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Influence of Digital Channels on Competitive Advantages of Commercial Banks in Kenya

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Abstract:
The banking sector in Kenya continues to face increased dynamism, most of which has affected most of the banks' competitiveness. With thirty-nine banks licensed to operate in the country, only three banks control more than 70% of the market. This shows a low, competitive strength of the majority of the banks, a matter that has threatened their continued operation. The main aim of the study was to establish the influence of digital channels on the competitive advantage of commercial banks in Kenya. The study was anchored on four theories: Assimilation Theory, Theory of Diffusion Innovation, Technology Acceptance Model, Unified Theory of Acceptance and Competitive Advantage Theory. The study employed a descriptive survey design. The study was done in Nairobi County, Kenya's capital city. It houses all the head offices of the 39 commercial banks granted to operate in the country. Cochran's formula was used to compute a sample of 347 participants, which was obtained using simple random sampling. The study utilized a questionnaire to collect primary data, which was analysed using SPSS. Both descriptive and inferential statistics were used for the analysis. The study found that most of the participants agreed that their banks offered various digital banking modes to our customers to enhance efficient service delivery, as indicated by a mean of 3.69 and a standard deviation of 0.81. Regression analysis was also conducted to determine the association between the variables. The findings of the study revealed that digital channels significantly influenced the competitive advantage of commercial banks in Kenya (P <0.05). The findings revealed that while commercial banks in Kenya have implemented various digital banking modes to enhance service efficiency, significant shortcomings hinder their competitive advantage. They noted that banks appear to lack adequate online platforms for customers to raise queries, indicating insufficient customer engagement mechanisms. The study recommends that banks invest in regularly upgrading their digital platforms to ensure reliability and improve user experience. They should establish comprehensive online platforms for real-time customer support and feedback, which will enhance customer engagement and satisfaction.

Keywords: *Digital channel, commercial bank, competitive advantage, technology and digital marketing*

1. Introduction

Globally, the competitive advantage of commercial banks has been alluded to as an essential determinant of the banks' continued operation and expansion (Tsindeliani et al., 2022). In Germany, Diener and Špaček (2021) noted that German commercial banks were increasingly expanding to international markets as a result of being competitive locally. This competitiveness, as alluded to by Diener and Špaček (2021), was highly driven by the continued embrace of digitalization strategies. These strategies have also been attributed to the continued expansion of American banks across the globe. In Greece, Kitsios, Giatsidis, and Kamariotou (2021) noted that the banking sector is becoming highly dynamic, and its growth and continued competitiveness are highly driven by digital transformation. The authors noted that digital transformation creates an opportunity for banks to expand their product lines while capturing wider markets, thus becoming more competitive.

Regionally, the banking sector in Sib-Saharan Africa has been expanding rapidly over the past decade (Chinoda & Kapingura, 2023). While analysing the driving forces of competitiveness in Africa's banking sector, Madichie, Bolat, and Taura (2021) noted that with the emergence of technology, the regional banking industry was majorly relying on digital technology, such as digital transformation strategies to drive their continued success in the market. Osei, Cherkasova, and Oware (2023) focused on Nigerian banks and established that the banking sector was driven by digitalization, a strategy that steadily enabled the expansion of banking services. As alluded to by Modiba and Kekwaletswe (2020), digitalization in South Africa's banking sector has seen more consumers embrace digital banking, a banking framework that not only reduces operational costs but also promotes efficiency in service delivery.

In Kenya, digital transformation in the banking sector has been gaining traction over the past decade. Most banks in Kenya have been embracing technology-based banking modes, but the effectiveness of these banking modes remains mixed across most of the banks (Mang'ana, 2022). While embracing digital banking methods is one aspect, integrating the appropriate digital transformation strategies is another (Otieno & Ndede, 2020). Digital transformation strategies go beyond adopting technology-based service delivery modes, as they encompass key frameworks and approaches put in place to support the overall digital processes of the organization (Mugambi & Kinyua, 2020). The Kenyan banking sector could be missing the appropriate digital transformation strategies, which explains the reason behind the inadequate performance of most of the commercial banks despite the embrace of digital modes of banking (Otioma, 2022).

A study by Hanelt, Bohnsack, Marz, and Marante (2021) on the influence of digital evolution on firm competitiveness sought to evaluate the role played by digital channels adopted during digital transformation in strengthening organizational competitiveness. The study applied a cross-sectional survey approach and sampled 215 employees sourced from the service sector in Malaysia. The findings stated that digital channels used in service delivery played an essential role in enhancing organizational competitiveness. According to Hanelt et al. (2021), competitiveness is the subject of how well an organization utilizes its materials to meet its goals and stand tall from other competitors. The authors noted that through digital channels, the organizations were able to differentiate their operations and create more value for the consumers, thus being more competitive. Their findings are supported by those of Nousopoulou, Kamariotou and Kitsios (2022), who, while evaluating the influence of digital approaches and channels on institutional competitiveness, revealed that the channels adopted by organizations to dispense their goods and services have a defining function determining the competitiveness of an institution.

Mukuni (2019), while addressing the essence of digital channels in the banking industry, established that through digital channels, commercial banks strengthen their market activities, thus becoming more competitive. Additionally, Maingi and Wachira (2022) revealed that digital banking channels are not only convenient for customers but also create more value for them, thus enhancing their satisfaction. In Kenya, Kingori and Mwemba (2022) concluded that digital channels had a defining influence on the competitiveness of commercial banks.

1.1. Problem Statement

Despite the immense role played by commercial banks in Kenya's economy, the banks have been facing tremendous challenges, most of which have threatened their continued growth, performance and sustainability (Omware et al., 2020). The dynamism in the Kenyan banking sector is evidenced by the acquisition of 6 commercial banks between 2014 and 2022, including Habib Bank (2017), Fidelity Bank (2017), Equatorial Bank (2014), K-Rep Bank (2014), Giro Bank (2017), National Bank (2019), Jamii Bora (2020) (CBK, 2022). Moreover, there has been declined growth of the banks from a growth rate of 19% in the year 2018 to 12% in the year 2019 and 11.5% in 2023 (Cytonn, 2019; CBK, 2023); and banks held in statutory management (Charterhouse Bank Limited) and banks put under receivership (Imperial Bank Ltd) (CBK, 2022). Moreover, as reported by the Kenyan Bankers Association – KBA (2022), there has been a decline in the employee retention rate in the Kenyan banking sector by 24% between the years 2017 and 2021, with layoffs in voluntary retirement contributing to 40% of the staff turnover and over 60% being as a result of compulsory layoffs.

1.2. Research Objective

The main objective of the study was to establish the influence of digital channels on competitive advantage of commercial banks in Kenya.

2. Research Methodology

2.1. Research Design

This study employed a descriptive research design that incorporated both quantitative and qualitative data. It helped describe and analyze phenomena as they appear without bias.

2.2. Target Population

The target population for the survey was 2,664 participants, which is equivalent to 9% of 29,600.

2.3. Sample Size Determination

According to Henseler, Hubona, and Ray (2016), a sampling formula should provide an adequate and appropriate sample size that represents the targeted population in a study. Yamane's (1967) formula, as postulated by Preacher and Hayes (2008), provides an adequate sample size and it is appropriate for large population sizes exceeding 1,000 respondents. This justifies the choice of the formula in this study.

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

Where: n is the sample size, N is the target population (2,664) and e is the error margin (0.05)

$$n = \frac{2664}{1+2664*0.05^2}$$

n = 347

The study, therefore, sampled 347 participants in the 39 commercial banks in Kenya.

Banks Category	Number of Banks	Target Population	Sample Size	Percentage
Tier One Banks	9	1,014	132	38.0%
Tier Two Banks	8	718	94	27.1%
Tier Three Banks	22	932	121	34.9%
Total	39	2,664	347	100%

Table 1: Distribution of the Sample Size
Source: Researcher (2023)

2.4. Data Collection Instruments

The study employed interviews, document analysis, and questionnaires to gather data.

2.5. Data Analysis Procedure

The data for this study were analyzed based on the research objectives, and the data was graded based on the study variables. All the quantitative questions in the questionnaire were assigned codes, which were entered into the software (SPSS).

Quantitative data was analyzed using both descriptive and inferential statistics. Descriptive statistics were employed to describe the data as observed, using measures such as means, standard deviations, and frequencies. Inferential statistics, on the other hand, were used to examine the statistical relationships between the study variables, which was achieved through a regression model. The relationship between the involvement of teachers in decision-making and work satisfaction was assessed through a simple linear regression model:

$$Competitive\ Advantage\ of\ Commercial\ Banks\ = \beta_0 + \beta_1\ Digital\ Channels + \varepsilon$$

Where: β_0 is the regression constant, β_1 is the regression coefficient, and e is the error term

The ethical considerations were also addressed to ensure there was confidentiality and integrity throughout the entire research process.

3. Results

3.1. Response Rate

A total of 283 questionnaires were duly filled out and met the intended criteria. A total of 347 questionnaires were issued to the sampled respondents. The response rate was 81.6%, where 283 of the 347 sampled participants met the intended criteria. This response conforms to the threshold articulated by Kothari (2014), where 70% and above was obtained for both categories of respondents. This implies that the study had obtained the minimum required representation to make conclusions and recommendations.

3.2. Demographic Characteristics

The majority of the participants (57.1%) were male, with 42.9% being female. This signifies that most of the banks are still male-dominated as far as their staff is concerned. 51.6% of the participants had a bachelors' degree, 16.6% had a post-graduate diploma as their highest level of educational attainment. Further, it was established that 26.4% of participants had a master's degree, while 5.3% had a doctorate degree as their highest education attainment level. The results imply that most of the respondents had adequate educational background to effectively respond to the key research questions. 19.8% of respondents had a previous working experience of less than 5 years, 31.9% had worked in banks for a period ranging from 5 to 10 years, and 18.7% of the participants had previous working experience ranging between 11 and 15 years. The results further portray that 29.7% of the participants had an experience of over 15 years.

Category		Frequency	Percent
Gender	Male	162	57.1
	Female	121	42.9
	Total	283	100
Working Experience	Less Than 5 Years	56	19.8
	5-10 Years	90	31.9
	11-15 Years	53	18.7
	More Than 15 Years	84	29.7
	Total	283	100
Educational Qualification	Post Graduate Diploma	47	16.6
	Bachelors	146	51.6
	Masters	75	26.4
	Doctorate Degree	15	5.3
	Total	283	100

Table 2: Profile of the Respondents
Source: Research Data (2024)

3.3. Influence of Digital Channels on Competitive Advantage of Commercial Banks in Kenya

Using the table containing an array of statements, the researcher sought to find out the influence of digital channels on the competitive advantage of commercial banks in Kenya, and their responses were;

Statements	SD	D	N	A	SA	Mean	Std. Dev.
	%	%	%	%	%		
We offer various digital banking modes to our customers to enhance the efficiency of service delivery	16.4%	7.5%	12.1%	29.9%	34.2%	3.69	0.81
The online banking methods adopted in our bank are frequently enhanced to ensure reliability	26.4%	23.6%	9.9%	16.0%	24.2%	2.41	1.00
Our bank has an online platform where customers can raise their queries anytime	33.0%	16.5%	19.8%	9.9%	20.9%	2.91	0.99
Our bank has active social media platforms for sharing information with our customers	13.1%	8.6%	17.6%	25.4%	35.4%	3.71	0.91
There are prompt responses and feedback to our customers' concerns through digital platforms	29.7%	32.1%	8.8%	14.1%	15.4%	2.63	0.95
Our bank has optimized digital marketing to expand its reach to more customers	31.9%	12.1%	15.4%	27.5%	13.2%	3.09	1.06
We frequently promote our products through social media as a key digital market tool	26.6%	39.3%	10.7%	14.5%	8.9%	2.48	1.26

Table 3: Likert Scale on Influence of Digital Channels on Competitive Advantage of Commercial Banks in Kenya
Key: SD= Strongly Agree, D= Disagree, N= Neutral, A= Agree, SA = Strongly Agree
Source: Research Data (2024)

Based on table 3, Most of the participants agreed that their banks offered various digital banking modes to our customers to enhance efficiency service delivery as indicated by a mean of 3.69 and a standard deviation of 0.81 (Agree = 29.9%; Strongly Agree = 34.2%). The respondents, however, disagreed that the online banking methods adopted in their respective banks were frequently enhanced to ensure reliability. This is indicated by an average of 2.41 and a standard deviation of 1.00. The participants disagreed that their banks had online platforms where customers could raise their queries anytime (Mean = 2.91; Standard Deviation = 0.99). The results clearly indicate that while most of the banks had embraced online banking modes, the banks failed to adequately improve these modes to enhance their efficiency and effectiveness towards delivering quality services to the customers. The banks also lacked proper engagement platforms to seek and give feedback to their customers as and when needed. These aspects, as argued by Hanelt et al. (2021), are the major setbacks to the effectiveness of digital platforms towards contributing to competitive advantage.

The findings also posited that most of the banks had active social media platforms for sharing information with their customers (A = 25.4%; SA = 35.4%; Mean = 3.71; Standard deviation = 0.91). The participants did not consent to the notion that there were prompt responses and feedback to their customers' concerns through digital platforms. This is depicted by an average of 2.633 and a standard of 0.958. With ineffective feedback and prompt responses, the banks fail to engage their customers effectively despite having active social media platforms, which would be effective tools for customer engagement. The participants neither agreed nor disagreed on the perception that the banks had optimized digital marketing to expand their reach to more customers (Mean = 3.097; Standard Deviation = 1.063) but disagreed that they frequently promote their products through social media as a key digital market tool (Strongly Disagree = 26.6%; Disagree = 39.3%; Mean = 2.48; Std. Dev. = 1.26). The findings imply that although digital channels exist, they have not been effectively utilized by most banks to enhance effective service delivery for enhanced competitiveness. These findings are in line with those by Kainduku and Ngelei (2021), who stated that while organizations may uphold key digital channels as one of their digital transformation strategies, without effective alignment of these channels with the daily activities of the bank, the potential of these channels may not be achieved.

3.4. Regression Modelling

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.151	.163		.925	.357
Digital Channels	.303	.062	.339	4.868	.000
a. Dependent Variable: Competitive Advantage of Commercial banks					

Table 4: Regression Coefficient between Digital Channels Making and Competitive Advantage of Commercial Banks
Source: Research Data (2024)

The regression coefficient (β) for digital channels is 0.303, and the p-value is 0.000<0.05. This implies that digital channels would influence the competitive advantage of commercial banks by up to 0.303. The P-value of 0.000 is below the standard threshold of 0.05, indicating that digital channels have a significant impact on the competitive advantage of commercial banks in Kenya. These findings align with Setzke et al. (2023), who found that digital channels play a crucial

role in improving the efficiency of banking processes, including facilitating the delivery of products through digital platforms for enhanced service efficiency and effectiveness. The regression model for predicting job satisfaction from involvement in decision-making is, therefore, written as:
Competitive Advantage of Commercial Banks = .151 + 0.303 influence of Digital Channels

4. Discussion

The results clearly indicate that while most of the banks had embraced online banking modes, the banks failed to adequately improve these modes to enhance their efficiency and effectiveness towards delivering quality services to the customers. The banks also lacked proper engagement platforms to seek and give feedback to their customers as and when needed. These aspects, as argued by Hanelt et al. (2021), are the major setbacks to the effectiveness of digital platforms towards contributing to competitive advantage.

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From the above study, it can be concluded that while commercial banks in Kenya have implemented various digital banking modes to enhance service efficiency, significant shortcomings hinder their competitive advantage. The majority of respondents agreed that these banks offer digital banking services, indicating a positive perception of service delivery. However, there is a notable lack of frequent enhancements to ensure the reliability of these services. Additionally, banks appear to lack adequate online platforms for customers to raise queries, indicating insufficient customer engagement mechanisms.

5. Conclusion

The research found a positive correlation between the influence of digital channels and competitive advantage among commercial banks in Kenya. The study concludes that while Kenyan commercial banks have adopted digital channels, these platforms are not being fully leveraged to achieve competitive advantage. The banks have established various digital banking modes and active social media presence. However, there are critical gaps in their implementation, particularly in terms of service reliability, customer engagement, and responsiveness. The inadequacy of prompt feedback mechanisms and the underutilization of digital marketing tools further hinder the potential benefits of these channels. This misalignment between digital strategies and operational practices results in a failure to fully capitalize on digital channels, ultimately limiting the banks' ability to enhance service delivery and compete effectively in the market.

6. Recommendation

To enhance the effectiveness of digital channels and secure a competitive edge, it is recommended that Kenyan commercial banks invest in regularly upgrading their digital platforms to ensure reliability and improve user experience. They should establish comprehensive online platforms for real-time customer support and feedback, which will enhance customer engagement and satisfaction.

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