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REVENUE RAISING VALUE CREATION STRATEGY AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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Abstract

The general aim of the study was to regulate the effect of revenue raising strategies on performance of commercial banks in Kenya. This study adopted a descriptive cross sectional research design. The unit of analysis included all the 41 commercial banks in Kenya. The commercial banks that this study targeted are those banks that were in operation between the year 2015 and 2019. The research used census approach and targeted all the 41 commercial banks in Kenya. From primary data, descriptive outcomes displayed that most banks have introduced new products to meet the varied needs of our customers. Most banks have diversified its activities to attract more customers and increase its income. In addition, findings showed that most Kenyan banks has diversified its products to attract more customer segments. Most Kenyan banks have engaged in profit making investments. In addition, banks have improved the customer service to build customer loyalty. Outcomes further displayed that revenue raising strategy was positively and significantly linked to performance of commercial banks. Hypothesis outcomes displayed that revenue raising strategy have a significant influence on commercial banks performance. However, secondary data correlation outcomes displayed that revenue raising strategy had a weak positive and noteworthy association with performance of commercial banks. In addition, hypothesis outcomes displayed that revenue raising strategy have a significant influence on commercial banks performance. The study also recommends that banks and other financial institutions ought to introduce new products that meet the varied needs of their customers. In addition, banks need to diversify their activities so as to attract more customers and hence increase their revenue. The study also recommends that banks need to look for more profit-making investments and invest in them so as they can boost their performance.

Keywords: *revenue raising strategies, performance, commercial banks*

1.0INTRODUCTION

Banking is in a new golden age. At this new time, banks world-wide face fierce competition and unending volatility from many other financial players. They are paving the way for a climate of tremendous economic productivity and changing consumer behavior, expectations, and population conditions (Nyamongo & Temesgen, 2015). Further complexities are added to the selection process by conflicting aspirations of investors, buyers, regulatory bodies, and central banks (CBK, 2015).

Damanpour (2016) acknowledged that value advancement in contemporary times is an important element of competitive and progressive organization. New kinds of commercial strategies have been researched: realignment of the industry, improved market analysis, expanded products and transformed distribution networks. Bessant and Francis (2013) contend that invention in quality is aimed at differentiating and reducing costs. The scientist say that quality advancement is a response mechanism that helps to eliminate trade-offs in an enterprise between distinguishments and low costs. Bessant and Francis (2013) extend that the value innovation structure is a four-stakeholder strategy which outlines what has to be enhanced or improved in order to enhance consumer utility and also to enhance business performance. In addition, Damanpour (2016) points out that value development mitigation activity plays an important part in the improvement of brand or service value. .

Revenue raising strategy is a strategy that aims at increasing activities and resources to improve organizational performance as well as increasing customer satisfaction (Yasa et al. 2016) and in doing so create value by boosting their revenue base as well as their performance in terms of profitability. Banks should come up with approaches to improve their customer service. Customer service refers to providing customers with service before, during and after the service delivery. Turban (2002) indicated that customer care is a number of practices intended to improve client fulfillment, that is, the sensation that a product or service fulfills customer expectations. In the capacity of an organization to make revenue customer service is crucial (Selden, 2015). Banks should also diversify investment aimed at segments of the market untested with the potential to increase banks' income tiers.

Customer service in excellent quality creates customer retention. Well served customers often make certain compliments, advice or relief, as complaints about the previous defaults they have experienced in a competitive field (Cook & Hababou, 2014). New products and investments ought also to come from the banks. It is essential that a bank maintains its competitiveness by offering new products to customers and working to ensure its own growth and development capability (Stols, 2015). The banks should also ensure they look for new market or their products rather than depending only on the prevailing markets

1.1 Statement of the Problem

World Bank (2017) reported a steady decline in banks' financial results over the ages as reflected in their profit margins (ROE) from 23.10 percent in 2011 to 21.99 percent in 2012, 20.94 percent in 2013, to 20.88 percent in 2014 and further decline to 17.39 percent in 2015. The ROE of Kenya's commercial banks further decreased in 2016, essentially attributable to Kenya's implemented capping bill of 2016. Likewise, in 2017 Cooperative Bank reported a downturn in revenue by 10.4 percent from the previous year. Similarly, in the year 2018, Diamond Trust Bank posted a decline of 10.1% in full year 2017 profit after tax to Kshs 6.4 billion. From the earnings report, there was a steep increase in gross non-performing loans by a massive 97% to Kshs 14.8 billion (CBK, 2017). This is a clear indication of poor performance of most Kenyan commercial banks in Kenya.

The declining performance of Kenyan commercial banks has been linked with the high competition in the banking industry especially due to the new entrants of international banks and mobile phone companies (CBK, 2015). There is also a rise in the number of SACCOs which has made customers to shift focus from the banks. This can be attributed to the reason that SACCOs have friendly services and are also less costly. Ombati (2021) also indicted that the poor performance can cause bankruptcy which further can cause bank failure. Bank failure can slow down the economic growth.

1.2 Objectives of the study

The general aim of the study was to regulate the effect of revenue raising strategies on performance of commercial banks in Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Framework

2.1.1 Porter's Competitive Theory

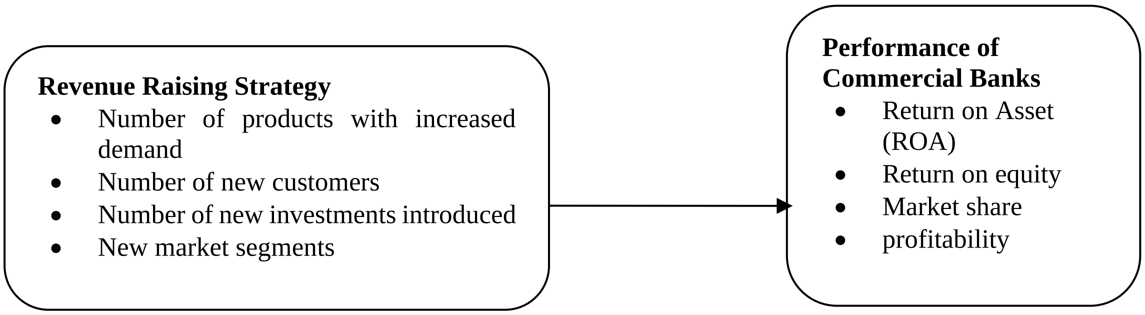
Porter created this philosophy in 1980 and asserts that firms mostly adopt three generic techniques, which are cost leadership, differentiation, and a focus technique. Building on the parameters of the purview of an industry and the distinction of the segment, the categorization of Abell (1980) also assumes three conceivable general tactics, notably distinct, indistinct and focus strategies. Numerous observers debated the adoption of generic strategies, asserting that they possess little uniqueness, surfeit versatility, and are restrictive. Porter emphasized the notion that a company could embrace just a single strategy and inability to do this would culminate in the situation of "stuck in the middle" state (Porter, 1980).

The view is premised on the salient fact that distinction of goods and services may accrue overheads for the company which contrasts low-cost technique rationale and either way, reasonably formalized goods with elements desirable to plenty of consumers would not bring some distinction (Panayides, 2003), thus cost leadership and distinction tactics will remain independent of each other (Porter, 1980). Two main goals of low-cost administration and distinctive collide with one another leading to a firm's inappropriate direction. Miller (1992) specifically critics the idea of "caught in the middle" and argues that techniques have a feasible common ground. For instance, many firms have become lucrative markets player market and gradually grown. The mostly successful firms are those which can solve what they call "the quandary of opposites," according to Baden-Fuller and Stopford (1992). Therefore, the competitive hypothesis of Porters is considered relevant to this survey as it illustrates how creation can be used by enterprises to increase their income. The theory explains to adopt three generic techniques, which are cost leadership, differentiation, and a focus technique. It therefore explains two variables in this study which includes cost leadership strategy which will be in form of cost reduction strategy and differentiation which will be in terms of revenue raising strategy.

2.2 Conceptual Framework

The conceptual framework interprets the thoughts under research and their connection (Saunders, Lewis & Thornhill, 2009). The conceptual framework was based on the research goals and articulated literature review.

Figure 2.1: Conceptual Framework



Independent Variable **Dependent Variable**

2.3 Empirical Literature

Rejewski's, Homenko and Lačinova (2014), evaluated the feasibility of the Blue Ocean tactic for business-to-business. Čirjevskis, et al. (2014) attempted to establish how to assess the eligibility of the Blue Ocean Strategy and how to overcome the institutional challenges associated with its execution. By examining a pair of chemical companies, Sika AG (Swiss) and Alexandra Plus LLC (Russian), the researchers identified potential hurdles in implementing selected value innovation tactics and the use of these two businesses to efficiently conquer these hurdles, which were inclusive of value chain refinements and equity optimization to establish blue oceans.

Sakwa and Oloko (2014) carried out a survey on the effect of customer service practices as a mode of revenue enhancement on Kenyan bank performance. The study's predictors were segmentation, avenues for delivering services as well as communication. Results of this research indicated that multiple service delivery have a positive impact on the bank's performance. The report advocated that bosses improve market segmentation and consumer segmentation as it has substantial positive impact on a bank's success. The banking industry should also embrace technologically advanced techniques such as self-inquiry and account transaction viewing facilities.

In Nigeria, Onaolapo, Salami and Oyedokun (2015) conducted a study on commercial banks' revenue segmentation activities and performance. The data used was primarily secondary and exploratory research approach was applied related to basic variables such as market share segmentation practices, pricing and performance location of the regional branch. The statistical test using the Herfindahl Hirschman Index was applied as a surrogate to measure efficiency against market concentration. The research revealed that banks with a large market share showed high potential of retaining customers and much lesser operational costs.

3.0 RESEARCH METHODOLOGY

This study adopted a descriptive cross sectional research design. The unit of analysis included all the 41 commercial banks in Kenya. The commercial banks that this study targeted are those banks that were in operation between the year 2015 and 2019. The research used census approach and targeted all the 41 commercial banks in Kenya. This is because the population is small. The specific respondents were therefore 41 operations managers and 41 financial managers making a total of 82 managers. Primary as well as secondary data was used. The researcher administered the questionnaire together with two reserch assistants. The number of questionnaires administered were 82 comprising of the senior operations and the senior financial managers working in the headquaters of these banks. After quantitative statistics is gotten through questionnaires, it was organized in promptness for analysis by editing, handling blank responses, coding, categorizing and keyed into statistical package for social sciences (SPSS) computer software for analysis. SPSS version 22 was selected since its simple to use than other software. Descriptive and inferential statistics was generated. Specific descriptive statistics comprised of percentages and frequencies. Inferential statistics comprised regression and correlations. Both multiple and linear regressions was used. Tables, diagrams, and charts were further used to display the outcomes.

4.0 RESULTS

4.1 Primary Data Results

4.1.1 Descriptive Results for Revenue Raising Strategy

Descriptive Results for Revenue Raising Strategy were shown in Table 1 below.

Table 1: Descriptive Results for Revenue Raising Strategy (Primary Data)

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std.dev
There have been introduction of new products to meet the varied needs of our customers	16.90%	11.30%	12.70%	42.30%	16.90%	3.31	1.35
The bank has diversified its activities to attract more customers and increase its income	14.10%	11.30%	8.50%	42.30%	23.90%	3.51	1.35
The bank has diversified its products to attract more customer segments	19.70%	4.20%	14.10%	35.20%	26.80%	3.45	1.44
The bank has tailored its products and activities to meet the demands of the various market segments	16.90%	12.70%	2.80%	35.20%	32.40%	3.54	1.48
The bank has engaged in profit making investments	11.30%	2.80%	14.10%	45.10%	26.80%	3.73	1.22
The bank has improved the customer service to build customer loyalty	8.50%	23.90%	8.50%	16.90%	42.30%	3.61	1.45
Average						**3.53**	**1.38**

The outcomes displayed that most of the defendants that were 59.2% were in agreement that there has been introduction of new products to meet the varied needs of customers (Mean = 3.31). The responses varied from the average with a standard deviation of 1.35. This infers that new products bridges the gap between customers' expectations and the products offered which enhances performance. The outcomes were in agreement with Alam and Islam (2017) who found that introduction of new products enhanced bank performance.

The outcomes further displayed that most of the defendants that were 66.2% were in agreement that their bank has diversified its activities to attract more customers and increase its income (Mean = 3.51). The responses varied from the average with a standard deviation of 1.35. This infers that diversification attracts new customers due to the different services and products offered and this enhances firm performance. These outcomes were in agreement with Sakwa and Oloko (2014) who advocated that managers should improve market segmentation and consumer segmentation as it has substantial positive impact on a bank's success.

The outcomes further displayed that most of the defendants that were 62.0% were in agreement that bank has diversified its products to attract more customer segments (Mean = 3.45). The responses varied from the average with a standard deviation of 1.44. This implies that diversification attracts new customers due to the different services and products offered and this enhances firm performance. The findings also agreed with Onaolapo et al. (2015) who found that sales segmentation activities and improvement of customer services as revenue raising strategy enhances organizational performance. The Outcomes further displayed that most of the defendants that were 71.9% were in agreement that bank has engaged in profit making investments (Mean = 3.73). The responses varied from the average with a standard deviation of 1.22. This infers that engaging in different activities rather than banking helps the banks to make more profits. The outcomes were in agreement with Alam and Islam (2017) who found that diversification enhanced bank performance.

Outcomes further displayed that most of the defendants that were 59.2% were in agreement that their bank has improved the customer service to build customer loyalty (Mean = 3.61). The responses varied from the average with a standard deviation of 1.45. This implied that good customer service boosts customer confidence which enhances bank performance. The findings agreed with Musyoki (2003) who found that quality upgrading has a short-term result on performance and that revenue raising strategy had a positive impact on performance.

The outcomes displayed that the average mean for the revenue raising strategy was 3.53 implying that majority of the respondents agreed with the statements on revenue raising strategy. The responses varied from the average with a standard deviation of 1.38.

The respondents were further asked to propose a change in revenue rising in their bank. Most of the interviewee displayed that their banks should increase market reach as well as offering discounts to customers. They should also focus more on repeat customers and also lower the loan interest especially in this COVID 19 season. In addition, banks should redesign the sales collaterals for example brochures, flyers, presentations, pictures, videos, and websites - to make the sales effort easier and more effective for their sales teams. The findings also agreed with Onaolapo, Salami and Oyedokun (2015) who found that revenue raising strategy enhances organizational performance.

4.1.2 Correlation Results for Primary Data

Correlation results were presented in Table 2 below.

Table 2: Correlation Results for Primary Data

			Performance
Performance	Pearson Correlation		1
		Sig. (2-tailed)	
Revenue raising strategy	Pearson Correlation		.891**
	Sig. (2-tailed)		0.000

Outcomes further displayed that revenue raising strategy was positively and significantly linked to performance of commercial banks (r=0.891, p=0.000). This infers that upgrading of revenue raising strategy can boost performance. The findings agreed with Onaolapo, Salami and Oyedokun (2015) who found that sales segmentation activities and improvement of customer services as revenue raising strategy enhances organizational performance

4.1.3 Regression results for primary data

Table 3 shows the model summary results.

Table 3: Model Summary for Revenue Raising Strategy for Primary Data

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.891[a]	0.794	0.791	0.42194

The outcomes displayed that the R was 0.891 while the R squared was 0.794. This means that revenue raising strategy explain 79.4 % of the variations in the dependent variable which is performance. This also implies that 20.6% of the variation in the dependent variable is attributed to other variables not captured in the model. The findings agreed with Onaolapo, Salami and Oyedokun (2015) who found that revenue raising strategy enhances organizational performance. The results for ANOVA were presented in Table 4.21 below.

Table 4: ANOVA Results for Revenue Raising Strategy for Primary Data

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	47.265	1	47.265	265.478	.000[b]
Residual	12.285	69	0.178		
Total	59.549	70			

Table 4 showed F statistic of 265.478 and a p value of 0.000. This shows that Revenue Raising strategy had a significant effect on performance of commercial banks since the p value was above 0.05. The findings agreed with Onaolapo, Salami and Oyedokun (2015) who found that revenue raising strategy enhances organizational performance.

The regressions of coefficient results were presented in Table 5 below.

Table 5: Regression of Coefficient Results for Revenue Raising Strategy

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	β	Std. Error	Beta		
(Constant)	0.320	0.203		1.578	0.119
Revenue raising strategy	0.909	0.056	0.891	16.293	0.000

Table 5 showed that revenue raising strategy have a regression of coefficient of 0.909 and a p value of 0.000. This means that revenue raising strategy had a positive and noteworthy effect on performance of commercial banks. The findings agreed with Onaolapo, Salami and Oyedokun (2015) who found that sales segmentation activities and improvement of customer services as revenue raising strategy enhances organizational performance. The findings also agreed with Musyoki (2003) who found that quality upgrading has a short-term result on performance and that revenue raising strategy had a positive impact on performance.

$Y= 0.320 + 0.909 X_2$

Where Y is performance while X_2 is revenue raising strategy

4.1.4 Hypothesis testing for primary data

The second hypothesis stated that revenue raising strategy do not have a significant influence on performance of commercial Banks. From the primary data regression results Table 5 the p value was 0.000 which was less than 0.05. Therefore, the null hypothesis revenue raising strategy do not have a noteworthy impact on commercial banks performance was rejected. Therefore, the researcher concluded that revenue raising strategy have a significant influence on performance of commercial Banks. The findings agreed with Onaolapo, Salami and Oyedokun (2015) who found that sales segmentation activities and improvement of customer services as revenue raising strategy enhances organizational performance

4.2 Secondary Data Results

The subsequent sections shows the secondary data results

4.2.1 Descriptive Results for Secondary Data

The descriptive results for secondary data are presented in Table 6 below.

Table 6: Descriptive Results for Secondary Data (Secondary Data)

	Minimum	Maximum	Mean	Std. Deviation
ROA	4.21	22.67	12.2277	3.02685
Number of new investments introduced	3	89	23.99	18.425

The outcomes displayed that the mean of ROA was 12.228 in the commercial banks between the year 2015 and 2019. The minimum ROA was 4.21 while the maximum ROA was 22.67. The

Outcomes further displayed that the ROA was varied from the mean of all banks with a standard deviation of 3.027.

The outcomes displayed that the mean number of new investments introduced was 24 in the commercial banks between the year 2015 and 2019. The minimum number of new investments introduced were 3 while the maximum was 89. The Outcomes further displayed that the numbers of new investment introduced were varied from the mean of all banks with a standard deviation of 18.425.

4.2.2 Correlation Results for Secondary Data

Correlation results for the association between the independent variables and the dependent variables were presented in Table 7 below:

Table 7: Correlation results for Secondary Data

		ROA	Cost reduction strategy
ROA	Pearson Correlation	1	
	Sig. (2-tailed)		
Revenue Raising strategy	Pearson Correlation	.449**	1
	Sig. (2-tailed)	0.000	

Outcomes further displayed that revenue raising strategy had a weak positive and noteworthy association with performance of commercial banks (r=0.449, p=0.000). This infers that upgrading of revenue raising strategy would lead to increase in performance. The findings agreed with Musyoki (2003) who found that quality upgrading has a short-term result on performance and that revenue raising strategy had a positive impact on performance.

4.2.3 Regression results for secondary data

The second goal was to determine the effect of revenue raising strategy on performance of commercial banks. Table 8 shows the model summary results.

Table 8: Model Summary Results (Secondary Data)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.449[a]	0.202	0.197	2.71162

The outcomes displayed that the R was 0.449 while the R squared was 0.202. This means that revenue raising strategy explain 20.2% of the variations in the dependent variable which is performance. This also implies that 79.8% of the variation in the dependent variable is attributed to other variables not captured in the model.

The results for ANOVA were presented in Table 9 below.

Table 9: ANOVA Results for Revenue Raising Strategy (Secondary Data)

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	340.199	1	340.199	46.268	.000[b]
Residual	1345.574	183	7.353		
Total	1685.773	184			

Table 10 showed F statistic of 46.268 and a p value of 0.000. This shows that Revenue Raising strategy had a significant effect on performance of commercial banks since the p value was above 0.05. The findings agreed with Onaolapo et al. (2015) who found that revenue raising strategy enhances organizational performance.The regressions of coefficient results were presented in Table 10 below.

Table 10: Regression of Coefficient Results for Revenue Raising Strategy (Secondary Data)

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	β	Std. Error	Beta		
(Constant)	10.457	0.328		31.897	0.000
Revenue raising strategy	0.074	0.011	0.449	6.802	0.000

Table 10 showed that revenue raising strategy have a regression of coefficient of 0.074 and a p value of 0.000. This means that revenue raising strategy had a positive and noteworthy effect on performance of commercial banks. The findings agreed with Onaolapo et al. (2015) who found that revenue raising strategy enhances organizational performance.

$Y= 10.457 + 0.074 X_2$

Where Y is performance while X_2 is revenue raising strategy

4.2.4 Hypothesis results for Secondary data

The second hypothesis stated that revenue raising strategy do not have a significant influence on performance of commercial Banks. From the secondary results Table 10 the p value was 0.000 which was less than 0.05. Therefore, the null hypothesis revenue raising strategy do not have a noteworthy impact on commercial banks performance was rejected. Therefore, the researcher concluded that revenue raising strategy have a significant influence on performance of commercial Banks.

5.0 Conclusions

The study found that revenue raising strategy have a positive and noteworthy effect on commercial banks performance. The study therefore concluded that revenue raising strategy have a positive and noteworthy effect on commercial banks performance. The study also concluded that diversification of activities and products attract more customers and hence increase their commercial banks performance. In addition, improvement of customer care services helps in building customer loyalty and therefore helps in improving commercial banks performance.

6.0 Recommendations

The study also recommends that banks and other financial institutions ought to introduce new products that meet the varied needs of their customers. In addition, banks need to diversify their activities so as to attract more customers and hence increase their revenue. The study also recommends that banks need to look for more profit-making investments and invest in them so as they can boost their performance.

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