An Investigation into the Marketing Strategies used by Commercial Banks in Kenya in Managing Service Breakdown among SME Customers

By

Anyim Kevin Ouma

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DECLARATION

I declare that this is my original work and has not been submitted for examination in any other University

Signature ________ Date 17/11/2009

Anyim Kevin Ouma

D61/8974/2005

This project has been submitted for examination with my approval as the university supervisor.

Signature ________ Date: 12.11.2009

Dr. J.M Munyoki

Chairman Department of Business Administration

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I also acknowledge my family members for their love and sacrifices they made for the period I was doing this research may God Bless you. Most important, I would like to thank God for standing by me throughout this period and for granting me this opportunity

DEDICATION

This research project is dedicated to the Late Tamia Akinyi Anyim.

Rest in Peace *Tata!*

ABSTRACT

This study sought to establish the causes of service breakdown in commercial banks in Kenya The study entailed a census survey of five commercial banks namely Barclays, Kenya Commercial Bank, Standard Chartered, Co-operative and Ima went further to examine the marketing strategies used by the commercial banks in Kenya in managing service break down. It utilized a descriptive approach employing both qualitative and quantitative methods of data collection.

The banks targeted in this study were those that have projected themselves as having a special interest in SME customers. In this regard, they had established departments with dedicated staff dealing with SME's. A total of 15 respondents from three major departments of IT, Accounting/Finance, and Customer care were interviewed A self administered open and closed ended questionnaire was utilized in collecting primary data from the field. In addition, in depth interviews and desk research were used for confirmation and verification. Data collected from the field was analyzed using descriptive statistics, and information presented in charts, frequency distribution tables and figures.

This study found that lack of clear communication with customers, long procedures; intrusive documentation and lack of flexibility are some of the causes resulting in service breakdown. It also established that a number of strategies on how to deal with service break down have been identified, these include; designing services to fit the needs of customers; ensuring that services are always of high quality without compromise; putting relevant systems in place; having competent employees in place; on time delivery of services and ensuring that services are driven by customers to increase acceptance and satisfaction. It further suggested future researches to be done on other financial institutions in Kenya to establish the strategies that can used to deal with service breakdowns. It also set up a way for future contributions that will enable academicians, managers in private and public sector to better understand and evaluate the challenges posed by service breakdowns and expose them to marketing strategies that can be used to deal with it.

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LIST OF ACRONYMS AND ABBREVIATIONS

BBK – Barclays Bank of Kenya

GDP – Gross Domestic Product

KCB – Kenya Commercial Bank

NBFI – Non Banking Financial Institution

SME – Small and Medium Enterprises

UK – United Kingdom

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

1.1.1 Strategies Employed in Commercial Banks

A company's strategy consists of the business approaches and initiatives it undertakes to attract customers and fulfill their expectations, to withstand competitive pressures and to strengthen its market position. These strategies provide opportunities for the organization to respond to the various challenges within its operating environment. Firms also develop strategies to enable them seize strategic initiatives and maintain a competitive edge in the market (Porter, 1985). The competitive aim is to do a significantly better job to its customers. The success of every organization is determined by its responsiveness to the customer needs. To be able to retain competitive advantage, organizations need to examine their environment both external and internal and respond accordingly (Porter, 1985). The environment can be relatively stable or turbulent. Each level of turbulence has different characteristics and requires a different strategy to match. The strategy in turn has to be matched by appropriate organizational capability for survival, growth and development (Ansoff and McDonnell, 1990)

The competitive aim is to do a significantly better job of providing what customers are looking for, thereby enabling the company to earn a competitive advantage and outsmart rivals in the market place. The core of a company's marketing strategy consists of its internal initiatives to deliver satisfaction to customers but also includes offensive and defensive moves to counter the maneuvering of rivals, actions to shift resources around to improve the firm's long term competitive capabilities and market position, and tactical efforts to respond to prevailing market conditions. Assuming that there are a number of providers, customers will choose which offering to accept on their perception of value-for-money.

Achieving competitive advantage has been recognized as the single most important goal of a firm (Porter, 1980). Managers have overtime pondered why some organizations have been able to secure an advantageous competitive position, while others have not. Without proper relationship with all the stake holders a firm will have few economic reasons for existing and finally will wither away. Although identification of the sources of competitive advantage has become an increasing priority, the areas of customer care and marketing managers in the banking industry have made considerable effort to comprehend how marketing strategies can indeed give them advantage over its competitors.

1.1.2 Service Breakdown

Finance has been identified as the most important factor determining the survival and growth of small and medium sized enterprises in Kenya. Access to finance allows Small and Medium Enterprises (SME's) to undertake productive investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole. Poorly functioning financial systems can seriously undermine the microeconomic fundamentals of a country, resulting in lower growth in income and employment (Griliches, 1998)

Landes (1998) argues that despite their dominant numbers and importance in job creation, SME's traditionally have faced difficulties in obtaining formal credit or equity. These difficulties are what the commercial banks call service breakdown. For example, maturities of commercial bank loans extended to SME's are often limited to a period far too short to pay off any sizeable investment; secondly SME's are regarded by creditors and investors as high risk borrowers due to insufficient assets and low capitalization, vulnerability to market fluctuations and high mortality rates; thirdly information asymmetry arising from SME's' lack of accounting records, inadequate financial statements or business plans makes it difficult for creditors and investors to assess the creditworthiness of potential SME proposals; and lastly is the high administrative/transaction costs of lending or investing small amounts do not make SME financing a profitable business.

To compete effectively in the SME financing sector, and faced with this service breakdown, commercial banks need to provide financial services that meet the specialized needs of SME's while coping with the high risks and costs associated with servicing them (Landes, 1998). To achieve this, an increasing number of banks have adopted separate strategies to service SME customers. The current trend is to shift from a product-based focus to a more customer oriented focus of providing packages of financial services tailored to their needs. This has the potential of considerably improving the banks' relations with the SME sector, as well as increasing the profitability of providing financial services to it (Landes, 1998)

1.1.3 The Small and Medium Enterprises in Kenya

The development of the private sector varies greatly throughout Africa. SME's are flourishing in South Africa, Mauritius and North Africa, thanks to fairly modern financial systems and clear government policies in favour of private enterprise. In Kenya, the rise of SME's has been hindered by financial challenges and political instability (Carrier, 1999). Kenya has created conditions for private-sector growth but is still held back by an inadequate financial system

Kenya's private sector consists of mostly informal micro enterprises, operating alongside large firms. Most companies are small because the private sector is new and because of legal and financial obstacles to capital accumulation. Between these large and small firms, SME's are very scarce and constitute a "missing middle."

Financing is necessary to help SME's set up and expand their operations, develop new products, and invest in new staff or production facilities (Gomez-Mejia, 1988). Many small businesses start out as an idea from one or two people, who invest their own money and probably turn to family and friends for financial help in return for a share in the business. But if they are successful, there comes a time for all developing SME's when they need new investment to expand or innovate further. That is where they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, capital markets or other suppliers of credit. This "financing gap" is all the more important in a fast-changing knowledge-based economy because of the speed of innovation (Groke and Kreidle, 1967)

Innovative SME's with high growth potential, many of them in high-technology sectors, have played a pivotal role in raising productivity and maintaining competitiveness in recent years. But innovative products and services, however great their potential, need investment to flourish (Carrier, 1999). If SME's cannot find the financing they need, brilliant ideas may fall by the wayside and this represents a loss in potential growth for the economy. The "bagless" vacuum cleaner and the "wind-up" radio or flashlight which need no batteries are now common household items, but nearly failed to see the light of day because their inventors could not find financial backing to transform their ideas into production. Already, differences are emerging between countries in terms of how easy it is for innovative SME's to grow and develop. This sector has been very dynamic in the United States and a few other countries, but has lagged in many continental European countries and Japan, to the detriment of job creation and competitiveness (Gomez-Mejia, 1988).

1.2 Statement of the Problem

Organizations of various types have been in existence for a long time. They have been created in order to serve the needs of the societies in which they exist. The key concern of these organizations has been and still is their continued existence and survival over time. For organizations to achieve their goals and objectives, they have to constantly adjust to their environment. Small and medium-sized enterprises (SME's) are the backbone of all economies and are a key source of economic growth, dynamism and flexibility in advanced industrialized countries, as well as in emerging and developing economies. SME's constitute the dominant form of business organisation, accounting for over 95% and up to 99% of enterprises depending on the country (Carrier, 1999). They are responsible for between 60-70% net job creations in many countries. Small businesses are particularly important for bringing innovative products or techniques to the market.

Improving the access to finance of small and medium enterprises is crucial in fostering entrepreneurship, competition, innovation and growth in Kenya. Access to sufficient and adequate capital to grow and further develop their activities is a difficulty faced by many

Kenyan SME's. This situation is compounded by the difficulties in accessing finance as SME financing is considered by many financial providers as a high risk activity that generates high transaction costs and/or low returns on investment. Moreover, SME's need to meet the challenge of adapting to the changing financial environment and the increasing complexity and extent of financial acquisition. In an effort to access banking services, SME's face the challenge of service products availed by their banks failing to meet their expectation leaving them helpless and frustrated to achieve their business objectives (Carrier, 1999). These are events of service breakdown.

Several scholars have carried out extensive studies in the area of banking in Kenya and especially on competitive strategy. For instance, Warugu (2001) in his research, found out that focus and product differentiation are some of the major strategies that the banks have employed in their quest to outdo each other. Similarly Kiptugen (2003) looked at the strategic responses to a changing competitive environment in the case study of KCB, he established that proactive rather than reactive strategies such as research on changing customer needs and preferences forms the basis of its strategic planning. Mbwayo (2005) focused on the strategies applied by commercial banks in Kenya in anti money laundering compliance programs. He concluded that strict adherence procedures and standards have been implemented to ensure that money laundering is contained in Kenya.

These studies have looked at competitive strategies among commercial banks and response strategies at various levels in an attempt to gain a competitive edge over rivals in the banking industry but none has investigated marketing strategies used by these industry players to address the rampant service breakdown being experienced by SME's in commercial banks in Kenya. Since there is a massive service breakdown in commercial banks in Kenya, there was a compelling need to investigate the strategies used in managing this problem.

1.3 Research Objectives

1. To identify the causes of service breakdown in commercial banks in Kenya
2. To establish the specific marketing strategies used by commercial banks in Kenya in managing service break down

1.4 Importance of the Study

Executives in the banking industry will be able to use the findings of this study in drafting strategies on how to operate in the Kenyan market. It will help them understand better the problems facing SME's as they relate with financial institutions in their pursuit for survival. As a result, it is expected that the executives will be able to formulate policies that are more benign to the sector.

Also, investors in the SME sector will use the information from this study to make decisions regarding investing in the area. The findings of the research will expose some of the challenges they are likely to encounter in their attempt to get banking services in Kenya. As a result, the investors will be more endowed with knowledge and prepared to fit in the prevailing banking environment.

Scholars in the field of strategic management and marketing will use the information to understand the state of the sector better. They will also use the information as a reference point to research on the strategy formulation and innovations in other industries.

Finally, the Government will find the information useful in diagnosing the problems affecting the SME sector and come up with regulative solutions that would protect and help the SME's thrive.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature on marketing strategies, the need for marketing strategies in managing service breakdown using the service quality model

2.2 Marketing Strategies

With the rapid changes surrounding organizations, the traditional marketing mix of the 4 Ps has been criticized for being too myopic in this current market situation. The traditional marketing mix has also been disparaged for being too product focused and for taking an overly inward-looking strategy with regards to the organization's resources and capabilities in production matters. The service environment has evolved due to the following factors: changing patterns of government regulation, technological innovations, the service quality movement, pressures to improve productivity, relaxation of previous professional association restrictions on marketing, internationalization and globalization etc (Lovelock et al 1996). This has caused a lot of dynamism in the service sector; competition has increased and consumers are exposed to more information. To survive, service companies have to differentiate themselves mainly by being as close to the customer as possible; this has led to an over emphasis in the area of service marketing to enable marketers in developing service strategies to respond to the market.

Service marketing concepts and strategies have developed in response to the tremendous growth of service industries resulting in their increased importance to world economies (Zeithaml and Bitner, 1996). This is in relation to employment, gross domestic product and business opportunities. As technological advancement has equalized most production processes, one of the few remaining strategies that can set one company apart from others is customer service. Chandler (1962) stated that strategy determines the basic long-term goals of an enterprise, and the adoption of courses of action (strategy as plan of action) and the allocation of resources necessary for carrying out these goals (strategy as resource allocation).

While Porter (1996) viewed strategy as the process of creating a unique and valuable position with means of a set of activities in a way that creates synergistic pursuit of the objectives of a firm, Mintzberg (1990) suggests that the term strategy is used to mean a plan, a ploy, a pattern, a position or a perspective the 5 Ps. Mintzberg defines strategy in terms of a process. Since strategy has almost inevitably been conceived in terms of what the leaders of an organization plan to do in the future, strategy formation has, not surprisingly, tended to be treated as an analytic process for establishing long-range goals and action plans for an organization, that is, as one of formulation followed by implementation

Strategy can be viewed as building defenses against the competitive forces, or as finding positions in the industry which forces are weakest (Pearce & Robinson, 1997). Porter (1980) also noted that strategy is all about competitions and trying to gain competitive advantage Batemand (1990) suggested that strategy is a pattern of actions and resource allocations designed to achieve the goals of the organization The strategy that an organization implements is an attempt to match the skills and resources of the organization to the opportunities found in the External Environment. Also, Hofer and Schendel (1978) had the same opinion as Batemand and Zeitham. Jauch (1988) argued that decisions and actions taken will lead to the development of an effective strategy which will help to achieve organizational objectives

2.3 The Development of SME's in Africa

The development of private owned enterprises has been rapid. SME's form the major part of these businesses SME's manifest as individuals, friends and or relatives pooling resources together to pursue a certain commercial agenda This results in micro-businesses that over time grow to become large conglomerates. SME's are flourishing in South Africa, Mauritius and North Africa. However, it is noteworthy that the chain of misfortune that trail Africa such as endless wars have had negative impact in the growth and development of businesses. In the Democratic Republic of Congo, for example, most SME's went bankrupt in the 1990s as a result of looting in 1993 and 1996 or during the civil war. In Congo, Equatorial Guinea, Gabon and Chad, the dominance of oil has slowed the emergence of non-oil businesses (Graham, 2001). Between these two extremes, Senegal and Kenya have created conditions for private-sector growth but are still held back by an inadequate financial system

In Nigeria, SME's (about 95 per cent of formal manufacturing activity) are key to the economy but insecurity, corruption and poor infrastructure prevent them being motors of growth. Africa's private sector consists of mostly informal micro-enterprises, operating alongside large firms (Carrier, 1999). Most companies are small because the private sector is new and because of legal and financial obstacles to capital accumulation. Between these large and small firms, SME's are very scarce and constitute a "missing middle." Even in South Africa, with its robust private sector, micro and very small enterprises provided more than 55 per cent of all jobs and 22 per cent of GDP in 2003, while big firms accounted for 64 per cent of GDP (Cheong, 1988)

Czinkota, Michael and Michael (1983) argue that SME's are weak in Africa because of small local markets, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure, dubious legal systems, inadequate financial systems and unattractive tax regimes. Many firms stay small and informal and use simple technology that does not require great use of national infrastructure. Their smallness also protects them from legal proceedings (since they have few assets to seize on bankruptcy) so they can be more flexible in uncertain business conditions (Cheong, 1988). Large firms have the means to overcome legal and financial obstacles, since they have more negotiating power and often good contacts to help them get preferential treatment.

They depend less on the local economy because they have access to foreign finance, technology and markets, especially if they are subsidiaries of bigger companies. They can also more easily make up for inadequate public services. Africa's SME's have little access to finance, which thus hampers their emergence and eventual growth. Their main sources of capital are their retained earnings and informal savings and loan associations, which are unpredictable, not very secure and have little scope for risk sharing because of their regional or sectoral focus. Access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities (Czinkota, Michael and Michael 1983)

2.4 Service Breakdown in Commercial Banks

Commercial banks face many challenges in today's dynamic marketplace. In a global economy that has become increasingly competitive, there is need for efficient development of products that can quickly satisfy a more demanding customer base and build long-term customer trust. It must enhance risk management and address a broad range of service breakdowns and regulatory changes that require reporting with greater standardization and transparency. It must optimize both internal and external innovation, while seeking operational excellence at all levels. Meeting these challenges requires new business and marketing strategies that boost revenues, improve operational efficiency, cut costs, and enhance the overall management of business. Today, banks are looking beyond traditional practices to new tactics and tools that analysts and thought leaders have identified as the best for the industry

Service breakdown manifests itself by way of delayed approval of loans. SME customers are deal seekers and they always look for a financial institution that can serve them within the minimum time possible. In Kenyan commercial banks, however, the approval of business loans takes weeks or even months depending on the availability of the required documentation. This delay is costly especially when a firm has a limited time frame to demonstrate that it can raise the required capital to carry out a particular task

Also, intrusive documentation is of concern. At the point of application for banking services, some banks are known to be too demanding on documentation. Customers feel that the documentation required (such as tax compliance certificate) before the approval of the much needed loans is an intrusion into their financial privacy. Discouraged by this exercise some customers have opted for other informal financial institutions that do not require too much detail.

Flexibility is also another matter of service to SME's. Lack of flexibility impacts on customer preferences, as they are bound to react to the value added offerings. Customers have become demanding and the loyalties are diffused if they think a bank is not serving them well. To them there are multiple choices; the wallet share is reduced per bank with demand on flexibility and customization. Given the relatively low switching costs; customer retention calls for customized service and hassle free, flawless service delivery will influence their choice. Having a good relationship with customers in a service industry is the most important thing. Customers want to have a sense of belonging that will keep them from seeking alternatives.

Premier banking which in most cases is associated with the wealthy business class is founded on the basis of relationship management. Banks however need to take a step further and relate more with its SME customers to avoid giving a reason to go for alternative service providers. Banks should improve their relationship management with businesses and their advisors. Restoring trust between banks and their clients will require a commitment to transparency and consistency on the part of lending institutions. It is clear that some banks have re-appraised their risk and reward preferences for SME's.

Banks need to address the consequential 'fear of approach' held by businesses by clearly explaining how the changed economic environment has affected banks' business lending policies. In particular, they should make a sustained effort to better communicate with businesses at early stages in the lending application process to improve understanding of the following: How long credit applications are likely to take; what restrictions on decision-making are imposed on relationship managers and branch managers by head office and whether specific decisions will be transferred to higher levels and how many credit committees will examine the application; the full extent of non-price lending conditions; the enforcement regime for covenant breaches

2.5 Managing Service Breakdown

Marketing the quality of service is central to the success and growth of business. Parasuraman et al (1985) in developing the service quality model defined service as the

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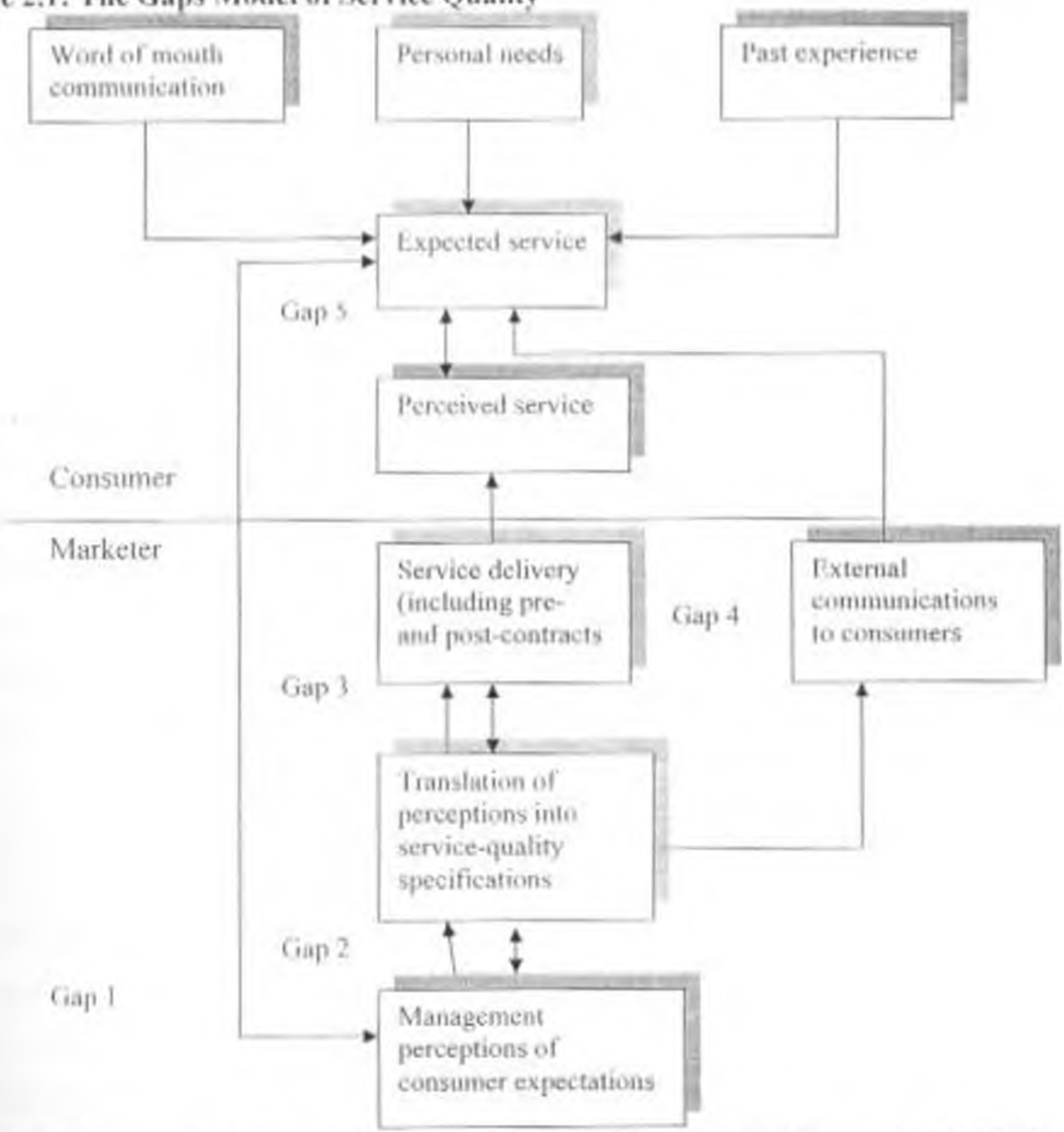
gap between service and perceived performance. A service firm may win by delivering consistently higher quality service than competitors and exceeding customer's expectations (Kotler, 1999). After receiving the service, customers compare the perceived service and expected service. Parasuraman, Zeithaml and Berry (1985) formulated a conceptual model that positions the key concepts, strategies and decisions in services marketing. The model, shown in Figure 2.1, identifies five gaps that cause service breakdown

Figure 2.1: The Gaps Model of Service Quality



Source: A Parasuraman, Valerie, a. Zeithaml, and Leonard L. Berry, "A Conceptual Model of Service Quality and its implications for future research," *Journal of Marketing Fall* 1985, p. 41.

The customer gap (gap 1) of the model is the difference between customer perceptions and expectations. Customer perceptions are basically subjective assessments of actual service experiences. On the other hand customer expectations are the standard or reference points against which service experiences are compared. In a perfect world, expectations and perceptions would be identical but in reality some distance usually separates these concepts. It is therefore the goal of services marketing to bridge this distance by designing strategies to close this customer gap.

The service gap (gap 2) is caused by not selecting the right service design standards. Management must not only accurately perceive customers' expectations, but also service designs and performance standards. Gap 2 exists in service organizations for a variety of reasons. Those responsible for setting standards sometimes believe that customer expectations are unreasonable or unrealistic. Management may also not have a commitment to service quality (Zeithaml et al, 1996).

The service standard gap (gap 3) identifies the discrepancy between development of customer-driven service standards and actual service performance by employees. Even when guidelines exist for performing services, high quality service performance is not a certainty. Standards must be backed by appropriate resources (people, systems, and technology) and must be supported to be effective. Narrowing this gap involves ensuring that all the resources needed to achieve the standard are in place, reduces the gap.

The performance / promise gap (gap 4) illustrates the difference between service delivery and the service provider's external communications. Promises made by a service company through its media advertising, sales force, and other communication may potentially raise customer expectations that service as the standard against which customer assess service quality. This discrepancy between actual and promised service therefore broadens the customer gap. Management must uplift service quality closer to the promise so that the customer's expectations are within range with the said promise.

The perceived vs expectation of service gap (gap 5) occurs when the consumer misperceives the service quality. This gap is influenced by the four preceding gaps.

Researches have found that consumers consider five dimensions in their assessment of service quality as reliability, responsiveness, assurance, empathy and tangibles. (Parasuraman et al, 1985)

Reliability is the ability to perform the promised service dependably and accurately while responsiveness is the willingness to help customers and provide prompt service. Assurance, on the other hand, is the employees knowledge and courtesy and their ability to inspire trust and confidence. Empathy is caring, individualized attention given the customers and tangibles are appearance of physical facilities, equipment, personnel and written materials. The five dimensions represent how consumers organize information about service quality in their minds and were found relevant for banking among other industries.

2.6 Strategies Used in Managing Service Breakdown

There are numerous strategies a service marketer can use to overcome challenges. Some of the strategies are discussed below:

2.6.1 Understanding Customer Expectation

Consumer research provides the basis for the development of new service concepts to meet targeted consumer needs (Lovelock et al, 1996). Finding out what customers expect is essential to providing service quality, and marketing research the key to understanding customer expectations and perceptions of service (Kotler, 1999). Marketing research must focus on service issues such as what features are important to customers, what levels of the features are most important to customers, and what customers think the company should do when problems occur in service delivery. In addition research must identify consumer demographics, geographical location, lifestyles and media habits.

2.6.2 Market Segmentation

A service organization cannot serve an entire market for a particular service as customer needs and wants are diverse. It must identify segments of a market that it can serve most effectively. A market segments consists of a large identifiable group within a market with similar wants, purchasing power, among other attributes (Kotler, 1999).

2.6.3 Service Positioning

Once a company has identified a specific market segment to serve, the next phase is to position the service in the market place. How the service is designed (service blueprinting and physical evidence) will impact the image of the service in the consumers mind (Ziethmal et al, 1996). A service offering's position is the way it is perceived by consumers, particularly in relation to competing offerings.

To develop effective positioning strategies, managers need insights into how the various attributes of a service are valued by the current and prospective customers within that segment. An organization's service offering is successfully positioned if it has established and maintains a distinctive place for itself in the consumer's mind relative to competing organization's offerings. If a service is successfully positioned, the mention of the service will conjure up in the customer's mind an image that is distinct from images of similar service offerings (Ziethaml et al, 1996).

Services can be positioned on a variety of dimensions: according to the needs they satisfy, the benefits they deliver, specific service features, when and how they are used or who uses them (Kotler, 1999, Ziethaml et al, 1996). What is essential is to position the service on something that is important to consumers, something that can serve to distinguish the service from its competitors and something that can be delivered consistently.

2.6.4 Relationship Marketing

Relationship marketing is philosophy of doing business that focuses on keeping and improving current customers rather than on acquiring new ones. Service companies must see customers as their long term partners and need to make a commitment in maintaining the relationship through quality, service and innovation (Lovelock et al, 1996). This strategic orientation assumes that consumers prefer to have an ongoing relationship with one firm than to switch to others in search for value. Building on this assumption and the fact that it is usually much cheaper to keep a current customer than to attract a new one, successful marketers are working on effective marketing strategies for attracting, retaining and enhancing customer relationships

2.6.5 Setting and Measuring Service Standards

Once managers of service business accurately understand what customers expect, the second critical challenge is to set service quality standards and goals for the organizations. Excellent service businesses realize the crucial role that the setting and review of service standards can play in driving quality performance. They understand the benefits brought about by the business, its customers and the individuals involved in service delivery, the pay-off in terms of customer loyalty as well as reduce the cost of correcting errors and handling complaints. The setting of quality service standards is the beginning of a cycle of continuous improvements (Lovelock et al, 1996).

2.6.6 Human Resource Strategy

With people as part of the service, no service business can afford to divorce its customer contact employees from the firm's marketing strategy (Lovelock et al, 1996) The primary responsibility for an organization's success often rests with relatively junior staff in such customer contact positions as a bank clerk, security guard etc These individuals, who are often young and inexperienced, need both technical and interpersonal skill to succeed Not only must they do their job quickly and accurately, but to do so while relating well to customers (Lovelock et al, 1996). Because contact employees represent the organization and can directly influence customer satisfaction, they perform the role of marketers (Ziethaml et al, 1996). Therefore careful recruitment, training and ongoing mentoring of employees can contribute to improvements in both productivity and service quality. Ziethaml et al (1996) identified the following human resource strategies that a service firm can undertake to close Gap 3 of the service – quality gap described in section

2.3 of this paper: hiring the right people, providing the needed support systems and developing people to deliver service quality

2.6.7 Successful Communication Strategy

Developing a communication strategy for intangible services is quite different from advertising and promoting psychical goods. Guidelines should reflect the special characteristics of service and the following are recommended (Lovelock et al 1999; Kotler, 1999). The first is to recognize that service is a performance rather than an object, advertising should not only encourage customers to buy the service, but should also target employees as a second audience, motivating them to deliver high quality service. Thus service firms should use internal marketing. Internal marketing means that the service firm must effectively train and motivate its customer – contact employees and all the supporting service people to work as a team to provide customer satisfaction. Companies should also try and use their own employees rather than professional models in their print and broadcast advertisements.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the plan that was used to collect and analyze data so that desired information could be obtained with sufficient precision. It further laid down the procedures and methods used in the exercise

3.2 Research Design

The study employed descriptive survey to assist the researcher in identifying the marketing strategies employed by commercial banks in dealing with service breakdown in Kenya. Descriptive research attempts to provide a description of variables from members of the population. This research design was appropriate for this study as the researcher had information on the strategies being employed in the industry.

3.3 Population

The population under study comprised of five commercial banks in Kenya which have a special focus on SME's with dedicated staff to manage their relationship. These banks are Barclays Bank, Kenya Commercial Bank, Standard Chartered Bank, Co-operative Bank and Equity Bank. The study therefore sought to carry out a survey to establish the marketing strategies being employed in the industry in addressing service breakdown. These being the only banks focusing on SME banking there was no sampling among the banks and all the five banks participated in the study.

3.4 Data Collection

A sample of 15 respondents was selected from the five banks dealing in SME banking in Kenya. The respondents were bank officials who in their daily activities are in constant contact with the SME customers. Three respondents were selected from each commercial bank taking one each from the departments of IT, administration and customer care. Since this research used primary data, the use of questionnaires was considered appropriate. In order to collect relevant data for this study, standardized questions were used to identify and describe the validity in different phenomena. This method was also considered appropriate as it provided detailed information including other supplementary information through probing which gave the respondents a chance to give other information that they considered relevant. It also gave respondents liberty in expressing their definition of a situation that was presented to them. A "drop and pick" method of administering the questionnaires will be used. These questionnaires will be delivered to the 15 bank officials by hand or through e-mail

3.5 Data Analysis

Data was cleaned, validated, edited and coded then summarized using descriptive statistics, percentages, and mean scores. Key characteristics of the industry like services offered; challenges encountered, and pricing structure was identified and measured using likert- scale. Percentage scores was then done to determine the existing strategies in the industry. This was mainly done using means that helped in identifying the factors with the highest weights. In situations where data was qualitative, content analysis was used to determine the presence of key words or concepts within texts.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

This section covers data analysis, presentation, and discussion on data gathered from the field. The data collected was analyzed using descriptive statistics. The presentation of the analysis captured analysis made using percentages and frequency counts. The major findings of the study as they relate to each of the research objectives are presented.

4.2 Sample Characteristics

4.2.1 Response Rate

A sample of 15 respondents from the five banks in SME banking was chosen for this study. A semi structured questionnaire having both open and closed ended questions were used to collect data. Data was cleaned, coded and analyzed using EXCEL software. The study recorded 100% response rate with all the 15 respondents responding successfully. The researcher interviewed staff and management in the four departments namely; Information Technology (IT), Administration and Customer care. Three respondents were targeted in each of the five banks. The distribution is shown in Table 4.1

Table 4.1: Distribution of respondents among departments

Banks	Departments		
	IT	Accounting/Finance	Customer Care
Barclays Bank	1	1	1
Fina Bank	1	1	1
Co-operative Bank	1	1	1
KCB Bank	1	1	1
Standard Chartered Bank	1	1	1
Total	5	5	5

The study had 67% of the respondents being men and 33%% being women. This representation is illustrated in Table 4.2

Table 4.2: Gender of the respondents

Gender	Frequency	Percentage
Men	10	67%
Women	5	33%
Total	15	100%

4.2.2 Age of the Respondents

Data relating to the ages of the different respondents was of interest and was captured and summarized as follows:

Table 4.3: Age of the respondents

Age Bracket	Frequency	Percentage
24 – 29	3	20%
30 – 34	5	33%
35 – 39	4	27%
40 – 44	2	13%
45 and above	1	7%
Total	15	100%

As shown in Table 4.3, the age of the respondents interviewed ranged from 24 to over 45 years. Of the 15 responses received 20% fall in 24-29 age bracket, the majority of the respondents which is 33% belong to 30-34 group. 27% represent those in 35-39 age bracket while 13% represent those within the age bracket of 40-44. The remaining 7% represent the oldest in the category which are 45 years and above.

4.2.3 Bank Characteristics

Background information relating to the banks in this study was captured. Using secondary data sources, the spread of the different banks in terms of branches, their years of existence and ownership was established.

Barclays bank is of UK origin. It gained entry into Kenya in 1916 and is the biggest bank in Kenya in terms of profitability. BBK started the SME proposition in 2008.

Fina bank, on the other hand, started in 1986 as a Non Banking Financial Institution. Upon takeover by locals 1991, the institution went into mainstream banking in 1995 when the banking act was changed compelling all NBFI's to operate as fully fledged banks. It has since positioned itself as an SME bank.

Kenya Commercial Banks started its operations in Mombasa – Kenya in 1896 and later moved Nairobi in 1904. It was as an indigenous bank to support Kenyans. It has grown to 200 branches. KCB started the SME proposition in 2004.

Co-operative Bank also started as an NBFI 1965. It mainly sought to support the co-operative movement. However, it sought licensing in 1968 to be a bank and this was granted. The bank has since grown to a total of 68 branches.

Standard Chartered started in Kenya in 1911 with 2 branches in Nairobi and Mombasa. The branch currently has a branch network of 32. It introduced SME banking in 2006. Data relating to the background of these banks has been summarized in Table 4.4:

Table 4.4: Bank Characteristics

Bank	Characteristics		
	No. of branches	**Age of bank in Kenya (years)**	**Ownership**
Barclays Bank	115	93	Foreign
Fina Bank	13	13	Local
Co-operative Bank	68	44	Local
KCB Bank	200	113	Local
Standard Chartered Bank	32	98	Foreign

4.3 Causes of Service Breakdown

The causes of service breakdown identified by the respondents in the five banks are summarized in Table 4.5:

Table 4.5: Causes of Service Breakdown

Causes of service breakdown	Frequency	Percentage
Lack of clear communication	3	20%
Long procedures	4	27%
Intrusive documentation	3	20%
Lack of flexibility	5	33%
Total	15	100

As shown in table 4.5, lack clear communication is of concern as a cause of service breakdown. 20% of the respondents identified communication as the missing link to customer satisfaction. Customers according to the respondents need to be communicated to clearly depending on their needs. Different needs ought to be addressed differently. Respondents believe that customers will feel neglected if they fail to get the correct message from those serving them.

Long procedures in the bank are also a source of dissatisfaction. According to 27% of the respondents time taken for a particular customer to be served at times is unnecessarily too long leading to service breakdown and subsequently customer dissatisfaction. Customers always need fast services that do not take a lot of their time.

20% of the respondents felt there was too much emphasis on documentation which in their view was too intrusive. For instance, Barclays and Standard banks require that customers continually file with them tax returns and tax compliance certificates as a pre-requisite to continue enjoying credit facilities. These documentations have in most cases caused customer dissatisfaction and subsequent customer withdrawal from seeking services as they think they are being forced to reveal information touching on their privacy.

Finally, 33% of the respondents identified lack of flexibility as the key cause of service breakdown. SME customers are generally always on the look out for quick business deals. In their deal seeking habit, the SME customers are keen to get quick credit which they can also repay within a very short period of time. SME's feel they need to partner with banks that would help them on this particular aspect. Banks therefore need to come down and understand the operations of the SME's and attempt to accommodate them. Without a flexible service provision it is almost impossible for SME's to operate. This is the most important aspect that must be addressed to avoid further service breakdowns in the financial institutions serving SMEs in Kenya.

4.4 Strategies to Enhance Customer Perception

4.4.1 Communication

Communicating to customers according to respondents will go along way in enhancing the perception. Customers want to always know what is happening to their custodians of their money. Keeping them in the dark will keep them guessing and this will lead to lack of confidence.

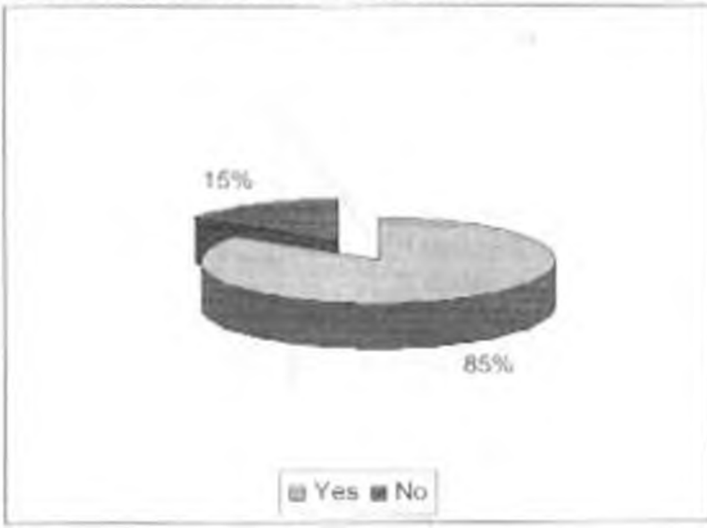
4.4.2 Advertisements

Advertisements are said to working well in passing the information on the products being provided in banks. In this case SME customers will be informed on the products and services available

4.5 Relevance of the Strategies

On the relevance of the above mentioned strategies, 85% of the respondents said the strategies are relevant while 15% believe that there is a lot to be done to successfully address the service breakdown. The 85% on the other hand who believe these strategies are relevant argues that customers are always made to understand their importance to the industry's survival and that up to date information and efficient services is key component in providing services to them. This response is illustrated in figure 4.2.

Figure 4.1: Relevance of the Strategies



4.6 Strategies Used in the Banks

Respondents were asked to rate the importance of the strategies that are currently operational in the bank. They rated them on a scale of 1 to 4 with 4 being most important and 1 being less important. These ratings are presented in table 4.6:

Table 4.6 Strategies in Use

	N	Minimum	Maximum	Mean	Std. Deviation
Service Design is Key	15	2.00	4.00	3.2000	.67612
Quality Services always	15	3.00	4.00	3.5333	.51640
Standards observed fully	15	2.00	4.00	3.2667	.70373
Customer driven services	15	2.00	4.00	3.1333	.74322
Relevant System in place	15	2.00	4.00	3.1333	.74322
Competent employees	15	2.00	4.00	3.2667	.70373
Technology driven services	15	2.00	4.00	3.4000	.63246
Advertisements	15	2.00	4.00	3.2667	.59362
On time service delivery	15	2.00	4.00	3.3333	.72375
Valid N	15				

Based on Table 4.3 quality service provision is ranked first with a mean of 3.5333. This means this strategy is mostly applicable in the banks. Technology driven services is the second strategy with a mean of 3.4000 according to the respondents. The third important strategy with a mean of 3.3333 is on time service delivery which is key in reducing customer dissatisfaction. Customer driven services and having relevant systems in place received the least mean each of 3.133 meaning they are least preferred in the banks. However, all these strategies have are considered highly in the industry as all of them received a rating of at least 3.000 out of a possible maximum of 4.000 meaning the difference between them is minimal

4.7 Challenges in Service Delivery

Respondents were given an opportunity to respond as to whether there exist some challenges facing them as they give services to their customers. 75% of them assented while 25% dissented

The challenges faced by those providing services to SME customers range from extended working hours, too much pressure to un cooperative management. These challenges need to be addressed as they hinder the smooth service delivery. Respondents went further to agree that these challenges are not unique to their respective banks but rather cut across the banking industry. They also suggested ways to counter these challenges, these include; management participation at all levels, proper design of work schedules to avoid too much pressure on employees and well defined working hours to avoid confusion on who is doing what

4.8 Service Quality

The quality of services rendered to the SME customers depends on how they have been tailored to fit the needs of these customers. There are different dimensions that define service quality. Respondents were given five dimensions to rate service quality based on how they agree or disagree with these dimensions. The scale used was 4 - strongly agree and 1 - strongly disagree. The rates are illustrated in Table 4.7:

Table 4.7: Dimensions of Service Quality

	N	Minimum	Maximum	Mean	Std. Deviation
Reliability	15	3.00	4.00	3.4000	.50709
Responsiveness	15	3.00	4.00	3.5333	.51640
Assurance/ courtesy	15	3.00	4.00	3.4667	.51640
Tangibility/ documentation	15	3.00	4.00	3.4667	.51640

As shown in table 4.7, responsiveness received high rate of agreement from respondents with a mean of 3.5333; while assurance/courtesy and tangibility/documentation got a rate of 3.4667. Lastly the reliability was rated 3.4000. It is evident from these rates that all of them received agreement that these dimensions are important in service quality.

4.9 Segmentation Strategies

Respondents were asked to provide methods used to segment the market. The following strategies are used to segment SME market.

Table 4.8: Segmentation Strategies

Strategies	Frequency	Percentage
Size of the market	8	53%
Size of loan applied	7	47%
Total	15	100%

4.9.1 Size of the Market

According to 53% of the respondents, customers are served and/or managed with their unique circumstances and business needs having been taken into account. This determines what information should be gathered for purposes of decision making.

4.9.2 Size of Loan Applied

The remaining 47% of the respondents indicated that the size of the loan being applied for by the customer forms another basis of segmentation this they said is convenient and faster hence making service provision quicker and satisfactorily

4.10 Positioning Strategies

Respondents identified positioning strategies employed in commercial banks. They indicated that positioning is normally done according to the needs they satisfy, the specific service features and when and how they are needed. These strategies help commercial banks serve SME customers according to their needs at a specific time. Based on these dimensions, tailor made services for each and every customer is desirable

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a brief summary, conclusion and recommendations on strategies used by commercial banks in managing service breakdown. A sample of 15 respondents' mainly departmental heads was interviewed to capture the relevant data.

5.2 Summary

In relation to the first objective, *to identify the causes of service breakdown in commercial banks in Kenya,* the study found out that the lack of clear communication with customers, long procedures; intrusive documentation and lack of flexibility are some of the causes resulting in service breakdown. Customers always want to have clear and well defined messages to help them make informed decisions always. Procedures should also be made flexible enough to be of help to them and not hinder them from getting the services. According to the respondents customers tend to shy away when they think that the information being asked to provide is intrusive hence the need to eliminate this intrusiveness of if it has to be done then they should be made aware that this documentation is not for other purposes other than to serve them. However strategies to enhance customer perception were given by respondents as ensuring that communication is done elaborately and using advertisements to position products in the minds of customers.

The second research objective was: *to establish the specific marketing strategies used by commercial banks in Kenya in managing service break down.* It is apparent that a number of strategies on how to deal with service break down have been identified, these include; designing services to fit the needs of customers; ensuring that services are always oh high quality without compromise; putting relevant systems in place; having competent employees in place, on time delivery of services and ensuring that services are driven by customers to increase satisfaction and acceptance. All these strategies need a dedicated workforce that works towards ensuring customers are satisfied at all times. Markets are also segmented based on the size of the market and the size of the loan applied while positioning is done according to the needs they satisfy, the benefits they deliver, specific service features and when and how they are needed.

5.3 Conclusions

Service breakdown in commercial banks is a real threat to the smooth provision of services to customers. In this sense banks need to always counter this threat with the strategies to ensure that customers do not have a reason to change where they bank. SMEs are always seeking for better deals and banks need to assist them by being as flexible as possible. This study established that a number of challenges facing these banks contribute to service breakdown; these challenges are; extended working hours, too much pressure on employees to deliver and uncooperative management. These challenges need to be addressed if service breakdown is to be contained in the banks.

The quality of services provided from these banks will in the long run determine the survival of these banking institutions. Customers will always look for tailor made services that satisfy their needs. Different dimensions have been put in place to help in defining the service quality; these are reliability of services provided, responsiveness, courtesy and documentation. Segmentation and positioning strategies have also been employed, SME markets have been segmented mainly based on the size of the market served and the size of loan applied for while positioning strategies such as the use of sales promotions have been used to enhance customer perception.

5.4 Limitations of the Study

This study interviewed only the senior management of the five banks under study who were well conversant with marketing strategies being used in the banks. In some instances the researcher had to administer the questionnaire personally to them explaining the complex terms and concepts as related to service breakdown to be able to get reliable information in order for valid conclusions to be made. This was quite a tedious and demanding exercise.

It would have also been preferable to do a survey on all financial institutions providing services to SMEs and use a larger sample for this study but it was unattainable considering the limited time and budget constraints.

5.5 Suggestions for Further Research

This particular study can be extended to other financial institutions in Kenya to establish the strategies that can used to deal with service breakdowns. Despite the limitations, this study can act as a stepping-stone in the assessment of service breakdown in the banking industry other financial institutions in Kenya especially due to the big role that they play in the economic development in the country

This work will therefore sets up future contributions that will enable academicians; managers in private and public sector to better understand and evaluate the challenges posed by service breakdowns and expose them to marketing strategies that can be used to deal with it.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

UNIVERSITY OF NAIROBI,
SCHOOL OF BUSINESS,
P.O. Box 30197,
NAIROBI

Dear Sir/ Madam,

RE: AN INVESTIGATION INTO THE STRATEGIES USED BY COMMERCIAL BANKS IN KENYA IN MANAGING SERVICE BREAKDOWN

I am a postgraduate student undertaking a Master of Business Administration Degree at the School of Business, University of Nairobi. I am currently carrying out a research on the strategies used by commercial banks in Kenya in managing service breakdown.

My approach to this survey is both consultative and collaborative and ensures that it causes minimum disruption to your schedule of activities. I kindly request you to provide the required information by responding to the questions in the questionnaire. The information required is purely for academic purposes and will be treated in the strictest confidentiality. A copy of the research project will be made available to you upon request. I will appreciate your co-operation in this academic exercise.

Thanking you in advance
Yours faithfully,

Anyim Kevin Ouma
School of Business,
University of Nairobi

APPENDIX II: STUDY QUESTIONNAIRE

University of Nairobi

School of business

Department of Business Administration

Note: The information in this questionnaire will be treated confidentially and will not be used for any other purpose other than academic.

Please provide the following information:

Section A: Personal Data

1. Name of the respondent (Optional): ______________________

2. Gender: Male Female

3. Age: 24 - 29 30 - 34 35 - 39 40 - 44 45 and above

4. Department: IT Admin Customer care

Other: ______________________

Section B: Causes of Service Breakdown and Strategies used

5. Please outline the causes of service breakdown in your Bank.

1) ....

2) ....

3) ....

4) ....

6. Please outline the strategies used to enhance customer perception and expectations in your Bank.

1) ....

2) ....

3) ....

4) ....

7. Do you think these strategies are relevant?

Yes.......................................No..

8. If No why do you say so?

....

....

Section C: Please rate the importance of the following strategies in your Bank

	[5] **Most** Important	[4] Important	[3] Neutral	[2] **Less** Important	[1] **Not** Important
9. Service Design is Key	[ ]	[ ]	[ ]	[ ]	[ ]
10. Quality Services always	[ ]	[ ]	[ ]	[ ]	[ ]
11. Standards observed fully	[ ]	[ ]	[ ]	[ ]	[ ]
12. Customer driven services	[ ]	[ ]	[ ]	[ ]	[ ]
13. Relevant System in place	[ ]	[ ]	[ ]	[ ]	[ ]
14. Competent employees	[ ]	[ ]	[ ]	[ ]	[ ]
15. Technology driven services	[ ]	[ ]	[ ]	[ ]	[ ]

UNIVERSITY OF NA...
LOWER KABETE LIBRARY

16. Advertisements [ ] [ ] [ ] [ ]
[ ]

17. On time service delivery [ ] [ ] [ ] [ ]
[ ]

18. Do you encounter challenges while carrying out service delivery on a daily basis?

Yes.................................No..

19. If yes please mention some of the causes of these challenges
....
....
....
....

20. Are the above challenges unique to your Bank or do they cut across the industry?
....
....
....
....
....

21. What are some of the mechanisms/ measures that you think should be put in place to encounter these challenges?
....
....
....
....
....

Section D: Please rate how you agree or disagree with the following Dimensions of

Service Quality in your Bank

	[5] Strongly Agree	[4] Agree	[3] Neutral	[2] Disagree	[1] Strongly Disagree
22. Reliability	[ ]	[ ]	[ ]	[ ]	[ ]
23. Responsiveness	[ ]	[ ]	[ ]	[ ]	[ ]
24. Assurance/ courtesy	[ ]	[ ]	[ ]	[ ]	[ ]
25. Tangibility/ documentation	[ ]	[ ]	[ ]	[ ]	[ ]

Section E: Segmentation and Positioning Strategies used in your Bank

26. How have you segmented the market that you serve?..

....

27. Give reasons for using this segmentation strategy (ies)....................................

....

....

....

28. How have you positioned your products in the market that you serve?..

....

29. Give reasons for using this positioning strategy (ies). ....

....

....

....

Many thanks for completing this questionnaire