

# THE ROLE OF ELECTRONIC BANKING IN BANKS GROWTH STRATEGIES: THE CASE STUDY OF UNITED BANK OF AFRICA (UBA) GH LTD

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## ABSTRACT

This research paper is presented to show how the introduction of electronic banking affects and continues to impact on the performance of banks. It starts with an introduction of the background of the topic, a brief discussion of the problem of identified, a presentation of objectives as well as purpose of the study. It adopts a purposive sampling technique to gathering data and case study of UBA bank.

## 1.1 INTRODUCTION

Banking in Ghana like other countries in the world, started off with manual filling systems. Transactions had to be recorded in voluminous ledger books which was time consuming and led to the proliferation of queues in banking halls. Banks were therefore synonymous with long queues and delays in service. The use of Information Technology (IT) through devices like computers and other tangential/peripheral apparatus has resulted in growth in service industries in the recent past. The banking industry is one such industry which can boast of providing more diverse value added services to customers using IT. Presently, banks have sophisticated electronic systems to handle day to day transactions and some real time electronic platforms. The adoption and implementation of e-banking started to crop up pretty expansively as a strait of distribution for financial services owing to fast advances in IT and rigorous aggressive banking markets (Mahdi and Mehrdad, 2010; Dube, et. al., 2009).

Electronic banking is the general name given to any bank transaction executed using an electronic medium. Electronic Banking is

explained as using technology to communicate requests and orders and to obtain information from a banking institution with or without existing bank account. This service includes systems that enable customers, to have access to their accounts, carry out businesses, or get information on financial products and services via electronic network platforms.

E-banking has changed the financial and banking industry in terms of the nature of key products and services and in the form or manner in which these products are packaged, delivered and consumed by customers. As noted by some scholars, it is a valuable and potent strategy device for improvement/development, increasing growth, promoting innovation and enhancing competitiveness (Gupta, 2008; Kamel, 2005). The evolution of banking technology has been driven by changes in distribution channels as evidenced by the advent of automated teller machines(ATM), Mobile phone banking, PC-banking and most recently internet banking (Chang, 2003; Gallup Consulting, 2008). A number of key issues identified and addressed in recent literary works about e-banking comprise; customer adaptation and satisfaction, services rendered, value added services for consumers and banks, security concerns, profitability, and competition from non-banking institutions (Boss, et al., 2000)

These electronic platforms have drastically reduced and rendered absent, the arduous tasks of information retrieval, processing and storage. Before the advent of the electronic banking platforms, every single transaction to be performed at a bank had to be done within the confines of a banking hall however; bank transactions are now executed electronically

or virtually, regardless of the users' geographical location. The automated electronic platforms have given a new lease of life to traditional banking products and services.

One positive effect of using IT in relation to banks' performance is the increased reduction of banks' operational costs thus giving the bank a cost advantage. Banks, through the use of the internet are able to carry out routine low value-added transactions, for example, Balance inquiries, bill payments, and account transfers among other services. A research on the impact of the progress in IT on income and efficiencies of the US banking sector during the period of 1992-2003 by Kozak (2005) indicated an optimistic relationship between the level of implemented IT and the prosperity of banks in the US.

Some of the major products and services that have been rolled out on the E-Banking platform include; Online or Internet banking (banking transactions using the internet), mobile banking (basic banking transactions using a mobile phone device) Automated Teller Machines ATMs (Using machines to deposit, transfer or withdraw funds).

The introduction of E-banking services has brought in its wake some achievements in enhancing customer convenience and increase in service delivery turnaround time (TAT). Banking operating costs has also reduced to a manageable level due to the absence of the over dependence on research. Customer services delivery, and queues in branches have decreased tremendously and it has also led to banks operating lean staff especially at the branch level.

This research seeks to outline the contribution of electronic banking as a strategy for bank growth and profitability, using UBA as a case study.

### 1.2 Problem Statement

E Banking is a strategy that generates growth and profitability for banks due to its cost effective nature, and the ease with which its usage generates revenue for banks, and this would have an enormous influence on the prospect/ future of banking. The electronic platform has come to occupy a key position in formulating strategies for banks as a result of the role it plays in relation to the revenue it generates. The convenience of accessing funds and other transactions in the comfort of one's office or home has made the use of electronic banking products enticing to

consumers and this has become a good selling point for banks. This, coupled with the upsurge of internet related activities has made the use of electronic banking product, a must in customers' businesses and lives.

Arguably, e-banking gaining widespread recognition and use by almost all the banks, does not equate to banks' growth or profitability as most banks still post losses in their financial statements. This buttresses the point by some scholars that despite the success and seemingly irreplaceable position of e-banking, online banking in particular would destroy the old models of banking service delivery (De Young, 2001a). The proof of this view lies in researching and assessing the influence/ effects of E-banking on bank growth and prosperity. The researcher is with the view that very little empirical evidence has come with regards to the impact of E-banking on banks growth and profitability. This research attempts and intends to fill the existing research gap by answering the question; does E-banking affect growth and profitability of banks? Is E-banking a good enough strategy tool to be used in impacting the growth and profitability of a bank? The research work uses UBA Ghana Ltd as a case study.

### 1.3 Objectives of the Study

The major purpose of this research paper is to determine the effect/impact of E-Banking in relation to the growth of a bank using UBA Ghana Ltd as a case study. Other detailed objectives of this research paper are to:

1. Investigate the significant relationship between E-banking as a strategy and growth in banking performance.
2. Examine if there is the need for E-banking in relation to revenue streams and profitability of banks.
3. Study the usage and sales of e-banking products and its impact on growth.
4. Throw light on the impact of e-banking on bank's growth and profitability.

### 1.4 Research Questions

This research paper seeks to throw light on the research questions below. These questions have been carefully formulated to guide the achievement of the research objectives.

1. Is there any significant relationship between E-banking as a strategy and growth in banking performance?

2. Is there any relationship between using E-banking as a strategy and profitability of banks?
3. What are the various electronic payment channels and to what extent is electronic payment in banking activities used?
4. What are the problems and solutions associated with the development of E-banking in Ghana?

### 1.5 Purpose of the Study

This research is significant in a lot of ways. First, it seeks to further enlighten the consuming public, policy makers, bank regulators and bank officials on the immense contribution of E-banking to banks as a product of electronic business with the aim of making tactical decisions. The research also seeks to bring out the direct effect of E-banking on the success of banks.

Second, the research would establish the success and growths linked with implementing electronic banking and draw attention to the areas of banking operations that could be enhanced via E-banking thus assist regulators in addition to policy makers to design appropriate policies for E-banking adoption and implementation in Ghana.

Third, E-banking in Ghana has made a significant impact on society in diverse ways hence the study would unearth the strengths and weaknesses of electronic banking. Banking has thus turned into a 24-hour – round-the-clock service with the banks always accessible to their clients (Ciciretti et al., 2009). Ghanaian businesses engage the services of foreign companies overseas to promote local business through international trade. Internet banking helps to provide for these clients who cannot cross the geographic barriers to carry out simple transactions.

### 1.6.0 Scope and challenges

In relation to the aim of the study; focus would be on E-banking operations in UBA. The study would also examine critically the role played by E-banking as a strategy tool for bank growth in UBA.

The research is faced with a few limitations namely; Information inadequacy, information credibility and getting the facts as they stand from the various heads of departments to be interviewed. However, the limitations would not have an effect on the validity and outcome of the research findings. In view of the technicalities involved, it would be

impracticable to assume that all essential truth have been gathered in the process of the study.

Information gathered was narrowed to those accessed and made accessible by the respondents and also those collected/received from end users. The study was restricted to some UBA stakeholders (E-banking Head, Head of Strategy, Head of Financial Control and some Relationship Managers, Branch Managers and some customers who use E-banking services). This is to throw light on the perceived value in internet banking in relation to growth and profitability.

### 1.6.1 Analytical Framework

The various e-banking products were first identified with key informants and then presented to respondents for ranking in order of importance in an ascending order. The mean rankings were then taken. The Kendall's coefficient of concordance (W) was used to test for the level of agreements in the rankings giving by the respondents.

The formula for the Kendall's Coefficient of Concordance (W) is given as:

$$W = 12S/p^2 (n^3 - n) - pT(1)$$

\*Where:

W = Kendall's coefficient concordance; n = the number of respondents;

P = the number of constraints; S = sum of squares statistic; and

T = correlation factor for tied ranks.

$$W = \frac{\sum (S/P^2 - T)^2}{n^3 - n}$$

$$T = 1 \quad (2)$$

\*Where:

R<sub>i</sub> = row sums of ranks; R = the mean of R<sub>i</sub>.

The correlation factor for tied ranks (T) is

$$W = \frac{\sum (S/P^2 - pT)}{n^3 - n}$$

$$P(3)$$

Where: SP = the number of ranks in each k of m groups of ties.

### 1.6.2 Hypothesis and Significant test for W

The null (H<sub>0</sub>) and the alternative (H<sub>1</sub>) hypotheses are stated as follows:

H<sub>0</sub>: there is no relationship between the performance of the bank and its e-banking products, versus

H<sub>1</sub>: there is agreement among the rankings.

The Kendall's coefficient of Concordance (W) may be tested for significance using Chi-square statistic (X<sup>2</sup>) computed as:

$$X^2 = p (n-1) W \quad (4)$$

\*Where:

N= sample size; p= number of constraints; and W = Kendall’s coefficient of concordance.

The decision rule is if chi-square calculated > chi-square critical, then the null hypothesis is rejected in favour of the alternate hypothesis.

**1.7 Data Collection Techniques**

Two approaches under which research is conducted are; qualitative and quantitative approaches.

The qualitative approach of gathering data used to collect data through narratives, word and it is qualitative because statistics are not used. The quantitative approach on the other hand, utilizes statistical measurements which are then tested for any existing relationship between the variables under study, to enhance the researcher’s understanding of the particular topic under study. According to Malhotra and Birks (2006), research conducted based on qualitative data is usually descriptive, exploratory and unstructured. It is usually used to research into previously unknown areas or areas that little is known about, whereas quantitative-data research uses methods that quantify data and gives it statistical interpretation. This research paper adopted both quantitative and qualitative data approach to answering the research questions because both structured interviews and questionnaires were administered to arrive at the research findings. This research used both primary data through interviews of some heads of department in UBA. Secondary data, unlike primary data, is obtained through documents like records, periodic reports, journal articles and other accredited documented sources.

**1.8 .0 Major Findings/Results and Discussions**

**1.8.1 Knowledge On The Use Of E-Banking Product**

The researcher assessed and ascertained the overall impact of e-banking products on the performance and growth of UBA. Majority of the respondents had knowledge about the existence of some e-banking products and services such as ATM/debit cards services, SMS banking service, internet banking services and email notification services etc and confirmed have ever used e-banking service before and the assigned reasons such time savings, cost saving convenience and reliability for assessing e-banking services.

The responses are tabulated below:

Table 1.

| E-BANKING PRODUCTS          | No. | Ranking         |
|-----------------------------|-----|-----------------|
| ATMS/DEBIT CARDS SERVICES   | 9   | 2 <sup>nd</sup> |
| SMS-BANKING                 | 12  | 1st             |
| E-BANKING                   | 4   | 4th             |
| EMAIL-NOTIFICATION-SERVICES | 5   | 3rd             |
| TOTAL                       | 30  |                 |

From the responses above it is clear that both staff and management of the UBA bank have been patronizing e-banking products and services. In all, the use of ATMS and SMS banking ranks popular among the e-banking products. It appears the use of e-mail notification services is jet to gain popularity with the staff and management of the bank, not surprising though as most of them could have easy access to their accounts information any time they need them directly from the bank’s information systems. On an average, respondents confirm using internet banking services between 3 to 8 times per month. Interestingly most of the respondents, staggering (90%) agree that the bank has adopted the e-banking service for over 6years now, making the UBA bank one of the pioneers in the delivery of electronic-banking products in the banking industry of Ghana.

**1.8.2 Reasons for the Use of E-Banking Services**

The researcher was interested in finding out the reasons for the introduction of the e-banking services by the bank. Most of the respondents answered that to enhance customer service delivery (improvement in service quality for customers), to increase bank revenue, to provide customers more innovative ways of banking, to keep pace with new trends in the banking industry, to afford convenience to customers and to cut cost of transactions and add value to their services, to reduce long queues in banking halls and above all to be on top competition in the market.

**1.8.3 The Impact Of E-Banking On The Operations Of UBA**

from the interviews granted with both staff and management of the bank, it was

discovered that following the adoption of e-banking service there has been massive increase in the customer base of the bank, the manager in charge of operations confirmed that customer base of the bank has increased for over 30% year on year since the introduction of the e-banking services. Also, it has reduced service delivery time, especially pressure on tellers have reduced significantly following the introduction of the e-banking services. This has resulted in overall increase in performance in terms of profitability of the bank. It has also further enhanced the public image of the bank and the operational efficiency of the bank; the information system of the bank is even more secured than before, most of the senior officers of the bank also confirm that there has been a tremendous increase in the market share of the bank and overall growth in revenue following the introduction of the e-banking services by the bank.

### **1.9 Challenges in the Implementation of E-Banking**

It was discovered by the researcher that the bank has had a lot of issues both managerial and technical following the introduction of the e-banking services. Key among them includes system failure, increased fraud cases, security lapses, limited knowledge of information technology (IT) and e-banking, high cost of ICT investment by the bank and the inability of some staffs and customers to adopt. However, it was learnt that the bank's IT technical and development unit is working hard to resolve some of these challenges.

### **1.9 Conclusions**

The major objective of the study was to determine the impact of e-banking in relation to the growth of the bank, using UBA Ghana limited as a case study. Other objectives were:

- a. To investigate if there is any significant relationship between e-banking as a strategy as well as growth in banking performance.
- b. To examine the usage and sales of e-banking products and its impact on growth.
- c. To examine the impact of e-banking on bank's growth and profitability.

It is against these research objectives that the following conclusions were drawn:

First, statistics and financial statements analysis conducted by the business development and research unit of the bank clearly showed that the UBA bank had

recorded significant growth in revenue and overall profitability since the e-banking products and services were introduced by the bank. Available data and figures shows that the UBA has consistently achieved its target on annual performance basis for the past nine years and it still continues to make substantive strides in the areas of on-line banking.

Second, products usage and sales ranking of the bank shows that SMS-banking ranks the first in the sale of e-banking products of the bank. This is followed by ATMs/debit cards services- e-mail notification services and e-banking been the last. All of these products have contributed considerably to the growth in turnover percentages plus other awards chalked by the bank.

Third, besides improvement in bank's profitability, the introduction of the e-banking has impacted the bank's operations in the areas of reliability of the networks secured systems, support services from top management, fast and responsive customer service and indeed, it has promoted and encouraged the use of e-banking services among the staffs of the organization, although much education and training is needed to integrate and enroll other management representatives on board.

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