

# **Explaining the underutilization of inclusive credit programs in subsistence markets: The role of habit under different regulatory environments**



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APRIL 11, 2015**

# Problem Context



- 41% of people in developing countries do not use formal banking services
- In Africa, that number falls to less than 25%
- Adoption does not guarantee habitual use
  - ✦ High delinquency rates
  - ✦ Voluntary termination of banking services for reasons other than income (Evans, Dadzie and Mack 2010)

# Problem Context



- Marketing can assist in formulating policies to:
  - ✦ Reduce the duration of the initial adoption decision for banking services
  - ✦ Transition from adoption to the bank savings habit and prolong its duration

# The Importance of Subsistence Consumers' Savings Potential for Poverty Alleviation and Inclusive Economic Development Programs



- Aggregate purchasing power is huge and attractive (Prahalad and Hart 2004).
- Source of funds for poverty alleviation and community development programs.
- Ability to effectively channel such savings from informal financial arrangements (Miracle, Miracle, and Cohen 1980)
  - ✦ Done through formal banks as inclusive savings mobilization programs

# Public Policy Challenges in Savings Mobilization Programs



- Overcoming resistance to formal banking services
  - ✦ Object of non-local origin that may conflict with local banking beliefs and values within subsistence communities and household (Arnould 1989)
- Reinforcing the long- term continued use of banks on a habitual basis to insure the sustainability of savings mobilization programs
- Formulating regulatory policies, especially as developing countries move from centralized command and control (C&C) economies, dependent on government agencies, to market-based incentive (MBI) economies

# Purpose of the Study



- To develop a conceptual framework for understanding consumers patronage of formal financial services in subsistence consumer's context
- Integrate habit theory (Wood and Neal 2007) and behavioral reasoning theory (Westaby 2005)
- To empirically test the proposed framework in Ghana's bank savings mobilization program that has been in existence since 1981

# The Proposed Conceptual Framework



## Habit Theory

- Habit formation can be encouraged by promoting conditions that enhance formation of habit- goals
  - ✦ Repetitiveness of conditions, simplicity, and routine use,
  - ✦ Avoid conditions that may distract (be counter to) or trigger other habits
- Examples in savings -target individual banking goals, with the same simple procedures, under the same banks, over time.

## Behavioral Reasoning Theory

- ✦ Reasons serve as drivers of behavior and mediate the influence of beliefs on behavior
- ✦ Their impact can be direct or indirect through attitudes

# The Proposed Theoretical Framework (Figure 1)

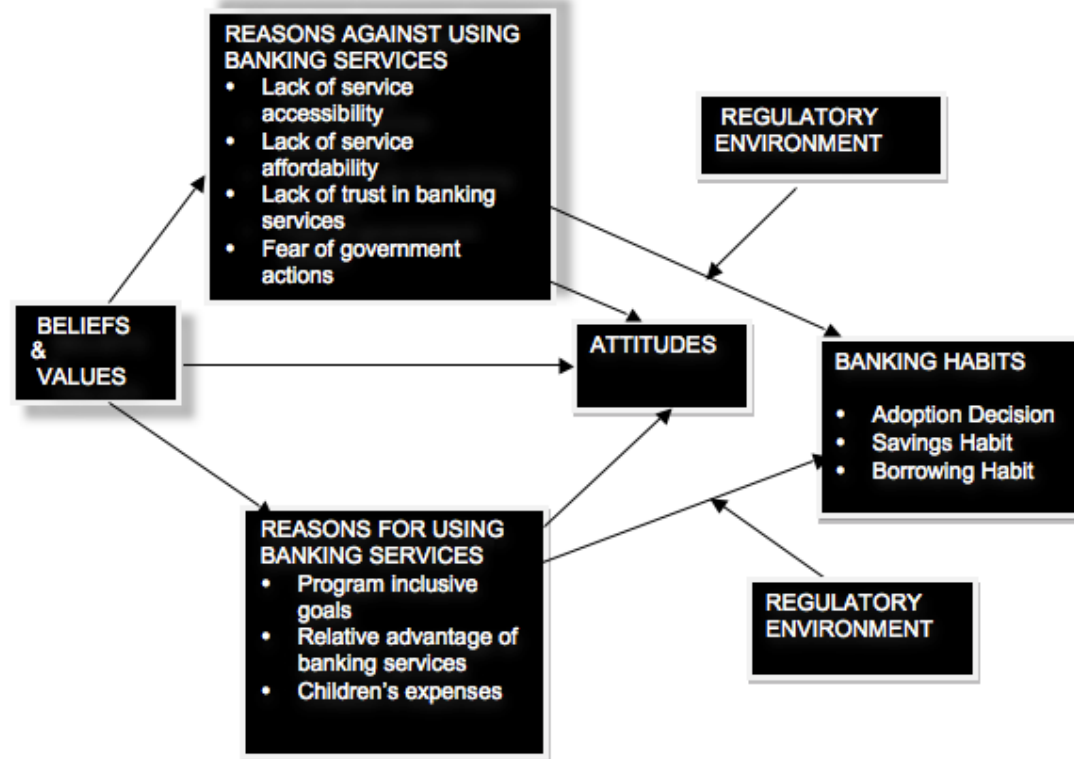


- Reasons serve as subsistence consumers judgment of the service and socio-cultural conditions that favor/impede the adoption of banking services and the formation of bank savings habit
- Different reasons drive the duration of the adoption decision versus the duration of the savings habit
- These drivers and their severity on patronage behavior vary under command and control vs. market based incentive policy environments
  - Promotion of bank savings programs



# The Proposed Theoretical Framework (Figure 1)

FIGURE I  
BEHAVIOR REASONS AS PREDICTORS OF BANKING HABITS



# Methods



- Collected two independent samples of rural Ghanaian consumers in Ghana's cocoa region during two regulatory environments
- Sample 1 (N=20213) in 1995 – period of C&C environment
- Sample 2 (N=345) in 2014- period of MBI environment
- Data collection in sample 1 funded by USAID and involve 30 agricultural extension officers of the Ghana Cocoa Board
- Sample 2 collected by two research collaborators with three student assistants

# Analysis and Findings - Results of Analysis #1



- Impact of Beliefs on Reasons for Using/Not using banks Under C&C conditions (sample 1)
- Supported five of the seven predictions of a positive influence of beliefs and values on bank patronage behavior:
  - *Reasons against:* Service accessibility (2) Service affordability (3) Trust in banking services, and (4) Fear of government actions
  - *Reasons For:* (5) Personal banking goals(5) Relative advantage of banks (ns) and(6) Children's expenses

# Analysis and Findings - Results of Analysis #1



- Impact of Beliefs on Reasons for Using/Not Using banks Under MBI conditions (sample 2)
- Supported four of the six predictions of a positive influence of beliefs and values on bank patronage behavior:
  - *Reasons against:* (1) Service accessibility, (2) Service Affordability (ns); (3) Trust in banking services
  - *Reasons For:* (4) Personal banking goals (ns) (5) Relative advantage of banks and (6) Children's expenses

# Analysis and Findings - Analysis # 1



- Impact of Beliefs on Reasons
  - There were more reasons against using formal banking services under the C&C regulatory environment than under the MBI environment.

# Analysis and Findings - Analysis # 2



- Duration or Event History Analysis of the Impact of Reasons on Bank Patronage Behavior decisions Under Sample 1 (C&C Conditions)
  - Under C&C conditions, the adoption decision time was reduced by perceived benefits of banking for personal goals
    - ✦ It was delayed by deliberations about the relative advantage of banking services over informal financial institutions increased
  - By contrast, the duration of the bank savings habit was shortened by fear of government action and negative attitudes
    - ✦ Beliefs about banks and trust in banking services increased duration

# Analysis and Findings - Analysis # 2



- Analysis # 2: Duration or Event History Analysis of the Impact of Reasons on Bank Patronage Behavior decisions Under Sample 2 (MIB Conditions)
- Savings Habit Duration:
  - *Reasons Against*: The prediction by service and trust in banking services were both statistically significant
  - *Reasons For*: The predictions by relative advantage and children expenses were both significant.
  - Hence, only two marketing related reasons, service accessibility and trust accounted for the duration of banking habit under the MBI policy environment.

# Discussion and Conclusions



To accelerate the adoption decision or the bank savings habit, priorities should be placed

- On marketing activities
- Reasons that have positive duration effects on either adoption decisions, the savings habit or both



# Discussion and Conclusions



- Promotion efforts to reduce adoption decisions should emphasize relative advantage of banking services over informal financial institutions.
  - Reduced resistance or potential delay in the adoption decision under both policy frameworks
- Second, promotional efforts to reinforce the savings habit should emphasize marketing accessibility to banking services and trustworthiness of the new market driven environment
- Efforts to modify negative attitude towards banks should be scheduled earlier in the program because after a while they cease to have any impact on the saving habit



Thank you!  
Any Questions?