International Journal of Economics, Commerce and Management
United Kingdom Vol. IV, Issue 4, April 2016
http://ijecm.co.uk/ ISSN 2348 0386

EFFECT OF ALTERNATIVE BANKING CHANNELS ON PROFITABILITY OF COMMERCIAL BANKS

A CASE STUDY OF COMMERCIAL BANKS IN KISII COUNTY, KENYA

Wilson Ocharo
MBA Student, Jomo Kenyatta University of Agriculture and Technology, Kenya
Nyamshem@yahoo.com

Willy Muturi
Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya

Abstract

The study intended to establish the relationship between alternative banking methods on the profitability of the banks within Kisii County. The study was restricted to the effects agency banking, mobile banking, internet banking and automatic teller machine usage on the profitability of banks within Kisii County. The research study in question was important because it will offer out ways of improving this alternative banking methods, its operations and strategies in providing the services to its customers. The specific objectives of the study were to establish the extent to which ATM, mobile banking, agency banking and internet banking. Contribute to the financial performance of banks. The target population which was the totality of the cases comprised of 187 respondents of which were 17 managers and 170 employees of banks within Kisii County. The sample size was 69.8% of the target population which comprised of 127 respondents. The study employed a descriptive research design. The questionnaire was used for data collection and data was analyzed using both qualitative and quantitative methods. Descriptive statistics involved the use of frequency, means, tables, and percentages. Inferential statistics involved the use of regression analysis to assess the strength of association between the variables in the study. The findings revealed that there was significant correlation of 0.81 between alternative banking and the financial performance of the banking industry.

Keywords: Commercial banks, ATM, Mobile banking, Internet banking, Profitability

INTRODUCTION

The usage of alternative form of banking and making payments and obtaining cash which has gained prominence in the banking sector dates back to early times. According to Encyclopedia Britannica (2010), the use of alternative banking originated in the United States during the 1920s, when individual firms, such as oil companies and hotel chains, began issuing them to customers. However, reference to ATMS has been made as far back as 1980 in Europe. Around 1938, companies started to accept each other's alternative methods of banking. Today alternative methods of banking enable us to make countless transactions (http://investors.about.com/idcstartinventions/a/credit-cards.html).

According to Hanson, (1985), the first alternative methods of banking were introduced in Assyria, Babylon and Egypt. The first advertisement for ATMS was placed in 1730 by Christoper Thorton, who offered furniture that could be paid off weekly. From 18th century until the early part of 20th century; tallymen sold clothes in return for small weekly payments. They were called 'tallymen' because they kept a record or tally of what people bought on a wooden stick. One side of the stick was marked with notches to represent the amount of debt and other side was a record of payments. In the 1920's a shopper's plate – a 'buy now, pay later 'system was introduced in the united states of America.

Kenya in its economic recovery strategy for wealth and employment creation also known as vision 2030 recognizes the role of financial system in achieving a vibrant and globally competitive prosperous economy. As part of its macro – economic goals, savings and investments will rise from 17% to 30% of GDP. To be achieved through measures which include increasing bank deposits from 44% to 80% of GDP and reduce the cost of borrowing capital (ROK, 2007). Bank assets portfolio management is an emerging strategy for excellence towards achieving this.

As at 31st December 2010, the banking sector in Kenya comprised of 44 banking institutions of which 43 were commercial banks while 1 was a mortgage finance company. The sector witnessed an increase in the branch network from 930 branches in June 2009 to 1,063 in December 2010. Sixty Seven (67) new branches were opened in 2010 while the Automated Teller Machines (ATMs) increased from 1,717 in December 2009 to 1,979 in December 2010 (Central Bank of Kenya Annual Report, 2010).

The banking sector is the bond that holds the Kenyan economy together. In the wake of global financial crisis and economic recession, Commercial Banks in Kenya have been operating in a challenging business environment. The global financial crisis is evidenced by weakening of the Kenyan Shilling as foreign exchange reserves dwindle together with subdued demand for loans for both import and export businesses. The sector is also faced with competition from mobile banking offered by the telecommunication sector especially in the rural areas. To survive in the competitive environment, commercial banks in Kenya try to embrace alternative banking channels.

The rapid growth in the Banking industry has posed several challenges including employee diversity which is a natural phenomenon that has both negative and positive effect on the employees' performance and inevitably translated to the organization's competitive advantage (Mercy & Rachel, 2013). As stated by CBK (2007), the growth of World economy output by more than 5% from the year 2002 to 2007 and of the Kenyan domestic economy grew from 6.1% in 2006 to 7% in 2007 provided a good environment for the stabilization of banks and other businesses.

Despite the challenging environment of the post-election violence and the global financial crisis, the banking sector remained stable (CBK, 2009). Kisii town has a total of 17 banks namely; Kenya Commercial Bank (KCB), Barclays Bank of Kenya, National Bank, Co-operative Bank, CFC Stanbic, Equity Bank, K-Rep Bank, Post Bank, Bank of Africa, Eco-bank, Family Bank, Credit Bank, Kenya Women and Finance Trust, Standard Chartered Bank, Diamond Trust Bank (DTB), Chase Bank, I&M bank. Banks find their way to Kisii because of its fast growing economy arising from commerce and agriculture.

Statement of the Problem

Kenya like any other country is faced with financial inclusion challenges such as the cost of financial services and the distance to bank branches in remote areas. Part of Central Bank of Kenya (CBK) approach in addressing these challenges is by promoting innovation through mobile banking services and to address the delivery channel costs through increased use of agent banking, mobile banking and internet banking which has grown to 70% (CBK, 2010). Also, Bank customers have become increasingly demanding, as they require high quality, low priced and immediate service delivery. They want additional improvement of value from their chosen banks. Also, Customers are looking for multiple delivery channels which are flexible so that time factor or geographical space should not pose as a constraint. But according to (Olaniyi, 2010) Commercial banks in Kenya have been performing below bar because of the limited alternative banking but of recent they have embraced alternative banking channels which represent a shift in delivery of banking and financial services it is unclear how these new methods of delivering financial services affect the profitability of commercial banks as noted by (Wisdom, 2012). Also, according to (CBK, 2010) most banks keep on adjusting their interest rates beyond limits and guidelines of CBK and services to mitigate the challenges in the capital market raising question of the role of alternative banking channels on the financial performance of the banks. Wisdom (2012) states that in the past years, customers' demand for banking services was driven basically by safety of their money as well as interest accruing from such savings, however, the present day customers demand has shifted from just safety of money to how banks deliver their services at minimum costs to the customer at the same time the banks are looking on how to maximize alternative banking to enhance their financial performance.

General objective of the study

The general objective of the study is to establish the effect of alternative banking channels on profitability of commercial banks in Kisii County Kenya.

Specific objectives of the study

1. To determine the effect of usage of automated teller machine (ATM) on profitability of commercial banks in Kisii County Kenya.
2. To determine the effect of Mobile banking on profitability of commercial banks in Kisii County Kenya.
3. To determine the effect of Agency banking on profitability of commercial banks in Kisii County Kenya.
4. To find out the effect of internet banking on profitability of commercial banks in Kisii County Kenya.

Adoption of ATM as a system in the banking industry can be described better by diffusion of innovation adoption model (Sherry & Gibson, 2002). Rogers (2003) states that adoption is a decision of 'full use of an innovation as the best course of action available' and rejection is a decision 'not to adopt an innovation'; He defines diffusion as the process in which an innovation is communicated through certain channels over time among the members of a social system. To understand how the model works one should be versed with the four main elements of DOI. The first element is innovation described as an idea, practice or project that is perceived as new by an individual or other unit of adoption (Rogers, 2003). For this case uncertainty becomes an important obstacle to the adoption of innovations and to avert these individuals should be informed about its advantages and disadvantages to make them aware of all its consequences.

The second element in DOI is communication channels. For Rogers (2003), communication is a process in which participants create and share information with one another in order to reach a mutual understanding. Diffusion is a very social process that involves interpersonal communication relationships which are powerful to create or change strong attitudes held by an individual (Rogers, 2003).Time is the third element of DOI. Rogers (2003) argues that including the time dimension in diffusion research illustrates one of its strength. Lastly we have social system element in diffusion process. Rogers defines the social system as a set of interrelated units engaged in joint problem solving to accomplish a common goal. Since diffusion of innovations takes place in the social system, it is influenced by the social structure of the social system.

METHODOLOGY

Research Design

According to Mugenda and Mugenda (2003) defines survey research as an attempt to collect data from members of a population in order to determine the current status of the population with respect to one or more variables. There are four types of research designs namely; cross-sectional design, longitudinal design, case study design and descriptive design. This study will employ a survey research design. Descriptive statistics utilize data collection and analysis techniques that yield reports concerning the measures of central tendency, variation, and correlation. The combination of its characteristic summary and correlation statistics, along with its focus on specific types of research questions, methods, and outcomes is what distinguishes descriptive research from other research types. Descriptive research design was used and it enabled the researcher to collect data and report the way things are without manipulating any variables besides being less time consuming and able to capture a lot of data within the contained time and resources.

Target Population

Mugenda and Mugenda (2003), describes target population as the totality of cases of people, organization or institutions, which pose certain characteristics. They further asserted that target population is a group of individuals, objects or items from which samples are taken for measurement. The target population for this study was 17 banks within Kisii County and from each bank 10 employees was chosen representing all sections within the bank. The study also targeted 17 managers of these banks within Kisii County.

Table 1: Target population

Category	**Target population**
Managers	17
Employees	170
Total	187

Source: Kisii County Office (Statistics, 2015)

Sample Size

Kull (1984) noted that sampling is the process by which a relative small number of individual object or event is selected and analyzed in order to find out the surrounding about the entire population from which it was selected using some systematic form. Yamane (1967) provides a simplified formula to calculate sample sizes. This formula was used to calculate the sample size as shown below.

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

Where n is the sample size, N is the population size, and e is the level of precision or margin of error at 5% (standard value of 0.05). When this formula is applied to the above sample, we get;

$$n = \frac{187}{1+187(0.05)^2} = 127$$

The table 3.2 below shows sample size representing 69.8 % of target population in which sampling technique was used to group the target population into homogeneous strata. The percentage of the sample size was as illustrated below;

$$\text{Percentage of the sample size} = \frac{\text{Sample Size}}{\text{Target Population}} * 100\%$$

$$= \frac{127}{187} * 100\%$$

$$= 67.91\%$$

Table 2. Sample size

Category	target population	sample size
Managers	17	12
Employees	170	115
Total	187	127

Data Collection Tools

The main tools of data collection for this study were structured questionnaires. The questionnaires were used for data collection because it offered considerable advantages in the administration. It also presented an even stimulus potentially to large numbers of people simultaneously and provided the investigation with an easy accumulation of data. Anonymity helped to produce more candid answers than is possible in an interview. The questionnaire comprised of close-ended questions. The Questionnaire contained items covering all the objectives of the study.

Data Analysis Approach

Product moment of correlation coefficient was used to show the strength of association between the variables and profitability of commercial banks.

ANALYSIS AND FINDINGS

The SPSS output for the data on ATMs usage on financial performance of banks shown in table below revealed that there was an association between usage of ATMs and financial performance of banks. Issuance of ATMs as a means of access of cash has improved the financial performance of banks. The Pearson correlation coefficient (r) was 0.81 or 81% showed that there was a strong significance relationship between the usage of ATMs and financial performance of banks.

Table 3. Model Summary Of Correlation Results

Model	R	R Square	adjusted R square	Std. error of the estimate
1	.379	.810	.810	17642335.035
a predictor: (constant), X (Net profit)				

The statistical tools used in analyzing the model of this research were given thus the coefficient of correlation (r) shows the degree or extent of relationship between dependent variable and independent variable. The value of 0.81 in table 3 shows the existence of a positive relationship between these variables it equally reveals a good degree of dependency of the dependent variable to the independent variable. The coefficient (R^2) explains the proportion of the total variance in the dependent variable. The coefficient (R^2) explains the proportion of the total variation in the dependent variable that is attributed to the variations.

CONCLUSION.

The study sought to establish the effects of usage of ATM as an alternative banking channel on the financial performance of banks. The findings reaffirmed that ATM usage is essential and has contributed positively to the financial performance of the banks industry. Therefore more emphasis should be dwelt on ATM usage to ensure prudent use of it for the ripple effect to be felt by the banks fully.

In addition to this, the careful elimination of the non-required costs, no-value added services to the customers could help banks in saving organizational portfolio for the customers may help banks in achieving the competitive advantages.

For better management of the financial performance of the bank industry financial mobile banking is necessary, it provides customers flexibility and thus improves financial performance of the banks. Banking industry should focus on expanding mobile banking through establishment of accessibility of internet to ensure effective utilization of this channel of banking.

Agency banking is an important aspect alternative banking for the improvement and expansion of banking services to the customers and for financial flexibility of the banking industry. In order to keep the banking industry in course, there must be effective marketing of agency banking and all the plans, objectives, and strategies could be translated into actions. For the effectiveness of agency banking the banking system need to expand the capital for agency banking. In order to have effective agency banking system greater marketing should be done.

RECOMMENDATIONS

In order to manage alternative banking channels of the banking industry the researcher made the following recommendations-

For effective ATM usage the banking industry should continue to safeguard and improve the security features of the customers' information to avoid fraud. From the research findings it was noted that ATMs usage has a strong relationship with commercial banks revenue therefore there Is need for commercial banks to widen ATM usage so as to benefit more from charges this will go along way of improving returns.

For effective utilization of mobile banking planning and expansion of the portfolio should be given priority. In order to give the growing trends in the use of mobile banking merchandise outlets like supermarkets, hotels and petrol stations need to adopt the use of mobile banking in paying bills this will, increase wider utility of mobile banking.

Emphasis should be focused on agency banking for effective utilization of the banking industry commercial banks should also properly evaluate their customers so as to give them appropriate withdrawal limits and banks should ensure efficient platform that is free of hitches during transactions.

AREAS FOR FURTHER RESEARCH

The researcher only relied in questionnaire to study the effects of alternative banking channels on the financial performance of the banking industry. However future research should look at content analysis of reports on alternative banking channels to provide a more complete picture of how alternative banking channels affect financial performance in banking industry.

REFERENCES

Ajzen, I., & Fishbein, M., (1980). Understanding attitudes and predicting social behavior. Englewood Cliffs, NJ: Prentice-Hall

Aki (2004). Insurance Industry Annual Report 3

Bagozzi, R., (1982). A field investigation of causal relations among cognitions, affect intentions and behavior, Journal of Marketing Research, 19, 562-584

Balachandher, K., G., Santha, V., Norhazlin, I. & Rajendra, P., (2001). Electronic Banking in Malaysia: A note on Evolution of Services and Consumer Reactions.

Banker, R., Chen, P., Liu, F., Ou, C. (2009). Interdependence of alternative service channels on bank performance Track: Extended Abstract for Research-in-progress, http://pages.stern.nyu.edu/-bakos/ wise/papers/wise2009-p12-paperpdf

Consultative Group to Assist the Poor (CGAP) (2006). Branchless Banking Agents in Brazil: Building viable networks,

Copisarow, P., (2000). Activity-based Accounting can boost profits, Americas Community Banker, vol. 4. No. 5

Davis, F., (1985). A technology acceptance model for empirically testing new end-user information systems: theory and results. Unpublished Doctoral dissertation; MIT Sloan school of management, Cambridge, M.A.

Davis, F., (1989). Perceived usefulness, perceived ease of use and user acceptance of information technology, MIS Quarterly, 13(3,319-40)

Essinger, J. (1999). The virtual Bank Revolution: The customer, The Bank and the Future 1st ed.

