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Examining the effect of Electronic Banking on the Performance of Financial Institutions in Uganda. The Case of Stanbic Bank Kabale

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Abstract: *The goal of the research study was to determine how the performance of financial institutions in Uganda was impacted by electronic banking. The case study used was Stanbic Bank's Kabale Branch in the Kabale District. Finding out the factors affecting electronic banking in financial institutions in Uganda, evaluating ways to improve electronic banking among financial institutions, and determining the effect of electronic banking on the performance of financial institutions in Uganda served as the goals for the research study. During the data collection phase of the study, questionnaire and interview guide methods were used. The entire research process or exercise was conducted using a descriptive research design, and both qualitative and quantitative methodologies were used for data collecting and analysis. The study surveyed 50 participants, including the manager, accountant, credit officer, supervisor, loans officer, banking officer, support personnel, and other bank customers at the Stanbic Bank Kabale Branch. According to the research's findings , there is a strong correlation between electronic banking and the performance of financial institutions at the Stanbic Bank Kabale Branch. In today's financial institutions, electronic banking is the way to go because it increases client happiness, which is essential to raising performance levels. The study went on to say that there is still much work to be done in order to address issues relating to minimizing operating costs, maintaining high levels of liquidity, ensuring capital adequacy, and maintaining borrowing levels among customers while emphasizing customer satisfaction and taking into account the bank's overall mission..*

Keywords: Electronic Banking, Financial institution, Performance, Liquidity

1.0 Background of the study

Emor (2002) described electronic banking as methods of carrying out tasks via the internet in order to be able to meet the needs of the clients and encourage them to continue being loyal and devoted to the company. Electronic banking aids in motivating businesses to develop new services and bring existing ones closer to customers in order to improve levels of performance that are crucial for sustainability and growth.

Electronic banking, according to Regan and Macaluso (2000), is wholly dependent on the internet and depends on the level of technological infrastructure that is readily available. The banking industry has grown to be very dynamic, so many changes must be made to enable it to offer services that are driven by demand in order to address the challenges the organization faces and how those challenges can be addressed with the goal of enhancing performance in financial institutions.

The study considered the variables in electronic banking and performance of financial institutions.

Stanbic Bank Kabale Branch is located along Kabale - Kisoro Road in Kabale Municipality Kabale District. It is one of the oldest and big banks in Kabale District after acquiring Uganda Commercial Bank. It offers a wide range of products ranging from banking services, Loans services, Financial Advice and also providing insurance services. The banking services include Savings, Agent banking, Mobile banking, On line banking, Point of Sale and ATM Visa services. Loans products include salary loans, Business loans, Agricultural loans, Home Improvement, and School fees loans. The main concern of Stanbic bank is to make sure that customers are availed with services that meet their expectations, needs and requirements.

2.0 LITERATURE REVIEW

2.1 Factors affecting electronic banking

The organizational factor, on the other hand, relates to the qualities of the organization that affect its capacity to adopt and operate the electronic banking system. The external environment in which a company operates and its suitability for fostering the growth of electronic banking services are referred to as the environmental factor. Numerous elements have been found in the literature for each environment, but only those that are thought to be important for the adoption of electronic banking are included in the framework. The factors that were specifically examined in this study are discussed below.

Technological factors

It seems that there is no agreement on the elements that make up this context. For instance, technology competency in one study (Salwani 2009) refers to the ability to use technology in this setting and the infrastructure that is now in place, while in other studies (Ellias 2009 & Chang 2007), some essential technological qualities are taken into account. Perceived risks and rewards are taken into consideration in this study from technological variables in order to minimize overlap between technological and organizational contexts. These two fundamental factors are related to technology competency and have relevance to organizational aspects.

Organizational factors

Human and financial resources: Any organization's ability to accept innovation depends in large part on its financial resources, which are frequently connected with the firm's size (Kuan 2001 & Lacovou 1995). As a result, it is anticipated that the availability of financial resources inside adopting enterprises would be crucial for the practice of electronic banking. With the help of these resources, financial institutions can acquire personnel with the necessary knowledge and experience to create and support the delivery of electronic banking services.

Environmental factors

Researchers have discovered several environmental context-related characteristics that are important for technological adoption. Some of these factors may be more important than others, particularly when the countries under investigation have strong political leadership. The National Information Communication Technology infrastructure and Legal Frameworks are two of the four elements that this study identified as being important for the adoption of electronic banking.

2.2 Ways of improving electronic banking and financial performance of financial institutions

The procedure through which a customer can conduct banking transactions electronically without going to a physical location is referred to as electronic banking. Personal computer (PC) banking, Internet banking, virtual banking, online banking, home banking, remote electronic banking, and phone banking are examples of electronic banking when it is utilized by clients and commercial banks. The most popular terms are PC banking and Internet or online banking.

Capital Adequacy:

How successfully commercial banks absorb shocks to their balance sheets is ultimately determined by capital sufficiency. By giving the institution's assets a risk weight, it can measure capital adequacy ratios that account for the most significant financial risks, such as foreign exchange, credit, and interest rate risks. Leverage ratio can be used to assess a bank's capital sufficiency (Ahmed, & Islam, 2008). The ratio between a bank's book value of capital and its book value of assets is known as this. The greater ratio denotes a higher capital adequacy level. The leverage ratio mentioned in the paragraph above is a straightforward capital-to-assets ratio.

Management Quality

Management Quality: Effective management is essential to bank performance but challenging to gauge. It primarily pertains to individual institutions as a qualitative component. However, a number of indicators can be used in conjunction to measure management soundness (Athanasoglou, Brissimis, & Delis, 2008). As a substitute for management effectiveness, one might utilize the expenses ratio, earnings per employee, cost of loans, average loan size, and cost of loans per unit of money borrowed. The African Development Bank suggests using cost per borrowed dollar as a gauge of managerial caliber. However, this is not a reliable gauge of management ability. Since public financial statements and annual reports do not contain information on the amount of the total loan mobilized within a specific financial year.

Liquidity

Liquidity: The viability of financial institutions is threatened by liquidity risk. When depositors of commercial banks attempt to withdraw their money, the first type of liquidity risk occurs. The second type occurs when commitment holders attempt to exercise the commitments listed off the balance sheet (B, M. 2000). Commercial banks must either borrow more money or sell assets at a loss in order to cover their deposit liabilities. If the proceeds from the sale of their assets are insufficient to cover their debt

obligations, they become insolvent. The second kind of liquidity risk appears when there is insufficient money to cover the demand for unforeseen loans.

Encourage Borrowing

Commercial banks can raise the money by depleting their cash holdings, borrowing more money from the money markets, and offloading other assets at a loss. The financial performance of commercial banks is negatively impacted by both liability side liquidity risk (first type of risk) and asset side liquidity risk (second type of risk). Therefore, financial institutions should balance profitability with liquidity position in order to sustain their good health (Levy, 2005).

2.3 Impact of electronic banking on financial performance of financial institutions

According to Bahia's definition of electronic banking from 2007, it is the delivery of financial services and markets through electronic communication and computation. Today, retail banks are converting to multi-channel distribution of financial services in hybrid platforms, where the traditional services of banks are offered through both "bricks and mortar" branches and the Internet. However, there has been a significant amount of study on consumer acceptance of electronic banking, but relatively little on how electronic banking affects bank performance.

Wide range of products

Electronic banking technologies have proliferated in recent years, and the availability of a wide range of products has led to increasing adoption among consumers. These technologies include direct deposit, computer banking, stored value cards, and debit cards. Banks and other financial institutions have worked hard to develop and deploy these technologies because of their potential to increase efficiency, cut costs, and attract new customers. Consumers are attracted to these technologies because of convenience, increasing ease of use, and, in some instances, cost savings (Egland et al. 2008).

Better household financial management

Particularly, electronic banking has experienced tremendous growth. Eightfold growth was seen in e-banking between 1995 and 2003. Computer banking appears to improve household financial management, according to some research. Low- and moderate-income (LMI) people, however, find it challenging to take use of the potential advantages of computer banking due to a lack of financial literacy, the digital divide, and other problems that exclude disadvantaged groups from the financial mainstream.

Improvement in infrastructure

Meuter (2010) divided the factors affecting the adoption of Internet banking into two groups: those linked to access technology and infrastructure and those unique to the retail banking industry. Internet penetration rates, consumer technology proficiency, attitude toward technology, security and privacy concerns are all included in the first class. The second lesson focuses on Internet banking push, e-banking culture, and trust in banking institutions.

Cost reduction

For banks in the European Union, Bahia (2007) and Vila et al. (2013) present evidence for cost reduction and productivity increases, respectively, as a result of technological progress. In the Turkish retail banking industry, Carlson and Lang (2001) demonstrated that e-banking saves operational costs while boosting client satisfaction and retention. According to Meuter (2010), the prospects of minimizing operational expenses and maximizing operating profits are a major driving force behind electronic banking. Technology (IT) offers banks the opportunity to significantly lower operational costs and enhances the quality of management information, which makes banking more profitable, according to Ombati et al. (2011).

3.0 RESEARCH METHODOLOGY

3.1 Research Design

The research study employed a cross sectional case study design and also used a qualitative approach.

3.2 Study Population

The research study used a target population of 50 respondents.

Category	Frequency	Sample	Sampling technique
Manager	01	01	Purposive Sampling
Accountants	03	03	Purposive Sampling

Loans officer	11	04	Simple random sampling
Banking Officer	10	06	Simple Random Sampling
Customers	40	36	Simple Random Sampling
Total	65	50	

Source; Primary Source

3.3 Sampling
The study employed a purposive sampling technique as a non-probability sample method.

3. 4 Sources of data
The sources of data were both primary and secondary.

3.5 Data Collection Methods
The methods of data collection included interview, questionnaire and Focused group discussions.

3.6 Data Analysis
Qualitative data was organized in tables sorted, it was edited and code using SPSS V 17.

4.0 Data Analysis and interpretation

4.1 Age of the respondents

Table 1 showing the age of the respondents

Age bracket	Frequency	Percentage
20 – 29	10	20
30 – 39	12	24
40 – 49	15	30
50 – Above	13	26
Total	50	100

From the table above it is noted that 30% of the respondents were in the age bracket of 40 – 49, 20% in the age bracket of 20 – 29, 24% 30 – 39 and 26% were 50 years and above.

4.2 Gender of the Respondents

Table 2 showing the Gender of the respondents

Gender	Frequency	Percentage
Males	23	46
Females	27	54
Total	50	100

As observed above 54% were females and 46 % were males.

4.3 Level of qualifications of the respondents

Table 3 showing the qualifications of the respondents

Qualification	Frequency	Percentage
Certificate	03	06
Diploma	15	30
Bachelor's degree	20	40
Master's degree	10	20
Others	02	04
Total	50	100

It is seen that 40% were Bachelor's degree holders, 30% Diploma holders, 20% master's degree holders, 6% Certificate holders and 4% were in the others Category.

4.4 Factors influencing electronic banking

Table 4 showing the factors influencing electronic banking

Factor	Frequency	Percentage
Technological Factors	16	32
Organizational Factors	20	40
Environmental factors	14	18
Total	50	100

The factors that influence electronic banking were technological represented by 32%, Organizational factors as stated by 40% and Environmental factors as stipulated by 18%.

4.5 Ways of improving electronic banking

Table 5 showing ways of improving electronic banking

Way	Frequency	Percentage
Capital Adequacy	10	20
Managing Quality	12	24
Liquidity	15	30
Encouraging Borrowing	13	26
Total	50	100

It is observed that 30% of the respondents asserted that liquidity may be used in improving e banking, 20% came up with capital adequacy, 24% stated managing quality and 26% put forward encouraging borrowing as a way of improving e banking.

4.6 Impact of electronic banking on Financial Performance of commercial banks

Table 6 illustrating the impact of electronic banking on financial banking of commercial banks

Impact	Frequency	Percentage
Promoting communication	12	24

Provision of a wide range of products	14	28
Boosts infrastructure	13	26
Cost reduction	11	22
Total	50	100

As observed above electronic banking helps in promoting communication as exemplified by 24%, 28% put forward provision of a wide range of products, 26% assists in boosting infrastructure and 22% exemplified that it aids in reducing the costs of operation.

5.0 Conclusions and Recommendations

5.1 Conclusion

According to the research study, there is a strong correlation between the performance of a few chosen commercial banks in Uganda and electronic banking. In order to gather data for the study, questionnaires and interview guides were employed, along with a descriptive design. According to the survey, electronic banking aids in fostering communication, offering a wide range of products, enhancing infrastructure, and also lowering operational expenses among commercial banks. The research study also discovered that there are numerous strategies that may be used to enhance electronic banking, including boosting liquidity, improving quality control, ensuring adequate capital, and expanding borrowing.

5.2 Recommendations

The research study makes the following recommendations to be made in order to improve electronic banking: controlling operating expenses, ensuring that commercial banks have greater levels of solvency or liquidity, and developing innovative methods for luring both new and existing consumers. Technology advancements, organizational factors, and environmental concerns all have an impact on electronic banking.

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