



Investigation into the factors contributing to the poor performance of locally owned commercial Banks in Zambia

Kelvin Mutale, Attridge Mwelwa

Department of Business Administration, University of Zambia, Zambia

Abstract

The study aimed to explore the factors contributing to the poor performance of locally owned Commercial banks in Zambia with three study objectives. 1. To determine ways in which commercial banks shoulder the huge burden of costs in Zambia which hinders profitability. 2. To assess factors that encourage local banks performance within a competitive banking industry of Zambia. 3. To establish support measures that the government provides to local commercial banks in Zambia. The study utilized a mixed methods approach and a convergent research design. A non-probability sampling design, specifically convenience sampling technique was employed to select participants from the population. A total of 10 qualitative interviews were conducted, and 75 questionnaires were administered to bank employees and customers including interviews with key officials, the research unveils demographic patterns among bank customers, shedding light on preferences, satisfaction levels, and regulatory compliance. The study investigates customer-bank relationships, complaint resolution efficiency, and the regulatory landscape's effect on both local and multinational banks. The qualitative analysis findings highlight cultural understanding, financial stability, and crisis management as crucial factors. Additionally, the study assesses service quality, profit status, customer base, and digital channel efficiency for local and multinational banks, offering insights into the competitive dynamics of the Zambian banking industry. Key findings of the study were that digital and technology, regulatory compliance and financial stability are major factors influencing the performance of locally owned banks in Zambia. Local banks face challenges in meeting regulatory requirements, leverage of digital and technology and maintaining financial stability, which hinders their growth and competitiveness compared to multinational banks. In conclusion, the study provides recommendations for policymakers and industry stakeholders to address challenges and promote the growth and performance of locally owned banks in Zambia. Overall, it offers valuable insights for understanding and addressing the performance and scarcity of local banks in the country.

Keywords: Locally owned banks, Zambia, customer-bank relationships, digital and technology, regulatory compliance, service quality

Introduction

Commercial banking in Zambia is currently facing significant challenges, including navigating the new regulatory framework imposed by the Dodd-Frank Act and dealing with the global financial crisis (VanHoose, 2007). Locally owned banks are crucial players in the financial system, providing capital for innovation, infrastructure, and job creation (Guisse, 2012). They have become integral parts of society, providing capital for innovation, infrastructure, and job creation. The main objective of commercial banks is to maximize profits, which are a bank's first line of defence against unusual losses. Poor performance in these banks is affected by broader economic conditions in Zambia, such as GDP growth, inflation rates, and currency stability. Economic downturns can lead to decreased lending activity, increased default rates, and reduced profitability for banks (BOZ, 2018). This research aims to investigate the factors contributing to the poor performance of locally owned commercial banks in Zambia and provide benefits for the country by increasing the number of local banks and improving their performance.

Background

The poor bank performance experienced in the USA during the Great Depression of the 1940s has led to increased attention on bank performance in both national and international economies (Heffernan, 2005). In developing countries, as argued by Athanasoglou *et al*, (2006), banks

are typically the only major source of finance for most firms and are usually the main depository of economic savings. Many African countries have largely local and indigenous banks in their banking sectors, with 32 locally owned out of 43 commercial banks in Kenya and similar set ups in Nigeria, Uganda, and South Africa. However, Zambia only has 3 locally owned banks out of 18 (Akande, Kwenda, and Ehalaiye, 2018) ^[2].

The banking sector in Zambia has been affected by various changes, such as nationalisation, command economy with price controls, increased competition, acceleration implementation of economic reforms, increased customer demands, privatization and commercialization of the public sector, price decontrols, and liberalization of both domestic and foreign markets. The banking sector in Zambia registered good performances between 2005 and 2015, despite local and global turbulences. The adoption of agent banking, credit information sharing through credit reference bureau, mobile phone technology innovations, and internet banking has allowed banks to explore and venture into regional markets as regional integration initiatives intensify. However, customers continue to shoulder the heavy burden of high transaction costs. To bring down the cost of offering financial services to the Zambian public, the Bank of Zambia and other stakeholders have put in place a business model aimed at broadening financial inclusion to the majority of Zambians at a lower cost – the agent banking model. However, this innovation is coming at the time most

banks have failed to leverage costs and ended up closing. Those that have closed were largely locally owned commercial banks.

The Zambia National Commercial Bank (Zanaco) is the only state-owned banking institution, and Zanaco is the only commercial bank currently offering services to the far-flung rural areas in the country. Out of 18 banks, only Investrust Bank, First Alliance Bank, and Zambia Industrial Commercial Bank are locally owned. The Bank of Zambia (BoZ), which is the Central Bank, regulates banks and other financial service providers through the Banking and Financial Services Act, 1996, which was amended in 2000 and 2015 to bring the banking practices in the country in line with internationally accepted standards and provide for the regulation of micro-finance institutions.

The Banker's Association of Zambia also has a code of banking practices which the members must adhere to. There

has been a reasonable amount of competition in this sector with no major barriers to entry, as evidenced in the 1990s when the sector witnessed a proliferation of small-scale local commercial banks. Most of these commercial banks have folded up owing to their inability to cope with competition. This calls for strengthening banking laws.

In terms of profits and statistics, none of the local banks are in the top five brackets on key results areas such as profitability, revenue, asset book, and market share. An ABSA Bank Zambia Report suggests that Zanaco, Stanbic Bank, Absa Bank, and FNB, respectively, were the top financial performers in 2020. The banking sector has experienced a tense and competitive business environment under challenging times, and local banks struggle to copy with the competition imposed by multinational banks on key performance indicators.

K'000	Absa'20	STANBIC'20	STANCHART'20	CITIBANK 20	ZANACO'20	ATLAS MARA'20	FNB'20
Interest Income	1,496,790	1,774,237	1,267,511	257,236	2,089,456	967,364	1,028,749
Interest Expense	(437,417)	(416,900)	(392,727)	(44,440)	(695,569)	(434,793)	(412,786)
Net Interest income	1,059,373	1,357,337	874,784	212,796	1,393,887	532,571	615,963
Non-Interest Income	620,795	935,198	296,089	98,435	1,033,972	440,695	549,519
Fee, Commissions & Service Charges	284,734	458,261	91,917	24,825	569,681	235,730	324,700
Foreign Exchange - Fees	-	207	178,575	-	377,300	-	67,956
Foreign Exchange	329,179	443,132	(22,528)	69,408	86,991	204,231	150,285
*Other Income	6,882	33,598	48,125	4,202	-	734	6,578
Total Operating Income	1,680,168	2,292,535	1,170,873	311,231	2,427,859	973,266	1,165,482
Impairments	(249,349)	(120,917)	(144,615)	2,737	(30,275)	(15,564)	(446,802)
Net Operating Income	1,430,819	2,171,618	1,026,258	313,968	2,397,584	957,702	718,680
Expenses	(1,221,624)	(1,425,285)	(1,193,155)	(175,064)	(1,838,846)	(733,499)	(768,061)
PBT and Exceptional Items	103,852	746,333	(166,897)	138,904	558,738	224,203	(49,381)
Exceptional Items	(105,343)	-	-	-	-	-	-
Tax	40,031	(286,944)	(90,517)	(60,095)	(215,456)	(39,762)	17,439
PAT	143,883	459,389	(257,414)	78,809	343,282	184,441	(31,942)
Ranking - Revenue	3	2	4	11	1	7	5
Ranking - Net Operating Income	3	2	4	11	1	5	7
Ranking - PAT	7	1	18	9	2	5	16
Ranking - PBT	9	1	18	8	2	6	17

In 2019, Zambia's financial sector provided 34.43% of its GDP, with only 3.4% of locally owned banks contributing. This low contribution, out of 34.43%, poses a high risk of the country relying solely on multinational banks for meaningful GDP, as per the World Bank's 2020 report.

Statement of the Problem

The banking sector in Zambia has experienced substantial growth, expanding from approximately four commercial banks at independence to a total of eighteen in 2021 (BOZ, 2018). However, a notable concern emerges as only four of these commercial banks are locally owned (Akande, Kwenda, and Ehalaiye, 2018)^[2] due to lack of level playing field, macro and economic factors impact, risk averseness, lack of competitive spirit, lack of qualified personnel and

insufficient start-up capital and the limited participation of local investors in the ownership of commercial banks raises critical questions about the factors hindering their involvement in Zambia's banking landscape.

Local commercial banks receive a comparatively small portion of industry earnings, despite the fact that foreign-owned banks dominate Zambia's banking sector in terms of profitability, according to recent studies (Broady, 2021^[7]; Gopalan and Rajan, 2015; Guisse, 2012). Furthermore, obstacles like credit risk, the local economy's slow growth, and the adoption of local commercial best practices have been noted as recurring problems for financial institutions in Zambia causing to have poor performance of commercial banks. Furthermore, worries concerning competitiveness and its consequences for the stability of the banking sector

as a whole are raised by the concentration of market share among the top three banks (World Bank, 2020).

In light of these, the study aimed to investigate into factors the factors contributing poor performance of locally owned commercial banks in Zambia. The research delved into the ways commercial banks manage the substantial costs they incur in the competitive industry, and scrutinize the support measures provided by the government to local commercial banks (Johnson et al., 2003). The study seeks to provide a robust analysis of the challenges facing local investors in the Zambian banking sector and propose informed recommendations for fostering local ownership and participation in this vital economic domain.

Objectives

1. The General objective

To investigate the factors into contributing to the Poor Performance of Locally Owned Commercial Banks in Zambia.

2 Specific objectives

1. To determine ways in which commercial banks shoulder the huge burden of costs in Zambia which hinders profitability.
2. To assess factors that encourage local banks performance within a competitive banking industry of Zambia.
3. To establish support measures that the government provides to local commercial banks in Zambia.

Significance of the Study

The study on the factors contributing to poor performance of Zambian Locally Owned Commercial Banks enriched knowledge on their operations within neo-liberal policy environments. It informed policy and operational direction for these banks, revealing effective cost management, factors promoting performance, and the government support system in place. This research contributes to the understanding of nationalistic state operations.

Litreture review

This section presents both the theoretical and literature pertaining to the study.

Empirical Review

This study reviews key studies on the banking sector in Zambia, focusing on global, African, and local contexts, using a funnel approach to summarize key findings.

1. To determine ways in which commercial banks shoulder the huge burden of costs in Zambia which hinders profitability

Awdeh's 2015 study on profitability determinants of domestic and foreign banks in Lebanon from 2003 to 2013 revealed a significant discrepancy between the two categories. Foreign banks showed higher profitability compared to domestic banks, despite operating in the same market conditions. This raises questions about the factors contributing to foreign banks' superior financial performance in the Lebanese banking landscape. The study also revealed that the determinants of profitability differ significantly between domestic and foreign banks, suggesting that the drivers of financial success vary significantly for both categories. This provides a deeper

understanding of the factors shaping the financial outcomes of banks with different ownership structures in Lebanon.

Broady *et al.*'s study highlights the challenges faced by minority-owned banks, particularly Black-owned banks, in promoting economic development and capital access in the U.S., primarily due to historical discriminatory practices, financial vulnerabilities, and a decline in their numbers. Despite efforts like the Partnership for Progress, their diminishing presence continues to impact banking access within Black communities.

Awdeh's analysis reveals that foreign banks in Lebanon are less susceptible to local macroeconomic conditions than their domestic counterparts, possibly due to diverse operational strategies, risk management practices, or other strategic decisions, indicating their resilience in the face of local macroeconomic conditions.

In their study, Adjasi *et al.* (2022)^[1] address the gap in the literature by examining the impact of cross-border banking on the probability of a banking crisis in Africa. Drawing on data spanning 52 African countries from 1970 to 2017, the research employs a logit regression model to rigorously test the hypothesis. Additionally, the study estimates the marginal effects of the model to offer a more nuanced understanding of the relationship between cross-border banking and the likelihood of a banking crisis.

Contrary to the prevailing consensus in the literature, Adjasi *et al.*'s findings present a divergent perspective. The study provides evidence suggesting that cross-border banking, specifically the presence and participation of foreign banks in the domestic banking sector, may contribute to an increased likelihood of a banking crisis in Africa. However, it is important to note that while the observed impact is discernible, the probability of a banking crisis resulting from cross-border activities is not overwhelmingly significant in the African context.

This study not only challenges established notions about the positive impact of cross-border banking on banking stability but also contributes valuable insights to the ongoing discourse about the peculiarities of the African banking landscape. By focusing on a diverse set of African countries over an extended period, Adjasi *et al.* (2022)^[1] provide a nuanced understanding of the complex relationship between cross-border banking and the probability of a banking crisis in the African context.

In a recent study conducted by Mulendema and Sinkala (2023)^[23], attention was directed towards the dynamics of the Zambian banking sector, particularly focusing on the comparative profitability of foreign and domestic banks. Notably, the study identified a substantial dominance of foreign-owned banks in the industry's profitability, averaging 82.6% between 2016 and 2018. This left a relatively modest 17.4% of the industry's profits for local banks, resulting in significant externalization of the financial sector's profits.

The primary objective of the study was to provide a comprehensive comparative analysis of the profitability of foreign and domestic banks in Zambia, with a specific emphasis on the debt component of their capital structure and the consequential impact of leverage on their performance. The research spanned a decade, from 2010 to 2020, and involved a sample of 10 commercial banks in Zambia. Employing a descriptive research methodology and a mixed research approach, the study meticulously reviewed

the annual reports and financial statements of the selected banks to extract pertinent secondary data.

The findings of the study revealed a statistically significant difference in the capital structures of foreign and local commercial banks. Foreign-owned banks exhibited more robust capitalization, relying less on wholesale funding (leverage) in comparison to their local counterparts. This distinction in capital structures held implications for the overall financial performance of these banks. The study further underscored the substantial impact of leverage on a bank's financial performance, shedding light on a critical aspect of banking dynamics in Zambia.

Utilizing financial ratios and regression analysis, Mulendema and Sinkala's (2023) ^[23] study not only confirmed the superior profitability of foreign banks but also delved into additional dimensions of their outperformance. Foreign banks demonstrated superior liquidity and asset quality, emphasizing a holistic superiority over domestic banks. Furthermore, the study emphasized the significance of bank size, capitalization levels, and management quality as influential factors in determining overall bank performance.

2. To assess factors that encourage local banks performance within a competitive banking industry of Zambia

The study conducted by Broady *et al.* (2021) ^[7] underscores the historical market discrimination prevalent among non-minority owned banks in the United States. Their race-based exclusion of Black individuals from the mortgage market created a unique opportunity for minority-owned banks to cater to a broader market of Black migrants seeking to acquire homes and initiate business ventures. However, the economic landscape for Black migrants proved challenging due to labour market competition with European immigrants and existing Black residents, coupled with labour market discrimination. These factors hindered the ability of minority-owned banks to effectively finance economic development efforts (Ammons, 1996).

Leon's (2016) ^[19] study significantly contributes to the understanding of the relationship between regional cross-border banks and bank competition in Africa. By employing multiple measures and focusing on countries directly affected by the entry of regional banks, the research offers valuable insights into the broader implications of these banking institutions on the competitive landscape.

Furthermore, Akande, *et al.* (2018) ^[2] tested the relationship between competition and the risk-taking attitude of banks in the Sub-Saharan African (SSA) region's commercial banks in light of the competition-fragility view, using the generalized methods of moments. They assessed 440 commercial banks in 37 SSA countries over the period 2006–2015. Their results provide evidence that supports a positive relationship between competition and banks' overall risk plus their credit risk but suggests that off-balance sheet risk reduces with competition. It can be concluded that the propensity to undertake higher risk in a competitive banking environment largely accounts for fragility as argued in the competition-fragility view.

According to a study by Adjasi *et al.* (2022) ^[1], the question of how cross-border banking influences banking stability and the likelihood of a banking crisis has sparked considerable debate in academic literature. While many studies have posited that cross-border banking fosters

stability within the banking sector, challenges this prevailing notion, specifically focusing on the African context.

In a study conducted by Gopalan and Rajan (2015), the impact of foreign bank entry on interest rate pass-through in emerging and developing economies is systematically explored. Spanning the period from 1995 to 2009 and encompassing a panel of 57 countries, the research endeavours to unravel the intricate relationship between foreign bank presence and the transmission of interest rates.

The primary objective of the study is to examine whether the effects of foreign bank entry on interest rate pass-through exhibit threshold dynamics. In other words, the researchers investigate whether there are critical levels of foreign bank presence that distinctly influence the effectiveness of interest rate transmission. The empirical findings of the study unveil compelling evidence of threshold effects. Specifically, the impact of foreign bank entry on interest rate pass-through is observed to be more pronounced in countries with a greater degree of foreign bank presence, contrasting with those with limited foreign bank entry.

Moreover, Gopalan and Rajan's study delves into the nuanced implications of foreign bank entry, considering its broader consequences on banking concentration. The research uncovers a significant connection between foreign bank entry, banking concentration, and interest rate transmission. When foreign bank entry contributes to increased banking concentration, the extent of interest rate transmission is notably reduced. This finding highlights the complex interplay between foreign bank presence, market structure, and interest rate dynamics.

Leon's (2016) ^[19] study delves into the transformative structural changes in African banking systems, particularly examining the influence of regional cross-border banks on the competitive landscape. The research addresses a critical gap in understanding the evolution of bank competition in the wake of the penetration of regional cross-border banks in Africa.

The primary focus of Leon's study is to investigate the changes in bank competition in seven African countries that have experienced significant effects from the entry of African cross-border banks. Utilizing three distinct non-structural measures of competition—namely, the Lerner index, Panzar-Rosse model, and Boone indicator—the paper provides a comprehensive assessment of the competitive dynamics within these banking sectors over the past decade. The empirical findings of the study reveal a noteworthy intensification of competition in the banking industry of the examined African countries since the mid-2000s. This period aligns with the rapid expansion of regional cross-border banks in the region. The intensification of competition, as indicated by non-structural measures, signifies a positive correlation with the proliferation of regional banks, suggesting that their entry has contributed to fostering competition within the African banking sectors.

It is important to note that while the Lerner index exhibits some variations, the overall trend across the Panzar-Rosse model and Boone indicator corroborates the assertion of heightened competition. This nuanced analysis showcases that the impact of regional cross-border banks on competition extends beyond a singular metric, providing a more holistic understanding of the evolving dynamics in African banking.

3. To establish support measures that the government provides to local commercial banks in Zambia.

The study on the "Dynamics of Sovereign Debt Securities Holdings by Commercial Banks in Zambia" investigates the intricacies of banks' holdings of government securities. Covering the period from 2010 to 2016, the research identifies factors such as interest rates, inflation, and bank size as influencers of banks' sovereign debt holdings. These findings deepen our understanding of investment decisions within the sector, particularly in relation to government securities, a critical aspect of banks' portfolios.

The amalgamation of these studies provides a rich and multifaceted exploration of the Zambia banking sector. By combining insights into ownership structures, risk exposures, performance metrics, and macroeconomic challenges, these studies contribute significantly to the collective knowledge base, offering a comprehensive view of the dynamics shaping the Zambian banking landscape.

According to Broady (2021), examining the seven-year period between 1983 and 1989, Price (1990) observed a concerning trend as the number of Black-owned banks declined by 22%, outpacing the overall decline in the total number of banks in the U.S. (12%). Despite minority-owned banks facilitating increased access to capital by approving a higher percentage of loans for Black applicants compared to other banks, their impact remained constrained due to their limited numbers and often precarious financial standing (Burton, *et al.*, 2020) ^[10]. Notably, minority-owned banks, particularly Black-owned banks, were found to rely more heavily on government deposits, leading to a higher proportion of liquid assets and fewer loans when compared to white-owned banks (Price, 1990).

In response to these challenges, the Partnership for Progress was launched in 2008 by the Board of Governors of the Federal Reserve, aiming to promote and preserve minority-owned banks. Despite these efforts, the number of Black-owned banks witnessed a decline from 48 in 2001 to 18 in 2020 (Broady, 2021) ^[7]. This decline in the number of Black-owned banks has not only impacted banking access within the Black community but has also contributed to an overall decrease in the number of banks in majority Black neighbourhoods. Fox *et al.* (2019) ^[14] note a substantial 14.6% reduction in the number of banks in majority-Black neighbourhoods since 2010. JPMorgan's branch footprint in majority-Black neighbourhoods contracted even more significantly by 22.8% from 2010 to 2018, in stark contrast to a marginal 0.2% decline in the rest of the U.S.

A study conducted by Claessens and Horen (2014) ^[11] provides a contrasting perspective on the impact of foreign banks on domestic financial intermediation. In their examination spanning the past two decades, the researchers argue that foreign banks have significantly increased their prominence in domestic financial systems, emphasizing the importance of comprehending their behaviour. To facilitate a deeper understanding, the study introduces a comprehensive database covering 5,324 banks in 137 countries from 1995 to 2009, shedding light on bank ownership, including the home countries of foreign banks.

The findings of Claessens and Horen (2014) ^[11] reveal a substantial surge in the presence of foreign banks across various countries, unveiling significant heterogeneity in terms of host countries, banks' home countries, bilateral investment patterns, and bank characteristics. This nuanced analysis highlights the multifaceted nature of foreign bank

involvement in domestic financial systems, requiring a tailored approach for a comprehensive understanding.

Importantly, the study delves into the impact of foreign bank presence on private credit, elucidating that this relationship is contingent upon host country characteristics and banks' specific attributes. A key revelation from the study is that foreign banks appear to exert a negative impact on credit in low-income countries. Additionally, this negative influence is pronounced in countries where foreign banks have a limited market share, where enforcing contracts is costlier, credit information is less readily available, and when foreign banks originate from distant home countries. These nuanced findings underscore the intricate dynamics at play, emphasizing the necessity of accounting for heterogeneity, including bilateral ownership, to discern the implications of foreign bank ownership accurately.

The exploration of the Zambia banking sector through recent studies provides a comprehensive understanding of various critical aspects, shedding light on ownership structures, risk exposures, performance differentials, and broader macroeconomic challenges faced by financial institutions.

The study titled "Macro financial Linkages and Financial Stability in Zambia," conducted by the International Monetary Fund (IMF), delves into the ownership structure of banks in Zambia. The findings reveal a diverse landscape with insignificant presence of government-owned and locally owned banks. The study emphasizes the potential risks associated with banks' exposure to government securities, signalling the need for strategic risk management within the sector. This insight is particularly pertinent given the evolving economic conditions and the importance of maintaining financial stability.

The "Zambia Banking and Non-Banking Industry Report" by PricewaterhouseCoopers (PwC) goes beyond ownership structures to survey the challenges faced by financial institutions. The report identifies three common hurdles: credit risk, the growth of the local economy, and the implementation of international best practices. Moreover, it provides a comparative analysis with East Africa, offering a regional context to assess the relative standing of Zambian institutions. This broader perspective aids in understanding the challenges unique to the Zambian banking landscape and those shared across the region.

The working paper from the African Development Bank, "Competition and Market Structure in the Zambian Banking Sector," provides an in-depth analysis of ownership structures and market concentration. Identifying three main ownership structures, the paper highlights the significant concentration in the sector, with the top five banks holding over 70% of total assets. This concentration raises questions about market competitiveness, consumer choice, and the potential implications for the overall stability of the banking industry. The findings offer policy makers and industry stakeholders insights into the competitive dynamics within the sector.

Gaps in Literature

Literature Gap and Rationale for the Study

The literature review on the banking sector in Zambia reveals several gaps that require further investigation. These gaps primarily relate to the performance of locally owned banks in the country and the factors influencing their

performance within the competitive banking industry. There is a lack of studies that specifically focus on cost management strategies employed by commercial banks in Zambia, which is crucial given the significant burden of costs they bear. Additionally, there is a lack of comprehensive analysis of local bank performance drivers, such as market concentration and ownership structures, which could be explored further.

Government support measures are also under-explored, with a lack of in-depth analysis regarding their specific support mechanisms and their effectiveness in enhancing local banks' performance. Furthermore, there is a lack of comprehensive assessment of the regulatory environment impact, with some studies briefly mentioning the regulatory environment in Zambia.

Addressing these gaps through rigorous empirical research will not only contribute to the existing body of knowledge but also provide valuable insights for policymakers, industry stakeholders, and local banks. By identifying the factors contributing to the performance of locally owned banks in Zambia, this study aims to fill these gaps and provide actionable recommendations for enhancing the competitiveness and sustainability of these institutions in the country's banking industry.

Theoretical Framework

1. Agency Theory

Agency Theory, developed by Jensen and Meckling, examines the relationship between principals and agents in organizations. It addresses conflicts of interest arising from delegation of decision-making authority. In a study on Zambian commercial banks, it can help understand how local investors navigate challenges in monitoring and controlling agents. Issues like information asymmetry, moral hazard, and alignment of interests between investors and bank executives are explored. Applying Agency Theory can provide insights into local investors' decision-making processes, control mechanisms, and strategies to mitigate agency costs.

2. Institutional Theory

Institutional Theory, developed by DiMaggio and Powell (1983) [13], examines how organizations are shaped by societal norms, rules, and expectations. It highlights the role of institutions in shaping organizational behaviour. In Zambia, this theory can help understand how local investment participation in commercial banks is influenced by government regulations, cultural norms, and industry practices. It helps uncover the institutional pressures that influence the decisions of local investors, providing a comprehensive understanding of socio-cultural and regulatory factors.

3. Resource Dependency Theory

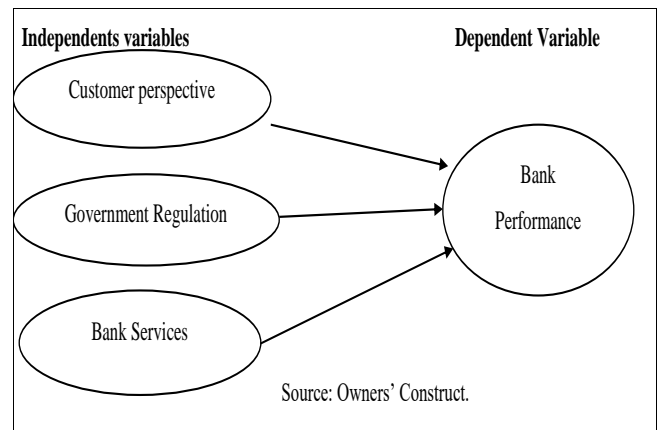
Resource Dependency Theory, developed by Pfeffer and Salancik, suggests that organizations rely on external resources for survival and success. This theory can help understand how local investors, who own commercial banks, rely on these resources. It examines the influence of government support, economic conditions, and regulatory frameworks on these investors' decisions. By applying this theory, the study can identify resource interdependencies between local investors and external factors, providing

insights into the dynamics that facilitate or hinder local investment participation in the Zambian banking sector.

The Agency Theory, Institutional Theory, and Resource Dependency Theory provide a comprehensive framework for understanding local investment participation in Zambian commercial banks. They address agency relationships, institutional influences, and resource dependencies, providing a comprehensive understanding of the complexities of the Zambian banking landscape.

4. Conceptual Framework

The review of empirical and theoretical literature led to the development of the conceptual framework as follows:



5. Summary

The chapter discusses existing studies in this field and identifies gaps in literature, forming a conceptual framework. It then presents the methodology for data collection and analysis.

Research methodology

Introduction

This chapter discusses the research design, methodology, population, sampling techniques, data collection, analysis, and ethical considerations for achieving the study's objectives, including the research philosophy, sample selection, and data collection instrument.

1. Research Philosophy

This study uses a mixed methods approach, combining qualitative and quantitative methodologies, to explore the research topic comprehensively. The research employs deductive and inductive approaches for theory development, testing existing theories and generating new hypotheses based on observations. The research philosophy is pragmatism, which seeks to create practical meanings of knowledge within specific contexts by reconciling objectivism and subjectivism. The use of mixed methods in this study reflects pragmatism, allowing for a more holistic understanding of the research topic. This approach aims to build and verify theory.

2. Research Design

The study used a descriptive research design, combining qualitative and quantitative data collection and analysis methods. This approach allowed for a comprehensive exploration of the research topic, providing a holistic

understanding of the dependent variable. Qualitative data was collected through interviews, providing rich insights into participants' experiences and perceptions. Quantitative data was gathered through a structured questionnaire. The integration of both data sets during the interpretation phase enhanced the credibility and validity of the findings. The descriptive research design proved effective in providing a nuanced understanding of the research topic, enriching the findings, and contributing to the advancement of knowledge in the field.

3. Population and Sampling

The study population, as per Creswell (2014) and Sekaran (2009), is the larger group from which a sample is drawn, and research outcomes are intended to provide insights. In this research, staff from institutions like the Bank of Zambia and the Zambia Revenue Authority were included, along with customers from both corporate and retail sectors of local and foreign-owned commercial banks, who provided feedback on customer service satisfaction through a questionnaire.

4. Sample Size

Convenience sampling techniques were used to select participants from the population, based on their accessibility and nearness. Researchers chose volunteers based on their availability and ease of access, as recommended by Sekaran (2009). The sample size for this study was 100 officials, representing the entire population. Ten qualitative interviews were conducted, and 100 questionnaires were administered to bank employees and customers, resulting in 75 respondents. This method ensures fast data collection and representativeness, as recommended by Sekaran (2009).

5. Data Collection Method

The study used primary data, obtained through first-hand interactions, such as interviews, surveys, and questionnaires, to gain in-depth insights into the topic of customer service satisfaction. The qualitative interviews provided rich insights into participants' experiences, while the quantitative data was collected through questionnaires. The integration of qualitative and quantitative data provided a comprehensive understanding of the research topic, enriching the findings. Secondary data, acquired from online databases like Google Scholar, Science Direct, PubMed, and Pro Quest, was used to supplement the primary data, enriching the analysis and discussion. This approach provides a comprehensive understanding of the research topic.

6. Validity and Reliability

Dependability and validity are crucial elements in research projects, as they are related to the rigor of qualitative research. These concepts have been successfully operationalized in quantitative literature, contrary to popular belief that they were not present in qualitative research in the 1990s. This contrasts with the settings surrounding qualitative research, where these ideas were not used, ensuring sufficient research is conducted. (Brink, 1993; Tappen, 2011)

6.1 Validity

Validity is a broad concept that encompasses various aspects of qualitative research. The definition and use of

validity in qualitative research are complex and influenced by the positivist worldview. Traditional validity evaluation criteria are based on empirical ideas like general laws, evidence, objectivity, truth, actuality, deduction, reason, fact, and mathematical data. Content validity is ensured through expert reviews and pilot testing of research instruments to ensure accurate measurement of variables in alignment with study objectives. This process confirms the instruments' relevance and comprehensiveness, enhancing confidence in the research findings. The instruments' ability to accurately measure variables of interest and align with study objectives enhances the confidence in the findings.

6.2 Reliability

Internal consistency is a metric used to determine the degree of dependability in a study. It refers to the consistency of results from multiple test questions related to the same topic (Kaluai, 2020). The reliability of an instrument is crucial in ensuring the results of research are repeatable. This study used the Cronbach alpha coefficient to measure the internal consistency of items to variables. A Cronbach's Alpha value of 0.70 indicates strong consistency, aligning with George and Mallery's reliability scale. Scores above 9 are considered excellent, above 8 are decent, above 7 are accepted, above 6 are questionable, above 5 are poor, and above 5 is unacceptable. This study used Cronbach's Alpha in SPSS 27 reliability assessments.

Data Analysis

The research instrument was analyzed using SPSS after data collection. Qualitative data from in-depth interviews was identified and coded, while quantitative data from questionnaires was analyzed. Descriptive statistics were calculated to summarize the data. The integration of qualitative and quantitative data provided a comprehensive understanding of the research topic, with qualitative data explaining quantitative findings and quantitative data supporting them. This approach enriched the analysis and discussion, leading to more robust conclusions.

Ethical Considerations

The study adhered to strict ethical standards to ensure the well-being and privacy of participants, ensuring anonymity and confidentiality. The data collected was used for academic purposes and decision-making. The study followed the Academy of Management Code of Ethical Conduct, ensuring participants' privacy, dignity, and freedom. The study implemented ethical measures such as honesty, integrity, confidentiality, consent, and citing authors' works in good faith. An introductory letter from the University of Zambia (UNZA) and ethical clearance from UNZA were obtained to ensure the research was conducted ethically and in accordance with international best practices. The study's ethical considerations were crucial to avoid disruption to participants' natural habitats.

Summary

The methodology chapter utilized a mixed methods approach, involving subjects from the banking industry, justifying its choice and presenting other methodological processes and procedures.

Presentation and interpretation of results

This chapter presents and interprets the findings collected for the purposes of achieving the objectives of this study.

Perspectives from Customers on Commercial Banks

1. Customer Demographic Information

The demographic information, in table 1 below, presents the demographic information of the respondents, including: gender, marital status, education level, occupation, and monthly income.

Table 1: Demographic Information of Respondents

Variable	Description	N	%
Gender	Male	50	65.8%
	Female	26	34.2%
	Total	76	100.0%
Marital Status	Single	26	34.2%
	Married	32	42.1%
	Widow	6	7.9%
	Widower	3	3.9%
	Divorced	9	11.8%
	Total	76	100.0%
Education Level	No education	4	5.3%
	Primary School	4	5.3%
	Secondary School	7	9.2%
	Certificate	6	7.9%
	Diploma	10	13.2%
	Degree	18	23.7%
	Master's Degree	15	19.7%
	PhD	12	15.8%
Total	76	100.0%	
Work	Business	22	28.9%
	Farming	17	22.4%
	Civil Servant	21	27.6%
	Private Sector Employee	16	21.1%
	Total	76	100.0%
Monthly Income	Between K3,001 and K6,000	7	9.2%
	Between K6,001 and K9,000	12	15.8%
	Between K9,001 and K12,000	16	21.1%
	Between K12,001 and K15,000	18	23.7%
	Between K15,001 and K18,000	12	15.8%
	Above K18,000	11	14.5%
Total	76	100.0%	

The survey data portrays a gender distribution with 65.8% male respondents and 34.2% female respondents. Marital status reveals a majority being either single (34.2%) or married (42.1%), with fewer widows, widowers, and divorced individuals. Education levels are notably high, with a substantial portion holding degrees (23.7%), master's degrees (19.7%), and PhDs (15.8%). Occupationally, respondents represent a diverse range, with business owners (28.9%) and civil servants (27.6%) comprising the largest

groups, followed closely by farming (22.4%) and private sector employees (21.1%). Income distribution indicates a significant proportion within the K9,001 to K18,000 brackets, suggesting a relatively affluent customer base.

2. Customers and their Main Bank

The data on the respondents' main banking institutions is summarized in table 2 below.

Table 2: Main banks of respondents

Bank	N	%
FNB	23	30.3%
ZANACO	21	27.6%
Indo Zambia	6	7.9%
ABSA (Formerly Barclays)	5	6.6%
Investtrust	5	6.6%
Access Bank	5	6.6%
Standard Chartered	4	5.3%
Atlas Mara	3	3.9%
Stanbic Bank	2	2.6%
First Alliance Bank	1	1.3%
Eco Bank	1	1.3%
Total	76	100%

The survey reveals that FNB (First National Bank) is the most favored bank among respondents, with 30.3% holding their main accounts with it, followed closely by ZANACO (Zambia National Commercial Bank) at 27.6%. Other banks such as Standard Chartered, ABSA (formerly Barclays), and Invest trust have smaller shares ranging from 5.3% to 6.6%. This distribution underscores the diversity of Zambia's banking sector, with both local and foreign-owned banks capturing different market segments. ZANACO's prominence as a Zambian-owned bank reflects a preference for local institutions, while FNB's popularity as a foreign-owned bank highlights the significant role played by foreign banks. The coexistence of local and foreign banks

emphasizes the competitive dynamics within Zambia's banking landscape and the importance of understanding customer preferences in this context.

3. Main Bank and Number of Years Respondents have been Customers.

The crosstabulation in table 2 shows a diverse distribution of respondents' main bank preferences in relation to the duration of their banking relationships, particularly highlighting a mix of new and long-term customers with ZANACO, indicating a notable level of customer loyalty towards the Zambian-owned institution.

Table 3: Cross tab - main bank of respondent and number of years

		Years with Bank					Total
		Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Between 5 and 10 years	Over 10 years	
Main Bank	ZANACO	3	4	3	6	5	21
	Indo Zambia	2	0	1	2	1	6
	FNB	1	6	9	3	4	23
	ABSA (Formerly Barclays)	1	1	0	3	0	5
	Standard Chartered	0	2	0	2	0	4
	Investrust	1	0	2	1	1	5
	Stanbic Bank	0	0	1	0	1	2
	Atlas Mara	0	0	1	1	1	3
	Access Bank	1	1	0	1	2	5
	First Alliance Bank	0	1	0	0	0	1
Eco Bank	0	0	0	1	0	1	
Total		9	15	17	20	15	76

The analysis of bank preferences based on the duration of banking relationships highlights nuanced trends across different institutions. Foreign-owned banks such as Indo Zambia Bank attract a significant number of new customers, while FNB engages customers effectively across various durations, with a notable presence of long-term clients. ABSA and Standard Chartered show concentrations in the 5-10 years category, indicating enduring relationships with customers. Invest rust Bank maintains consistent appeal across different durations, while the distribution among other foreign-owned banks varies, reflecting diverse levels of customer engagement. Overall, these findings underscore the importance for banks to understand and cater to the

evolving needs and preferences of their clientele across different stages of their banking relationships.

4. Main Bank and Type of Customers

The analysis of main banks and customer types reveals that ZANACO and FNB primarily cater to retail customers, reflecting their prominent roles in the consumer banking sector. ABSA and Standard Chartered exhibit a mix of corporate and retail customers, while banks like Invest trust, Stanbic Bank, and Atlas Mara are more oriented towards retail clientele, with Access Bank showing a higher representation of corporate customers, offering insights into the diverse customer segmentation strategies employed by various banks.

Table 4: Cross tab - main bank and type of customer

		Type of Customer		Total
		Corporate Customer	Retail Customer	
Main Bank	ZANACO	4	17	21
	Indo Zambia	3	3	6
	FNB	6	16	22
	ABSA (Formerly Barclays)	1	4	5
	Standard Chartered	3	1	4
	Investrust	1	4	5
	Stanbic Bank	1	1	2
	Atlas Mara	2	1	3
	Access Bank	5	0	5
	First Alliance Bank	1	0	1
Eco Bank	1	0	1	
Total		28	47	75

The majority of respondents' express satisfaction with the services provided by their banks, with 72 out of 74 customers indicating happiness. While most respondents are content, it's noteworthy that two instances lack explicit satisfaction feedback. Additionally, the data underscores a widespread adoption of digital channels among bank

customers, reflecting a global trend in the banking industry toward enhancing convenience and accessibility through digital platforms.

5. Other Banks Respondents are Affiliated with

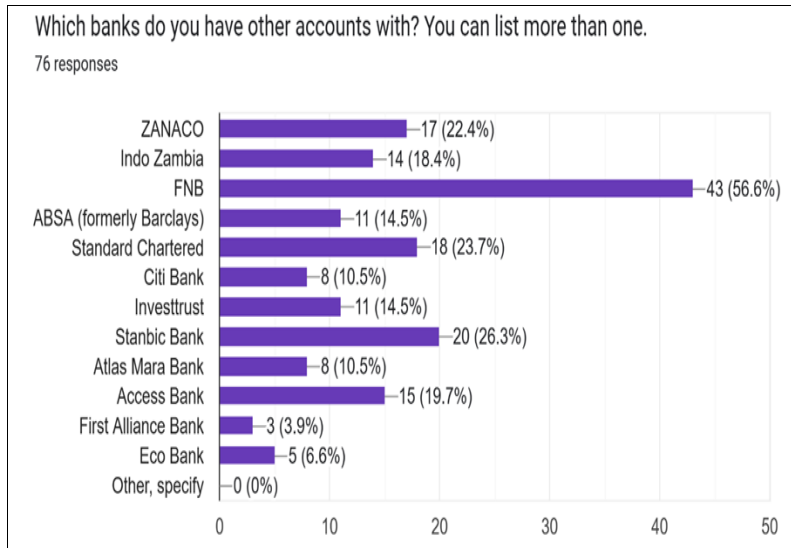


Fig 1: Other banks respondents bank with

Figure 1 illustrates that ABSA (formerly Barclays) bank is the most popular choice among respondents, followed by Standard Chartered and Atlas Mara. Conversely, First Alliance Bank is the least favored, possibly due to factors like poor customer service or location inconvenience,

though it's essential to consider the small sample size of 76 respondents, which may limit the generalizability of the findings.

6. Banks and Digital Channels

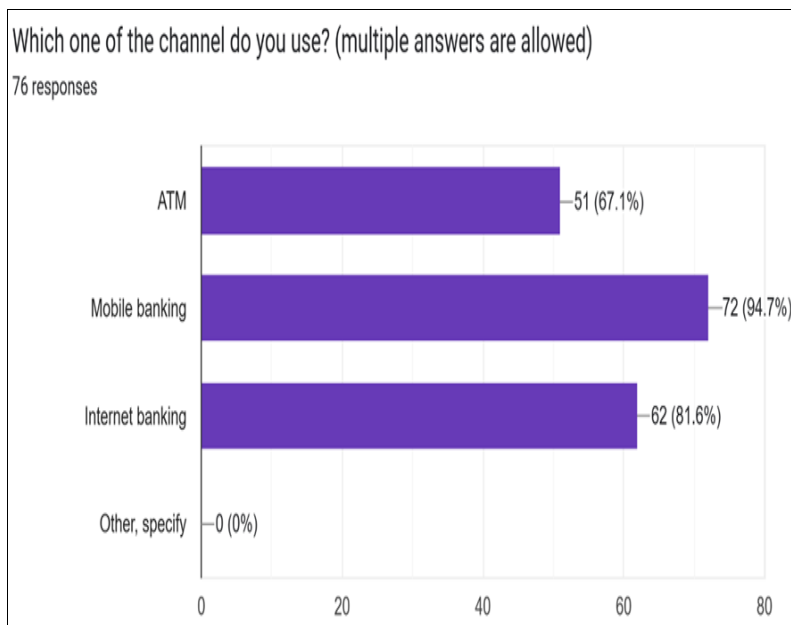


Fig 2: Channel used by respondents

All respondents confirmed their banks utilize digital channels, with mobile banking being the most popular choice, utilized by 94.7% of respondents, followed by internet banking, utilized by 81.6%, and ATMs, utilized by 67.1%. Notably, no respondents selected other digital channels, suggesting a strong preference for these three main avenues among the surveyed individuals.

7. How Quickly Complaints are Resolved

The crosstabulation data highlights significant variations in the speed of complaint resolution among different banks in Zambia, indicating diverse customer experiences regarding both the duration of resolution and the distribution of responses.

Table 5: Crosstab - Main bank and how long it usually takes for complaints to be resolved

		Resolving complaints				Total
		Less than 1 hour	Between 1 and 3 hours	Between 3 and 6 hours	Over 6 hours	
Main Bank	ZANACO	4	5	9	3	21
	Indo Zambia	2	1	2	1	6
	FNB	8	12	2	1	23
	ABSA (Formerly Barclays)	2	2	1	0	5
	Standard Chartered	3	0	0	1	4
	Investtrust	0	1	3	1	5
	Stanbic Bank	1	1	0	0	2
	Atlas Mara	2	0	1	0	3
	Access Bank	0	3	1	1	5
	First Alliance Bank	1	0	0	0	1
	Eco Bank	0	0	1	0	1
Total		23	25	20	8	76

First National Bank (FNB) emerges as a bank where a significant number of customers report swift complaint resolutions, with 8 cases resolved in less than 1 hour, indicating a high level of efficiency in addressing customer concerns promptly. Conversely, ZANACO customers predominantly report resolution times within 3 to 6 hours, suggesting a moderate level of responsiveness. ABSA (formerly Barclays) and Standard Chartered also demonstrate quick complaint resolutions, with the majority of customers reporting resolution times within 1 to 3 hours and no cases taking over 6 hours.

Interview Guide Respondents

1. Demographic Information

The study's interview guide gathered responses regarding the professional backgrounds and qualifications of participants from the Bank of Zambia and the Zambia Revenue Authority, comprising 4 employees from the former and 6 from the latter, revealing a diverse mix of academic achievements and professional positions among the respondents.

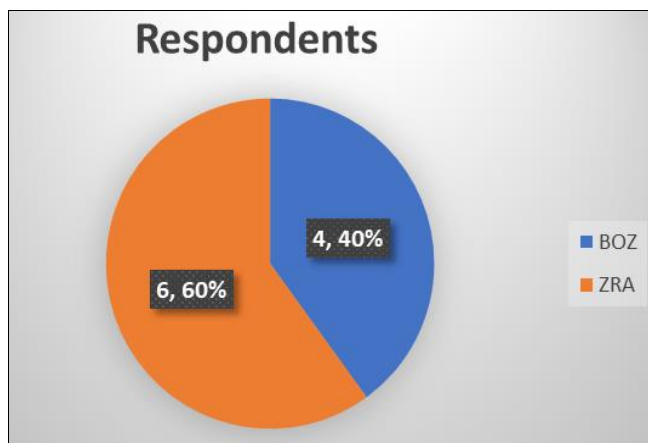


Fig 3: Distribution of respondents

Participants from the Zambia Revenue Authority (ZRA) notably hold advanced academic qualifications, including Master's degrees and Ph.D. qualifications. Likewise, respondents associated with the Bank of Zambia hold various professional positions and academic credentials, ranging from Master's degrees to Ph.D. qualifications and degrees, reflecting a diverse educational background within the organization.

1.2 To Determine Ways in which Commercial Banks Shoulder the Huge Burden of Costs in Zambia.

Level of Respondents Interaction with Commercial Banks.

The investigation, comprising interviews with 10 officials from the Bank of Zambia and the Zambia Revenue Authority (ZRA), revealed intricate relationships between regulatory bodies and commercial banks. Officials emphasized active engagement in overseeing and guiding bank operations, highlighting regulatory measures aimed at fostering a conducive environment for local banks. Discussions also delved into nuanced regulatory frameworks distinguishing locally owned banks from multinational/externally owned ones, addressing challenges in accessing capital and navigating regulations. Insights underscored the need for fair competition and regulatory balance to address global challenges while supporting local bank growth.

1.2.2 Services of Commercial Banks

The officials' perspectives on the services provided by commercial banks, including quality, profitability, customer base, and digital channels, offer unique insights into the dynamics between locally owned and multinational/externally owned banks. Regarding service quality, officials highlighted locally owned banks' community-centric approach and personalized services, contrasting with multinational banks' advanced technology investments and diverse product offerings. Profitability assessments varied, with recognition of challenges faced by local banks in achieving comparable margins. Differences in customer bases were perceived, with debates on the impact of marketing limitations versus community appeal. Digital channel prevalence and efficiency were also explored, revealing differing perceptions on agility and effectiveness between local and multinational banks. Overall, the officials' diverse viewpoints enrich the understanding of factors contributing to the low prevalence of locally owned banks compared to multinational/externally owned ones.

1.3 To Assess Factors that Encourage Local Banks' Performance within a Competitive Banking Industry in Zambia

1.3.1 Experience with Locally Owned Banks vs Multinational/Externally Owned Banks.

The study reveals that locally owned banks have unique characteristics that differentiate them from multinational or

externally owned banks. These banks are praised for their cultural understanding, localized focus, and emphasis on customer service, which enhances client satisfaction and loyalty. They also excel in financial stability and crisis management, navigating local economic conditions. However, navigating regulatory complexities and compliance standards can pose challenges for multinational banks, potentially affecting the disparity in bank numbers.

1.4 To Establish Support Measures that the Government Provides to Local Commercial Banks in Zambia.

4.1.1 Government Policies on Commercial Banks

The examination of government policies on commercial banks through officials' insights reveals diverse perspectives on the regulatory framework impacting the prevalence of locally owned banks. Officials' assessments of the adequacy of government policies vary, with some expressing confidence in the stability and effectiveness of the current framework, while others suggest targeted policies to address challenges faced by local banks. Recommendations for enhancing existing policies span from streamlining regulatory processes to fostering financial literacy programs. Furthermore, opinions on the use of digital platforms and technological advancements differ, highlighting the complex interplay between technology and competitive dynamics. Diverse views on potential risks such as capital flight and tax evasion by multinational banks underscore the need for vigilant oversight and transparent pricing mechanisms. Finally, proposals for supporting local banks range from financial incentives to facilitating partnerships with international financial institutions, underscoring the pivotal role of government policies in shaping the banking landscape and fostering the growth of locally owned banks.

1.4.2 Regulations of Commercial Banks

The perspectives of the ten officials on regulatory dynamics surrounding commercial banks provide valuable insights into the factors contributing to the low number of locally owned banks. While all officials acknowledge commendable compliance efforts from both locally owned and multinational/externally owned banks, variations emerge in their perspectives. Some emphasize the rigorous commitment to compliance exhibited by multinational banks, while others highlight the resilience of locally owned banks despite resource constraints. Officials also recognize an additional burden on locally owned banks in fulfilling reporting obligations, underscoring the need for targeted examination of regulatory processes. While reports from both sectors are generally deemed satisfactory, officials acknowledge resource disparities, suggesting tailored regulatory support may be crucial for ensuring equitable standards. Views on the favourability of existing regulations to local banks vary, with some expressing confidence in the current framework and others advocating for ongoing reviews and adaptations. Overall, the officials' diverse viewpoints enrich the understanding of regulatory challenges and opportunities, contributing to a nuanced exploration of the low number of locally owned banks.

Discussion of research findings

To determine ways in which commercial banks shoulder the huge burden of costs in Zambia.

The findings from the study shed light on the strategies utilized by commercial banks in Zambia to address the

significant burden of costs. Notably, respondents emphasized investing in digital infrastructure, enhancing cost efficiency, and promoting responsible lending practices as key approaches. The emphasis on digitalization is particularly notable, with banks leveraging technological advancements to streamline operations and reduce overhead costs. Additionally, multinational banks, with their complex operations, heavily invest in advanced technology and digital services, providing convenient banking solutions and catering to diverse customer needs. These findings align with the dominance of foreign-owned banks in Zambia, as noted by the IMF (2023) study, and the challenges faced by local banks, as discussed in the UNCTAD report by Brownbridge (1998) [8, 9]. Overall, the study's insights provide valuable perspectives on how commercial banks in Zambia navigate cost management in a dynamic banking landscape.

To assess factors that encourage local banks' performance within a competitive banking industry in Zambia.

The study's findings offer valuable insights into the factors positively influencing the performance of local banks in Zambia's competitive banking industry. Notably, the emphasis on community focus, personalized services, and strong local presence emerges as key contributors to the success of locally owned banks, fostering customer engagement and loyalty. Additionally, the agility and flexibility of local banks in adapting to the local market's needs, along with their emphasis on financial inclusion initiatives, contribute significantly to their positive performance, aligning with broader socio-economic objectives. These findings resonate with broader analyses by the World Bank, reflecting the need for financial institutions to expand their reach and prioritize community engagement. Moreover, they align with the challenges and shifting dynamics of the Zambian banking sector, highlighting the significance of factors like community focus and personalized services in enhancing the competitiveness of local banks amidst dominance by foreign-owned institutions.

To establish support measures that the government provides to local commercial banks in Zambia.

The study highlights the significance of government support for local commercial banks in Zambia, emphasizing policies that promote financial inclusion, competition, and a flexible regulatory framework. These measures contribute to the performance and stability of local banks by creating an environment conducive to growth and innovation. The Zambian government plays a crucial role in supporting the local banking sector, aiming for inclusive and sustainable growth while encouraging private sector involvement. The study also emphasizes digital infrastructure investment and cybersecurity measures, reflecting the need for government support in the evolving industry landscape.

Summary

The study on Zambia's banking industry highlights the importance of digitalization in cost management strategies, with both local and multinational banks investing in advanced technology. Local banks' performance is influenced by community focus and personalized services, which enhance reputation and customer loyalty. Their

agility and flexibility allow for quick decision-making and tailored services. The study also emphasizes the need for government support through policies promoting financial inclusion, competition, and a flexible regulatory framework. These findings provide insights for informed policy decisions and strategic planning in the industry.

Summary, conclusions and recommendations

This chapter summarizes the study on Zambia's banking industry, offering conclusions, practical recommendations, and acknowledging limitations, while also suggesting areas for future research and financial exploration.

Summary of Research Findings

The study analyzed the Zambian banking industry, revealing that commercial banks prioritize digitalization for cost management and advanced technology for streamlined operations. Local banks focus on community focus, personalized services, and agility, aligning with socio-economic goals through financial inclusion initiatives. Government support for local banks is evident through policies promoting financial inclusion and maintaining a flexible regulatory framework. Investments in digital infrastructure and cybersecurity are also crucial for fostering a conducive environment for the local banking sector.

Recommendations of the Study

Based on the comprehensive findings and insights garnered from the investigation into the banking industry in Zambia, several key recommendations emerge to enhance the sector's efficiency, competitiveness, and overall sustainability.

Policy Recommendations

1. Financial Inclusion Initiatives
2. Community Engagement and Responsiveness
3. Government Support Measures

These recommendations aim to guide policymakers, financial institutions, and other stakeholders in fostering a resilient, adaptive, and inclusive banking sector in Zambia. By implementing these suggestions, the industry can position itself for sustained growth and meet the evolving needs of both local and global stakeholders.

Recommendations for Future Directions in Studies

1. Impact of Global Economic Trends
2. Customer Perception and Behavior.
3. Comparative Analysis with Regional Markets.
4. Long-Term Financial Inclusion Strategies.

By exploring these future directions, researchers can contribute to a more comprehensive understanding of the Zambian banking landscape, addressing emerging challenges and identifying opportunities for sustainable growth and development in the years to come.

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