

# Assessment of Branchless Banking Profitability Outcomes on Performance of Commercial Banks in Kenya: A Case of Barclays Bank Branches

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**Abstract:** The purpose of the study was to assess the effects of branchless banking channels on performance of Barclays bank in Kenya. The specific objective of the study was to examine the effect of speed/service quality from branchless banking on the performance of Barclays bank in Kenya. The service quality theory was used to underpin the study. The research used mixed research methodology. The population for the study was 116 Barclays bank branch bank staff, agent or customer in Kenya. The sample size was 80 bank staff, agent or customers. The instrument was questionnaire. The sources of data included records from Barclays bank, and other reliable sources. Data was analyzed using both quantitative and qualitative means. Pearson Correlation (r) coefficient was used to determine the relationship between speed/service quality and subscription of branchless banking and performance of the bank. The contribution of convenience of branchless banking channels services on r squared was found to be 78.1% and the value was significant at (F (78, 1) =282.953, p<0.01). This indicates that for bank to increase their profits, they should consider making branchless banking channels services more convenience to customers as there is positive relationship between the bank profit and branchless banking channels convenience and the test was significant. Branchless banking channels are based on modern technology like computer, internet services and other mobile devices. The moderated regression analysis showed that with inclusion of technology, the coefficient of speed increases. The study recommendation for banks, they should try to make sure that branchless banking channels service are designed in the way that customers can easily use them.

**Keywords:** Branchless Banking Profitability, Performance, Speed/Service Quality.

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## I. INTRODUCTION

In an endeavour to optimize services and diminish costs, banks are regularly migrating towards a 24-7 service where clients are enjoying the superior sense of independence that this creates. Accessibility is the central pillar as customers demand instant access to deposits, loans and status of their account. In an effort to drive even superior differentiation from the competition, financial service organizations are currently exploring branchless banking channels. Regardless of this trend, branch services still remain important although the nature of service required there has changed significantly. The demand for a digital lifestyle in addition to the technological insurrection it brings to residences and places of work, as well as the momentous demographic shift and a novel regulatory structure, are subjecting the finance sector to significant challenges in a time of rigorous market uncertainty. Conversely, times like this present opportunities for companies to embrace change resulting in innovation over the delivery of financial services (Kohali & Sheleg, 2011).

The trending strategies in Barclays banks in Kenya is Branchless banking delivery channels for providing banking services directly to customers to increase performance. They include Automated Teller Machine, Internet banking channel, and mobile banking, electronic-banking, touch tone telephone credit cards, home banking, debit cards and net banking. There are numerous advantages envisaged from of branchless banking delivery channels. The strategy is purposed to provide convenient access of banking services, service quality of access and the ability to transfer funds to other accounts among others (Kohali&Sheleg, 2011).

## II. STATEMENT OF THE PROBLEM

A number of banks have been closed in Kenya leaving depositors in dire stress. Dubai, Imperial and Chase bank have been victims of such closure. Branchless banking channels like mobile banking, internet banking, agent banking and Automated Teller Machines in Kenya are a recent innovation to increase performance as they are expected to lower operation costs. What remains unclear is how these new methods of delivering financial services affect the performance of banks. Barclays bank has invested in the channels and is now focusing to agent banking as the new strategy. There has been little study to report on the performance effect of these investments though Barclays continue to register low profits. As a result, the study endeavours to delve deep into the ways in which these channels affect the performance of Barclays bank.

## III. RESEARCH OBJECTIVE

The general objective of the study was to assess the effects of branchless banking channels on performance of Barclays bank in Kenya.

### Specific Objectives:

- i. To examine the effect of speed/service quality of branchless banking on the performance of Barclays bank in Kenya.

### Research Questions:

- i. How does the speed/service quality of branchless banking affect performance of Barclays bank in Kenya?

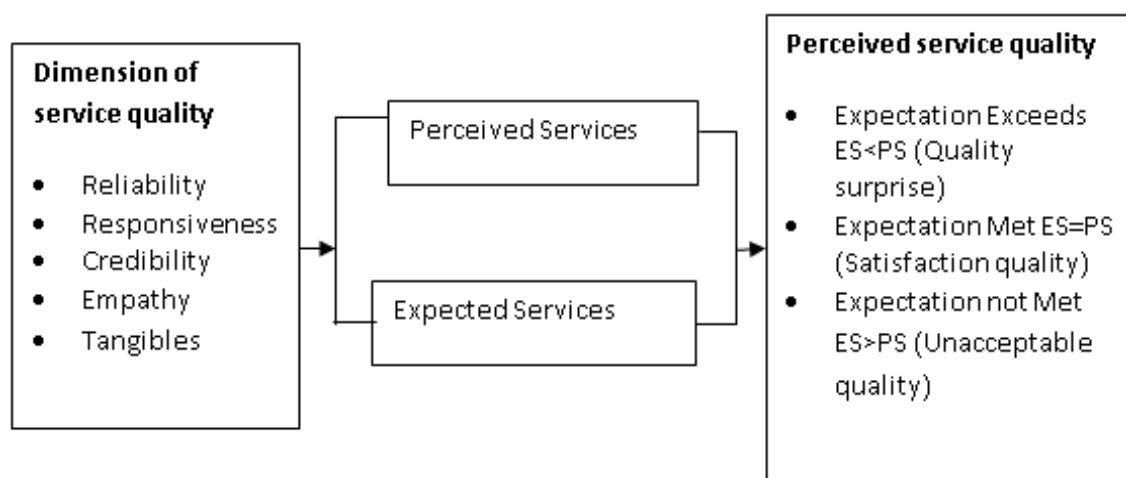
## IV. JUSTIFICATION OF THE STUDY

To mitigate on poor performance, bankers may find this study very useful because it provided information on the impact of branchless banking channels on performance. This may enable bankers to understand how branchless banking operates and benefits their organizations in general. The findings of this study could illuminate future developments in the banking sector. The policy makers may use the findings of this study as a template of the ground situation and decisions could be made in consideration of the facts contained in this study. Such decisions may definitely lead to improved branchless banking channels in future.

## V. LITERATURE REVIEW

### The Criteria for Citizen's View of Service Performance through Service Quality:

The quality of service is more difficult for customers to perceive than that of product quality. As a result, administrators find it difficult to comprehend the criteria that customers use to evaluate service quality. Customers consider both the process of service delivery and the outcome of the service during the evaluation of service quality. During service quality evaluation, customers only consider their criteria for service quality.



Source: (Fitzsimmons and Fitzsimmons, 2001)

Fig. 1. The Criteria for citizen's view of service quality

As depicted in Fig. 1. "assessment of quality of service is made during the contact with the service and is referred to as 'a moment of truth' (i.e. an opportunity to either satisfy or dissatisfy a customer)". They concluded that "if the perceived service (PS) falls below the expected service (ES), then the service is unacceptable or unsatisfactory. If it conforms to expectations, its satisfaction quality. If it exceeds expectations, otherwise, it is perceived as a beyond expectations and thus quality surprise)".

According to Kotler (2000) this dimension may differ from one industry to the other. In some it may be very important, in others it may not. Kumar, (2010).) Observed that credibility/assurance may not be so important relative to other industries where the risk is higher and the outcome of using the service is uncertain.

They concluded that in the health sector, for example, assurance is a very much important dimension to clients assessing a hospital or a surgeon for an operation. Empathy, according to Kotler (2000) is treating the customer as if he is unique and special. It is defined as the caring, individualized attention the firm provides its customers Kumar, (2010). Like the other dimensions, the importance of this factor differs from industry to industry.

Empathy has been found to be more suitable and important in enhancing service quality in industries where building relationships with customers and clients ensures the firm's survival as opposed to "transaction marketing". Kotler (2000) thus has argued that in quick service restaurant setting, the customer look for quick service and whether the queues at the counters are long and in that context empathy may not be so important. He however indicated that in fine dining restaurant, empathy may be important to ensure customer loyalty as the server knows how the customer likes his or her food prepared Kotler (2000) Reliability is about the organization keeping its word.

It is defined as "the ability to perform the promised service dependably and accurately" or delivering on its promises" Kumar, (2010). Responsiveness was the willingness to help customers and provide prompt services. This dimension is concerned with dealing with customer's requests, questions and complaints promptly and attentively.

A firm is known to be responsive if it takes time to communicate to its clients how long it would take to get answers or have their problems dealt with (Kumar, 2010). Tangibles is defined as the physical appearance of facilities, equipment, and staff and written materials. Tangibles are used to convey images and to signal quality Kotler (2000) He states that some quality dimensions are generalized across many services, but some was apply only to specific type of services and it is necessary to understand quality dimensions to be able to develop measures to assess them.

### **Service Quality Theory:**

A study conducted by (Kumar, 2010) to assess service quality provided by banks, they found that significant gaps existed between the expectations of the income taxpayers and the services they accepted such as reliability, responsiveness and empathy. These three were higher than the tangibles and credibility dimensions. However, overall service quality was found to be high indicating that the zone of tolerance existed as the taxpayers were to compromise with quality.

Furthermore, Ilhaamie in 2010 conducted a study in three hundred public organizations in Malaysia. Respondents were being asked to allocate hundred points (100) to the five service quality dimensions. The results were as follows - tangibles (21.10); reliability (20.63); responsiveness (20.51); credibility (20.05) and empathy (18.11). The conclusions was be that service quality impacted on customer satisfaction as indicated by the scores of the dimensions, but tangibles happened to be the most important determinant, with empathy being the least.

### **Empirical Review:**

Branchless banking channels are associated with high service quality of transactions, delivery and access of financial services. This has a lot of impact on the performance of Barclay's banks in the sense that the enhanced service quality of transactions increases the number of transactions at any given time. More transactions often result in more revenue that improves performance. The convenience associated with branchless banking channels in accessing and delivery of financial services is related to service quality of Barclays bank in service delivery. Branchless banking channels have made it so easy to access financial services thus motivating more clients to subscribe and use of banking services. The enhanced access and subscription to Barclays bank has led to higher performance (Ramirez & Richardson, 2005).

## **VI. RESEARCH METHODOLOGY**

The researcher used descriptive design. The descriptive design is a qualitative non-experimental research design. According to Gay (2000), descriptive research is the process of collecting data in order to answer research questions concerning the current status of the subject of study. The purpose of choosing descriptive design among others is to describe performance behaviors or other characteristics of branchless channels in determining the level of performance of Barclays bank. The study specifically focused on 80 respondents drawn from 119 branches of Barclays Bank of Kenya.

**TABLE I: SAMPLE SIZE**

Region	Branches Population	Sample size ( bank staff, agent or customer)
Western	19	12
Nairobi East	10	6
Nairobi West	10	6
Rift Valley	20	14
Central	22	16
Coast	16	10
Nairobi CBD	12	10
Nairobi South	10	6
TOTAL	119	80

#### **Sampling Technique and Instruments:**

The study adopted a multi-stage sampling technique to identify the respondents. The selected respondents for the study were then selected purposively from each Barclays bank branches region so that those who have the required information were allowed to fill the questionnaires.

#### **Pilot Test:**

The instruments used in the research were examined for reliability using Cronbach's Alpha value which was (0.890) indicating high level of reliability. Validity was validated by experts in research at Mount Kenya University in relation to the objectives the constructs purported to a dress.

#### **Data Processing and Analysis:**

The primary data collected through questionnaires were to ensure correctness and consistency before using SPSS statistical tool for analysis and presentation. The independent and dependent variables were coded in a scale of five depending on the degree of their strength. Descriptive statistics was done on demographic information of the respondents to find out their characteristics in terms of frequencies and percentages. Pearson Correlation (r) coefficient was used to determine the relationship between speed/service quality of branchless banking channels and profitability of the bank. Two regression models were used during the data analysis.

#### **Model 1**

$$PR = \alpha + \beta_1 \text{SPEED} + e$$

Where  $\alpha$  is the constant while  $\beta_1$  is the coefficient of the independent variable used in the study. The standard error is represented by e.

#### **Model 2**

The second model was to determine the impact of technology as a moderating variable on the independent variable. The model is as shown below

$$PR = \alpha + \beta_1 \text{SPEEDTECH} + e$$

TECH represents the technology employed

## **VII. RESULTS AND DISCUSSIONS**

Demographic results showed that there were more male 53 (66.3%) than female 27 (33.8%). In addition, the findings indicates that Most of the respondents were in the age group of 40-49 which account to more than half of total respondents 52.5% that is 42 out of 80 respondents. Similarly, Majority of the respondents were aware of branchless banking channels who accounted for more than half of the respondents with a staggering 98% that is 79 out of 80 while one of the respondents was not aware of branchless banking channels with a paltry 1.3% of the respondents.

#### **Correlation Analysis:**

In order to get the relationship between speed/service quality from branchless banking on the performance, Pearson (r) Correlation coefficient was determined using SPSS software. The results are shown in TABLE II.

**TABLE II: PEARSON CORRELATION ANALYSIS BETWEEN SPEED/SERVICE QUALITY FROM BRANCHLESS BANKING ON THE PERFORMANCE OF BARCLAYS BANK**

		Speed	Performance
Speed	Pearson Correlation Sig. (2-tailed)	1.	.753(**) .000
Performance	Pearson Correlation Sig. (2-tailed)	.753(**) 0.000	1.

**The Relationship between Branchless Banking Channels Speed/Service Quality and Bank Profitability:**

The percentage commission (profits) has a significant strong positive relationship with speed of branchless banking channels ( $r=.859^{**}$ ,  $p<0.01$ ). This is line with our research question which sought to find out the relationship between branchless banking channels speed and profitability of the commercial banks. The result is significant with  $p<0.01$ . This means that increase in speed of using branchless banking channels services result to more transactions which has been carried out by customer simultaneously as well as avoiding long queues in bank hall which made more customers to use banking services therefore increasing the commission target of the banks and increasing profit of the bank as the number of transactions increase.

**The Relationship between Speed and Bank Profitability Using Technology as Controlling Variable:**

A strong significant positive relationship exist between the speed and the bank profitability ( $r=.883^{**}$ ,  $P<0.01$ ) when technology is controlled. This represents slight increase from  $r=0.859$  to the current value of  $r=0.883$ . The difference in correlation is attributed by the fact that as technology improves; many bank customers are able to transact using branchless banking channels as the speed of transaction improves thereby making the bank to earn more profits from branchless banking channels due the commission charged per transaction done.

**Regression Analysis:**

Multiple Regression analysis was carried to find out how the explanatory variable (speed) can well predict the profitability of a bank, the dependent variable. Technological advancement was used to find out if it can influence the profit of the bank since it has influence of the independent variables as shown in the correlation section.

**TABLE III: REGRESSION ANALYSIS FOR INDEPENDENT VARIABLE ON HOW WELL THE MODEL FITS FOR THE STUDY**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			Durbin-Watson
					R Square Change	F Change	Sig. Change	
1	.950 <sup>a</sup>	.903	.898	.34462	.903	174.80	.000	1.969
a. Predictor: (Constant), SPEED								
b. Dependent Variable: Percent's								

From TABLE III, the value of R is 0.950 which shows the strength of correlation between the predictor variable and dependent variable in the 1<sup>st</sup> model. The degree of strength is very strong since it is almost 1.0. The value of R squares which represents the percent of dependent variable can be explained for by the independent variables. In the 1<sup>st</sup> model 90.3% of the variance in the independent variables can be accounted for in the dependent variable of the profitability of the bank. The standard error value is 0.34462 meaning that the model is accurate and its application is significant in predicating the profitability of the bank since the F value ( $F=174.890$ ,  $P<0.01$ ) as shown in the TABLE III.

**Regression Analysis Using Technology As Moderating Variable:**

**TABLE IV: HOW WELL THE MODEL FITS FOR THE STUDY WITH MODERATING VARIABLE**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			Durbin-Watson
					R Square Change	F Change	Sig. Change	
1	.968 <sup>a</sup>	.938	.934	.27669	.938	281.68	.000	1.977

From TABLE IV, the value of R is 0.968 which shows the strength of correlation between the predictor variable and dependent variable in the 2<sup>nd</sup> model using technology as moderating variable. The degree of strength is very strong since it is almost 1.0 and it's stronger than the 1<sup>st</sup> model of 0.950. In the 2<sup>nd</sup> model 93.8% of the variance in the independent variable can be accounted in the dependent variable of the profitability of the bank. The percentage is larger than the 1<sup>st</sup> model of 90.3%. The standard error value is 0.27669 meaning that model is accurate and its application is significant in predicating the profitability of the bank since the F value (F=281.628, P<0.01) as shown above.

**Step Wise Regression Analysis:**

Stepwise regression was carried out as an extended test to find out the magnitude of contribution of the independent variable to the dependent variable. Table 4.14 shows the R Square for the independent variable.

**TABLE V: STEP WISE REGRESSION TABLE**

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	Sig. F Change
1	.941 <sup>a</sup>	.886	.883	.36878	.102	69.166	.000

The independent variable was significant for this test as the P<0.01. The variable contribution was 10.2% on R square. The values was significant at (F (77, 1) =69.166, p<0.01).

The regression equation for all variable is;

$$PR = \alpha + \beta_3CON + e$$

$$PR = \alpha + \beta_3CON + \beta_2SP + e$$

**VIII. SUMMARY OF RESEARCH FINDINGS**

The study used the questionnaire which covered speed as independent variable of branchless banking channels and the target income of selected bank branches as dependent variable. Technological advancement was used as moderating variable so that its effect was accounted for in the independent variable. The independent variable used in the study was significant predictor of bank profitability as the P<0.05.

The independent variable speed had a contribution of 10.2% on R square. The values was significant at (F (77, 1) =69.166, p<0.01). The study also employed technology being used both by the bank and customer as moderating variable for independent variable on effect of profitability of a bank. The introduction of this moderating variable led to significant increase in coefficient value.

**IX. CONCLUSION**

On the basis of this research objective, the study concludes that Speed was taken as the shortest time possible customer takes to access bank services, queries etc. through the branchless banking channels services. The profit of the bank was statistically significant in dependent on the speed of branchless banking channels services. The test statistics showed that the relation was significantly strong 0.859\*\*, p<0.01. This indicates that when speed of accessing banking services through branchless banking channels increases the profit of the bank increases in the same direction

The regression result also indicated that speed of using branchless banking channels services has significant effects on the profitability of a bank. the coefficient of branchless banking channels speed is 0.237 f=5.041 and p<0.01 which shows that 23.7% of variance in the profit of the bank can be accounted by the speed of use of branchless banking channels service while the remaining percentage by other independent variables. The contribution of speed of branchless banking channels services on r squared was found to be 10.2% and the value was significant at (f (77, 1) =69.166, p<0.01). This indicates that for bank to increase their profits, they should consider making branchless banking channels services faster in processing transaction and other queries to customers as there is positive relationship between the bank profit and branchless banking channels speed and the test was significant.

## **X. RECOMMENDATION**

Since there was a positive relationship between the independent variable and dependent variable as well as technology has a role on the usage of branchless banking channels services, the following recommendations will be useful: for banks, they should try to make sure that branchless banking channels service are designed in the way that customers can easily use them and that they are faster. Banks must also use modern technology in their branchless banking channels services as this has made them user friendly, faster and convenience thereby pushing the profits up in the long run.

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