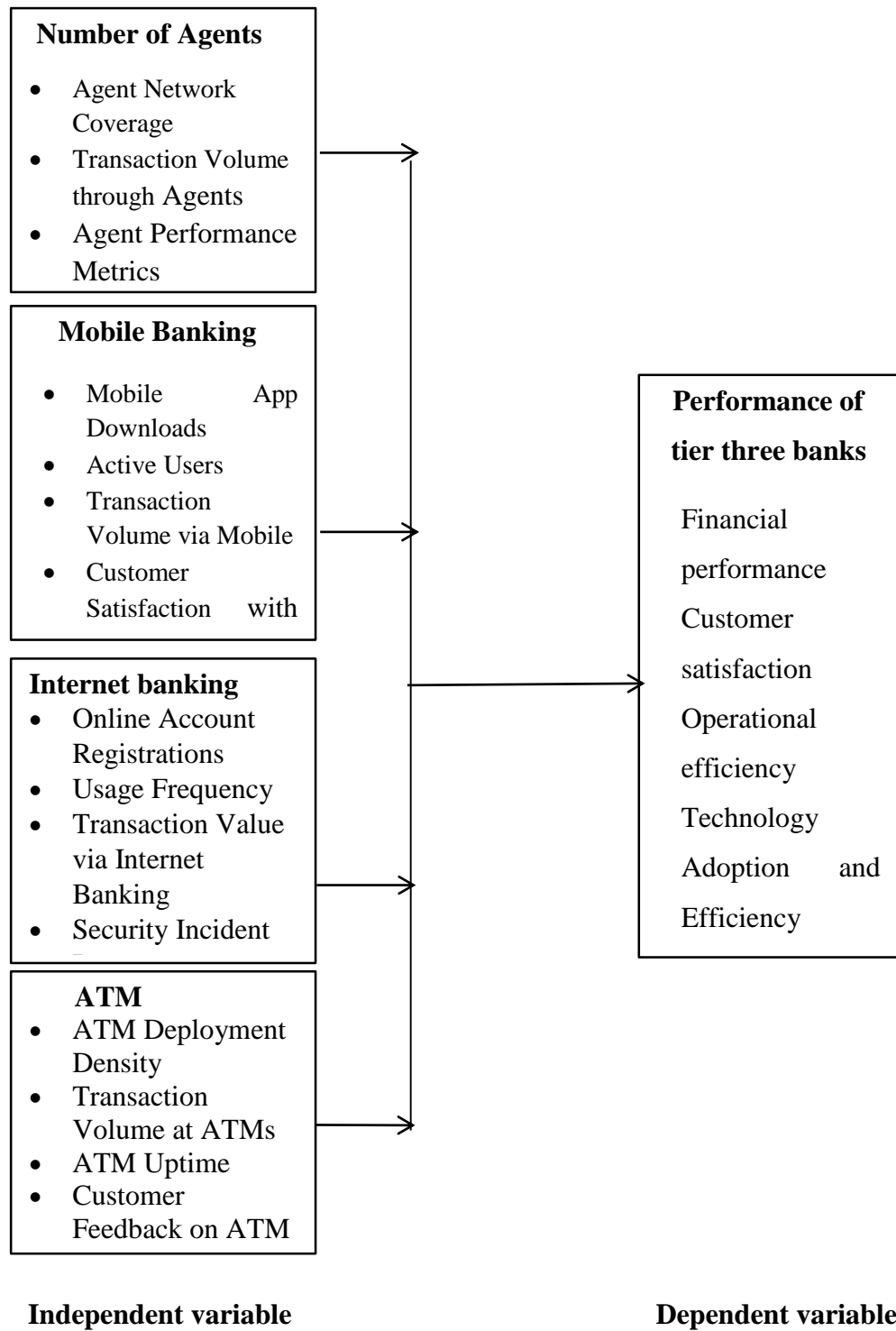
Source: Author (2025)

## **2.5 Operationalization**

The operationalization framework illustrates the relationship between alternative strategies and the performance outcomes of tier three commercial banks. It provides a structured lens to examine how strategic choices influence financial and operational performance within the banking sector.

**Figure 2. 3:**

*Operationalization Framework*



## **2.6 Chapter Summary**

The study sought to explore the effect of alternative strategies on performance outcomes of tier three commercial banks in Nairobi, Kenya. This segment analyzed the various theoretical frameworks employed in the study, including the Technology Acceptance Model, Agency Theory, and the Resource-Based View Theory. These theories provided a foundation for explaining how adoption of innovative banking strategies, contractual relationships, and utilization of internal resources influenced the performance of commercial banks.

The chapter further examined the independent variables in line with the study objectives. The first objective was to explore the effects of agency banking on the performance of tier three commercial banks in Nairobi, Kenya. Reviewed literature highlighted how agency banking improved financial inclusion, reduced transaction costs, and expanded market coverage, though challenges of regulation and operational risks persisted.

The second objective was to establish the effects of mobile banking on the performance of tier three commercial banks in Nairobi, Kenya. Empirical studies revealed that mobile banking enhanced convenience, customer retention, and transaction efficiency, although issues of cybersecurity and system downtimes affected customer confidence. The third objective was to assess the effect of internet banking on the performance of tier three commercial banks in Nairobi, Kenya. Findings indicated that internet banking supported efficiency, improved customer service delivery, and expanded access to banking services, yet adoption was limited by digital literacy gaps, infrastructure challenges, and high initial costs.

The fourth objective was to establish the effect of Automated Teller Machine (ATM) banking on the performance of tier three commercial banks in Nairobi, Kenya. Literature reviewed showed that ATM banking improved customer satisfaction and transaction speed but faced challenges related to machine breakdowns, maintenance costs, and security risks.

The empirical review emphasized the study locations, findings, and recommendations from different contexts. Conceptual, contextual, and empirical gaps were identified, justifying the need for the current study to focus on alternative banking strategies in the context of tier three commercial banks in Nairobi, Kenya.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The chapter presents the research approach and methods utilized in conducting the study. It included an overview of the study design, defined the population of interest, and specified the sampling frame and the methods utilized to determine the size of the sample. Furthermore, it elaborated on the data collection instruments and methods, alongside the procedures for it also detailed the procedures for data analysis and the manner in which the findings would be presented.

#### **3.2 Research Design**

Study design was essential for organizing how data was collected and analyzed, ensuring the study's questions were effectively answered (Edgar & Manz, 2017). The study employed a cross-sectional research design, starting with the gathering of quantitative data which was then supplemented by qualitative data for deeper insights. The quantitative stage employed a descriptive research approach to examine the relationship between alternative banking strategies and the performance of tier-three commercial banks in Kenya. Data was collected through structured questionnaires, enabling statistical evaluation to assess the proposed hypotheses. (Denscombe, 2017).

After analyzing the quantitative data, qualitative methods were used, including interviews with key stakeholders like bank managers and service providers. This helped to add context and depth to the numerical findings, revealing the complexities of the banking environment and the implementation of alternative strategies. By following this approach, the study

aimed to gain a well-rounded understanding of the research problem, taking advantage of both quantitative and qualitative data.

### **3.3 Target Population**

A population is defined as the full set of entities or subjects that a study intends to analyze and derive insights from (Kothari, 2019). For the purposes of this study, the target population consisted of 21 licensed under tier-three commercial banks functioning in Kenya as of the year 2023, as documented in the CBK Report of 2023 (Appendix VI). The unit of observation was individual employees. According to the CBK report, the banking sector employed a total of 2,123 individuals. This study explored insights from various levels of employees—senior management, and middle management to understand how alternative banking strategies influenced their roles and impacted overall bank performance. Unit of analysis comprised the individual managerial employee (senior or middle management) within tier-three banks in Nairobi.

### **3.4 Sampling Procedure**

Sampling referred to the process of selecting a subset from a larger target population to ensure that the sample accurately represented the key characteristics of the entire group (Leedy & Ormrod, 2019). A stratified sampling technique was used in the study to draw a representative sample from the tier-three commercial banks operating in Kenya. Stratified sampling was ideal for this study as it ensured representation from all relevant subgroups of tier-three banks in Kenya, such as size and location (Kothari, 2019). This method improved the accuracy of the results by capturing key differences within the population (Taherdoost, 2016). It also minimized bias and provided a more reliable basis for

generalizing findings about the entire sector (Creswell, 2014). The research applied Yamane's equation to determine the suitable number of banks to include in the sample:

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

Where:

n = desired sample size, N =overall population size, e =margin of error (precision), expressed as a decimal (for instance, 0.05 indicates a 5% margin of error).

$$n = \frac{21}{1 + 21(0.05^2)}$$

$$n = 20$$

The study therefore selected 20 banks to ensure a representative cross-section of the tier three categories. Specifically, the study included 3 senior managers and 5 middle management employees from each bank. This approach resulted in a total sample of six employees per bank. With 20 banks participating, the overall sample size was 160 employees.

This stratified sampling method ensured that employees at various managerial levels within the selected banks were represented, providing an extensive understanding of the impacts of alternative banking strategies on third-tier bank performance.

**Table 3. 1:**  
*Sample Size*

| <b>Employee category</b> | <b>Number of respondents</b> | <b>Total number of banks</b> | <b>Total respondents</b> |
|--------------------------|------------------------------|------------------------------|--------------------------|
| Senior management        | 3                            | 20                           | 60                       |
| Middle Management        | 5                            | 20                           | 100                      |
| <b>Total</b>             | <b>6</b>                     | <b>20</b>                    | <b>160</b>               |

### **3.4.1 Inclusion and Exclusion Criteria**

The study focused on Tier Three commercial banks in Kenya, as classified by the Central Bank of Kenya (CBK). Banks included were required to have been operational for at least 36 months and to offer a broad range of banking services, including digital platforms. Institutions excluded from the study included non-commercial banks such as microfinance institutions, SACCOs, and non-bank financial institutions. Additionally, banks with less than three years of operation or those facing major regulatory sanctions within the last three years were excluded to ensure data reliability and regulatory compliance.

### **3.5 Data Collection Instruments**

Research instruments were essential tools for gathering the data that needed to answer the research questions. In this study, primary data was collected through a questionnaire aimed at capturing participants' perceptions and opinions related to the subject of the research. Utilizing a questionnaire allowed for a comprehensive collection of opinions and experiences from a larger group of respondents in a short time (Creswell & Creswell, 2017).

To support this process, the questionnaire incorporated a five-point Likert scale, spanning from "strongly disagree" to "strongly agree." The format allowed participants to clearly indicate the extent of their agreement with different statements (McLeod, 2019). The Likert scale was effective for measuring perceptions and attitudes, as it allowed for a straightforward analysis of the responses. This method ensured that the data collected was both relevant and easily interpretable (Kumar, 2019).

### **3.7 Pilot Study**

Conducting a pilot study was a vital component of the research methodology, enabling researchers to refine their data collection tools prior to full-scale implementation. To evaluate the reliability and clarity of the questionnaire, a preliminary test was conducted with a limited group of respondents. van Teijlingen and Hundley (2002) emphasized that this preliminary testing was essential for gathering insights, which helped pinpoint any ambiguities or misunderstandings in the questions, thus reducing the likelihood of inaccuracies during main data collection stage.

In addition, the pilot study focused on evaluating both the validity and reliability of the questionnaire. Consistent with the recommendations of Bloomfield and Fisher (2019), this pilot included 5% of the target population, specifically involving two selected commercial banks namely Sidian Bank Ltd and Habib Bank AG Zurich. As noted by Kothari (2019), there was no requirement for statistical selection of respondents in pilot tests. Therefore, distributing 35 questionnaires among individuals at senior and middle level management, from these banks ensured an adequate sample size for pilot testing, ultimately validating the instruments for the primary research.

### **3.8 Reliability of Data Collection Instruments**

In research, reliability denotes the length to which an instrument accurately measures consistently assesses what it is intended to measure. Bell et al. (2018) highlighted that reliable measurements yielded stable results across different scenarios. This study implemented the Cronbach alpha method to evaluate reliability, where a score of 0.7 or above was typically acceptable, and 0.6 was permissible for initial tools. By applying this measure, the study aimed to enhance the reliability of its findings and reinforce their trustworthiness.

### **3.9 Validity of Data Collection Instruments**

Validity was crucial for data collection instruments, as it determined how well they measured the intended variables (Kumar, 2019). The researcher involved supervisors in the validation process by having them assess the questionnaires and provide feedback. Furthermore, consultations with faculty members from the Department of Business at Kenya Methodist University ensured that the instruments met standards for face, construct, and content validity. This approach aimed to create clear and relevant questions that aligned with the research goals.

### **3.10 Data Collection Methods**

Collecting data was a crucial component of the research process, involving the organized gathering of information relevant to the research goals. For this study, the data collection process began after obtaining a research permit from National Commission for Science, Technology, and Innovation (NACOSTI), which was granted upon receiving an official authorization letter from Kenyatta University (KeMU). The approval process was

anticipated to take approximately two weeks. Once all necessary permissions were obtained, the researcher developed and prepared structured questionnaires tailored for the target respondents.

The primary data collection employed a "drop and pick" method, which has been shown to enhance response rates by allowing respondents flexibility in completing the questionnaires. A comprehensive list of the tier three commercial banks operating in Nairobi, along with their contact details, was compiled from online directories and official banking regulatory sources. The researcher contacted each bank to schedule appointments with the respective managers, ensuring convenience and cooperation.

Questionnaires were distributed in person at the banks' headquarters, providing respondents (senior management, middle management, and operational staff) sufficient time to complete them. Respondents were initially given a one-week period to fill and return the questionnaires, with an option to request a one-week extension if needed. This flexible timeline helped maximize participation while respecting the busy schedules of bank personnel. In instances where questionnaires were not returned within the stipulated time, the researcher conducted follow-up visits and phone calls to understand the reasons for non-response. Feedback gathered during these follow-ups was instrumental in identifying potential barriers such as time constraints or reluctance to share sensitive information, which informed adjustments to data collection strategies.

In addition to primary data, secondary data on bank financial performance was collected at the banks' headquarters in Nairobi. This involved retrieving existing financial records including audited financial statements, annual reports, and performance indicators

maintained by the banks. The key metric used to the performance metric used was Return on Assets (ROA), computed by dividing the net income by total assets, providing a standardized measure of profitability and asset utilization efficiency (Beck et al., 2021). When requested documents were not readily available or incomplete, the researcher liaised with bank managers to understand the underlying challenges, such as confidentiality concerns or administrative delays. These engagements provided valuable insights into improving data accessibility and ensured that the secondary data incorporated into the study was as comprehensive and reliable as possible.

### **3.11 Data Analysis**

Data analysis was defined by Kothari (2019) as the methodical handling, processing, and organization of data to generate insightful information. In this research, the information collected through the questionnaires underwent quantitative analysis utilizing both descriptive and inferential statistical methods. SPSS version 26 was employed, which provided capabilities for both types of statistical assessments. Descriptive statistics including averages and standard deviations, were calculated to encapsulate the features of the study variables, along with graphical representations to effectively illustrate the dataset.

Inferential statistical techniques were also applied, particularly focusing on correlation and regression analyses, to assess the connections between the variables. The influence of agency banking, mobile banking, internet banking, and ATM banking on the performance of tier three banks was analyzed using regression coefficients and bivariate correlation techniques. The multivariate regression model for this analysis was expressed as follows:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon \quad (I = 1, 2, 3, 4) \dots\dots\dots (1a)$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \dots\dots\dots (1b)$$

Where:

Y = Third tier bank performance, X<sub>1</sub> = Agency banking, X<sub>2</sub>= Mobile banking, X<sub>3</sub> = Internet banking, X<sub>4</sub>= ATM banking and ε = Error term

The findings from this analysis were illustrated through tables for ease of interpretation. To evaluate the effect of the alternative banking strategies on bank performance, the calculated p-values of the regression coefficients were compared to a significance threshold of 0.05. When p-value was less than 0.05, it indicates a statistically significant relationship, leading to the rejection of null hypothesis. Conversely, a p-value greater than 0.05 hints that there was insufficient evidence to reject the null hypothesis.

### **3.11.1 Diagnostic Tests**

Before carrying out regression analysis, the study checked the Ordinary Least Squares (OLS) assumptions using several diagnostic tests to ensure the results were reliable. Initially, the study conducted a multicollinearity assessment to examine the interrelationships among the independent variables. This was achieved using the Variance Inflation Factor (VIF) as the analytical tool. A VIF value of 1 meant there was no multicollinearity, while values above 1 indicated that multicollinearity might be present. High VIF values could make the coefficient estimates less reliable.

### **Test for Normality**

Evaluating normality is crucial to evaluates if data follows a normal distribution, which is a fundamental assumption for many statistical methods., such as regression models.

Normality ensures reliable and unbiased results in hypothesis testing. When data does not succeed a normal distribution, the results of the analysis may lead to misleading or incorrect conclusions. Therefore, assessing normality is essential before conducting further statistical tests.

Various methods can be used to assess normality, including visual aids like histograms and Q-Q plots as well as formal statistical tests like Shapiro-Wilk test, Kolmogorov-Smirnov test, and Anderson-Darling test. These approaches help determine how well the data matches a normal distribution. A p-value greater than the conventional threshold of 0.05 typically indicates that the data does not significantly deviate from normality., the data is generally regarded as following a normal distribution.

The Kolmogorov-Smirnov Test was chosen for this study due to its suitability for larger sample sizes, such as the 143 respondents in this study. While the Shapiro-Wilk test is effective for smaller datasets (less than 50), it can be less reliable for larger samples. Additionally, the Kolmogorov-Smirnov test offers greater flexibility, as it can assess the goodness of fit for various distributions, unlike the Shapiro-Wilk test, which is specific to normality. Furthermore, the Kolmogorov-Smirnov test is less sensitive to small deviations in the tails of the distribution, making it more appropriate for larger datasets. Given these advantages, the Kolmogorov-Smirnov Test was the most suitable choice for normality testing in this study.

### **Test for Homoscedasticity**

Homoscedasticity is a major assumption in regression analysis, stating that the variance of the error terms should remain constant across all levels of the independent variables. This

assumption was crucial for the validity of regression analysis, as violations of homoscedasticity (i.e., the presence of heteroscedasticity) could lead to inefficient estimates, biased statistical tests, and inaccurate inferences. To ensure the reliability of regression results in this study, homoscedasticity test was conducted.

Various methods were used to test for homoscedasticity, with the Breusch-Pagan test and White test being some of the most common (Flores & Palacios, 2024). Additionally, visual inspection methods, such as plotting residuals versus fitted values, were employed to identify patterns that might indicate heteroscedasticity. In this study, a combination of these tests and graphical methods was used to assess whether the data met the assumption of homoscedasticity. By confirming homoscedasticity, this study ensured that the regression model produced reliable standard errors, which were essential for making valid statistical inferences and ensuring that the conclusions drawn from the data were robust.

### **Multicollinearity Test**

In the methodology chapter, Multicollinearity was examined to confirm the dependability of the results. This issue occurs when two or more independent variables in a regression model are highly correlated, which can lead to distorted or unreliable estimates of the regression coefficients. Elevated multicollinearity can increase the standard errors of the estimated coefficients, potentially resulting in misleading interpretations of the relationship between the predictors and the dependent variable.

The hypotheses for multi-collinearity were as follows:

**H<sub>0</sub>:** There is no significant multi-collinearity among the predictors.

**H<sub>1</sub>:** There is significant multi-collinearity among the predictors.

Multicollinearity was evaluated by computing the Variance Inflation Factor (VIF) and Tolerance values. The VIF measures the extent to which the variance of a regression coefficient is increased as a result of correlations with other independent variables. A VIF greater than 10 suggests significant multi-collinearity, which would warrant corrective action. In addition, Tolerance, which is the reciprocal of VIF, was used as an additional check. A Tolerance value below 0.1 signals problematic multi-collinearity.

### **Auto-correlation Test**

The Durbin-Watson statistic was utilized to detect the presence of autocorrelation in residuals of the regression model. Autocorrelation refers to the correlation of residuals from an observation with those from another, which can result in biased and inefficient estimates. The Durbin-Watson statistic ranges from 0 to 4, where a value close to 2 indicates no autocorrelation. Scores below 2 indicate positive autocorrelation, while those above 2 indicate negative autocorrelation (Wooldridge, 2016).

In this research, the Durbin-Watson statistic was computed to verify that the assumption of residual independence was satisfied. A value close to 2 indicated that autocorrelation was not a concern, ensuring validity of the regression results and supporting the robustness of the analysis regarding the relationship between banking strategies and organizational performance.

### **3.12 Ethical Consideration**

This study strictly adhered to established research ethics principles as outlined by the university's research ethics guidelines and international standards such as the Belmont Report. Ethical approval was sought and obtained from the relevant institutional ethics review board prior to data collection. Before distributing questionnaires, participants were provided with a detailed informed consent form explaining the purpose of the study, the voluntary nature of participation, and the right to withdraw at any time without penalty. The consent form also emphasized that there were no foreseeable physical or psychological risks associated with participating in the study.

Anonymity and confidentiality were rigorously maintained. No personally identifying information was collected, and all responses were coded and stored securely in password-protected digital files, accessible only to the researcher. Any printed documents were kept in a locked cabinet. Upon completion of the research, data will be destroyed in accordance with data protection policies.

Sensitive questions were phrased in a non-intrusive manner and handled with discretion to ensure participants' psychological comfort. Participants were made aware that their responses would be used exclusively for academic purposes and that no commercial interests were involved. The study also upheld the principles of respect, fairness, and transparency, ensuring that all individuals were treated with dignity and that their privacy and autonomy were fully respected throughout the research process.

## CHAPTER FOUR

### RESEARCH RESULTS AND DISCUSSION

#### 4.1 Introduction

This chapter provided an overview of the response rates, pilot study results, demographic characteristics, and descriptive analysis. It also presented the results of diagnostic tests that assessed multicollinearity, normality, heteroscedasticity, autocorrelation, and linearity. The inferential analysis interpreted these results with respect to the research objectives and hypotheses. The chapter concluded by discussing the findings in the context of relevant literature, providing insights that enhanced the understanding of the study's key research questions. The study sought to explore the effect of alternative strategies on performance outcomes of tier three commercial banks in Nairobi, Kenya.

#### 4.2 Response Rate

A total of 160 questionnaires were distributed to participants from 20 banks. Out of these, 143 were completed correctly and submitted, yielding a response rate of 89.4%.

**Table 4. 1:**  
*Response Rate*

| Category          | Targeted respondents | Responded  | Percentage (%) |
|-------------------|----------------------|------------|----------------|
| Senior management | 60                   | 51         | 35.7           |
| Middle management | 100                  | 92         | 64.3           |
| <b>Total</b>      | <b>160</b>           | <b>143</b> | <b>100.0</b>   |

Table 4.1 shows that 51 out of 60 senior management respondents (35.7%) completed and returned the questionnaires. For middle management, 92 out of 100 respondents (64.3%) participated. In total, 143 responses were received from the 160 targeted respondents,

resulting in an overall response rate of 89.4%. The high response rate highlights reliability and robustness of the data, ensuring that the findings are both representative and valid for analysis.

According to Walliman (2021), response rate of 50% or higher is generally acceptable, 60% is considered good, and 70% or higher is viewed as excellent (Martinez & Johnson, 2021). The 89.4% response rate in this study significantly exceeds these benchmarks, reflecting a strong level of engagement and further ensuring the reliability of the data for in-depth analysis.

### **4.3 Pilot Study Results**

Before the primary data collection, a pilot study was conducted out to test the research tools and confirm their suitability. The primary aim of pilot study was to assess the feasibility and efficiency of research instruments and to detect any potential challenges in the data collection procedure., and refine the tools to enhance their reliability and validity (DePoy, 2024). This was critical to address any issues before proceeding with the main data collection. In this study, the pilot involved 16 respondents, representing 10 percent of the total sample size of 160. Participants were selected from two commercial banks—Housing Finance bank and Victoria Commercial Bank—to ensure the sample accurately reflected the target population.

Both senior and middle management were included, providing a diverse range of perspectives from different levels of responsibility. This helped assess the instrument's clarity, relevance, and reliability, ensuring that the questions were understandable and applicable across various roles.

The feedback obtained from the pilot study revealed minor issues, such as unclear phrasing in specific questions and a few instances of respondents leaving questions unanswered due to ambiguity. As a result, the questionnaire was refined to improve clarity and reduce confusion. Additionally, the survey length was adjusted by removing redundant questions and rewording certain items for better flow and respondent engagement.

### 4.3.1 Reliability Test

Reliability denotes the degree to which an instrument consistently measures the intended construct (Bell et al., 2018). In this research, Reliability was evaluated through Cronbach's Alpha, to estimate internal consistency. Typically, a Cronbach's Alpha score greater than 0.7 is considered indicative of acceptable reliability (Davis, 2021). As shown in Table 4.2, all variables attained Cronbach's Alpha scores above 0.70, indicating that the research instrument demonstrated acceptable reliability. These results suggest that the instrument ensured consistency and stability in the data collected, making it suitable for further analysis.

**Table 4. 2:**

*Reliability Results*

| <b>Variable</b>            | <b>Alpha Statistics</b> | <b>No. of items</b> | <b>Interpretation</b> |
|----------------------------|-------------------------|---------------------|-----------------------|
| Agency banking strategy    | 0.744                   | 12                  | Moderate              |
| Mobile banking strategy    | 0.732                   | 9                   | Moderate              |
| Internet banking strategy  | 0.743                   | 9                   | Moderate              |
| ATM banking strategy       | 0.787                   | 9                   | Moderate              |
| Organizational performance | 0.825                   | 12                  | Excellent             |

All variables indicate a strong internal consistency with Cronbach's Alpha values greater than 0.70 benchmark. The highest value was observed for the ATM banking strategy

(0.843), while the lowest was for the agency banking strategy (0.744). Both values meet the required threshold for reliability, confirming that the instrument is suitable for further analysis.

The difference in the number of items across the constructs reflects the scope and nature of each variable measured. Agency banking and organizational performance required a broader range of indicators (12 items each) to capture their multiple dimensions, while mobile banking, internet banking, and ATM banking strategies were adequately assessed using 9 items each. This variation does not affect the reliability of the instrument. All constructs recorded Cronbach's Alpha values above the 0.70 threshold, indicating strong internal consistency and confirming suitability for further analysis.

#### **4.3.2 Validity Test**

A validity test determines whether measurement instrument accurately evaluate what it is intended to evaluate, ensuring meaningful and reliable results in line with research objectives. It assesses the instrument's quality and relevance in capturing specific variables or constructs. The study conducted various validity tests including content validity, face validity and construct validity.

Content validity pertains to how well a measurement tool, like a questionnaire, captures all aspects of the concept it is intended to measure. It ensures that the instrument encompasses all relevant aspects of the topic, without excluding important areas (Flick, 2015). In the current study, content validity was established by consulting experts in banking and management to review the instrument. These experts, including senior bank managers and experienced researchers, assessed whether the survey items thoroughly addressed all

aspects of banking performance, mobile banking, agency banking, internet banking, and ATM banking. Their feedback helped refine the instrument, ensuring that it was comprehensive, relevant, and aligned with the study's objectives.

Face validity, in contrast, refers to the extent to which a measurement instrument seems, on the surface, to assess what it is supposed to measure. This type of validity is based on the judgment of non-experts or participants themselves (Mukherjee & Banerjee, 2019). In this study, face validity was ensured by having a small group of bank managers review the survey to evaluate whether the questions seemed appropriate and relevant to their roles. Their feedback confirmed that the instrument appeared to align with study's objectives, and that the questions were clear, relevant, and applicable to their daily banking responsibilities. This process enhanced the instrument's perceived relevance and ease of use (DePoy, 2024).

Construct validity pertains to the degree to the extent a measurement tool accurately reflects theoretical concept it is designed to evaluate, ensuring that it captures the intended construct rather than extraneous or unrelated elements. In this study, construct validity was assessed through Kaiser-Meyer-Olkin (KMO) measure together Bartlett's Test of Sphericity to confirm whether the data was suitable for factor analysis.

The KMO values for the study variables ranged from 0.743 to 0.884, demonstrating that the data were suitable for factor analysis as they fall within the acceptable range ( $KMO > 0.7$ ) for all variables (see Table 4.3). Bartlett's Test of Sphericity yielded statistically significant outcomes ( $p < 0.001$ ) across all variables, further supporting the suitability of the data for factor analysis. As a result, all variables—mobile banking, agency banking,

internet banking, and ATM banking—were validated as legitimate constructs, ensuring their representativeness in the measurement tool and supporting their construct validity.

**Table 4. 3:***Validity test of Study Variables*

| Variable                  | KMO   | Bartlett's Test of Sphericity |    |       | Conclusion Validity |       |
|---------------------------|-------|-------------------------------|----|-------|---------------------|-------|
|                           |       | Approx. Chi Square            | df | Sig   |                     |       |
| Agency banking strategy   | 0.884 | 7227.519                      | 36 | 0.000 | Middling            | Valid |
| Mobile banking strategy   | 0.783 | 545.847                       | 21 | 0.000 | Middling            | Valid |
| Internet banking strategy | 0.743 | 493.218                       | 36 | 0.000 | Middling            | Valid |
| ATM banking strategy      | 0.812 | 652.687                       | 36 | 0.000 | Middling            | Valid |

#### 4.4 Descriptive Results

##### 4.4.1 Demographic characteristics of respondents

This section provided an overview of the respondents' demographic characteristics, which were crucial for understanding the context of their responses. These characteristics, including gender, age, education level, job category, and work experience, offered valuable insights into the individuals involved in decision-making and operational roles within tier-three banks. This helped contextualize the responses received, facilitating a deeper and more thorough examination of the connection between alternative banking strategies and performance of tier-three banks.

##### 4.4.2 Gender

The study sought to gather information on gender distribution of respondents, which was illustrated in Table 4.4. Collecting gender data was important to determine whether there was a balance or disparity in male and female representation among respondents, since gender dynamics may influence perspectives on banking strategies and organizational performance.

**Table 4. 4:**  
*Respondents by Gender*

| <b>Gender</b> | <b>Frequency</b> | <b>Percentage %</b> |
|---------------|------------------|---------------------|
| Male          | 85               | 59.4                |
| Female        | 58               | 40.6                |
| <b>Total</b>  | <b>143</b>       | <b>100.0</b>        |

The findings reveal that most participants were male (59.44%), whereas females made up 40.56% of the sample. This reflects a gender gap in managerial roles, although female representation in banking is increasing. Similar trends have been observed in other studies. Karanja et al. (2022) reported that men held about 62% of senior management positions in Kenya’s banking sector, citing workplace culture and limited mentorship opportunities for women. Adegbite and Olayemi (2023) noted that despite gender equality policies, women in African financial institutions still face challenges such as implicit bias and fewer leadership development opportunities.

#### **4.4.3 Age**

The study sought to gather information on the age distribution of the respondents, which was presented in Table 4.5.

**Table 4. 5:**  
*Distribution of Respondents by Age*

| <b>Age</b>    | <b>Frequency</b> | <b>Percentage</b> |
|---------------|------------------|-------------------|
| 21 – 30 Years | 8                | 5.6               |
| 31 – 40 Years | 47               | 32.9              |
| 41 – 50 Years | 62               | 43.4              |
| 51 – 60 Years | 26               | 18.2              |
| <b>Total</b>  | <b>143</b>       | <b>100.0</b>      |

The data show that most respondents were within the 31 to 50-year age range, with 62 respondents (43.4%) in the 41–50 years’ category and 47 respondents (32.9%) in the 31–40 years category. This implies that a considerable segment of the managerial staff is comprised of individuals in the middle-age bracket, reflecting the prominence of experienced professionals in leadership roles within the banking sector. In contrast, the younger age group, 21–30 years, had the fewest respondents, with only 8 individuals (5.6%) in this category. The 51–60 years’ group had 26 respondents (18.2%), representing a smaller but notable proportion of the managerial workforce.

These findings suggest that while younger professionals are entering managerial roles, there is still a stronger representation of middle-aged professionals in the banking sector. This trend may reflect the time required for career progression and accumulation of relevant experience in the industry. Similar trends have been observed in other studies, where a significant portion of the managerial workforce is composed of individuals with substantial work experience. For example, Kirimi et al. (2022) found that mid-career professionals tend to dominate senior roles due to their greater experience and skillset. Hillowle and Warui (2021) similarly noted that experienced professionals contribute more

significantly to the performance and sustainability of commercial banks due to their deeper understanding of the sector.

The results highlight the importance of balancing the expertise and experience of middle-aged managers with the fresh perspectives and digital skills that younger professionals bring to the industry. As the sector continues to evolve, particularly with digital banking innovations, investing in leadership development for young professionals could ensure a more dynamic and forward-thinking banking leadership in the future.

#### 4.4.4 Education Level

The study aimed to determine education level of respondents, as shown below.

**Table 4. 6:**  
*Education Level of the Respondents*

| <b>Education Level</b>     | <b>Frequency (F)</b> | <b>Percentage (%)</b> |
|----------------------------|----------------------|-----------------------|
| Secondary/O Level          | 0                    | 0.0                   |
| Others (CPA K, ACCA, etc.) | 28                   | 19.6                  |
| Bachelor’s Degree          | 71                   | 49.7                  |
| Master’s Degree            | 44                   | 30.8                  |
| <b>Total</b>               | <b>143</b>           | <b>100.0</b>          |

The majority of respondents, 71 (49.7%), hold a Bachelor's degree, highlighting the importance of formal academic qualifications for bank managers. Additionally, 44 respondents (30.8%) have a Master's degree, indicating the value placed on advanced education. The "Others" category, which includes professional certifications like CPA K and ACCA, accounted for 28 respondents (19.6%), demonstrating the relevance of specialized qualifications in banking leadership.

These findings are consistent with previous studies. Pinto and Segura (2025) noted that higher education positively influences managerial effectiveness in banks, while Okiro and Ndungu (2019) emphasized the value of professional certifications in improving financial management practices. In conclusion, the banking sector prioritizes higher education and professional qualifications, underlining the need for skilled professionals to navigate the problems of the industry.

#### 4.4.5 Job Category

The study sought to identify the job categories of respondents. The findings were illustrated in Table 4.7.

**Table 4. 7:**  
*Job Category of the Respondents*

| <b>Education Level</b> | <b>Frequency (F)</b> | <b>Percentage (%)</b> |
|------------------------|----------------------|-----------------------|
| Senior Management      | 51                   | 35.7                  |
| Middle Management      | 92                   | 64.3                  |
| <b>Total</b>           | <b>143</b>           | <b>100.0</b>          |

The results show that the majority of respondents were from middle management, with 92 individuals (64.3%) falling into this category. Senior management respondents accounted for 51 individuals (35.7%), indicating a stronger representation of middle management in the sample.

Similar trends have been observed in other studies. For instance, Omollo (2015) found that middle management often has greater interaction with operational tasks, which may increase their involvement in research surveys. Furthermore, Mutai and Miroga (2023) noted that middle managers in commercial banks are critical for bridging the gap between

senior management and lower-level employees, making their input vital for understanding organizational dynamics. These findings underscore the importance of considering the perspectives of both senior and middle management when studying organizational performance, as both levels contribute to the overall functioning of the bank.

#### 4.4.6 Working Experience

The study aimed to determine the working experience of the respondents. The results are summarized in Table 4.8

**Table 4. 8:**  
*Working Experience of the Respondents*

| <b>Years</b>  | <b>Frequency</b> | <b>Percentage %</b> |
|---------------|------------------|---------------------|
| Below 5 years | 17               | 11.9%               |
| 5 - 10 years  | 25               | 17.8%               |
| 11 - 15 years | 57               | 39.6%               |
| Over 15 years | 44               | 30.7%               |
| <b>Total</b>  | <b>143</b>       | <b>100.0%</b>       |

The majority of respondents, 57 individuals (39.6%), had 11 to 15 years of working experience, reflecting a well-experienced group of professionals. A significant portion, 44 respondents (30.7%), had over 15 years of experience, highlighting the presence of highly experienced individuals in the sample. On the other hand, 25 respondents (17.8%) had between 5 and 10 years of experience, while 17 respondents (11.9%) had less than 5 years of experience, suggesting that a small portion of the sample is relatively new to the field.

Previous studies have shown similar patterns. For example, Kirimi et al. (2022) found that a significant proportion of effective managers in commercial banks have between 10 and

20 years of experience. Mohamud and Warui (2021) also reported that professionals with over 10 years of experience often demonstrate greater decision-making ability and are more adept at managing complex banking operations.

These results underline the importance of experience in banking management and suggest that professionals with more years of service are better positioned to handle the industry's challenges, making them crucial for the overall performance and strategic direction of banks.

#### **4.5 Descriptive Results of Variables**

Descriptive analysis was essential in organizing and simplifying the complex data collected during the study, making it easier to identify trends and patterns. It provided an overview of the survey questionnaire responses, emphasizing key variables related to the research questions. Likert scale findings were numerically coded from 1-strongly disagree to 5-strongly agree and analyzed using descriptive statistics like means, frequencies, and even percentages to summarize participants' perceptions. Key measures like the mean and standard deviation offered insights into central tendency and variability of the data, indicating overall trends and consistency within the sample (Leedy & Ormrod, 2019). The data were presented in tables to enhance clarity, highlight emerging patterns or outliers, and provide a solid foundation for further analysis (Kumar, 2019).

##### **4.5.1 Agency Banking Strategy**

The first independent variable under investigation was Agency Banking Strategy, where respondents were asked to rate the level of agreement with statements concerning various aspects of agency banking. The questionnaire covered statements related to the following

indicators of Agency Banking Strategy: number of agents, agent network coverage, transaction volume through agents, and agent performance metrics. The results from the respondents are presented below.

**Table 4. 9:**  
*Descriptive Results for Agency Banking Strategy*

|  | 5             | 4             | 3             | 2             | 1            | M           | STD         |
|--|---------------|---------------|---------------|---------------|--------------|-------------|-------------|
| <b>Number of Agents</b>  |               |               |               |               |              |             |             |
| The bank has a sufficient number of agents to meet customer demand for banking services.                                 | 47<br>(32.9%) | 62<br>(43.4%) | 13<br>(9.1%)  | 17<br>(11.9%) | 4<br>(2.8%)  | <b>4.06</b> | <b>1.08</b> |
| The growth in the number of agents has positively impacted the accessibility of banking services in underserved areas.   | 26<br>(18.2%) | 38<br>(26.6%) | 22<br>(15.4%) | 46<br>(32.2%) | 11<br>(7.7%) | <b>3.39</b> | <b>1.12</b> |
| The bank's expansion of its agent network is effectively increasing its market penetration and customer reach.           | 24<br>(16.8%) | 50<br>(35.0%) | 20<br>(14.0%) | 35<br>(24.5%) | 14<br>(9.8%) | <b>3.19</b> | <b>1.13</b> |
| <b>Agent Network Coverage</b>  |               |               |               |               |              |             |             |
| The bank's agent network covers a wide geographic area, ensuring accessibility to banking services in diverse locations. | 39<br>(27.3%) | 55<br>(38.5%) | 25<br>(17.5%) | 18<br>(12.6%) | 6<br>(4.2%)  | <b>3.33</b> | <b>1.08</b> |
| Customers find it convenient to access banking services through the bank's extensive agent network.                      | 38<br>(26.6%) | 60<br>(42.0%) | 25<br>(17.5%) | 12<br>(8.4%)  | 8<br>(5.6%)  | <b>3.31</b> | <b>1.01</b> |
| The bank's agent network is effectively reaching rural and remote areas, thereby   | 47<br>(32.9%) | 55<br>(38.5%) | 17<br>(11.9%) | 17<br>(11.9%) | 7<br>(4.9%)  | <b>3.42</b> | <b>1.07</b> |

|  |               |               |               |               |               |             |             |  |
|--|---------------|---------------|---------------|---------------|---------------|-------------|-------------|--|
| promoting financial inclusion.   |               |               |               |               |               |             |             |  |
| <b>Transaction Volume through Agents</b>   |               |               |               |               |               |             |             |  |
| The volume of transactions processed through agency banking strategies reflects the bank's successful integration of agent services into its operations. | 34<br>(23.8%) | 51<br>(35.7%) | 18<br>(12.6%) | 31<br>(21.7%) | 9<br>(6.3%)   | <b>3.22</b> | <b>1.08</b> |  |
| Customers trust the bank's agents for conducting various financial transactions, as evidenced by the high transaction volumes.                           | 25<br>(17.5%) | 47<br>(32.9%) | 22<br>(15.4%) | 31<br>(21.7%) | 18<br>(12.6%) | <b>3.10</b> | <b>1.12</b> |  |
| The increase in transaction volume through agents indicates growing customer adoption and satisfaction with agency banking services.                     | 20<br>(14.0%) | 42<br>(29.4%) | 17<br>(11.9%) | 32<br>(22.4%) | 32<br>(22.4%) | <b>3.08</b> | <b>1.25</b> |  |
| <b>Agent Performance Metrics</b>   |               |               |               |               |               |             |             |  |
| Customers are generally satisfied with the service quality provided by the bank's agents.  | 32<br>(22.4%) | 60<br>(42.0%) | 26<br>(18.2%) | 17<br>(11.9%) | 8<br>(5.6%)   | <b>3.42</b> | <b>1.01</b> |  |
| The average transaction processing time by the bank's agents meets or exceeds customer expectations.   | 6<br>(4.2%)   | 45<br>(31.5%) | 20<br>(14.0%) | 41<br>(28.7%) | 31<br>(21.7%) | <b>2.74</b> | <b>1.19</b> |  |
| Error rates in transactions processed through agency banking strategies are minimal, demonstrating the   | 13<br>(9.1%)  | 57<br>(39.9%) | 29<br>(20.3%) | 30<br>(21.0%) | 14<br>(9.8%)  | <b>3.06</b> | <b>1.06</b> |  |

effectiveness of agent  
training and support.

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**Key: 1 = Strongly Disagree, 2= Disagree, 3= Neutral; 4 = Agree, 5 = Strongly Agree, M = Mean, STD = Standard Deviation**

The descriptive findings for the agency banking strategy reveal a mix of agreement and disagreement across different aspects of the bank's operations. Regarding the number of agents, respondents generally agreed that the bank has a sufficient number of agents to meet customer demand for banking services as reflected by a high mean score of 4.06. However, there was less agreement on whether the growth in the number of agents has positively impacted the accessibility of services in underserved areas, with a mean score of 3.39, suggesting some disagreement. Additionally, the effectiveness of the bank's agent network in increasing market penetration and customer reach received a lower mean score of 3.19, indicating a general sense of disagreement with the claim that the expansion of the network has been particularly effective in this regard.

When it comes to agent network coverage, respondents expressed mixed feelings. While a significant portion of respondents agreed that the bank's agent network spans a wide geographic area (mean = 3.33), ensuring accessibility to banking services, there was still some disagreement. The network's convenience for customers was similarly perceived with a mean score of 3.31, which indicates some hesitancy in agreeing that accessing banking services through the network is convenient. On a more positive note, respondents did agree that the bank's agent network is reaching rural and remote areas, which is contributing to financial inclusion, with a mean score of 3.42.

In terms of transaction volume, the results suggest that respondents were generally skeptical about the effectiveness of agency banking strategies in driving significant transaction volumes. With mean of 3.22 respondents disagreed that the volume of transactions reflects a successful integration of agents into the bank's operations. There was also disagreement about whether customers trust agents enough to conduct transactions, as evidenced by lower transaction volumes (mean = 3.10). Furthermore, respondents were not fully convinced that an increase in transaction volume indicates growing customer adoption and satisfaction with agency banking services, with a mean of 3.08.

Regarding agent performance metrics, respondents showed a mixture of agreement and disagreement. The service quality provided by agents was considered satisfactory, with a mean score of 3.42, indicating general agreement. However, there were notable concerns regarding transaction processing times, which did not meet customer expectations, as reflected in a mean score of 2.74. Furthermore, respondents disagreed that error rates in transactions processed through agency banking strategies were minimal, with a mean score of 3.06, suggesting that there are still challenges in ensuring effective agent training and error management.

Other studies on agency banking have found similar results. For example, research by Donovan (2022) indicated that while agent banking networks significantly increase accessibility in underserved areas, the quality of service and customer satisfaction often varies, impacting the adoption of services. Additionally, studies by Ghosh and Vinod (2019) suggest that while transaction volume can increase, factors such as trust,

convenience, and training remain key barriers to maximizing the full potential of agency banking networks.

#### 4.5.2 Mobile Banking Strategy

The second independent variable was the Mobile Banking Strategy. Respondents provided their ratings on various aspects of mobile banking, including accessibility, ease of use, transaction security, and user satisfaction. The data collected are summarized in Table 4.10.

**Table 4. 10:**  
*Descriptive Results for Mobile Banking Strategy*

|  | 5             | 4             | 3             | 2             | 1             | M           | ST<br>D     |
|--|---------------|---------------|---------------|---------------|---------------|-------------|-------------|
| <b>Mobile App Downloads</b>  |               |               |               |               |               |             |             |
| The number of downloads of the bank's mobile banking app reflects its popularity among customers.              | 25<br>(17.5%) | 46<br>(32.2%) | 23<br>(16.1%) | 28<br>(19.6%) | 21<br>(14.7%) | <b>3.00</b> | <b>1.25</b> |
| The increase in mobile app downloads indicates effective marketing and promotion strategies by the bank.       | 32<br>(22.4%) | 60<br>(42.0%) | 26<br>(18.2%) | 17<br>(11.9%) | 8<br>(5.6%)   | <b>3.42</b> | <b>1.01</b> |
| Customers find it easy to download and install the bank's mobile app, contributing to its widespread adoption. | 50<br>(35.0%) | 57<br>(39.9%) | 17<br>(11.9%) | 13<br>(9.1%)  | 6<br>(4.2%)   | <b>3.59</b> | <b>1.06</b> |
| <b>Active Users</b>  |               |               |               |               |               |             |             |

|   |               |               |               |               |               |             |             |
|---|---------------|---------------|---------------|---------------|---------------|-------------|-------------|
| The bank's mobile banking app has a significant number of active users on a monthly basis.  | 37<br>(25.9%) | 69<br>(48.3%) | 16<br>(11.2%) | 14<br>(9.8%)  | 7<br>(4.9%)   | <b>3.38</b> | <b>1.02</b> |
| The growth in active users demonstrates the app's effectiveness in retaining customer engagement.   | 31<br>(21.7%) | 40<br>(28.0%) | 23<br>(16.1%) | 28<br>(19.6%) | 21<br>(14.7%) | <b>3.04</b> | <b>1.21</b> |
| Customers regularly use the bank's mobile app for various banking activities, indicating its convenience and usability                            | 21<br>(14.7%) | 53<br>(37.1%) | 25<br>(17.5%) | 30<br>(21.0%) | 14<br>(9.8%)  | <b>2.93</b> | <b>1.11</b> |
| <b>Transaction Volume via Mobile</b>  |               |               |               |               |               |             |             |
| Total value of transactions processed via the bank's mobile banking platform reflects its integration into customers' daily financial activities. | 8<br>(5.6%)   | 37<br>(25.9%) | 15<br>(10.5%) | 42<br>(29.4%) | 41<br>(28.7%) | <b>2.02</b> | <b>1.30</b> |
| The increase in transaction volume via mobile banking strategies shows growing customer trust and reliance on the app.                            | 20<br>(14.0%) | 45<br>(31.5%) | 18<br>(12.6%) | 38<br>(26.6%) | 22<br>(15.4%) | <b>3.01</b> | <b>1.11</b> |

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|   |              |               |               |               |               |             |             |
|---|--------------|---------------|---------------|---------------|---------------|-------------|-------------|
| Customers prefer conducting transactions through the bank's mobile app due to its efficiency and accessibility. | 12<br>(8.4%) | 45<br>(31.5%) | 18<br>(12.6%) | 45<br>(31.5%) | 23<br>(16.1%) | <b>2.76</b> | <b>1.23</b> |
|---|--------------|---------------|---------------|---------------|---------------|-------------|-------------|

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**Key:**1 = Strongly Disagree, 2= Disagree, 3= Neutral, 4 = Agree, 5 = Strongly Agree, **M** = Mean, **STD** = Standard Deviation

The descriptive results for the mobile banking strategy show a combination of agreement and disagreement on various aspects of the bank’s mobile app usage and effectiveness. Regarding mobile app downloads, respondents expressed a neutral stance about the number of downloads reflecting the app’s popularity among customers, with a mean score of 3.00, indicating no strong agreement or disagreement. However, respondents showed agreement with the statement that the increase in mobile app downloads indicates effective marketing and promotion strategies by the bank, with a higher mean score of 3.42. Additionally, respondents agreed that the bank’s mobile app is easy to download and install, which contributes to its widespread adoption, as evidenced by mean score of 3.59.

In terms of active users, the results reveal that respondents generally agreed that the bank's mobile banking app has a significant number of active users on a monthly basis, reflected by a mean score of 3.38. However, there was more skepticism regarding the app’s ability to retain customer engagement, with a lower mean score of 3.04, suggesting some disagreement with the statement that the growth in active users demonstrates the app’s effectiveness in retaining engagement. Furthermore, respondents showed a more neutral stance on whether customers regularly use the app for various banking activities, as

indicated by a mean score of 2.93, signaling room for improvement in terms of app usage and customer habits.

Concerning transaction volume via mobile, respondents indicated a strong disagreement with the statement that the total value of transactions processed through the mobile banking platform reflects its integration into customers' daily financial activities, with a very low mean score of 2.02. This suggests that respondents do not see the app as playing a significant role in their daily banking transactions. However, there was agreement that the increase in transaction volume shows growing customer trust and reliance on the app, with a mean score of 3.01. On the other hand, respondents were more divided when it came to the preference for conducting transactions through the app due to its efficiency and accessibility, as reflected in a mean score of 2.76, indicating a mixture of agreement and disagreement on the app's efficiency.

These findings align with other studies in the field. Research by Ochieng (2018) found that while mobile banking adoption has been growing, transaction volume often lags behind due to concerns about security, usability, and trust. Similarly, Auriol and González Fanfalone, (2024) observed that, although mobile app downloads may reflect interest, active user engagement and transaction volume often remain below expectations, especially if the user experience does not meet customer needs for convenience and reliability.

### 4.5.3 Internet Banking Strategy

The third independent variable was Internet Banking Strategy. The questionnaire focused on aspects such as the reliability of internet banking services, user interface, security features, and overall satisfaction. Results are detailed in Table 4.11.

**Table 4. 11:**  
*The Descriptive Results for Internet Banking Strategy*

|  |                | 5          | 4          | 3          | 2          | 1          | M           | STD         |
|--|----------------|------------|------------|------------|------------|------------|-------------|-------------|
| <b>Online</b>  | <b>Account</b> |            |            |            |            |            |             |             |
| <b>Registrations</b>   |                |            |            |            |            |            |             |             |
| The number of new accounts registered for internet banking services reflects growing customer interest in digital banking solutions. |                | 6 (4.2%)   | 45 (31.5%) | 20 (14.0%) | 41 (28.7%) | 31 (21.7%) | <b>2.46</b> | <b>1.23</b> |
| Customers find it convenient to register for internet banking services provided by the bank.   |                | 14 (9.8%)  | 44 (30.8%) | 17 (11.9%) | 43 (30.1%) | 25 (17.5%) | <b>2.76</b> | <b>1.24</b> |
| The increase in online account registrations indicates effective marketing and promotion of internet banking options by the bank.    |                | 6 (4.2%)   | 23 (16.1%) | 22 (15.4%) | 54 (37.8%) | 38 (26.6%) | <b>2.30</b> | <b>1.18</b> |
| <b>Usage Frequency</b>   |                |            |            |            |            |            |             |             |
| Customers frequently log in or visit the bank's internet banking portal to perform various financial transactions.                   |                | 26 (18.2%) | 56 (39.2%) | 19 (13.3%) | 28 (19.6%) | 14 (9.8%)  | <b>3.01</b> | <b>1.19</b> |
| The regular usage of internet banking services demonstrates customer satisfaction with the platform's                                |                | 38 (26.6%) | 69 (48.3%) | 13 (9.1%)  | 17 (11.9%) | 6 (4.2%)   | <b>3.59</b> | <b>1.02</b> |

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|   |               |               |               |               |          |             |             |  |
|---|---------------|---------------|---------------|---------------|----------|-------------|-------------|--|
| usability and functionality.  |               |               |               |               |          |             |             |  |
| Customers prefer using the bank's internet banking portal for its convenience in managing their financial activities. | 23<br>(16.1%) | 51<br>(35.7%) | 32<br>(22.4%) | 29<br>(20.3%) | 8 (5.6%) | <b>3.06</b> | <b>1.13</b> |  |

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**Transaction Value via Internet Banking**

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|  |               |               |               |               |          |             |             |  |
|--|---------------|---------------|---------------|---------------|----------|-------------|-------------|--|
| The total monetary value of transactions conducted through the bank's internet banking platform reflects its integration into customers' financial routines. | 36<br>(25.2%) | 70<br>(49.0%) | 19<br>(13.3%) | 12<br>(8.4%)  | 6 (4.2%) | <b>3.30</b> | <b>1.08</b> |  |
| Customers trust the security and reliability of the internet banking platform for conducting high-value transactions.  | 23<br>(16.1%) | 73<br>(51.0%) | 24<br>(16.8%) | 18<br>(12.6%) | 5 (3.5%) | <b>3.39</b> | <b>1.03</b> |  |
| The increase in transaction value via internet banking strategies indicates growing customer confidence in digital banking services offered by the bank.     | 20<br>(14.0%) | 49<br>(34.3%) | 30<br>(21.0%) | 35<br>(24.5%) | 9 (6.3%) | <b>3.04</b> | <b>1.18</b> |  |

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**Key:1** = Strongly Disagree, **2**= Disagree, **3**= Neutral; **4** = Agree, **5** = Strongly Agree, **M** = Mean, **STD** = Standard Deviation

The descriptive results for the internet banking strategy reveal a combination of positive and negative perceptions of the bank's digital services. Regarding online account registrations, respondents expressed disagreement with the statement that the number of new accounts registered for internet banking services reflects growing customer interest in digital banking, as shown by a mean score of 2.46. Similarly, interviewee showed neutral to slight disagreement regarding the convenience of registering for internet banking

services (mean = 2.76). The statement about the effectiveness of bank's marketing and promotion of internet banking options also received a mean score of 2.30, indicating strong disagreement. These findings suggest that there is limited enthusiasm for internet banking registration, possibly due to perceived barriers to entry or insufficient promotion of the service.

In terms of usage frequency, respondents indicated a neutral stance toward the frequency of logging in or visiting the internet banking portal (mean = 3.01). However, there was strong agreement with the statement that regular usage demonstrates customer satisfaction with the platform's usability and functionality, reflected in a higher mean score of 3.59. Additionally, customers showed a preference for using the bank's internet banking portal for convenience in managing their financial activities, with a mean score of 3.06, indicating moderate agreement. It suggests that once customers are using the platform, they find it useful and convenient.

Regarding transaction value via internet banking, respondents generally agreed that the total monetary value of transactions conducted through the bank's internet banking platform reflects its integration into customers' financial routines, with mean score of 3.30. Additionally, trust in the security and reliability of the platform for conducting high-value transactions was noted, with a mean score of 3.39. However, the increase in transaction value indicating growing customer confidence in digital banking services received a slightly lower score (mean = 3.04), suggesting that while there is trust, there is still room for further growth in customer confidence.

These findings align with similar studies in digital banking. For instance, Smith et al. (2019) found that while customers appreciate the convenience of online banking, issues related to trust and security often hinder the adoption and frequent usage of these services. Similarly, Khan and Ali (2021) reported that despite improvements in internet banking platforms, many customers remain reluctant to make high-value transactions online due to concerns about security.

#### 4.5.4 ATM banking strategy

The fourth independent variable under investigation was ATM Banking Strategy, where respondents were requested to rate the level of agreement with statements provided inquiring about various aspects of ATM Banking Strategy. The questionnaire covered statements addressing the following indicators of ATM Banking Strategy: ATM Deployment Density, Transaction Volume at ATMs, and ATM Uptime. The results from the respondents are presented in Table 4.12.

**Table 4. 12:**  
*Descriptive Results for ATM banking strategy*

|   | 5          | 4          | 3          | 2          | 1         | M           | STD         |
|---|------------|------------|------------|------------|-----------|-------------|-------------|
| <b>ATM Deployment Density</b>   |            |            |            |            |           |             |             |
| The density of ATMs per capita in areas served by the bank ensures convenient access to cash withdrawal and other banking services. | 13 (9.1%)  | 57 (39.9%) | 29 (20.3%) | 30 (21.0%) | 14 (9.8%) | <b>2.83</b> | <b>1.23</b> |
| The bank's strategy of deploying ATMs in high-traffic locations effectively meets customer demand for                               | 23 (16.1%) | 81 (56.6%) | 22 (15.4%) | 13 (9.1%)  | 4 (2.8%)  | <b>3.43</b> | <b>1.04</b> |

|   |               |               |               |               |               |             |             |
|---|---------------|---------------|---------------|---------------|---------------|-------------|-------------|
| convenient banking access.  |               |               |               |               |               |             |             |
| Customers find it easy to locate and use the bank's ATMs, contributing to overall satisfaction with banking services.         | 20<br>(14.0%) | 64<br>(44.8%) | 14 (9.8%)     | 35<br>(24.5%) | 10 (7.0%)     | <b>3.16</b> | <b>1.14</b> |
| <b>Transaction Volume at ATMs</b>   |               |               |               |               |               |             |             |
| The total number of transactions processed through the bank's ATMs reflects their popularity and reliability among customers. | 16<br>(11.2%) | 58<br>(40.6%) | 22<br>(15.4%) | 38<br>(26.6%) | 9 (6.3%)      | <b>3.07</b> | <b>1.11</b> |
| Customers rely on the bank's ATMs for various banking transactions due to their convenience and accessibility.                | 13 (9.1%)     | 73<br>(51.0%) | 11 (7.7%)     | 34<br>(23.8%) | 12 (8.4%)     | <b>3.10</b> | <b>1.14</b> |
| The increase in transaction volume at ATMs indicates growing customer preference for self-service banking options.            | 15<br>(10.5%) | 59<br>(41.3%) | 18<br>(12.6%) | 38<br>(26.6%) | 13 (9.1%)     | <b>3.00</b> | <b>1.13</b> |
| <b>ATM Uptime</b>   |               |               |               |               |               |             |             |
| The bank's ATMs are operational and available for customer use a significant percentage of the time.                          | 18<br>(12.6%) | 73<br>(51.0%) | 23<br>(16.1%) | 21<br>(14.7%) | 8 (5.6%)      | <b>3.10</b> | <b>1.09</b> |
| Customers experience minimal downtime when using the bank's ATMs, ensuring reliable access to banking services.               | 19<br>(13.3%) | 46<br>(32.2%) | 25<br>(17.5%) | 38<br>(26.6%) | 15<br>(10.5%) | <b>3.05</b> | <b>1.12</b> |

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|  |           |            |            |            |           |             |             |
|--|-----------|------------|------------|------------|-----------|-------------|-------------|
| Feedback from customers suggests satisfaction with the reliability and uptime of the bank's ATM network. | 12 (8.4%) | 51 (35.7%) | 24 (16.8%) | 42 (29.4%) | 14 (9.8%) | <b>2.92</b> | <b>1.10</b> |
|--|-----------|------------|------------|------------|-----------|-------------|-------------|

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**Key: 1 = Strongly Disagree; 2= Disagree; 3= Neutral; 4 = Agree; 5 = Strongly Agree; M = Mean; STD = Standard Deviation**

The descriptive results for the ATM banking strategy highlight a mixture of positive and neutral customer perceptions, with some areas requiring attention to improve customer satisfaction and accessibility.

Regarding ATM deployment density, respondents expressed a slight disagreement with the statement that the density of ATMs ensures convenient access to banking services, as indicated by a mean score of 2.83. This suggests that while there is some convenience, customers may still face challenges in accessing ATMs. However, the bank's strategy of deploying ATMs in high-traffic locations received a more positive response, with a mean score of 3.43, indicating agreement that these locations meet customer demand effectively. Additionally, the ease of locating and using ATMs contributed to overall satisfaction with banking services, with a mean score of 3.16, which reflects moderate agreement.

In terms of transaction volume at ATMs, respondents agreed that the total number of transactions processed reflects the popularity and reliability of the bank's ATMs (mean = 3.07). Similarly, customers rely on the bank's ATMs for various banking transactions, as shown by a mean score of 3.10, suggesting that ATMs are an essential tool for self-service banking. However, the statement about the increase in transaction volume indicating growing customer preference for self-service banking options received a slightly lower

score (mean = 3.00), indicating that although there is some preference for ATMs, it may not be as strong as other channels.

Concerning ATM uptime, respondents generally agreed that the bank's ATMs are operational and available for customer use most of the time, with a mean score of 3.10. Furthermore, respondents reported experiencing minimal downtime when using ATMs (mean = 3.05), which suggests that the network is relatively reliable. However, feedback regarding customer satisfaction with the reliability and uptime of the bank's ATM network received a lower score of 2.92, indicating that while downtime is minimal, there is still room for improvement in customer perceptions of the overall reliability of the ATM network.

These findings align with previous research, such as NetXMS (2024), who stated that while customers generally value the accessibility and reliability of ATM services, issues like low ATM density in certain areas and occasional downtime still affect overall customer satisfaction. Similarly, Mohamud and Warui (2021) found that enhancing ATM availability and reducing operational failures are critical to improving the overall user experience.

#### **4.5.5 Organizational Performance**

The dependent variable in this study was organizational performance. This section evaluated the effectiveness of Tier Three Banks based on availability, transaction ease, customer support, and network coverage. The summarized data are shown in Table 4.13.

**Table 4. 13:**  
*Descriptive Results for Organizational Performance*

|   | 5             | 4             | 3             | 2             | 1             | M    | STD  |
|---|---------------|---------------|---------------|---------------|---------------|------|------|
| <b>Financial Performance</b>  |               |               |               |               |               |      |      |
| The bank's effective utilization of alternative banking strategies positively impacts ROA by expanding revenue streams.                               | 26<br>(18.2%) | 61<br>(42.7%) | 28<br>(19.6%) | 19<br>(13.3%) | 9 (6.3%)      | 3.08 | 1.13 |
| ROE improvement through alternative strategies enhanced profitability from shareholder investments in Nairobi City County.                            | 20<br>(14.0%) | 47<br>(32.9%) | 18<br>(12.6%) | 39<br>(27.3%) | 19<br>(13.3%) | 2.87 | 1.15 |
| Net Interest Margin performance demonstrates the competitive advantage gained through effective use of alternative banking strategies.                | 32<br>(22.4%) | 58<br>(40.6%) | 19<br>(13.3%) | 19<br>(13.3%) | 15<br>(10.5%) | 3.16 | 1.12 |
| <b>Customer Satisfaction</b>  |               |               |               |               |               |      |      |
| High customer satisfaction scores from alternative banking strategies indicate improved service accessibility and convenience in Nairobi City County. | 36<br>(25.2%) | 60<br>(42.0%) | 20<br>(14.0%) | 20<br>(14.0%) | 7 (4.9%)      | 3.25 | 1.07 |
| Customer feedback on alternative strategies reflects positive experiences and satisfaction with service quality.                                      | 13 (9.1%)     | 73<br>(51.0%) | 11 (7.7%)     | 34<br>(23.8%) | 12<br>(8.4%)  | 3.05 | 1.12 |
| Enhancing customer satisfaction through alternative strategies strengthens customer loyalty and retention.  | 21<br>(14.7%) | 53<br>(37.1%) | 25<br>(17.5%) | 30<br>(21.0%) | 14<br>(9.8%)  | 3.03 | 1.12 |

| <b>Operational Efficiency</b>  |               |               |               |               |               |      |      |  |  |
|--|---------------|---------------|---------------|---------------|---------------|------|------|--|--|
| Effective management of operational risks associated with alternative strategies enhances operational efficiency.  | 25<br>(17.5%) | 46<br>(32.2%) | 23<br>(16.1%) | 28<br>(19.6%) | 21<br>(14.7%) | 3.05 | 1.10 |  |  |
| Alternative strategies optimize employee productivity by streamlining transaction processes and reducing workload. | 34<br>(23.8%) | 51<br>(35.7%) | 18<br>(12.6%) | 31<br>(21.7%) | 9 (6.3%)      | 3.16 | 1.12 |  |  |

| <b>Technology Adoption and Efficiency</b>   |               |               |               |               |              |      |      |  |  |
|---|---------------|---------------|---------------|---------------|--------------|------|------|--|--|
| Continuous improvement in technology supports strategic objectives and competitive positioning.                                     | 36<br>(25.2%) | 77<br>(53.8%) | 11 (7.7%)     | 12 (8.4%)     | 7 (4.9%)     | 3.39 | 1.06 |  |  |
| Efficiency gains from technology adoption through alternative strategies improve transaction processing and service responsiveness. | 13 (9.1%)     | 73<br>(51.0%) | 11 (7.7%)     | 34<br>(23.8%) | 12<br>(8.4%) | 3.05 | 1.12 |  |  |
| High adoption rates of alternative banking technologies enhance operational efficiency and customer service capabilities.           | 21<br>(14.7%) | 53<br>(37.1%) | 25<br>(17.5%) | 30<br>(21.0%) | 14<br>(9.8%) | 3.03 | 1.12 |  |  |

**Key:1** = Strongly Disagree, **2**= Disagree, **3**= Neutral, **4** = Agree, **5** = Strongly Agree, **M** = Mean, **STD** = Standard Deviation

The descriptive results for Organizational Performance reveal varied perceptions of the effectiveness of alternative banking strategies, focusing on financial performance, customer satisfaction, operational efficiency, and technology adoption.

Regarding financial performance, respondents agreed that the bank's effective utilization of alternative banking strategies positively impacts Return on Assets (ROA), with a mean score of 3.08, indicating a generally favorable view of how alternative strategies contribute to revenue streams. However, opinions were more divided on the improvement of Return on Equity (ROE) through these strategies, with a mean score of 2.87, suggesting less agreement on the direct profitability from shareholder investments. The bank's Net Interest Margin performance received a mean score of 3.16, indicating agreement that alternative strategies provide a competitive advantage in the market.

Customer satisfaction was generally perceived positively, with a mean score of 3.25 for improved service accessibility and convenience resulting from alternative banking strategies. Additionally, customer feedback was largely positive (mean = 3.05), suggesting that the services are well-received. The enhancement of customer satisfaction through these strategies, contributing to customer loyalty and retention, was also acknowledged with a mean score of 3.03.

Operational efficiency was viewed positively as well, with a mean score of 3.05 indicating agreement that managing operational risks enhances overall efficiency. Furthermore, alternative strategies were seen as optimizing employee productivity by streamlining processes (mean = 3.16).

Technology adoption received positive ratings, with respondents strongly agreeing that continuous improvement in technology efficiency supports the bank's strategic objectives and competitive positioning (mean = 3.39). Additionally, the efficiency gains from technology adoption (mean = 3.05) and high adoption rates of alternative banking

technologies (mean = 3.03) were seen as contributing to improved transaction processing and service responsiveness, as well as enhancing operational efficiency and customer service capabilities.

These findings are consistent with the observations of other studies, such as Tiony and Yin (2023) who found that alternative banking strategies, including technology adoption and operational improvements, significantly boost customer satisfaction and profitability. Additionally, research by Wachira and Njuguna (2023) highlights the positive impact of technology and operational efficiencies on organizational performance, supporting the results observed in this study.

#### **4.6 Analytical Model Diagnostic Tests on Collected Data**

Before applying a regression model, it is critical to ensure that the data meet the necessary assumptions for reliable and valid results. Failure to meet these conditions could lead to inaccurate conclusions. In this study, several diagnostic tests were conducted to verify that the data was suitable for the regression analysis. These included tests for normality, multicollinearity, homoscedasticity, and linearity. By ensuring these assumptions were met, the study aimed to establish the reliability of regression model, allowing for accurate and valid conclusions. As emphasized by Biecek and Burzykowski (2021), validating model assumptions is fundamental for ensuring the robustness and accuracy of statistical analyses.

#### 4.6.1 Test for Normality

The Kolmogorov-Smirnov Test was applied to assess normality of the data. This test was selected due to its suitability for larger sample sizes, such as the 143 respondents in this study, and its flexibility in testing against different distributions. The Kolmogorov-Smirnov Test compares the sample's distribution to a normal distribution and provides a p-value to determine whether there is a significant deviation from normality. If the p-value exceeds the typical significance level of 0.05, the null hypothesis of normality is not rejected, indicating that the data follows a normal distribution.

This test is crucial for ensuring the validity of subsequent statistical analyses, such as regression, which rely on the assumption of normally distributed data for accurate and reliable results.

**Table 4. 14:**  
*One-Sample Kolmogorov-Smirnov Test Results*

| <b>Variable</b>            | <b>Kolmogorov-Smirnov Z</b> | <b>p-value</b> |
|----------------------------|-----------------------------|----------------|
| Mobile banking Strategy    | 0.931                       | 0.352          |
| Agency banking Strategy    | 1.124                       | 0.160          |
| Internet banking Strategy  | 1.007                       | 0.263          |
| Organizational Performance | 0.950                       | 0.327          |
| ATM banking Strategy       | 0.690                       | 0.729          |

The results of the Kolmogorov-Smirnov Test show that all variables tested (Mobile banking Strategy, Agency banking Strategy, Internet banking Strategy, Organizational Performance and ATM banking Strategy) yielded p-values greater than the commonly used significance level of 0.05. Specifically, the p-values were 0.352, 0.160, 0.263, 0.327, and

0.729, respectively. These results suggest that there is no significant deviation from normality in the data, meaning the data follows a normal distribution.

Given that the p-values are above the 0.05 threshold; the null hypothesis of normality cannot be rejected for any of the variables. This confirms that the assumptions of normality required for further statistical tests, such as regression analysis, are met, ensuring that the data is appropriate for such analyses. Therefore, the subsequent analyses in the study can be conducted with confidence in the validity of the normality assumption.

#### **4.6.2 Test for Homoscedasticity**

In this study, homoscedasticity was tested using ANOVA to assess if the variance of residuals remained constant across different levels of predictors. Homoscedasticity is a critical assumption for linear regression models, as its violation can result in inefficient estimates and invalid conclusions about statistical significance (Đalić & Terzić, 2021; Flores & Ocaña, 2022). The hypotheses for testing homoscedasticity were formulated as follows:

$H_0$ : The data satisfies assumption of homoscedasticity, meaning the variance of the residuals is constant across all levels of the independent variables.

$H_1$ : The data does not satisfy assumption of homoscedasticity, meaning the variance of residuals is not constant across all the levels of independent variables.

The ANOVA results for testing homoscedasticity are presented below. The key measure for determining homoscedasticity is the significance value (p-value). If the p-value is

greater than the significance level, (typically 0.05), the null hypothesis is not rejected, suggesting that the assumption of homoscedasticity holds. Alternatively, if the p-value is less than 0.05, the null hypothesis is rejected, indicating heteroscedasticity.

**Table 4. 15:**  
*ANOVA Results for Homoscedasticity*

| <b>Model</b> | <b>Sum of Squares</b> | <b>df</b>  | <b>Mean Square</b> | <b>F</b> | <b>Sig.</b> |
|--------------|-----------------------|------------|--------------------|----------|-------------|
| Regression   | 0.884                 | 4          | 0.221              | 2.186    | 0.074       |
| Residual     | 13.957                | 138        | 0.101              |          |             |
| <b>Total</b> | <b>14.841</b>         | <b>142</b> |                    |          |             |

**Dependent Variable:** RES\_1\_SQ

**Predictors:** (Constant), Mobile banking Strategy, Agency banking Strategy, Internet banking Strategy, Organizational Performance and ATM banking Strategy

The p-value of 0.074 (greater than 0.05) indicates that the assumption of homoscedasticity is not violated, and the variance the residuals is constant across different levels of predictors in this model (Đalić & Terzić, 2021; Flores & Ocaña, 2022). Therefore, the results indicate that the homoscedasticity assumption holds, allowing for the valid application of regression analysis.

#### **4.6.3 Multicollinearity Test**

The multi-collinearity of the independent variables was tested in this study using Variance Inflation Factor (VIF) and Tolerance statistics to ensure the reliability of the regression results. Multicollinearity can distort the regression model if predictors are highly correlated, leading to unreliable coefficient estimates and reduced interpretability of the results (Flores & Ocaña, 2022).

The hypotheses tested were as follows:

*H<sub>0</sub>: There is no significant multicollinearity among the predictors.*

*H<sub>1</sub>: There is significant multicollinearity among the predictors.*

The VIF and Tolerance statistics were used to assess the degree of correlation between the predictors. VIF values greater than 10 or Tolerance values less than 0.1 would indicate

problematic multicollinearity, requiring further investigation or potential removal of variables.

**Table 4. 16:**  
*Collinearity Statistics*

|                           | <b>Tolerance</b> | <b>VIF</b> |
|---------------------------|------------------|------------|
| Mobile banking Strategy   | .689             | 1.452      |
| Agency banking Strategy   | .422             | 2.367      |
| Internet banking Strategy | .941             | 1.062      |
| ATM banking               | .505             | 1.980      |

As shown in Table 4.16, all VIF values were below the critical value of 10, and Tolerance values were above the threshold of 0.1. This indicates that multicollinearity was not present, and the independent variables did not have a high degree of correlation. As a result, the regression model's results can be considered reliable, and the interpretation of the coefficients is valid.

#### **4.6.4 Auto-correlation Test**

The Durbin-Watson statistic was employed to evaluate whether autocorrelation existed in residuals of regression model. Autocorrelation refers to the correlation of residuals from one observation with those from another, which can result in biased and inefficient estimates. The Durbin-Watson statistic varies between 0 and 4, with a value near 2 signifying the absence of autocorrelation. Values less than 2 point to positive autocorrelation, whereas values greater than 2 imply negative autocorrelation (Wooldridge, 2016).

In this research, the Durbin-Watson statistic was computed to verify the assumption of independent residuals was met. A value close to 2 indicated that autocorrelation was not a concern, ensuring the validity of the regression results and supporting the robustness of the analysis regarding the relationship between banking strategies and organizational performance.

**Table 4. 17:**  
*Model Summary*

| <b>Model Summary</b> | <b>Value</b> |
|----------------------|--------------|
| Durbin-Watson        | 1.858        |

#### **4.7 Pearson Correlation Matrix for Independent and Dependent Variables**

According to Chatterjee and Hadi (2012) in quantitative research, correlation analysis is utilized to establish the direction, strength, and significance of relationships among study variables. Pearson’s correlation coefficient ( $r$ ) is commonly employed in parametric analysis to assess correlations between variables. The coefficient varies from +1 to -1, with values approaching +1 signifying a strong positive correlation, those nearing -1 indicating a strong negative correlation, and values around 0 reflecting a weak or nonexistent linear association between the variables.

This research employed Pearson correlation analysis to explore the associations among the specified variables: agency banking strategy, mobile banking strategy, internet banking strategy, ATM banking strategy, and organizational performance. According to Bloomfield and Fisher (2019) the strength of correlations can be categorized as follows: A correlation coefficient of 0 indicates no relationship between variables; values between 0.1 and 0.39 reflect a weak correlation; 0.4 to 0.69 indicate a moderate correlation; 0.7 to 0.89 suggest

a strong correlation; 0.9 to 0.98 represent a very strong correlation; and values from 0.99 to 1.0 denote a perfect correlation. The correlation analysis results (r) are displayed in Table 4.17.

**Table 4. 18:**  
*Pearson Correlation Matrix for Independent and Dependent Variables*

|             |                     | Perf   | Agen   | ATM   | Mobi   | Inter |
|-------------|---------------------|--------|--------|-------|--------|-------|
| <b>Perf</b> | Pearson Correlation | 1      |        |       |        |       |
|             | Sig. (2-tailed)     |        |        |       |        |       |
|             | N                   | 143    |        |       |        |       |
| Agen        | Pearson Correlation | .715** | 1      |       |        |       |
|             | Sig. (2-tailed)     | .000   |        |       |        |       |
|             | N                   | 143    | 143    |       |        |       |
| ATM         | Pearson Correlation | .298** | .203*  | 1     |        |       |
|             | Sig. (2-tailed)     | .000   | .015   |       |        |       |
|             | N                   | 143    | 143    | 143   |        |       |
| Mobi        | Pearson Correlation | .724** | .549** | .209* | 1      |       |
|             | Sig. (2-tailed)     | .000   | .000   | .012  |        |       |
|             | N                   | 143    | 143    | 143   | 143    |       |
| Inter       | Pearson Correlation | .489** | .702** | .189* | .403** | 1     |
|             | Sig. (2-tailed)     | .000   | .000   | .024  | .000   |       |
|             | N                   | 143    | 143    | 143   | 143    | 143   |

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

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

Table 4.18 displays the outcomes of the analysis revealing several significant correlations between various factors and the performance of tier three banks in Kenya's devolved health system. The analysis shows the following:

A moderately strong and statistically significant positive association is observed between the agency banking strategy and organizational performance, as indicated by a correlation coefficient of 0.715 ( $p = 0.000$ ). This suggests that higher levels of agency banking, such

as efficient task management, professional values, and supportive supervision, are strongly associated with improved organizational performance. These findings corroborate the conclusions drawn by previous researchers, including Adeyemi (2022) who emphasized the role of agency banking in expanding service delivery and customer outreach. These results reinforce the critical role of agency banking as a driver of organizational performance in Kenya's banking sector.

The mobile banking strategy demonstrates a statistically significant and strong positive relationship with organizational performance, as evidenced by a correlation coefficient of 0.724 ( $p = 0.000$ ). This highlights the importance of mobile banking in improving customer access, service efficiency, and ease of use, all contributing to enhanced organizational performance. This result supports findings by Uwamariya et al. (2020) who emphasized mobile banking's impact on customer satisfaction and operational efficiency. However, Nduta and Wanjira (2019) notes that mobile banking's effect on long-term profitability may vary, suggesting the need for further research into its sustained impact on performance.

The ATM banking strategy shows a significant but moderate positive correlation with organizational performance, with a correlation coefficient of 0.298 ( $p\text{-value} = 0.000$ ). This indicates that effective implementation of ATM banking strategies, such as improving accessibility, transaction speed, and security, positively impacts organizational performance. This finding is consistent with studies by Kamau and Otieno (2022) who found that ATM banking improves operational efficiency and customer service. However, Karanja et al. (2022) suggests that the full benefits of ATM banking may take time to manifest, which calls for further research into the long-term effects of ATM banking.

The internet banking strategy indicates a statistically significant and moderately positive association with organizational performance, reflected by a correlation coefficient of 0.489 ( $p = 0.000$ ). This finding indicates that internet banking, which facilitates online transactions and improves customer engagement, can contribute positively to organizational performance. However, the results highlight that the success of internet banking is contingent on factors like organizational infrastructure, security measures, and customer adaptability. These findings contrast with studies by Kenga, and Kingi (2024) which reported stronger positive correlations between internet banking and performance, suggesting that internet banking's effectiveness depends on the specific context in which it is implemented.

In conclusion, mobile banking and agency banking emerge as the most positively influential strategies on organizational performance, followed by ATM banking and internet banking. The results emphasize the critical role of strategic adoption and optimization that enhance customer access and service efficiency, while also considering the unique challenges associated with internet banking in the Kenyan context.

## **4.8 Bivariate Analysis**

### **4.8.1 Regression Analysis of Mobile Banking Strategy influence on Organizational Performance**

The first null hypothesis was formulated as follows:

*H<sub>01</sub>: There is no significant relationship between mobile banking strategy and organizational performance of tier three banks in Kenya.*

To test this hypothesis, a simple regression model was employed, with mobile banking strategy as the independent variable and organizational performance as the dependent variable. The goal was to determine whether mobile banking strategy has a statistically significant influence on organizational performance in Kenyan tier three banks.

The hypothesis was tested by regressing mobile banking strategy and organizational performance, following the equation:

$$Y = \beta_0 + \beta_1 X_1 + \epsilon$$

Where:

$X_1$  represents mobile banking strategy (independent variable);  $Y$  represents organizational performance (dependent variable),

Table 4.19 presents the results from the regression analysis.

### **Model Summary**

An R value of 0.724 and an  $R^2$  value of 0.524 suggest that the mobile banking strategy accounts for approximately 52.4% of the variance in organizational performance. The adjusted  $R^2$ , which stands at 0.521, reflects this proportion while considering the number of predictors included in the model, reinforcing the strong explanatory power of mobile banking strategy.

**Table 4. 19:**  
*Model Summary*

| <b>Model</b> | <b>R</b> | <b>R-Square</b> | <b>Adjusted R-Square</b> | <b>Std. Error of the Estimate</b> |
|--------------|----------|-----------------|--------------------------|-----------------------------------|
| 1            | .724     | .524            | .521                     | 0.50736                           |

**ANOVA**

The ANOVA results reveal a statistically significant association between the mobile banking strategy and organizational performance. With an F-statistic of 39.954 and a p-value of 0.000—well below the 0.05 threshold—the findings confirm that the regression model is significant, indicating that mobile banking strategy exerts a meaningful impact on organizational performance.

**Table 4. 20:**  
*ANOVA*

| <b>Model</b> | <b>Sum of Squares</b> | <b>df</b>     | <b>Mean Square</b> | <b>F</b> | <b>Sig.</b> |
|--------------|-----------------------|---------------|--------------------|----------|-------------|
| 1            | Regression            | 39.954        | 1                  | 39.954   | 0.000b      |
|              | Residual              | 36.296        | 141                | 0.257    |             |
|              | <b>Total</b>          | <b>76.250</b> | <b>142</b>         |          |             |

<sup>a</sup>Dependent Variable: Organizational Performance

<sup>b</sup>Predictors: (Constant), Mobile Banking Strategy

**Table 4. 21:**  
*Coefficients*

| <b>Model</b> |                         | <b>Unstandardized Coefficients</b> |                   | <b>Standardized Coefficients</b> | <b>t</b> | <b>Sig.</b> |
|--------------|-------------------------|------------------------------------|-------------------|----------------------------------|----------|-------------|
|              |                         | <b>B</b>                           | <b>Std. Error</b> | <b>Beta</b>                      |          |             |
| 1            | (Constant)              | .875                               | .205              |                                  | 4.263    | 0.000       |
|              | Mobile Banking Strategy | .760                               | .061              | .724                             | 12.458   | 0.000       |

a. Dependent Variable: Organizational Performance

From these results, the following regression equation was derived:

$$Y = 0.875 + 0.760MBS$$

Where: Y = Organizational performance, and MBS = Mobile banking strategy.

The findings from Table 4.21 reveal that, when Mobile banking strategy is held constant, the performance of tier three banks in Kenya is 0.875. A one-unit increase in the mobile banking strategy is associated with a 0.760-unit rise in organizational performance, supported by a statistically significant p-value of 0.000. These results warrant the rejection of the null hypothesis in favor of the alternative, thereby confirming the existence of a significant relationship between mobile banking strategy and organizational performance among tier three banks in Kenya

#### **4.8.2 Regression Analysis of Agency Banking Strategy Influence on Organizational Performance**

The second hypothesis stated in the null form was as follows:

*H<sub>02</sub>: There is no significant relationship between agency banking strategy and organizational performance of tier three banks in Kenya.*

To evaluate this hypothesis, a simple linear regression analysis was conducted, designating agency banking strategy as the predictor variable and organizational performance as the outcome variable. The goal was to determine whether agency banking strategy has a statistically significant influence on organizational performance in Kenyan tier three banks.

The hypothesis was tested by regressing agency banking strategy and organizational performance, following the equation:

$$Y = \beta_0 + \beta_1 \text{ABS} + \epsilon$$

Where: **ABS** represents agency banking strategy (independent variable) and **Y** represents organizational performance (dependent variable).

### Model Summary

The regression analysis indicates an R value of 0.715 and an R<sup>2</sup> of 0.511, suggesting that agency banking strategy explains approximately 51.1% of the variance in organizational performance. The adjusted R<sup>2</sup>, calculated at 0.507, reinforces this result by adjusting for the number of predictors included in the model, thereby reinforcing the explanatory power of agency banking strategy.

**Table 4. 22:**  
*Model Summary*

| Model | R     | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1     | 0.715 | 0.511    | 0.507             | 0.51446                    |

The ANOVA results offer evidence of a statistically significant association between agency banking strategy and organizational performance. The computed F-statistic of 147.092, accompanied by a p-value of 0.000—well below the 0.05 significance threshold—demonstrates that the regression model is statistically valid, indicating that agency banking strategy significantly influences organizational performance.

**Table 4. 23:**

*ANOVA*

| Model |            | Sum of Squares | df  | Mean Square | F       | Sig.              |
|-------|------------|----------------|-----|-------------|---------|-------------------|
| 1     | Regression | 38.931         | 1   | 38.931      | 147.092 | .000 <sup>b</sup> |
|       | Residual   | 37.319         | 141 | .265        |         |                   |
|       | Total      | 76.250         | 142 |             |         |                   |

- 
- a. Dependent Variable: organizational performance
  - b. Predictors: (Constant), Agency banking strategy

**Table 4. 24:**

*Coefficients*

| Model |                         | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig.  |
|-------|-------------------------|-----------------------------|------------|---------------------------|--------|-------|
|       |                         | B                           | Std. Error | Beta                      |        |       |
| 1     | (Constant)              | .960                        | .204       |                           | 4.708  | 0.000 |
|       | Agency banking strategy | .697                        | .057       | .715                      | 12.128 | 0.000 |

The coefficients table shows the unstandardized and standardized coefficients for agency banking strategy. The derived regression equation is:

$$Y = 0.960 + 0.697ABC$$

Where: **Y** represents organizational performance; **ABC** represents agency banking strategy.

From these results, it is evident that when agency banking strategy is held constant, the performance of tier three banks in Kenya is 0.960. An increase of one unit in the agency banking strategy is associated with a 0.697-unit improvement in organizational performance, supported by a statistically significant p-value of 0.000. These findings warrant the rejection of the null hypothesis in favor of the alternative, thereby confirming a significant relationship between agency banking strategy and organizational performance among tier three banks in Kenya.

### **4.8.3 Regression Analysis of Internet Banking Strategy Influence on Organizational Performance**

The third hypothesis stated in the null form was as follows:

*H<sub>01</sub>: There is no significant relationship between internet banking strategy and organizational performance of tier three banks in Kenya.*

To examine this hypothesis, a simple linear regression model was applied, with internet banking strategy designated as the explanatory variable and organizational performance as the outcome measure. The objective was to assess whether internet banking strategy has a statistically significant effect on the performance of tier three banks in Kenya.

The hypothesis was tested by regressing internet banking strategy and organizational performance, following the equation:

$$Y = \beta_0 + \beta_1 IBS_1 + \epsilon$$

Where:

IBS represents internet banking strategy (independent variable); Y represents organizational performance (dependent variable).

#### **Model Summary**

The regression analysis produced an R value of 0.298 and an R<sup>2</sup> of 0.089, suggesting that internet banking strategy accounts for approximately 8.9% of the variability in organizational performance. The adjusted R<sup>2</sup>, recorded at 0.082, takes into consideration the number of variables included in the model, further implying that internet banking strategy possesses limited explanatory power regarding organizational performance.

**Table 4. 25:***Model Summary*

| Model | R     | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1     | 0.298 | 0.089    | 0.082             | 0.70207                    |

**ANOVA**

The ANOVA findings reveal a statistically significant association between internet banking strategy and organizational performance. With an F-statistic of 13.695 and a p-value of 0.000—well below the 0.05 significance threshold—the results indicate that the regression model is valid, confirming that internet banking strategy exerts a meaningful influence on organizational performance.

**Table 4. 26:***ANOVA*

| Model |            | Sum of Squares | df  | Mean Square | F      | Sig.              |
|-------|------------|----------------|-----|-------------|--------|-------------------|
| 1     | Regression | 6.750          | 1   | 6.750       | 13.695 | .000 <sup>b</sup> |
|       | Residual   | 69.499         | 141 | .493        |        |                   |
|       | Total      | 76.250         | 142 |             |        |                   |

a. Dependent Variable: organizational performance

b. Predictors: (Constant), Internet banking strategy

**Table 4. 27:***Coefficients*

| Model |                           | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig. |
|-------|---------------------------|-----------------------------|------------|---------------------------|-------|------|
|       |                           | B                           | Std. Error | Beta                      |       |      |
| 1     | (Constant)                | 2.054                       | .362       |                           | 5.670 | .000 |
|       | Internet banking strategy | .405                        | .109       | .298                      | 3.701 | .000 |

The coefficients table presents both the raw (unstandardized) and beta (standardized) estimates for the internet banking strategy variable. Based on these values, the resulting regression equation is derived as follows:

$$Y = 2.054 + 0.405\text{IBS}$$

Where: Y represents organizational performance; IBS represents internet banking strategy.

From these results, it is evident that when internet banking strategy is held constant, the baseline performance level of tier three banks in Kenya is estimated at 2.054. A one-unit increase in the internet banking strategy is associated with a 0.405-unit rise in performance, supported by a statistically significant p-value of 0.000. These findings justify the rejection of the null hypothesis and lend support to the alternative, confirming the existence of a statistically significant relationship between internet banking strategy and organizational performance among Kenya's tier three banks.

#### **4.8.4 Regression Analysis of ATM Banking Strategy Influence on Organizational Performance**

The null formulation of the fourth hypothesis was expressed as follows:

*H<sub>01</sub>: There is no significant relationship between ATM banking strategy and organizational performance of tier three banks in Kenya.*

To test this hypothesis, a simple regression model was employed, with ATM banking strategy as the explanatory variable and organizational performance as the outcome

variable. The goal was to determine whether ATM banking strategy has a statistically significant influence on organizational performance in Kenyan tier three banks.

The hypothesis was tested by regressing ATM banking strategy and organizational performance, following the equation:

$$Y = \beta_0 + \beta_1 \text{ABS} + \epsilon$$

Where: ABS represents ATM banking strategy (independent variable); Y represents organizational performance (dependent variable).

### **Model Summary**

The regression results reveal an R value of 0.489 and an R<sup>2</sup> of 0.239, indicating that ATM banking strategy accounts for approximately 23.9% of the variability in organizational performance. The adjusted R<sup>2</sup>, recorded at 0.234, adjusts for the number of variables included in the model, thereby reinforcing the interpretation that ATM banking strategy holds a moderate level of explanatory power regarding organizational performance.

**Table 4. 28:**  
*Model Summary*

| <b>Model</b> | <b>R</b> | <b>R Square</b> | <b>Adjusted R Square</b> | <b>Std. Error of the Estimate</b> |
|--------------|----------|-----------------|--------------------------|-----------------------------------|
| 1            | 0.489    | 0.239           | 0.234                    | 0.64130                           |

### **ANOVA**

The ANOVA results demonstrate a statistically significant relationship between ATM banking strategy and organizational performance. With an F-statistic of 44.400 and a p-

value of 0.000—well below the 0.05 significance threshold—the analysis confirms that the regression model is statistically valid, indicating that ATM banking strategy significantly influences organizational performance.

**Table 4. 29:**  
*ANOVA*

| Model |            | Sum of Squares | df  | Mean Square | F      | Sig.              |
|-------|------------|----------------|-----|-------------|--------|-------------------|
| 1     | Regression | 18.260         | 1   | 18.260      | 44.400 | .000 <sup>b</sup> |
|       | Residual   | 57.989         | 141 | .411        |        |                   |
|       | Total      | 76.250         | 142 |             |        |                   |

a. Dependent Variable: Organizational Performance

b. Predictors: (Constant), ATM banking strategy

### Coefficients

**Table 4. 30:**  
*Coefficients*

| Model |                      | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|-------|----------------------|-----------------------------|------------|---------------------------|--------|------|
|       |                      | B                           | Std. Error | Beta                      |        |      |
| 1     | (Constant)           | 2.337                       | .165       |                           | 14.171 | .000 |
|       | ATM banking strategy | .042                        | .006       | .489                      | 6.663  | .000 |

a. Dependent Variable: Organizational Performance

The coefficients table shows the unstandardized and standardized coefficients for ATM banking strategy. The derived regression equation is:

$$Y = 2.337 + 0.042ABS$$

Where: Y represents organizational performance & ABS represents ATM banking strategy.

From these results, it is evident that when ATM banking strategy is held constant, the performance of tier three banks in Kenya is 2.337. A one-unit increase in the ATM banking strategy is associated with a 0.042-unit improvement in organizational performance, supported by a statistically significant p-value of 0.000. These results warrant the rejection of the null hypothesis in favor of the alternative, thereby confirming a statistically significant relationship between ATM banking strategy and organizational performance among tier three banks in Kenya

#### 4.8.5 Multiple Linear Regression Model

A multiple linear regression analysis was conducted to gain deeper insights into the relationship between the independent variables and the dependent variable.

**Table 4. 31:**

*Summary of all the four independent variables and organizational performance*

| <b>Model</b> | <b>R</b>          | <b>R Square</b> | <b>Adjusted R Square</b> | <b>Std. Error of the Estimate</b> |
|--------------|-------------------|-----------------|--------------------------|-----------------------------------|
| 1            | .825 <sup>a</sup> | .681            | .672                     | 0.41955                           |

a. Predictors: (Constant), agency banking strategy , mobile banking strategy , internet banking strategy and ATM Banking strategy

As presented in Table 4.31, the coefficient of determination ( $R^2$ ) for the relationship between agency banking, mobile banking, internet banking, and ATM banking strategies and the performance of tier three banks in Kenya is 0.681. This indicates that these alternative banking strategies collectively account for 68.1% of the variation in organizational performance. The adjusted  $R^2$  value of 0.672, which adjusts for the number of predictors in the model, suggests that approximately 67.2% of the performance

variability can be attributed to these strategies, while the remaining 32.8% is likely influenced by other factors not included in the model

The R-square value serves as an essential metric for assessing the predictive accuracy of the regression equation. In this instance, the substantial R-squared value reflects a satisfactory level of model fit, indicating that the model effectively captures the relationship within the data. This suggests that the identified strategies—namely agency banking (AB), mobile banking (MB), internet banking (IB), and ATM banking (ATB)—substantially contribute to shaping the performance of tier three banks within a devolved health system across selected counties in Kenya. Nonetheless, it is important to recognize that the unexplained portion of performance variation may be attributed to additional factors not captured within the current model. On the whole, the model indicates a positive and statistically significant influence of these strategic determinants on organizational performance.

## ANOVA

This study utilized Analysis of Variance (ANOVA) to evaluate the statistical significance of the regression model. A p-value threshold of 0.05 or below was adopted to determine substantial significance.

**Table 4. 32:**  
*ANOVA*

| <b>Model</b> | <b>Sum of Squares</b> | <b>df</b> | <b>Mean Square</b> | <b>F</b> | <b>Sig.</b>       |
|--------------|-----------------------|-----------|--------------------|----------|-------------------|
| 1 Regression | 51.958                | 4         | 12.990             | 73.795   | .000 <sup>b</sup> |
| Residual     | 24.291                | 138       | .176               |          |                   |

|              |               |            |
|--------------|---------------|------------|
| <b>Total</b> | <b>76.250</b> | <b>142</b> |
|--------------|---------------|------------|

- a. Dependent Variable: organizational performance  
b. Predictors: (Constant), agency banking strategy , mobile banking strategy , Internet banking strategy and ATM Banking strategy

The findings presented in Table 4.32 demonstrate that the regression model predicting the performance of tier three banks is highly significant, evidenced by a p-value of 0.000, which falls well below the 0.05 threshold. This indicates that the model provides a reliable prediction of performance based on the included alternative banking strategies.

The ANOVA analysis yielded an F-statistic of 73.795, surpassing the critical value of 2.458, thereby confirming that the regression model provides a statistically significant prediction of the outcome variable, organizational performance This suggests that the variations in the independent variables, namely agency banking strategy, mobile banking strategy, internet banking strategy, and ATM banking strategy, are strongly associated with variations in organizational performance. The p-value of 0.000 further corroborates the overall significance of the regression model, demonstrating that the strategies examined exert a substantial effect on organizational performance.

**Table 4. 33:**  
***Coefficients***

| <b>Model</b>            | <b>Unstandardized Coefficients</b> |                   | <b>Standardized Coefficients</b> | <b>t</b> | <b>Sig.</b> |
|-------------------------|------------------------------------|-------------------|----------------------------------|----------|-------------|
|                         | <b>B</b>                           | <b>Std. Error</b> | <b>Beta</b>                      |          |             |
| 1 (Constant)            | -.222                              | .260              |                                  | -.852    | .396        |
| Mobile banking strategy | .483                               | .061              | .460                             | 7.946    | .000        |
| Agency banking strategy | .463                               | .072              | .475                             | 6.422    | .000        |

|                           |       |      |       |       |      |
|---------------------------|-------|------|-------|-------|------|
| Internet banking strategy | .156  | .067 | .115  | 2.321 | .022 |
| ATM banking strategy      | -.004 | .006 | -.051 | -.755 | .451 |

a. Dependent Variable: performance

The equation for regression in relation to the interaction between alternative banking strategies and performance of tier three banks is shown below:

$$Y = -0.222 + 0.483MBS + 0.463AGBS + 0.156IBS - 0.004ABC$$

Where: *AGBS* = Agency banking strategy, *MBS* = Mobile banking strategy, *IBS* = Internet banking strategy, and *ABC* = ATM Banking strategy

The findings indicate that, controlling for all other variables, the baseline performance of tier three banks is -0.222 units. Additionally, for each one-unit increase in mobile banking strategy (MBS), the performance increases by 0.483 units (p-value = 0.000), indicating a highly significant positive effect. Likewise, a unit increment in the agency banking strategy (AGBS) corresponds to a 0.463-unit enhancement in performance, supported by a statistically significant p-value of 0.000. The internet banking strategy (IBS) also positively impacts performance, with a one-unit increase leading to a 0.156-unit improvement (p-value = 0.022). However, ATM banking strategy (ABC) has a negligible and statistically insignificant effect, exhibiting a coefficient of -0.004 alongside a p-value of 0.451 indicating no significant impact on performance.

In terms of the standardized coefficients (Beta), the mobile banking strategy (Beta = 0.460) has the strongest effect on performance, followed by the agency banking strategy (Beta = 0.475). Both of these strategies have moderate to strong positive impacts on organizational performance. The internet banking strategy (Beta = 0.115) shows a moderate effect, while ATM banking strategy (Beta = -0.051) has a very weak and insignificant effect.

In summary, the regression analysis highlights that mobile banking and agency banking strategies have the most significant positive impact on the performance of tier three banks in Kenya. Although internet banking similarly demonstrates a positive association with performance ATM banking strategy does not have a statistically significant effect. These findings suggest that, among the banking strategies analyzed, mobile banking and agency banking play the most crucial roles in improving the organizational performance of tier three banks.

**Table 4. 21:**

*Hypotheses Summary*

|     | <b>Null Hypotheses</b>   | <b>Decision criteria</b>                 | <b>Conclusion</b>   |
|-----|--|--|---|
| Ho1 | Agency banking strategy has no significant effect on performance of tier three banks.  | Reject the null hypothesis if $p < 0.05$ | The null hypothesis was rejected since p-value was found to be $< 0.05$ |
| Ho2 | Mobile banking strategy has no significant effect on performance of tier three banks   | Reject the null hypothesis if $p < 0.05$ | The null hypothesis was rejected since p-value was found to be $< 0.05$ |
| Ho3 | Internet banking strategy has no significant effect on performance of tier three banks | Reject the null hypothesis if $p < 0.05$ | The null hypothesis was rejected since p-value was found to be $< 0.05$ |
| Ho4 | ATM Banking strategy have no significant effect on performance of tier three banks     | Reject the null hypothesis if $p < 0.05$ | The null hypothesis was rejected since p-value was found to be $< 0.05$ |

The study was grounded on the premise that the strategies exert an influence on the performance of tier three banks. To evaluate this assertion, four key hypotheses were formulated to guide the research process. Using both simple and multiple linear regression analyses at a 95% confidence level ( $\alpha = 0.05$ ), the respective p-values obtained were 0.000, 0.001, 0.011, and 0.121. Given that most of these p-values were below the 0.05 significance threshold, the findings indicate a statistically significant positive relationship between agency banking strategy, mobile banking strategy, internet banking strategy, ATM banking strategy, and the performance of tier three banks in Kenya.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents an exhaustive summary of the study's main findings, articulates conclusions derived from the empirical analysis, and delineates evidence-based recommendations stemming from these conclusions. It also suggests areas for future research, reflecting on the limitations of the current study and the insights gained. The study sought to explore the effect of alternative strategies on performance outcomes of tier three commercial banks in Nairobi, Kenya.

#### **5.2 Summary**

##### **5.2.1 Influence of agency banking strategy on performance of tier three banks in Kenya**

The study aimed to investigate the impact of the agency banking strategy on the performance of tier-three banks in Kenya. The hypothesis stated that agency banking strategy has no significant effect on the performance of these banks. The study analyzed several indicators of agency banking, including the number of agents, agent network coverage, transaction volume through agents, and agent performance metrics. Descriptive statistical measures, including frequencies, percentages, standard deviations and means, were employed to systematically organize, simplify, and succinctly summarize the data.

Bivariate analysis revealed a strong, positive, and statistically significant relationship between the agency banking strategy and the performance of tier-three banks in Kenya.,

evidenced by a beta coefficient of 0.697 and a highly significant probability value below 0.05. This signifies that, when considered independently, agency banking exerts a significant positive influence on the performance of these institutions. When combined with other variables in the regression analysis, the results continued to show a substantial positive effect, with a beta coefficient of 0.463 (p-value = 0.000). This suggests that a one-unit increase in the implementation of the agency banking strategy leads to a 0.463-unit improvement in bank performance.

These findings provide strong evidence that adopting agency banking strategies can significantly enhance the performance of tier-three banks in Kenya. Consequently, the null hypothesis, which proposed no significant relationship between agency banking strategy and performance, is rejected. The findings affirm that agency banking constitutes a significant contributor to enhancing operational efficiency and overall performance thus contributing to the success of these banks.

### **5.2.2 Influence of mobile banking strategy on the performance of tier three banks in Kenya**

The research aimed to evaluate how the mobile banking strategy affects the performance of tier-three banks in Kenya. The null hypothesis asserted that the mobile banking strategy does not exert a statistically significant effect on the performance of these banks. The study analyzed various indicators of the mobile banking strategy, including mobile app downloads, active users, and transaction volume via mobile banking. Descriptive statistical measures, including frequencies, percentages, standard deviations and means, were employed to systematically organize, simplify, and succinctly summarize the data.

The bivariate analysis demonstrated a strong and statistically significant positive relationship between the mobile banking strategy and the performance of tier-three banks, indicated by a beta coefficient of 0.760 and a p-value less than 0.05. This suggests that, when considered independently, the mobile banking strategy has a substantial positive effect on bank performance. When considering mobile banking alongside other variables in the regression analysis, the results confirmed the positive effect, with a beta coefficient of 0.483 (p-value = 0.000). This suggests that a one-unit increase in the implementation of the mobile banking strategy leads to a 0.483-unit improvement in performance. These findings provide compelling evidence that the embrace of mobile banking strategies significantly enhances performance. Consequently, the null hypothesis which maintained that mobile banking strategy does not significantly affect strategy and performance, is rejected. The results highlight the crucial role that mobile banking plays in improving operational efficiency and customer satisfaction, which in turn leads to higher bank performance.

### **5.2.3 Influence of Internet banking strategy on Performance of tier three banks in Kenya**

The research sought to investigate how the internet banking strategy affects the performance of tier-three banks in Kenya. It hypothesized that internet banking strategy has no significant impact on the performance of these financial institutions. The study analyzed indicators such as online account registrations and usage frequency. Descriptive statistics such as frequencies, percentages, means, and standard deviations were used to efficiently organize, simplify, and clearly summarize the data.

Bivariate inferential analysis showed a statistically significant and positive correlation between the internet banking strategy and the performance of tier-three banks, reflected by a beta coefficient of 0.405 and a p-value below 0.05. However, in a combined setup, which included other variables under study—such as ATM banking strategy, mobile banking strategy, and agent banking strategy—the regression analysis showed a beta coefficient of 0.156 (p-value = 0.022), indicating a positive effect of the internet banking strategy on performance. This suggests that, while internet banking remains a significant driver of performance at the bivariate level, its impact is somewhat moderated when considered alongside other alternative banking strategies. Nevertheless, the results still demonstrate that adopting an internet banking strategy can significantly improve the performance of tier three banks in Kenya. Consequently, the null hypothesis is rejected, and the findings confirm that internet banking significantly contributes to enhancing the performance of tier-three banks.

#### **5.2.4 Influence of ATM Banking strategy on Performance of tier three banks in Kenya.**

The research was conducted to explore the effect of the ATM banking strategy on the performance of tier-three banks in Kenya. The hypothesis suggested that the ATM banking strategy has no significant impact on the performance of these banks. The study analyzed indicators such as ATM deployment density, transaction volume at ATMs, ATM uptime, and customer satisfaction. Descriptive statistics such as frequencies, percentages, means,

and standard deviations were utilized to methodically arrange and present the data., simplify, and succinctly summarize the data

Bivariate analysis indicated a positive and statistically significant link between the ATM banking strategy and the performance of tier-three banks ( $\beta = 0.042$ ;  $p > 0.05$ ). This implies that, when considered independently, ATM banking strategies positively influence the performance of these banks. However, when considering ATM banking alongside other variables such as mobile banking, agency banking, and internet banking strategies in a combined setup, the analysis showed a negative, but statistically insignificant relationship ( $\beta = -0.004$ ;  $p = 0.451$ ). This indicates that the ATM banking strategy does not significantly influence performance when other banking strategies are taken into account. Given the regression results from the combined analysis, where the relationship was found to be statistically insignificant, we fail to reject the null hypothesis. Therefore, while ATM banking strategies may have a positive effect in isolation, their effect on the performance of tier-three banks is not statistically significant when evaluated together with other banking strategies.

### **5.3 Study Contribution to the Body of Knowledge**

This research made a valuable contribution to the understanding of how digital banking strategies influence the performance of tier-three commercial banks in Kenya. It provided empirical evidence that agency banking and mobile banking strategies had strong, positive, and statistically significant effects on bank performance, highlighting their critical role in enhancing financial access and operational efficiency. The study also demonstrated that internet banking positively influenced performance, though its impact was moderated

when combined with other strategies, suggesting the need for integrated digital approaches. Conversely, ATM banking showed an insignificant effect when assessed alongside other strategies, indicating that tier three banks might benefit more from focusing on mobile and agency banking. These findings enriched the existing literature by contextualizing digital banking adoption in Kenya's smaller banks and offered practical insights for banking practitioners seeking to improve performance through effective strategy implementation. This research filled a gap by focusing on under-studied tier three banks and their unique challenges and opportunities.

#### **5.4 Conclusions**

The study set out to explore the effect of alternative banking strategies on the performance outcomes of tier-three commercial banks in Nairobi, Kenya. This objective was grounded in the recognition that smaller banks often face capital constraints, intense competition, and limited market penetration, which necessitate innovative approaches to enhance performance. By focusing on agency banking, mobile banking, internet banking, and ATM banking, the study bridged a critical knowledge gap, moving beyond prior research that examined these strategies in isolation.

The findings reaffirm the significance of mobile and agency banking in strengthening performance. Mobile banking, in particular, emerged as the most impactful strategy, highlighting its central role in improving accessibility, customer convenience, and operational efficiency. Agency banking followed closely, underscoring its value in expanding outreach and reducing service delivery costs. These results align with the justification of the study, which emphasized the need for strategies that broaden financial inclusion while enhancing profitability.

Internet banking demonstrated moderate influence, reinforcing its relevance in advancing digital transformation, though its effect was overshadowed when combined with other strategies. ATM banking, on the other hand, showed limited and insignificant impact, suggesting that traditional transaction channels may no longer offer competitive advantages in the evolving banking environment.

In light of these findings, the study makes a significant contribution to both practice and policy. For bank managers, prioritizing mobile and agency banking is essential for sustaining competitive advantage and improving financial performance. For policymakers and regulators, the evidence underscores the need to create enabling environments that support the scalability of digital and agency-based solutions, thereby strengthening the resilience of tier-three banks within Kenya's financial sector. Ultimately, the conclusions drawn reflect not only the empirical results but also the broader significance of adopting innovative banking strategies to enhance financial inclusion and stability in the country.

## **5.5 Recommendations**

Drawing from the study's findings and derived conclusions, the research puts forward several evidence-based recommendations for policy makers and bank management. These recommendations are intended to optimize the implementation of alternative banking strategies and enhance the performance of tier three banks in Kenya.

### **5.5.1 Managerial Recommendations**

In order to strengthen the performance outcomes of tier-three banks in Kenya the study provides several key managerial recommendations based on the findings related to alternative banking strategies.

Firstly, the research highlights the importance of adopting effective agency banking strategies. Managers should focus on optimizing their agent networks by increasing the number of agents and expanding agent coverage. This can be achieved by implementing targeted recruitment strategies and providing comprehensive training to agents. Additionally, improving transaction volume through agents and establishing clear performance metrics can help in assessing and enhancing agent performance, which, in turn, contributes to overall bank performance.

Regarding mobile banking strategy, it is crucial for banks to invest in improving mobile app functionality and increasing the number of active users. By focusing on increasing transaction volumes via mobile platforms and ensuring a seamless user experience, banks can significantly enhance their service delivery and customer satisfaction. Strengthening mobile banking support networks and investing in robust technical infrastructure will also play a critical role in sustaining performance improvements.

For internet banking strategies, banks should prioritize enhancing online account registrations and increasing usage frequency. This involves investing in user-friendly online platforms and ensuring that the security measures are up to date to build trust among users. Regularly updating the system to improve user experience and engaging in marketing efforts to promote online banking services can drive higher adoption rates and, consequently, better performance outcomes.

Lastly, banks should focus on optimizing ATM deployment density and improving transaction volumes at ATMs. Ensuring high ATM uptime and addressing any operational issues promptly will enhance customer satisfaction and operational efficiency. By

implementing effective reward and promotion policies for ATM services and continuously evaluating their performance, banks can maximize the benefits of their ATM networks and improve their overall performance.

By addressing these recommendations, tier three banks can leverage alternative banking strategies to enhance their performance and better meet the needs of their customers.

### **5.5.2 Policy Recommendations**

Based on the study's results, several policy-focused recommendations are proposed to enhance the performance of tier-three banks in Kenya by leveraging alternative banking strategies.

Firstly, policymakers should consider implementing regulations that promote the expansion and optimization of agency banking. This includes establishing clear guidelines for agent recruitment, training, and performance evaluation. Policies that encourage the growth of agent networks and provide incentives for high performance can significantly enhance the effectiveness of agency banking strategies. Furthermore, regulations that ensure the security and efficiency of transactions through agents will contribute to overall banking performance.

In terms of mobile banking, policymakers should support the development of policies that encourage innovation and investment in mobile banking technologies. This can include providing incentives for banks to enhance their mobile app features, improve transaction security, and increase user accessibility. Additionally, establishing frameworks for data

privacy and cybersecurity will help build consumer trust and drive higher adoption rates for mobile banking services.

For internet banking, it is essential to create policies that facilitate the growth of online banking platforms. This includes supporting initiatives that promote user-friendly online banking interfaces and ensuring robust cybersecurity measures are in place. Policymakers should also consider offering incentives for banks to invest in technologies that improve online account management and usage frequency. Moreover, regulations that encourage transparency and consumer protection in internet banking can help foster a safer and more efficient online banking environment.

Policymakers are encouraged to formulate and implement regulatory frameworks that enhance the deployment and operation of ATMs. This includes developing guidelines for optimal ATM placement and ensuring high levels of operational uptime. Policies that support the maintenance and upgrading of ATM networks, as well as those that address the needs of underserved areas, can improve accessibility and customer satisfaction. Additionally, providing incentives for banks to adopt advanced technologies and maintain high service standards at ATMs will contribute to better performance.

By implementing these policy recommendations, regulators can support the effective deployment of alternative banking strategies, ultimately leading to improved performance and service delivery in tier three banks across Kenya

## **5.6 Area of Further Research**

While this study Offers important perspectives on how agency banking, mobile banking, internet banking, and ATM banking strategies influence the performance of tier-three banks in Kenya, several areas for further research remain. Firstly, conducting replication studies is important. Future research could use different samples or collect data over various time periods to validate the robustness and generalizability of the current findings. This approach would help determine if the observed associations between alternative banking strategies and bank performance hold true across different contexts and time frames.

Secondly, examining additional alternative banking strategies could offer deeper insights. This study focused on four key strategies, but future research could explore emerging banking innovations such as digital wallets, blockchain technology, open banking, and personalized banking solutions. Investigating how these strategies influence bank performance might reveal new opportunities for enhancing efficiency and customer satisfaction.

Additionally, a comparative analysis across different regions or countries would provide a broader perspective. Examining how internet, agency, mobile, and ATM banking strategies affect bank performance in diverse settings could highlight regional variations and contextual factors that influence success. Such studies would help identify which strategies are most effective under different economic, regulatory, and technological conditions.

Moreover, incorporating qualitative research methods alongside quantitative analyses could enrich the understanding of alternative banking strategies. Qualitative approaches such as interviews, focus group discussions, or case study analyses could provide a more nuanced understanding of the underlying challenges opportunities, and behavioral factors affecting strategy implementation. These qualitative perspectives would complement statistical findings, uncovering mechanisms that might not be evident in quantitative data alone.

Furthermore, future studies should investigate additional factors influencing tier three bank performance beyond those captured in this study. Since the regression model explained only 58.9 percent of the variation in performance, other determinants such as regulatory compliance, digital transformation, leadership styles, customer satisfaction, and economic conditions should be explored. Understanding these factors could provide a more complete view of the forces shaping bank performance and guide more effective strategic decision-making.

By examining these aspects, future studies can build on the findings of this research and provide deeper insights into how alternative banking strategies and other key elements affect the performance of tier-three banks. This knowledge can inform the development of more effective policies, innovations, and operational approaches to enhance banking efficiency and competitiveness.

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## **APPENDICES**

### Appendix I: Letter of Introduction

Robert Muchiri

P.O BOX 622- 00516

NAIROBI

Email: muchiri055@gmail.com

Mobile: 0728279888

Dear Respondent,

#### **REF: DATA COLLECTION**

I am a student at the Kenya Methodist University pursuing a Master of Business Administration. I am currently conducting a research on the alternative banking strategies on the performance of tier three banks in Kenya. The intention of this letter therefore is to request you to spare a few minutes and respond to the attached questionnaire. As a representative of your company, your views are of importance in my study and I would appreciate you responding to this questionnaire. The information given will be utilized exclusively for scholarly purpose and will be handled confidentially.

Thank you for your support.

Yours faithfully,

Robert Muchiri

## Appendix II: Survey Questionnaire

Please read each question carefully and follow the instructions given. Kindly answer the questions by ticking in the box that best describes your answer or writing your answers in the spaces provided where applicable. The answers provided will be used for academic purpose only and will be treated confidentially.

### SECTION A: BACKGROUND INFORMATION

This section of the questionnaire refers to background information

1. Please indicate your gender by ticking against the relevant box

Male  Female

2. What is your age in years? (Tick one)

21-30  31-40

41-50  51-60

3. What is the highest level of learning you have attained? (Tick one)

Secondary/O level  Certificate

Diploma  Bachelor's degree

Master's Degree

4. Please state your job category by ticking against the relevant box

Top Management  Middle Management

Operative

5. How long have you worked for your current organization? (Tick one)

Below 5 years  5-10 years

11-15 years  Over 15 years

**SECTION B: ALTERNATIVE BANKING STRATEGIES**

**PART A: AGENCY BANKING (AB)**

6. Please indicate (√) your level of concurrence or disagreement with each of the following statements on a scale of 1 to 5 (1- for strongly disagree, 2 - for disagree, 3 - for neutral, 4 - for agree and 5 - for strongly agree) on the way agency banking promotes performance.

|     | <b>Statement</b>   | <b>5</b> | <b>4</b> | <b>3</b> | <b>2</b> | <b>1</b> |
|-----|--|----------|----------|----------|----------|----------|
|     | <b>Number of Agents</b>  |          |          |          |          |          |
| AB1 | The bank has a sufficient number of agents to meet customer demand for banking services.   |          |          |          |          |          |
| AB2 | The growth in the number of agents has positively impacted the accessibility of banking services in underserved areas.                                   |          |          |          |          |          |
| AB3 | The bank's expansion of its agent network is effectively increasing its market penetration and customer reach.   |          |          |          |          |          |
|     | <b>Agent Network Coverage</b>  |          |          |          |          |          |
| AB4 | The bank's agent network covers a wide geographic area, ensuring accessibility to banking services in diverse locations.                                 |          |          |          |          |          |
| AB5 | Customers find it convenient to access banking services through the bank's extensive agent network.  |          |          |          |          |          |
| AB6 | The bank's agent network is effectively reaching rural and remote areas, thereby promoting financial inclusion.  |          |          |          |          |          |
|     | <b>Transaction Volume through Agents</b>   |          |          |          |          |          |
| AB7 | The volume of transactions processed through agency banking strategies reflects the bank's successful integration of agent services into its operations. |          |          |          |          |          |
| AB8 | Customers trust the bank's agents for conducting various financial transactions, as evidenced by the high transaction volumes.                           |          |          |          |          |          |

|      |   |  |  |  |  |  |
|------|---|--|--|--|--|--|
| AB9  | The increase in transaction volume through agents indicates growing customer adoption and satisfaction with agency banking services.                |  |  |  |  |  |
|      | <b>Agent Performance Metrics</b>  |  |  |  |  |  |
| AB10 | Customers are generally satisfied with the service quality provided by the bank's agents.   |  |  |  |  |  |
| AB11 | The average transaction processing time by the bank's agents meets or exceeds customer expectations.  |  |  |  |  |  |
| AB12 | Error rates in transactions processed through agency banking strategies are minimal, demonstrating the effectiveness of agent training and support. |  |  |  |  |  |

**PART B: MOBILE BANKING**

- Please indicate (√) your level of concurrence or disagreement with each of the following statements on a scale of 1 to 5 (1- for strongly disagree, 2 - for disagree, 3 - for neutral, 4 - for agree and 5 - for strongly agree).

|     |  | 5 | 4 | 3 | 2 | 1 |
|-----|--|---|---|---|---|---|
|     | <b>Mobile App Downloads</b>  |   |   |   |   |   |
| MB1 | The number of downloads of the bank's mobile banking app reflects its popularity among customers.              |   |   |   |   |   |
| MB2 | The increase in mobile app downloads indicates effective marketing and promotion strategies by the bank.       |   |   |   |   |   |
| MB3 | Customers find it easy to download and install the bank's mobile app, contributing to its widespread adoption. |   |   |   |   |   |

|      |   |  |  |  |  |  |
|------|---|--|--|--|--|--|
| MB4  | <b>Active Users</b>   |  |  |  |  |  |
| MB5  | The bank's mobile banking app has a significant number of active users on a monthly basis.  |  |  |  |  |  |
| MB6  | The growth in active users demonstrates the app's effectiveness in retaining customer engagement.   |  |  |  |  |  |
| MB7  | Customers regularly use the bank's mobile app for various banking activities, indicating its convenience and usability                                    |  |  |  |  |  |
| MB8  | <b>Transaction Volume via Mobile</b>  |  |  |  |  |  |
| MB9  | The total value of transactions processed through the bank's mobile banking platform reflects its integration into customers' daily financial activities. |  |  |  |  |  |
| MB10 | The increase in transaction volume via mobile banking strategies shows growing customer trust and reliance on the app.                                    |  |  |  |  |  |
| MB11 | Customers prefer conducting transactions through the bank's mobile app due to its efficiency and accessibility.   |  |  |  |  |  |
| MB12 | <b>Customer Satisfaction with Mobile App</b>  |  |  |  |  |  |
| MB13 | Customers are generally satisfied with the user interface and design of the bank's mobile banking app.  |  |  |  |  |  |
| MB14 | The mobile app's functionality meets or exceeds customer expectations for conducting banking transactions.  |  |  |  |  |  |
| MB15 | Feedback from customers indicates high satisfaction with the overall mobile banking experience provided by the bank.                                      |  |  |  |  |  |

**PART C: INTERNET BANKING [IB]**

2. Please indicate (√) your level of concurrence or disagreement with each of the following statements on a scale of 1 to 5 (1- for strongly disagree, 2 - for disagree, 3 - for neutral, 4 - for agree and 5 - for strongly agree).

|     |  | 1 | 2 | 3 | 4 | 5 |
|-----|--|---|---|---|---|---|
|     | <b>Online Account Registrations</b>  |   |   |   |   |   |
| IB1 | The number of new accounts registered for internet banking services reflects growing customer interest in digital banking solutions                          |   |   |   |   |   |
| IB2 | Customers find it convenient to register for internet banking services provided by the bank.   |   |   |   |   |   |
| IB3 | The increase in online account registrations indicates effective marketing and promotion of internet banking options by the bank.                            |   |   |   |   |   |
|     | <b>Usage Frequency</b>   |   |   |   |   |   |
| IB4 | Customers frequently log in or visit the bank's internet banking portal to perform various financial transactions  |   |   |   |   |   |
| IB5 | The regular usage of internet banking services demonstrates customer satisfaction with the platform's usability and functionality.                           |   |   |   |   |   |
| IB6 | Customers prefer using the bank's internet banking portal for its convenience in managing their financial activities.  |   |   |   |   |   |
|     | <b>Transaction Value via Internet Banking</b>  |   |   |   |   |   |
| IB7 | The total monetary value of transactions conducted through the bank's internet banking platform reflects its integration into customers' financial routines. |   |   |   |   |   |

|      |  |  |  |  |  |  |
|------|--|--|--|--|--|--|
| IB8  | Customers trust the security and reliability of the internet banking platform for conducting high-value transactions.                                    |  |  |  |  |  |
| IB9  | The increase in transaction value via internet banking strategies indicates growing customer confidence in digital banking services offered by the bank. |  |  |  |  |  |
|      | <b>Security Incident Reports</b>   |  |  |  |  |  |
| IB10 | Customers are generally satisfied with the security measures implemented by the bank for internet banking services.                                      |  |  |  |  |  |
| IB11 | The number of reported security incidents related to internet banking remains low, indicating robust security protocols in place.                        |  |  |  |  |  |
| IB12 | Feedback from customers suggests confidence in the bank's ability to handle and mitigate security incidents related to internet banking.                 |  |  |  |  |  |

**PART D: ATM banking [AB]**

Please indicate (√) your level of concurrence or disagreement with each of the following statements on a scale of 1 to 5 (1- for strongly disagree, 2 - for disagree, 3 - for neutral, 4 - for agree and 5 - for strongly agree) on the way alternative banking strategies in your company promotes the following aspects of organizational performance (ATM Deployment Density, Transaction Volume at ATMs, ATM Uptime and Customer Feedback on ATM Services).

|  |                               |          |          |          |          |          |
|--|-------------------------------|----------|----------|----------|----------|----------|
|  | <b>ATM Deployment Density</b> | <b>5</b> | <b>4</b> | <b>3</b> | <b>2</b> | <b>1</b> |
|--|-------------------------------|----------|----------|----------|----------|----------|

|     |   |  |  |  |  |  |
|-----|---|--|--|--|--|--|
| AB1 | The density of ATMs per capita in areas served by the bank ensures convenient access to cash withdrawal and other banking services. |  |  |  |  |  |
| AB2 | The bank's strategy of deploying ATMs in high-traffic locations effectively meets customer demand for convenient banking access.    |  |  |  |  |  |
| AB3 | Customers find it easy to locate and use the bank's ATMs, contributing to overall satisfaction with banking services.               |  |  |  |  |  |
|     | <b>Transaction Volume at ATMs</b>   |  |  |  |  |  |
| AB4 | The total number of transactions processed through the bank's ATMs reflects their popularity and reliability among customers.       |  |  |  |  |  |
| AB5 | Customers rely on the bank's ATMs for various banking transactions due to their convenience and accessibility.                      |  |  |  |  |  |
| AB6 | The increase in transaction volume at ATMs indicates growing customer preference for self-service banking options.                  |  |  |  |  |  |
|     | <b>ATM Uptime</b>   |  |  |  |  |  |
| AB7 | The bank's ATMs are operational and available for customer use a significant percentage of the time.                                |  |  |  |  |  |
| AB8 | Customers experience minimal downtime when using the bank's ATMs, ensuring reliable access to banking services.                     |  |  |  |  |  |
| AB9 | Feedback from customers suggests satisfaction with the reliability and uptime of the bank's ATM network.                            |  |  |  |  |  |
|     | <b>Customer Feedback on ATM Services</b>  |  |  |  |  |  |

|      |   |  |  |  |  |  |
|------|---|--|--|--|--|--|
| AB10 | Customers are generally satisfied with the convenience and usability of the bank's ATM services.                          |  |  |  |  |  |
| AB11 | The bank's ATMs meet or exceed customer expectations for ease of use and functionality.                                   |  |  |  |  |  |
| AB12 | Survey results indicate positive feedback from customers regarding their overall experience with the bank's ATM services. |  |  |  |  |  |

### SECTION C: ORGANIZATIONAL PERFORMANCE [OP]

Please indicate (√) your level of concurrence or disagreement with each of the following statements on a scale of 1 to 5 (1- for strongly disagree, 2 - for disagree, 3 - for neutral, 4 - for agree and 5 - for strongly agree) on the way alternative banking strategies in your company promotes the following aspects of organizational performance (financial performance, customer satisfaction, operational efficiency and technology adoption and efficiency).

|     | Statement  | 5 | 4 | 3 | 2 | 1 |
|-----|--|---|---|---|---|---|
|     | <b>Financial Performance</b>   |   |   |   |   |   |
| OB1 | The bank's effective utilization of alternative banking strategies positively impacts ROA by expanding revenue streams                 |   |   |   |   |   |
| OB2 | ROE improvement through alternative strategies shows enhanced profitability from shareholder investments in Nairobi City County        |   |   |   |   |   |
| OB3 | Net Interest Margin performance demonstrates the competitive advantage gained through effective use of alternative banking strategies. |   |   |   |   |   |
|     | <b>Customer Satisfaction</b>   |   |   |   |   |   |

|      |   |  |  |  |  |  |
|------|---|--|--|--|--|--|
| OB4  | High customer satisfaction scores from alternative banking strategies indicate improved service accessibility and convenience in Nairobi City County. |  |  |  |  |  |
| OB5  | Customer feedback on alternative strategies reflects positive experiences and satisfaction with service quality.                                      |  |  |  |  |  |
| OB6  | Enhancing customer satisfaction through alternative strategies strengthens customer loyalty and retention   |  |  |  |  |  |
|      | <b>Operational Efficiency</b>   |  |  |  |  |  |
| OB7  | Effective management of operational risks associated with alternative strategies enhances operational efficiency                                      |  |  |  |  |  |
| OB8  | Alternative strategies optimize employee productivity by streamlining transaction processes and reducing workload                                     |  |  |  |  |  |
|      | <b>Technology Adoption and Efficiency</b>   |  |  |  |  |  |
| OB9  | Continuous improvement in technology efficiency supports strategic objectives and competitive positioning.  |  |  |  |  |  |
| OB10 | Efficiency gains from technology adoption through alternative strategies improve transaction processing and service responsiveness.                   |  |  |  |  |  |
| OB11 | High adoption rates of alternative banking technologies enhance operational efficiency and customer service capabilities.                             |  |  |  |  |  |

### Appendix III: List of Tier Three Banks in Kenya

| <b>Bank Name</b>                    | <b>Total Net Assets (Ksh)</b> | <b>Market Share (%)</b> |
|-------------------------------------|-------------------------------|-------------------------|
| HFC Limited                         | 59,145,971,000                | 0.8%                    |
| Victoria Commercial Bank Plc        | 59,200,750,000                | 0.7%                    |
| Bank of Africa Ltd                  | 51,723,886,000                | 0.6%                    |
| Gulf African Bank Limited           | 42,125,681,000                | 0.6%                    |
| Guaranty Trust Bank (Kenya) Limited | 30,112,267,000                | 0.6%                    |
| ABC African Banking Corporation Ltd | 41,775,949,000                | 0.5%                    |
| Sidian Bank Ltd                     | 44,738,527,000                | 0.5%                    |
| Habib Bank AG Zurich                | 36,125,057,000                | 0.4%                    |
| DIB Bank Kenya Ltd                  | 26,489,664,000                | 0.4%                    |
| UBA Kenya Bank Ltd                  | 31,209,553,000                | 0.4%                    |
| Premier Bank Kenya Ltd              | 23,304,561,000                | 0.3%                    |
| Credit Bank PLC                     | 25,721,643,000                | 0.3%                    |
| CIB Kenya Bank Limited              | 17,543,453,000                | 0.3%                    |
| Kingdom Bank Kenya Limited          | 36,720,398,000                | 0.3%                    |
| Development Bank of Kenya Ltd       | 18,840,315,000                | 0.3%                    |
| Guardian Bank Limited               | 15,853,010,000                | 0.3%                    |
| M-Oriental Bank Kenya Ltd           | 13,859,858,000                | 0.2%                    |
| Middle East Bank (K) Ltd            | 18,848,303,000                | 0.2%                    |
| Paramount Bank Ltd                  | 15,439,383,000                | 0.2%                    |
| Access Bank (Kenya) PLC             | 17,119,500,000                | 0.2%                    |
| Consolidated Bank of Kenya Limited  | 15,209,512,000                | 0.2%                    |
| Spire Bank Limited                  | 2,882,182,000                 | 0.1%                    |

**Source: CBK (2024)**



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**BOARD OF POSTGRADUATE STUDIES**

Our Ref: KeMU/NACOSTI/BUS/49/2024

November 14, 2024

Commission Secretary  
National Commission for Science, Technology and Innovations  
P.O. Box 30623-00100  
**NAIROBI**

Dear Sir/Madam,

**RE: ROBERT MUCHIRI KINYUA (REG. NO. BUS-3-2820-2/2023)**

This is to confirm that the above named is a bona fide student of Kenya Methodist University. In the Department of Business Administration, undertaking a Master's Degree in Business Administration. He is conducting research on: "Alternative Banking Strategies and Performance of Tier Three Banks in Kenya".

We confirm that his research proposal has been defended and approved by the University.

In this regard, we are requesting your office to issue a research license to enable him collect data.

Assistance accorded to him will be highly appreciated.



**Nancy Ringer (PhD)**  
Director, Board of Postgraduate Studies

Cc: Dean, KeMU Business School  
CoD, Business Administration  
Postgraduate Coordinator - BA  
Supervisors



KENYA METHODIST UNIVERSITY

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Our Ref: KeMU/ISERC/BUS/49/2024

November 14, 2024

ROBERT MUCHIRI KINYUA

BUS-3-2820-2/2023

Dear Robert,

SUBJECT: ALTERNATIVE BANKING STRATEGIES AND PERFORMANCE OF TIER THREE BANKS IN KENYA

This is to inform you that Kenya Methodist University Institutional Scientific Ethics and Review Committee has reviewed and approved your research proposal. Your application approval number is KeMU/ISERC/BUS/49/2024. The approval period is 14<sup>th</sup> November, 2024– 14<sup>th</sup> November, 2024.

This approval is subject to compliance with the following requirements:-






- I. Only approved documents including (informed consents, study instruments, MTA) will be used.
- II. All changes including (amendments, deviations, and violations) are submitted for review and approval by Kenya Methodist University Institutional Scientific Ethics and Review Committee.
- III. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to KeMU ISERC within 72 hours of notification.
- IV. Any changes, anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to KeMU ISERC within 72 hours.
- V. Clearance for export of biological specimens must be obtained from relevant institutions.

- VI. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- VII. Submission of an executive summary report within 90 days upon completion of the study to KaMLU ISERC.

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) <https://oris.nacosti.go.ke> and also obtain other clearances needed.



## Appendix IV: Research Permit

|  |   |
|--|---|
|  <p style="text-align: center;"><b>REPUBLIC OF KENYA</b></p> <p>Ref No: <b>690251</b></p>   |  <p style="text-align: center;"><b>NATIONAL COMMISSION FOR<br/>SCIENCE, TECHNOLOGY &amp; INNOVATION.</b></p> <p style="text-align: right;">Date of Issue: <b>16/January/2025</b></p> |
| <b>RESEARCH LICENSE</b>  |   |
|   |   |
| <p><b>This is to Certify that Mr. ROBERT MUCHIRI KINYUA of Kenya Methodist University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev:2014) in Nairobi on the topic:</b></p> <p><b>ALTERNATIVE BANKING STRATEGIES AND PERFORMANCE OF TIER THREE BANKS IN KENYA for the period ending : 16/January/2026.</b></p> |   |
| License No: <b>NACOSTI/P/25/415094</b>   |   |
| <p><b>690251</b></p> <p>Applicant Identification Number</p>  |  <p>Director General</p> <p><b>NATIONAL COMMISSION FOR<br/>SCIENCE, TECHNOLOGY &amp;<br/>INNOVATION</b></p>  |
| <p>Verification QR Code</p>   |   |