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Effects of Retail Banking on the Financial Performance of Commercial Banks in Kenya

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ABSTRACT

The study focused on the effect of liberalization of banking industry. In the past three years Kenyan banking sector has progressed towards increasing retail banking and decreasing the corporate banking. This is evident in the efforts banks are putting to attract retail customers through advertisements and sales promotions. Retail banking in Kenya in the past years had been severely underdeveloped and marginalized, since the majority of Kenyans live below the poverty line and cannot afford the luxury life. The study therefore established the effect of retail banking on the performance of financial institutions in Kenya. The general objective of the study was to determine the effect of retail banking in the performance of financial institutions. The study was guided with the following specific objectives; lending portfolio, number of customers, branch network and deposit mobilization. The study relied on both primary sources and secondary sources. The primary sources were the operation Managers, retail managers and relationship managers of the financial institutions while the secondary sources included reviewing the literature on the banking sector in Kenya and the East Africa region, previous research carried out from the same field, annual reports regarding the industry and official company manuals. The data collection methods included questionnaires and interviews. The collected data was edited and then coded. Data was analyzed using descriptive and inferential statistics with the aid of Statistical Package for Social Sciences (SPSS) Version 22.0. Descriptive statistics included, frequencies, percentages, means and standard deviations. On the other hand, inferential statistics was in form of both Pearson's correlation coefficient and multiple regression. Correlation facilitated drawing of infrences on relationship between each of the independent variables. Multiple regression enabled assessment of the effect of the independent variables on savings mobilization performance as a whole significance. The study findings concluded that Deposit Mobilisation, Lending Portfolio and Branch Network were found to have a significant and positive impact on financial performance; it would be wise to conclude that Deposit Mobilisation, Lending Portfolio and Branch Network were found to have a strong positive relationship. On the number of customers on financial performance, the study established that Number of Customers has an insignificant relationship with financial performance. It was recommended that commercial banks should design other innovative marketing strategies which can increase the level of low cost deposits such as use of mobile phone in collecting deposits. The Management of commercial banks should put in place strategies that focus on unbanked population since they represent a significant number of customers left out which can build trust on and sustain its performance once they are included in the financial sector. The study further recommends that in- order to enhance the performance in the whole financial sector, the same study can be carried out in micro finances.

Introduction

In recent years, retail banking has increasingly gained popularity in Kenya due to various changes in the market. Retail banking has been defined as the provision of cluster products and services by banks to consumers and small businesses through branches, the internet and other channels (Ashcraft, 2005). This as opposed to corporate banking, which consists of different banking services to large companies, governments or other big institutions.

There are various forms of banking namely corporate, commercial, retail banking and investment banking; therefore banks can offer more than one form of banking. Banking industry in Kenya is divided into three categories: banks, microfinance institutions, and foreign exchange bureaus and non-banks financial institutions. There are forty-three banks and nonbank financial institutions, fifteen microfinance institutions and forty-eight foreign exchange bureaus. Thirty-five of the banks, most of which are small to medium sized, are locally owned. A few large banks most of which are foreign-owned, though some are partially locally owned, dominate the industry. Six of the major banks are listed on the Nairobi Stock Exchange.

The commercial banks and nonbanking financial institutions in Kenya offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking (PWC report, 2007).

Retail banks exist to service the financial needs of business and society. The deregulation of financial services markets in the 1980s, and in particular the growing focus of both consumers and producers on quality, has created a process of structural change in the banking industry. Retail banking is a commodity service and the effects of these changes are therefore experienced by most of the population. Indeed, by the late 1990s, the mainstream banks started restructuring their service towards wealthier people, and savings services became wealthier for people. From the year 2002 to date there has been renewed interest from the banks in reaching the mass of middle income salaried individuals such as teachers and civil servants and this market segment is quite competitive (Johnson, 2004).

In the last four years there has been increased competition from new entrants into the banking industry, forcing banks to cut costs and improve efficiency through automation and price rationalization (Paulson & McAndrew's, 2000).While the banks have been forced to cut costs and improve efficiency, there is increasing internal and political pressure on banks to expand their products and services to the unbanked and under-banked (Bitner, *et al* 2000).Due to the competitiveness of the banking industry many banks which were doing corporate banking changed partially or completely to retail banking. This is evident from a lot of advertisements made by banks using various forms and also by use of sales people, who have tried to convince many individuals to open accounts (Banking supervision Annual Report, 2005).Banks which have actually incorporated retail banking in Kenya are CFC, Standard Chartered, Barclays, National Bank of Kenya, Kenya Commercial Bank, consolidated Bank, NIC Bank, Co-operative Bank of Kenya (PWC Report, 2005).

Retail Banking in Kenya

Retail banking has been undergoing dramatic operational transformation in the recent years. Mergers and acquisitions, increased competition, and new regulatory requirements have driven banks to rethink their retail strategies. It has become important for retail banks to leverage technology to optimize sales and fulfillment processes, manage distribution channels, and streamline operations to acquire, satisfy, and thereby retain customers (Chen, 2001).

The retail finance sector is currently one of the most competitive in the banking industry. However, in order to succeed in such a dynamic market place, Berry (2007) argues that the skills required to be a successful retail banker are many and varied: ability to demonstrate a deep understanding of customer needs and revenue generating methods, ability to develop new market entry and customer retention strategies, application of new business models and translating them into revenue generating projects and programmes. Financial institutions that are interested in tapping undeserved households need new strategies to segment the large under banked market. The rise in the number of financial institutions that are designing new initiatives to pursue the under banked consumer market illustrates the recent realization of retail banking (Karty and Stewart, 2006).

Rapid technological advances have introduced significant changes in retail banking.

Bank branches alone are no longer sufficient to provide banking services to cater for the needs of todays sophisticated and demanding customers. The provision of banking services through electronic channels (e-channels) namely ATMs, personal computer banking and phone banking have provided an alternative means to acquire banking services more conveniently (How croft*et al*, 2002).Other changes that have been used by the banks to penetrate into the market is the use of downscaling. Under the concept of downscaling the banks are trying to modify their services to meet the needs of the low income earners. Low income markets can be served on a "sustainable" basis, that is, with full cost recovery and a market return, without subsidy. As a result, in a growing number of countries, the formal financial sector has begun to take notice and to service these traditionalized sectors (Young *et al*, 2005).

Deposit mobilization remains the cornerstone of retail banking. This comprises of none- funded incomes derived from interest on loans and other advances. They include fees and commissions charged by the Bank. Non-financial institutions receive deposits and advance loans but unlike commercial Banks, they are not members of the clearing house. Deposit plus is an overdraft or loan facility secured by cash held either in savings or fixed deposits account (Hanson 2000).

Lending Portfolio and Credit risk or default risk involves inability or unwillingness of a customer or counter party to meet commitments in relation to lending, trading, helping, settlement and other financial transactions. The credit risk a bank portfolio depends on both external and internal factors. The external factors are the state of economy, wide swings in commodity equity prices, foreigner exchange rates and interest rates, trade restrictions economic sanctions government policies etc. The internal factors are things like deficiency in policies (local policies) administration, absence of prudent credit concentration limits inadequately, defined lending limits for loan officers /credit committees, deficiency in approval of coroners financial position excessive dependence on collateral and inadequately risk pricing, absence of loan review mechanism and post sanction surveillance etc. (Mohan (2012)

The number of Customers can be classified into three, clearly defined personal customers who depend on salary, business customers and the corporate ones. There is well laid down policies and controls which guides the lending to those groups which are revised from time to time depending on the prevailing market conditions. The policies spell out checks and balances as a guiding factor to prudent lending. What is more, before credit is advanced to any customer, a thorough and detailed appraisal process is conducted in order to review the financial and personal qualities of the customers. This helps to ascertain to the bank that the person they are dealing with is worth the deal sought. (Mohan (2012)

Through expansion and development of scattered Branch network, the bank assists and acts as agents in distribution of currencies throughout the economy, fastening monetization of the economy. Commercial banks are important financial intermediaries. On the one hand they offer opportunities for demand, savings and time deposits, which provides a safe convenient and economically productive outlets for savings, and on the other hand lend out the savings by advances and loans purchase securities etc., thus facilitating investments play a vital role in realization and utilization of credit in the economy.

The banking system is diverse in terms of institution size and structure. As at now the Banking sector has undergone some very drastic changes that have totally changed the above equator. (Young et al, 2005).

Retail banking in Kenya has been severely underdeveloped and marginalized, since the majority of Kenyans live below the poverty line and cannot afford the luxury of an idle Ksh 1000. According to Mohan (2012), Mobilization of deposits is one of the important functions of banking business. It is an important source of working fund for the bank. The success of the banking greatly lies on the deposit mobilization. It is an important source of working fund for the bank (Muriuki 2007).

Several papers have examined the impact of the growth of large, multi-market banks on bank performance and profitability. For instance, Berger et al. (2007) find that the profits of small, single market banks are lower when the market share of large, multi-market banks is greater and that this impact has increased over the period during which the large branch networks were being formed. Hirtle and Stiroh (forthcoming) examine how the extent of retail banking intensity, including the number of branches, affect risk and return, finding that greater emphasis on retail banking leads to both lower risk and lower return. Kenyan banking sector has progressed towards increasing retail banking and decrease the corporate banking. This is evident in the efforts banks are putting to attract retail customers through advertisements and sales promotions (Financial Standard, 2006).

Lending portfolios includes lending activities, trade and investment activities, payment and settlement of securities trading on its own and foreign account. (Jílek 2000) There may be cases if counterparty fails to honor its undertaking and repay fully or partially due principal and interest, have not repaid on time. (Mohan (2012). The number of customers has increased in the current economic scenario because banks give an opportunity to identify channels that are most important to their customers, and provide a positive experience across them. Banks are shifting their customers from high-cost to lower-cost channels, thus reducing their total cost-to-serve..This consumer-focused approach can improve revenue by attracting new customers and increasing the bank's wallet share of existing customers. (PWC 2015).

Despite the relevance of the retail banking in the commercial banks gaining competitiveness and enhancing financial performance, there has been limited research conducted locally specifically on the contribution and effect of retail banking on financial performance of commercial banks in Kenya. Most of the studies reviewed were done abroad and according to Aosa (2000), it's not right to import the whole some results of a research without taking into account the contextual differences and hence the needs to carry out local research in order to understand better the problem. The study was guided by counsels of previous researches undertaken abroad in an effort to find out the effect of retail banking on financial performance of the commercial banks in Kenya. The study therefore aimed at finding out the effects of retail banking on the financial performance of commercial banks in Kenya in terms of deposit mobilization, lending portfolios, to ascertain the different types of bank customers, and branch networking.

Research Objectives

To determine the effects of deposit mobilization on the financial performance of Commercial banks in Mombasa County Kenya

To assess the effects of lending portfolios on the financial performance of commercial banks in Mombasa County Kenya.

To establish the effects of the number of customers on the financial performance of commercial banks in Mombasa County Kenya.

To evaluate the effects of branches network on the financial performance of commercial banks in Mombasa County Kenya.

Related Literature

Theoretical Framework

Theories are formulated to explain, predict and understand phenomenon and in many cases to challenge and extend existing knowledge within the limits of the critical bounding assumptions. The theoretical framework introduces and describes the theory which explains why the research problem under study exists. A theoretical framework consists of concepts, together with their definitions, and existing theory/theories that are used for the particular study (Sekaran 2011) This study will be anchored on the following theories; Monetary Circuit Theory, Commercial loan theory, Innovation Diffusion Theory and Market Power and Efficiency Structure theory.

Monetary Circuit Theory

It holds that money is created endogenously by the banking sector, rather than exogenously by central bank lending; it is a theory of endogenous money. It is also called circuitism and the circulation approach. Circuitism is easily understood in terms of familiar bank accounts and debit card or credit card transactions: bank deposits are just an entry in a bank account book (not specie – bills and coins), and a purchase subtracts money from the buyer's account with the bank, and adds it to the seller's account with the bank (Keen 2007). Credit money is created by a loan being extended. Crucially, this loan need not (in principle) be backed by any central bank money: the money is created from the promise (credit) embodied in the loan, not from the lending or relending of central bank money: credit is prior to reserves. When the loan is repaid, with interest, the credit money of the loan is destroyed, but reserves (equal to the interest) are created – the profit from the loan.

Another explanation of the interest, in a simple, non-growth model is the interest enjoyed by the bank is from the spending of interest income of the bank in previous circuit. The same simple model applies for profit as well, in a simple model of non-growth non-modern-bank model composed only by entrepreneurs and the employed workers; entrepreneur's spending on profit on previous circuit will compose the profit this group enjoys in new circuit (Zazzaro 2003). The failure of monetary policy during depressions – central banks give money to commercial banks, but the commercial banks do not lend it out – is referred to as "pushing on a string", and is cited by circuitists in favor of their model: credit money is pulled out by loans being made, not pushed out by central banks printing money and giving it to commercial banks to lend (Parguez & Seccareccia 2000) The credit theory of money: the monetary circuit approach. In practice, commercial banks extend lines of credit to companies – a promise to make a loan. This promise is not considered money for regulatory purposes, and banks need not hold reserves against it, but when the line is tapped (and a loan extended), then bona fide credit money is created, and reserves must be found to match it (Rochon 2005) In this case, credit money precedes reserves.

In other words making loans pulls reserves in (assuming that the regulatory need for bank reserves exists), instead of reserves being pushed out as loans which is assumed by the mainstream model.

Commercial Loan Theory

It originated in the 18th century in England by Adam Smith. It is also called the real bill theory. According to this theory banks should provide short term self-liquidating loans to borrowers for meeting their working capital requirements. The logic behind this theory is that commercial banks deposit are demand liabilities and should therefore be committed in self-liquidating obligations (Kubasu 2011) This enables banks reduce the chances of default risk.

This theory holds that banks should lend only on "short-term, self-liquidating commercial papers. This is for the simple reason that a bank has liabilities payable on demand, and it cannot meet these obligations if its assets are tied up for long periods of time. Rather, a bank needs a continual and substantial flow of cash moving through it in order to maintain its own liquidity, and this cash flow can be achieved only if the bank limits its lending activities to short-term maturities (Ahtiala 2005). Self-liquidating loans are those which are meant to finance the production, and movement of goods through the successive stages of production, storage, transportation and distribution. When such goods are ultimately sold, the loans are considered to liquidate themselves automatically.

The theory states that when commercial banks make only short-term self-liquidating productive loans, the central bank, in turn should only lend to the banks on the security of such short-term loans. This principle would ensure the proper degree of liquidity of each bank and the proper money supply for the whole economy. This in essence aim at the stabilization of the banking system. The weakness of this theory stems from the failure to realize that the loans are made, given the value of the goods and not the good itself; and also the value of goods itself is subject to variations, given the state of the economy. In practice this theory can be used to justify the existence of retail banking. Commercial banks used to provide loans to cooperatives amounting to huge sums and had to be paid over a long period of time. With the introduction of retail banking banks offer small loans to individuals and are paid back after a short time (Dawson 2005).

Innovation Diffusion Theory (IDT)

The process of diffusion and adoption are two very closely related processes regarding consumers' acceptance of new products and services (Rogers, 2003; Norazah 2006). Diffusion is a macro process that is more related with familiarizing and accepting a new product or an idea, which is an innovation. Whereas, adoption is a micro process, that comprises of various stages that a customer goes through prior to accepting or rejecting a product or services. Thus, the key theoretical constructs concerned with adoption and diffusion studies generally focus on user acceptance, behavior prediction, customer's perception and innovation adoption.

Rogers' (2003), Innovation Diffusion Theory is one of the widely applied models in the area of adoption behavior prediction, in social science. The scholarly work has encouraged research studies in the area of diffusion and adoption extensively. Approximately 5,200 diffusion studies had been identified by Rogers (2003) while working on the 5th edition of his text.

The adoption process has been defined as the process through which individual adopters pass from awareness to full acceptance of an innovation (Rogers, 2003). According to Rogers (2003), there are two levels to adoption. Initially, innovation must be purchased, acquired and adopted by individuals or organizations.

Subsequently, it must be either accepted or rejected by the ultimate users in the society or community. The relative newness of these innovations and the associated uncertainty is what differentiates innovation adoption decisions from other types of decision-making (Gerard et al., 2003). However getting a new idea adopted, even it has obvious advantages, is difficult. Many innovations require a lengthy period of many years, from the time when they become available, to the time when they are widely adopted. Furthermore, the same innovation may be desirable for one situation but undesirable for another potential adopter, whose situation differs. (Rogers,2003). identified five main characteristics of innovations: Relative advantage, compatibility, complexity, observability and trial ability as the most important explanation of the rate of innovation adoption .Most of the variance in the rate of adoption of innovations, from 49 to 87 percent is explained by these attributes (Rogers 2003).

Market Power and Efficiency Structure Theories

The MP theory states that increased external market forces results into market power which is defined as the capacity of an organization to increase its branch networks. In banks, as in other business organizations, Market Power can take two forms: differentiation of products and services, or ease of search. There is a trade-off between differentiation and loss of legitimacy which is optimized at a strategic balance point (Shepherd 2000). Likewise, there is a trade-off between ease of search and security that must be taken into account. This theory categorizes Information Communication and Technology (ICT) investments into Market-Power driven initiatives profit. Moreover, the hypothesis suggest that only firms with large market share and branch network with well differentiated portfolio can win their competitors and earn profit.

Allen, Carletti and Marquez (2011) shows that firms and individuals prefer (or are forced) to borrow from healthier banks (that potentially have more market power) to obtain the required credit and limit the risks involved. This outcome improves the performance of the borrowing firms, given their ability to fund the promising investment opportunity; yet, the screening and monitoring advantages of banks with market power safeguard the borrowing firm against suboptimal project selection and loan default. Also, Matutes and Caminal (2002) indicate a strongly positive association between bank's market power and the monitoring effort.

A number of empirical papers analyze the bank-firm relationship and indirectly offer additional potential explanations for a link between bank market power and future firm performance. De Haas and Van Horen (2013) for example study the syndicated loan market and suggest that local lending experience also gives banks more market power vis-a-vis their borrowers (who have even less incentive then to switch to another bank and banks can exploit this by charging a higher interest rate). This is because through repeat lending (lending experience from the same banks that participate in the syndication or lending to the same firm), banks reduce information asymmetries and build up proprietary information about borrowers.

Efficiency structure theory (EST) suggests that enhanced managerial and scale efficiency leads to higher concentration and then to higher profitability. According to Olweny and Shipho (2011) balanced portfolio theory also added additional dimension into the study of bank performance. It states that the portfolio composition of the bank, its profit and the return to the shareholders is the result of the decisions made by the management and the overall policy decisions. From the above theories, it is possible to conclude that bank performance is influenced by both internal and external factors. The internal factors include bank size, capital, management efficiency and risk management capacity. The same scholars contend that the major external factors that influence bank performance are macroeconomic variables such as interest rate, inflation, economic growth and other factors like ownership.

Conceptual Framework

Conceptual framework is the researcher's own position on the problem and it gives direction to the study. It may be an adaption of a model used in previous study with modifications to suit the enquiry or my own model. Aside from showing the direction of the study, through the conceptual framework, the researcher is able to show the relationships of the different variables that are being investigated. (Mugenda & Mugenda, 2006), defined conceptual framework as a concise description of phenomenon under study accompanied by a graphical or visual depiction of the major variables of the study. The conceptual framework shows the relationship between the independent variables (deposit mobilization, number of customers, branch networking and lending portfolio) and the dependent variable which are the effects of retail banking on financial performance of financial institutions.

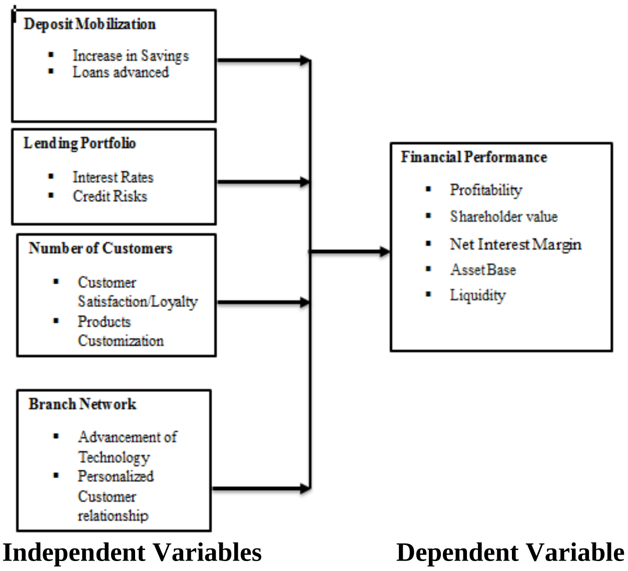

Figure 2.1. Conceptual framework.

Deposit Mobilization

According to Kazi 2012, in banking sector, deposit mobilization is a scheme intended to encourage customers to deposit more cash with the bank and this money in turn will be used by the bank to disburse more loans and generate additional revenue for them. The main business for banks is accepting deposits and granting loans. The more the loans the banks disburse the more profit they make. Also, banks do not have a lot of their own money to give as loans. They depend on customer deposits to generate funds for granting loans to other customers.

Traditionally, customers of banks walk to the banking premises to deposit money. This method of savings mobilization is not able to mop up enough savings. The World Development Report, (2008), in response to the problem of inability to mobilize enough savings, many banks has devised mechanisms of generating savings. Among the mechanisms for savings mobilization identified by bank's include moving from shop to shop to collect daily deposits, sending agents to economic zones to mobilize savings, among others. It is evident that the bank uses a number of mechanisms to mobilize savings. Apart from the tradition of mobilizing savings where customers walk to the bank to save, there are other ways through which the bank mobilizes savings. In addition, the bank moves from shop to shop to collect deposits. This mode of mobilizing savings is done through special arrangement with the customer. Customers who qualify must have a high sales turnover. According to Laura, Alfred, Sylvia (2009), to mobilize more deposits, financial institutions offer a range of savings products that are tailored to their particular clientele. They offer the widest variety of specialized savings products, so that their customers have a choice between immediately accessible, liquid products, or semi-liquid accounts or time deposits with accordingly higher interest rates. Simple and clear design of basic savings products enables depositors to easily select the product that best suits their needs. The simple and transparent design of the savings products also enables staff to administer them with ease, reducing administrative costs.

Commercial banks as well as the sector in general do depend on customer's deposit to advance its clients. According to Sharma (2009), the bank credit and bank deposits are very closely related with each other that they represent, roughly speaking, two sides of the same coin, the balance sheets of banks. With regard to the question whether loans make deposits or deposits make loans, two kinds of answers have been given for the puzzle. Banks, the world over, thrive on their ability to generate income through their lending activities. The lending activity is made possible only if the banks can mobilize enough funds from their customers. Since commercial banks depend on depositor's money as a source of funds, it means that there are some relationships between the ability of the banks to mobilize deposits and the amount of credit granted to the customers. Thus, the main function of financial institutions of mobilizing funds from the surplus economic agents to the deficit economic agents is put to test in order to generate economic growth. However, the efficiency of performing this function depends on the level of development of the financial system. The finance literature provides support for the argument that countries with better/efficient financial systems grow faster, while inefficient financial systems bear the risk of bank failure (Kasekende 2008).

According to Mohan (2012), Mobilization of deposits is one of the important functions of banking business. It is an important source of working fund for the bank. Deposit mobilization is an indispensable act or to increase the sources of the banks to serve effectively. Mobilization of deposit plays an important role in providing satisfactory service to different sectors of the economy. The success of the banking greatly lies on the deposit mobilization. In the present context banks' performance is measured on several indicators, including the deposit mix and the quantum of low cost deposits in the mix among others. In the present era of competition and with the emergence of private and multinational banks, an ideal mix of deposits is a must to survive. Since the interest paid on deposit forms a big burden on bank, the mobilization of low cost deposits, like current account and savings bank deposit is the urgent need for the bank. Banks borrow and lend, they borrow money by accepting deposits from the public including members of the bank. Deposit mobilization is the chief source of funds to undertake lending operations, for profitable operation, the amount of deposits is very important. The banks should introduce various deposits schemes to attract the public to deposit. It is the size of the deposits that largely decides the lending potential of a bank (Rajeshwari 2014).

According to Katang & Ntui (2008), in the most basic terms, commercial banks take deposits from individual and institutional customers, which they then use to extend credit to other customers. They make money by earning more in interest from borrowers than they pay in interest to those whose deposit its they accept. They are different from investment banks and brokerages in that those kinds of institutions focus on underwriting, selling, and trading corporate and municipal. Therefore one of the most important ways leading to financial performance is the effective use of deposit mobilized extended to customers as generation of interest.

According to Mohan (2012), bank's financial performance depends on several elements including working funds they use in day to day activities. Banks as institutions whose main activities and functions are to accept deposit in forms of saving from their customers, they have maintained in the certain level of liquidity and advance the rest wisely otherwise, the use of micro loans can bring totally poverty, if it is not used without knowledge on it. Mobilization of deposits is one of the important functions of banking business. It is an important source of working fund for the bank. Deposit mobilization is an indispensable factor to increase the sources of the banks to serve effectively. Mobilization of deposit plays an important role in providing satisfactory service to different factors of the economy. The success of the banking greatly lies on the deposit mobilization. Performances of the bank depend on deposits, as the deposits are normally considered as a cost effective source of working fund. There are different types of deposits, with different maturity pattern carrying different rates of interests. Deposit mobilization is depending on the cost of deposits. Mobilization of deposits for a bank is as essential as oxygen for human being. To enhance profitability, banks take steps to minimize the expenditure and are forced to mobilize low cost deposits.

Lending Portfolio

Loan portfolio is the total of all loans held by a bank or finance company. It can also be defined as the loans that a lender is owed, and is usually listed as an asset on the lender's balance sheet. Loan portfolios are the major assets of banks, thrifts and other lending institutions. The value of a loan portfolio depends not only on the interest rates earned on the loans, but also on the quality or likelihood that interest and principal will be repaid. One of the principal activities of commercial banks is to grant loans to borrowers. In this respect, the banks are faced with liquidity risk since loans are advanced from funds deposited by customers. Hamisu (2011) notes that credit creation involves huge risks to both the lender and the borrower. The risk of the counter party not fulfilling his or her obligation as per the contract on due date or anytime can greatly jeopardize the smooth functioning of bank's business. On the other hand, a bank with high credit risk has high bankruptcy risk that puts depositors 'funds in jeopardy.

According to Hirtle and Melti, (2004), the major types of risks faced by lending institutions globally include market risk, operational risk, and performance and credit risks. The level of each type of risk largely depends on the environment that the lending institution is conducting its operation. Credit risk is defined as the change in the value of the asset portfolio of a bank, due to the failure of an obligor to meet his payment commitments (CBK 2005). The risk attributable to loan default leads to high effective borrowing rates, through a risk premium that varies with the exposure to default. This is because a bank has to undergo costs to carefully evaluate and closely monitor the risk, especially in an environment where probability of default is high. According to Parlour & Winton, 2008, giving credit to worthy borrowers is one of the most significant functions of commercial banks that are directly related to the development of the economy. If those loans or credit are not grown, the expansion of the production facilities and operations would almost be impossible and take a longer time.

With an increase in the bad loans burdening the books of the banking sector, commercial banks once again seem to be focusing on the retail lending business. While broadly defined as lending to individuals, retail lending covers a host of loans: those meant for investment in housing, those for purchases of consumer durables and automobiles and those for education, deferred payments on credit card expenditures or unspecified purposes. Owojori et al (2011) highlighted that available statistics from liquidated banks in Nigeria clearly showed that inability to collect loans and advances extended to customers was a major contributor to the distress of liquidated banks.

The post-liberalization changes in banking practices included an increased emphasis on retail lending, which transited from being a risky and cumbersome business to one considered easy to implement, profitable and relatively safe. In some instances, such as housing, the income earned (rent received) or expenditure saved (stoppage of rent payment) from the investment is seen as providing a part of the wherewithal needed to service the loan. In other areas, confidence that future incomes to be earned by the borrower would be adequate to meet interest and amortization payments provides the basis for enhanced retail lending (Owojori et al (2011).

According to Amidu (2006), bank credit channel has focused on two issues. The first issue centered whether there are categories of borrowers who depend on bank lending in that any change in banks 'willingness to lend immediately affects their investment and spending decisions. The other issue is whether monetary policy changes directly constrain bank lending to borrowers. Both conditions are necessary for bank lending to play a special role in the monetary transmission mechanism. Some recent research provides support for the view that certain borrowers, especially small businesses, are very dependent on banks for financing (Abor, 2004).

According to Abor (2004) some recent research provides support for the view that certain borrowers, especially small businesses, are very dependent on retail banks for financing. The banks very frequently suffer from poor lending practice. Monitoring, and other appropriate steps, are necessary to control or mitigate the risk of connected lending when it goes to companies or individuals. Therefore, the CBK, has issued guidelines which attention to general principles that are prepared for governing the implementation of more detailed lending procedures and practices within the banks.

It is mandatory for a bank to prepare Credit Policies Guidelines (CPG) for making investment and lending decisions and which reflect a bank tolerance for credit risk. Prior to consent to a credit facility, the bank should make an assessment of risk profile of its customers, such as of their business, and which can be done through the credit procedure. Benedikt et al. (2007) studied the credit risk management policies for ten banks in the United States and found that advance credit risk management techniques help permanent to achieve their target in loan level. The findings confirm the general efficiency enhancing implications of new risk management techniques in a world with frictions suggested in the theoretical literature.

Lending practices are long dated and for many years up to 2007, interest rates were very low in Western countries and money was cheap (Berend, 2013). Banks need to lend as much as they can if they are going to make the level of profits that they were used to. Some banks for instance in the USA lent to poorer people who had less chance of paying back their loans than the traditional customers (Berend, 2013). To manage risks, banks invented new and complex ways to lending processes and invested in new ways way to package up the debts. This involved turning loans that could not be traded into type of security that could be traded in ultimately. This allowed these debts to spread out to other banks so they did not feel so exposed to risks, lending looked safe because it was in form of mortgages on people's home. People were buying many goods, Western economies were growing, inflation was low and there were cheap goods to purchase from China and other emerging economies (Berend, 2013).

Factors affecting the lending Decisions

The loan allocation and the loan portfolio of any individual financial institution e.g. commercial banks will be dictated by lending decisions. The nature, size, and the structure of loan portfolio are a reflection of financial institutions lending decisions.

The lending decisions are influenced by the size of the lending institution. This is very vital in determining the size of the loan to lend. Further, it also restricts the potential market for borrowers such that if a financial institution is small and therefore its geographical coverage is small, its lending decision will differ from Multinational financial decisions. Its loaning decisions will also depend on the business potential on the areas of its coverage. The small financial institutions should therefore consider their local community and immediate environment when drawing up the lending decisions. Multinationals will consider a wider environment (George &Simonson, 2000).

Economic conditions are also another factor that influences the lending decision. This refers to the economic activities around financial institutions operating environment. Many banks are usually located in areas where economic activities are either dominated by manufacturers or service industry, etc. Lending policies should therefore be tailored according to the pre-dominant business activity in the bank's environment. Of great importance here is to focus on the flow of business within this environment and design policies that are able to tap the benefits to the business. In periods of corporate bankruptcy, it is also important to notice that certain loan policies are important to help re-organize bankrupt institutions and transform them into highly profitable organizations (George & Simonson, 2000).

Credit Analysis assess the likelihood that a borrower will default on a given loan. Credit analysis consists of evaluating a borrower's needs and financial conditions which includes: Character or the person's traits such as honesty, ethical considerations, integrity, etc. This is usually based on the borrower's past behavior in both banking & repayments of loans borrowed earlier. Capacity of the borrower which focuses on whether the borrower has the ability to generate sufficient funds to liquidate the loan and still stay financially healthy. This will include assessing the manager's ability, policy documents of the firm, investment policies, strategic plans, credit statements, etc. as well as judge the market potential of the institution. The judgments should be both on liquidity as well as solvency of the institution. Collateral which is the ability of the borrower to pledge specific assets to secure a loan. According to the provisions of Central Bank, all loans offered by banks must be secured to protect the borrower's funds. The value of the security should be ascertained and title documents charged to the loan which should not exceed 2/3 of the value of the securities (George & Simonson 2000).

Number of Customers

Banks are competing intensely in a highly competitive environment to offer quality oriented services according to customers' expectations. Various important parts of banking sector like operations, service quality, employee satisfaction, customer satisfaction, financing products, efficiency, financial performance are being studied by many researchers to better understand and serve the community at large (Arokiasamy 2013). The high quality relationship with customers is the main influence of a successful service provider "which determines customer satisfaction and loyalty"

Customer loyalty broadly refers to customer behaviors that indicate a desire to better an ongoing relationship with a company. The customer's willingness to purchase again from the company, having a preference for the company, or recommending the company to others could be indications to customers' desire to remain in a relationship with a company that demonstrate how much a customer is related to a company. Loyal customers are often worth the marketing effort, owing to their willingness to buy additional products and spread positive word of mouth as well as their reliability as a source of continuous revenues. The programs of customer retention could lead to a higher rate in buyer loyalty. (Panda, 2003)

Although loans and deposits are the primary products, retail banking units provide a range of other financial services to consumers and small businesses. For individual customers, these services include sales of investment products (such as mutual funds and annuities), insurance brokerage, and financial and retirement planning. For small businesses, they include merchant and payment services, cash handling, insurance brokerage and payroll and employee benefits services (McDonald, 2003). Retail banks can reach a large number of currently unbanked by providing services that commonly are used by that segment of the population. Such access allows individuals to avoid the high cost of fringe financial services such as check cashing and payday loans – ultimately benefiting the whole community when those savings are reinvested in families and communities (Harper, 2005).

We all know that building a relationship with our customers is an essential part of building a successful business. Some bigger companies bend over backwards to make sure their customers are happy, as they know making a customer feel at home with you will mean they often buy more. Making your customer trust you and feel a personal connection with you will mean they'll most likely choose you over a competitor they don't have a relationship with when it comes to them needing the service you offer. Relationship marketing as "establishing relationships with customers and other parties at a profit, by mutual exchange and fulfillment of promises". Cross-selling services refers to the practice of providing other services that potential banking clients might find useful in addition to the traditional banking services currently being provided by banks. Cross-selling services can be useful marketing tools for banks to reach segments of the population that do not yet use traditional banking services (Deborah & Young, 2005).

Branch Networks

The efforts to optimize distribution channel strategies in financial institutions have led to place renewed focus on their branch networks and concentrate on transforming them into centers for high value product sales and advice. A key driver for branch renewal is the imperative for delivering optimum advice to improve cross-sell and up-sell rates and further the aim of becoming providers of integrated financial solutions. In doing so, banks are faced with the challenges of replacing antiquated IT infrastructures in branches and enabling them to deliver sales and advice. Furthermore, banks will have to transform traditional teller roles in branches into seller and customer relationship manager roles either by replacing or training existing staff. (McDonald, 2003).

In the last 5 years, many financial institutions in Europe have implemented advanced technological platforms, introducing a number of interactive marketing channels: e-banking, mobile banking and ATMs. The research has shown that sustainable profitability in the banking sector depends on mastering the skills of managing and integrating customer relationships across multichannel, by using advanced data and communication technologies (Kirby, 2001; Yulinsky, 2000).

An important factor in the introduction of additional banking channels and networking was the progress of information technology applications, especially Internet and mobile communications. The increased in formalization of society has determined a transition toward an e-payments economy, in which money is perceived as information store or transmitted through various communication channels (Pastore, 2001). The organization segments the market in terms of priority channels, promoting distinctive offers for each type of customer.

In time, the search for greater convenience makes customers access various channels, depending on personal needs and circumstances. These multichannel customers expect and request a similar level of services from every delivery channel. On the other hand, the necessity to improve customer loyalty through personalized customer relationship management determines the financial institutions to introduce a unique platform technology, integrating the information flows from all existing channels. The banks are therefore adopting a multichannel and branch networking approach, which is characteristic for a full, integrating the information flows from all existing channels (Martz, 2003). The banks are therefore information that has become the primary strategic asset for building and maintaining competitive advantage.

According to rational channel planning, retail banks should identify profitable customer segments attracted to branch banking, telephone banking, PC banking and internet banking or combinations thereof. Based on this knowledge, they have to decide which distribution channels they want to offer their present future customers. Hence, they have to predict both the consumer acceptance of these distribution channels and the dominating distribution channel strategies of their competitors.

Finance and banking are information-intensive industries, which can be positively transformed by the development of ICT. However, a 1999 World Bank (Purcell & Tolant, 2003) survey reported the average on-line banking penetration for developing countries to be only 5%. The main challenges encountered by developing countries in implementing multichannel banking activities are, the ability to adopt global technology to the local requirements, the ability to strengthen the public support for e-finance, the ability to create the necessary level of regulatory and institutional frameworks and the ability to mainstream SMEs toward e-finance (Hadidi, 2003).

Despite the sounds theoretical basis of the multichannel banking strategy, the banks implementing it have encountered unexpected problems and challenges (Martz, 2003). First of all, the customers did not adopt the new interactive channels, such as internet banking or mobile banking, with overwhelming enthusiasm. Many customers have continued to rely on bank branches as their main channel of banking service, occasionally using alternative channels, when convenient.

Second, by introducing new banking channels, some banks have lost direct contact with the customer. This problem was created mainly by the incapacity of these banks to properly integrate the interaction with clients across all the banking channels available. The use of different IT systems has created important barriers against the sharing of customer data by various operational departments, which is specific for multiple-channel organizational configurations. These difficulties highlighted once more the necessity of a clear, focused strategy for multichannel banking operations, and the need for a unique IT platform for integrating information flows and customer databases. Despite the growing interest in the introduction of multichannel financial marketing, there is little research regarding the development and implementation of multichannel banking strategies in developing economies. Most of the articles dealing with this subject present only general information, without attempting to analyze primary and secondary data in a systematic way (Baliamoune, 2004, Hadidi, 2003). In Kenya this multiple distribution is growing faster due to the rapid development in information technology. Although there are many forms of distribution, not all people have been banked thus the study will find how banks are successful by using many distribution channels.

Retail Banking and Financial Performance

Financial performance is a subjective measure of how well an organization can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm 's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales (Jayawardhera & Foley, 2000). Profit is the ultimate goal of firm. To measure the profitability, there are variety of ratios used of which Return on Asset, Return on Equity and Net Interest Margin are the major ones (Murthy & Sree, 2003). ROA is a major ratio that indicates the profitability of a bank. It is a ratio of Income to its total asset (Khrawish, 2011). It measures the ability of an organization's management to generate income by utilizing company assets at their disposal. Net Interest Margin (NIM) is a measure of the difference between the interest income generated by banks and the amount of interest paid out to their lenders, relative to the amount of their assets. It is usually expressed as a percentage of what the financial institution earns on loans in a specific time period and other assets minus the interest paid on borrowed funds divided by the average amount of the assets on which it earned income in that time period (the average earning assets). ROE is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested or found on the balance sheet. ROE is what the shareholders look in return for their investment.

Retail banking presents an opportunity for financial institutions to extend banking services to new customers thereby increasing their market (Lee, Lee & Kim, 2007). Simpson (2002) suggests that Use of Mobile phone in Retail banking is driven largely by the prospects of operating costs minimization and operating revenues maximization. A comparison of online banking in developed and emerging markets reveal that in developed markets lower costs and higher revenues are more noticeable.

Research Methodology

The researcher used mixed research design. Mixed methods research is a methodology for conducting research that involves collecting, analyzing and integrating quantitative (e.g., experiments, surveys) and qualitative (e.g., focus groups, interviews) research. This approach to research is used when this integration provides a better understanding of the research problem than either of each alone. Quantitative data includes close-ended information such as that found to measure attitudes (e.g., rating scales), behaviors (e.g., observation checklists), and performance instruments. The analysis of this type of data consists of statistically analyzing scores collected on instruments (e.g., questionnaires) or checklists to answer research questions or to test hypotheses.

Qualitative data consists of open-ended information that the researcher usually gathers through interviews, focus groups and observations. The analysis of the qualitative data (words, text or behaviors) typically follows the path of aggregating it into categories of information and presenting the diversity of ideas gathered during data collection. By mixing both quantitative and qualitative research and data, the researcher gains in breadth and depth of understanding and corroboration, while offsetting the weaknesses inherent to using each approach by itself.

A sampling size of 30% of the population was reasonable, and representative. Random sampling satisfies the law of statistical regularity (Kothari, 2004). This research adopted stratified random sampling. A sample was then be taken from each tier using random number and interval selection techniques. The table below shows the sampling frame of the study.

Research Model

This model helped to establish the relationship between the independent variables and the dependent variable. The researcher used multiple regressions to help determine the relationship between the variables under study. Model was used to study the effects of retail banking on the financial performance of commercial banks in Kenya a case of Mombasa County.

The model specification was as follows:

$$\mathbf{Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon}$$

Where

α: is a constant term,

βn: coefficients to be determined

Y: financial performance

β 1: deposit mobilization

β 2: lending portfolio.

β 3: number of customers.

β 4: branch network.

ε : error term

Research Findings

Deposit Mobilisation

The study sought to establish the effect of deposit mobilization in retail banking on performance of commercial banks.

Table 4.1. Deposit Mobilisation.

Opinion Statement	N	Mean	Std. Deviation
Offering a range of products by financial institutions increase savings	65	3.57	.558
Commercial Banks depend on customers deposit to advance credit facilities to its clients	65	4.23	.632
Deposit mobilization is the chief source of funds to undertake lending operations	65	4.35	.850
Deposits are used to extend credit to other customers and thus earn interest.	65	4.02	.770
Deposit are normally considered as a cost effective source of working capital	65	4.03	.696
Valid N (listwise)	65		

From the findings indicated in table 4.1 above most of the respondents agreed that the deposit mobilization is the chief source of funds to undertake lending operations with a mean of 4.35 and standard deviation of 0.850. Respondent agreed with a mean of 4.02 and standing deviation of 0.770 that deposits are used to extend credit to other customers and thus earn interest. Respondents also agreed that Commercial Banks depend on customers deposit to advance credit facilities to its clients with a mean and standard deviation of 4.23 and 0.632 respectively, offering a range of products by financial institutions increase savings and deposit are normally considered as a cost effective source of working capital with a mean of 4.03 and standard deviation of 0.696. The results are consistency with the findings by Kazi (2012), Kasekende, (2008) & Mohan (2012), who agree that deposit mobilization encourages customers to deposit more cash with the bank where in turn it is used by the bank to disburse more loans and generate additional revenue for them. Mohan (2012), further states that bank's financial performance greatly depends on working funds obtained through deposit in forms of saving from their customers. The money is then advanced to the customers as loans.

Lending Portfolio

The second objective sought to establish the effect of lending portfolio in retail banking on the financial performance of commercial banks. The findings are indicated in the table 4.2 below.

Table 4.2. Lending Portfolio.

Statements	N	Mean	Std. Deviation
Banks are faced with high credit risks on loans advanced due to some customers not fulfilling their obligations on due date.	65	4.08	.692
Market risk, operational risk, Performance and credit risks are some of the major risks faced by financial institutions on retail banking in Kenya.	65	4.29	.861
With the increase of bad loans in the banking sector, Commercial banks should focus on retail banking.	65	3.74	.713
Small businesses depend on retail banking for financing	65	4.03	.706
Banks should make an assessment of risk profile of its customers, such as of their business, and which can be done through the credit procedure	65	4.09	.864
Valid N (listwise)	65		

The results indicated above shows that respondents agreed with a mean of 4.08 and standard deviation of .692 that banks are faced with high credit risks on loans advanced due to some customers not fulfilling their obligations on due date. The respondents agreed with the mean of 4.29 and a standard deviation of 0.861 that Market risk, operational risk, Performance and credit risks are some of the major risks faced by financial institutions on retail banking in Kenya. The respondents also agreed with a mean of 3.74 and standard deviation of 0.713 that with the increase of bad loans in the banking sector, commercial banks should focus on retail banking. The respondents further agreed with a mean of 4.03 and standard deviation of 0.706 that Small businesses depend on retail banking for financing. Finally, the respondents agreed that banks should be making an assessment of risk profile of its customers, such as of their business through the credit procedure. This had a mean of 4.09 and standard deviation of 0.864. The results are in line with the findings of Parlour & Winton, (2008), who stated that giving credit to worthy borrowers is the most significant functions of commercial banks that are directly related to the development of the economy. Abor, (2004) & Amidu (2006), clearly agree that bank credit channel depends on the willingness to lend by banks or changes in leading policies.

Number of Customers

The study sought to establish the effect of number of customers in retail banking on the financial performance of commercial banks. From the results, most respondents agreed that Retail banking provides a range of other financial services to customers and small businesses as depicted by a mean of 4.03, respondents agreed that the Retail banks can reach a large number of currently unbanked by providing services that commonly are used by the segment of the customers' population as depicted by a mean of 3.85 and a mean of 4.08 was obtained on the question of whether Retail banking assists in improving the customer loyalty and thus leading to customer retention.

The number of customers can greatly affect the financial performance of a commercial bank. This is true as it is explained by Harper, (2005) who states that through provision of a range of banking services to a wider customer base can increase the number of customers thus increasing profitability.

Table 4.3. Number of Customers.

Statement	N	Mean	Std. Deviation
Retail banking assists in improving the customer loyalty and thus leading to customer retention.	65	4.08	.856
Retail banking provides a range of other financial services to customers and small businesses.	65	4.03	.706
Retail banks can reach a large number of currently unbanked by providing services that commonly are used by the segment of the customers' population.	65	3.85	.775
Retail banking assists in building a relationship with customers and is an essential part of building a successful business.	65	4.00	.829
Cross-selling services can be useful marketing tool for banks to reach segments of the population that do not use traditional marketing services	65	3.77	.861
Valid N (listwise)	65		

This was in line with the study by McDonald, (2003) who explained that retail banking units provide a range of other financial services to consumers and small businesses i.e sale of investment products such as mutual funds and annuities, insurance brokerage, financial and retirement planning, merchant and payment services, cash handling, payroll and employee benefits services can ensure the sustainability and profitability of a bank (McDonald, 2003). According to Deborah and Young, (2005) cross-selling of bank services can be useful marketing tools for banks to reach segments of the population that do not yet use traditional banking services thus achieving their objective.

Branch Networks

The study sought to establish how branches network in retail banking affects the performance of commercial banks. Most agreed that branch network in retail banking has resulted in costs reduction obtaining a mean score of 3.97. Respondents also agree that implementation of Technology platforms and introduction of interactive marketing channels like e-banking, mobile banking and ATMs has improved retail banking with are mean score of 4.12. They further agreed that introduction of branch networks and technology has led to loosing direct contact with customers with a mean of 4.22.

Table 4.4. Branch Networks.

	N	Mean	Std. Deviation
Implementation of Technology platforms and introduction of interactive marketing channels like e-banking, mobile banking and ATMs has improved retail banking.	65	4.12	.761
A branch network in retail banking has resulted in improvement of customer loyalty through personalized customer management.	65	4.29	.843
Branch networks leads to integrated information flows which assist in building and maintaining competitive advantage.	65	3.68	.640
Introduction of branch networks and technology has led to loosing direct contact with customers.	65	4.22	.625
A branch network in retail banking has resulted in costs reduction	65	3.97	.776
Valid N (listwise)	65		

The respondents agreed with a mean score of 4.29 that a branch network in retail banking has resulted in improvement of customer loyalty through personalized customer management and that branch networks leads to integrated information flows which assist in building and maintaining competitive advantage were agreed with a mean of 3.68.

The findings are in line with study by Kirby, (2001); Yulinsky, (2000).They stated that due to the introduction and implementation of advanced technological platforms with the introduction of interactive marketing channels, e-banking, mobile banking and ATMs, there has been sustainable profitability in the banking sector. Hadidi, (2003); Isarescu, (2001) explain that the advancement of information technology applications, especially Internet and mobile communications has enable wide access to banking services with ease thus improving profitability in the banking sector. Kirby (2001) and Yulinsky (2000) further agree that branch networks integrated through the advanced information flows has greatly assisted banks in competing effectively thus sustaining profitability.

Financial Performance

The study sought to establish how retail banking affects the financial performance of commercial banks. All the respondents noted that Profitability, Shareholder value, Liquidity, Asset base, and Interest Margins were good with a mean of 3.05, 3.17, 4.01, 4.01and 3.89 respectively. This is an indication that retail banking improves the financial performance of commercial banks. Lee, Lee and Kim (2007) posit that Retail banking presents an opportunity for financial institutions to extend banking services to new customers thereby increasing their market while Simpson (2002) suggests that Use of Mobile phone in Retail banking is driven largely by the prospects of operating costs minimization and operating revenues maximization.

Table 4.5. Financial Performance.

	N	Mean	Std. Deviation
Profitability	65	3.05	.571
Shareholder value	65	3.17	.486
Liquidity	65	4.01	.827
Asset Base	65	4.01	.687
Net Interest Margin (NIM)	65	3.89	.710
Valid N (listwise)	65		

Correlation Analysis

To establish the relationship between the independent variables and the dependent variable the study conducted correlation analysis which involved coefficient of correlation and coefficient of determination.

Coefficient of Correlation

In trying to show the relationship between the study variables and their findings, the study used the Karl Pearson's coefficient of correlation (r). This is as shown in Table 4.6 below. According to the findings, it was clear that there was a positive correlation between Deposit Mobilisation and Financial Performance shown by a correlation figure of 0.321; Lending Portfolio shown by a correlation figure of 0.311; Number of Customers shown by a correlation figure of 0.604; Branch Network; shown by a correlation figure of 0. 566. This showed that there was a strong positive correlation highest being noted in Number of Customers and lowest in Lending Portfolio with a positive correlation.

Coefficient of Determination (R^2)

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (performance) that is explained by all independent variables, Table 4.8 shows that the coefficient of determination was 43.6% which means the model was able to account for 43.6% of variation in Performance from independent variables. This is attributed to combination of the four independent factors investigated in this study**.** The adjusted R-square is 39.8%. This is the coefficient of determination adjusted for degrees of freedom, which is different version of R^2. It has been adjusted to take into account the sample size and the number of independent variables.

Table 4.7. Coefficient of Determination (R^2).

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.660(a)	.436	.398	.38338

a. Predictors: (Constant), Branch Network, Deposit Mobilization, Lending Portfolio, Number of Customers

Regression Analysis

ANOVA

The study used ANOVA to establish the significance of the regression model. The significance value is 0.000 which was less than 0.05 thus the model is statistically significance in predicting how Deposit Mobilization, Lending Portfolio, Number of Customers and Branch Network affect financial performance of Commercial Banks.This therefore means that the regression model had a confidence level of above 95% hence high reliability of the results obtained.

Table 4.8. ANOVA.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.806	4	1.701	11.575	.000[b]
	Residual	8.819	60	.147		
	Total	15.625	64			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Branch Network, Deposit Mobilisation, Lending Portfolio, Number of Customers

Table 4.6. Coefficient of Correlation.

		Deposit Mobilization	Lending Portfolio	Number of Customers	Branch Network	Performance
Deposit Mobilization	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	65				
Lending Portfolio	Pearson Correlation	.626**	1			
	Sig. (2-tailed)	.000				
	N	65	65			
Number of Customers	Pearson Correlation	.323**	.305*	1		
	Sig. (2-tailed)	.009	.014			
	N	65	65	65		
Branch Network	Pearson Correlation	.267*	.474**	.629**	1	
	Sig. (2-tailed)	.032	.000	.000		
	N	65	65	65	65	
Performance	Pearson Correlation	.321**	.311*	.604**	.566**	1
	Sig. (2-tailed)	.009	.012	.000	.000	
	N	65	65	65	65	65

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

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

Multiple Regressions

The researcher conducted a multiple regression analysis as shown in Table 4.9 so as to determine the relationship between financial performance making and the four variables investigated in this study.

Table 4.9. Multiple Regression Analysis.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.575	.667		.862	.392		
	Deposit Mobilization	.199	.183	.141	1.092	.003	.569	1.758
	Lending Portfolio	-.056	.200	-.038	-.279	.781	.496	2.015
	Number of Customers	.342	.118	.374	2.901	.005	.567	1.764
	Branch Network	.376	.165	.312	2.276	.026	.500	2.001

a. Dependent Variable: Performance

The regression equation was:

$$\mathbf{Y = 0.575 + 0.199X_1 + 0.342X_3 + 0.376X4 + \varepsilon}$$

Where

Y: the dependent variable (Financial Performance).

X_1: Deposit Mobilisation.

X_2: Lending Portfolio.

X_3: Number of Customers.

X_4: Branch Network.

E: Error term

The regression equation above has established that taking all factors into account (financial performance as a result of Deposit Mobilisation, Lending Portfolio, Number of Customers and Branch Network) constant at zero Financial Performance of commercial banks will be 0.575. The findings presented also shows that taking all other independent variables at zero, a unit increase in Deposit Mobilisation will lead to a 0.199 increase in the scores of Financial Performance of commercial banks; a unit increase in , Lending Portfolio will lead to a -0.056 decrease in Financial Performance of commercial banks, a unit increase in Number of Customers will lead to a 0.342 increase in the scores of Financial Performance of commercial banks; and a unit increase in Branch Network will lead to a 0.376 Financial Performance of commercial banks.

This therefore implies that all the three variables except Leading Portfolio have a positive relationship with investment decision making with Branch Network contributing most to the dependent variable. However the p-values for sources of Leading Portfolio is greater than the common alpha level of 0.05, which indicates that it is not statistically significant. From the table we can see that the predictor variables of Deposit Mobilization, Number of Customers and Branch Network got variables coefficients statistically significantly since their p-values are less than the common alpha level of 0.05.

Conclusions

The objective of this study was to establish the effects of retail banking on the financial performance of commercial banks in Kenya a case of Mombasa County. From the study findings, Deposit Mobilisation, Lending Portfolio and Branch Network were found to have a significant and positive impact on financial performance; it would be wise to conclude that Deposit Mobilisation, Lending Portfolio and Branch Network were found to have a strong positive relationship.

On the number of customers on financial performance, the study established that Number of Customers has an insignificant relationship with financial performance.

Recommendations

In order to increase deposits mobilized in commercial banks in Mombasa County, the management of commercial banks should design other innovative marketing strategies which can increase the level of low cost deposits such as use of mobile phone in collecting deposits. The Management commercial banks should put in place strategies that focus on unbanked population since they represent a significant number of customers left out which can build trust on and sustain its performance once they are included in the financial sector. The study also recommends strengthening and streamlining the agency banking channel as it facilitates the collection of deposits in rural areas where there is no presence of commercial banks. The banks should also offer competitive rate on deposits as mechanism of mobilizing more but at the same time balancing with the interest paid on them, use different channels of making advertisement of the existing and new product offered to the customers, do the campaign of awareness on agency banking in order to build the trust of customers by studying and minimizing challenges and to increase number of customers.

Suggestions for Further Studies

This study focused on the effects of retail banking on the financial performance of commercial banks in Kenya a case of Mombasa County. Since only 43.6% of results were explained by the independent variables in this study, it is recommended that a study be carried out on other factors that affect financial performance of commercial banks. In order to enhance the performance in the whole financial sector, the same study can be studied in micro finances to see whether the same strategies applied in commercial banks can also be applied in micro finance.

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